



Single Source
Regulations Office

Quarterly qualifying defence contract statistics: Q3 2022/23

27 February 2023

This bulletin presents key statistics relating to the number, duration and estimated price, costs and profit of qualifying defence contracts (QDCs) and qualifying sub-contracts (QSCs). This data is reported by defence contractors to the SSRO through contract reports, as required by Part 5 of the Single Source Contract Regulations 2014. The bulletin reports on contracts that became QDCs/QSCs between 1 April 2022 and 31 December 2022. Data is also presented since 1 April 2015, the start of the financial year in which contract reports were first submitted.

The SSRO was notified of 535 contracts that became QDCs/QSCs between 1 April 2015 and 31 December 2022. This analysis is based on 507 contracts that became QDCs/QSCs by 31 December 2022, and for which the SSRO received contract reports by 31 January 2023, as contractors have one month after the date the contract becomes a QDC/QSC to submit reports.

The analysis is based on data taken from reports submitted by the contractors for each QDC/QSC as of 31 January 2023. The data may be updated or changed in subsequent reports and may not reflect values at contract completion. Where any figures have been revised from those previously published, this is denoted by an 'r'. Totals are calculated on unrounded figures before being rounded for presentational purposes, therefore some totals may not sum due to rounding.

Data for both QDCs and QSCs are reported in these statistics. The total price of all QDCs/QSCs includes QSC prices counted both within the 'parent' QDC price and separately, to present data on the price of all contracts subject to the Single Source Contract Regulations.

Summary

In the nine months between 1 April 2022 and 31 December 2022:

- 42 contracts became QDCs, and five contracts became QSCs.
- These QDCs/QSCs reported a total estimated contract price of £2.1 billion (£1.9 billion of estimated Allowable Costs and £0.2 billion of estimated profit).

Since the start of the regime, between 1 April 2015 and 31 December 2022:

- 507 contracts became QDCs/QSCs (436 QDCs and 71 QSCs).
- The total estimated contract price of these QDCs/QSCs was £79.1 billion (£72.2 billion of estimated Allowable Costs, £6.9 billion of estimated profit).
- The mean estimated contract profit rate for these QDCs/QSCs was 9.41 per cent.
- The mean estimated contract duration of QDCs/QSCs was 4.8 years.

Figure 1: Number of QDCs/QSCs by financial quarter in which contract became QDC/QSC

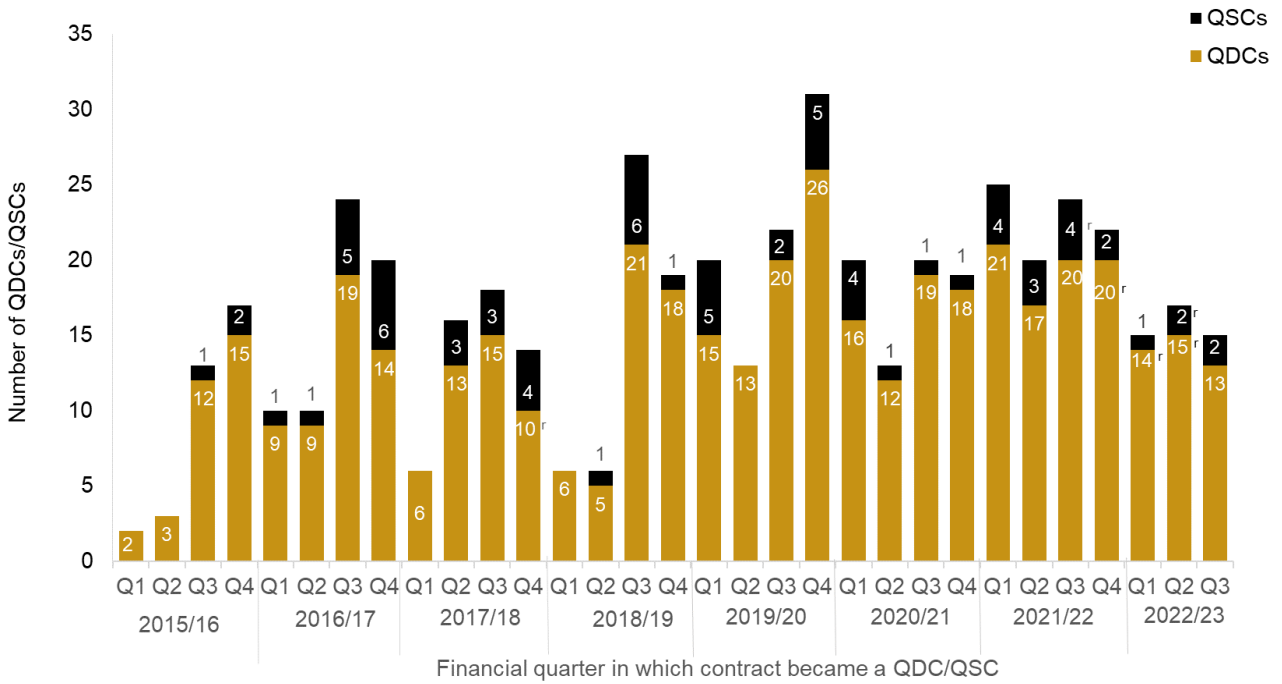


Figure 2: Estimated stock of total contract price of QDCs/QSCs by financial year in which contract became a QDC/QSC, split by estimated cost and profit

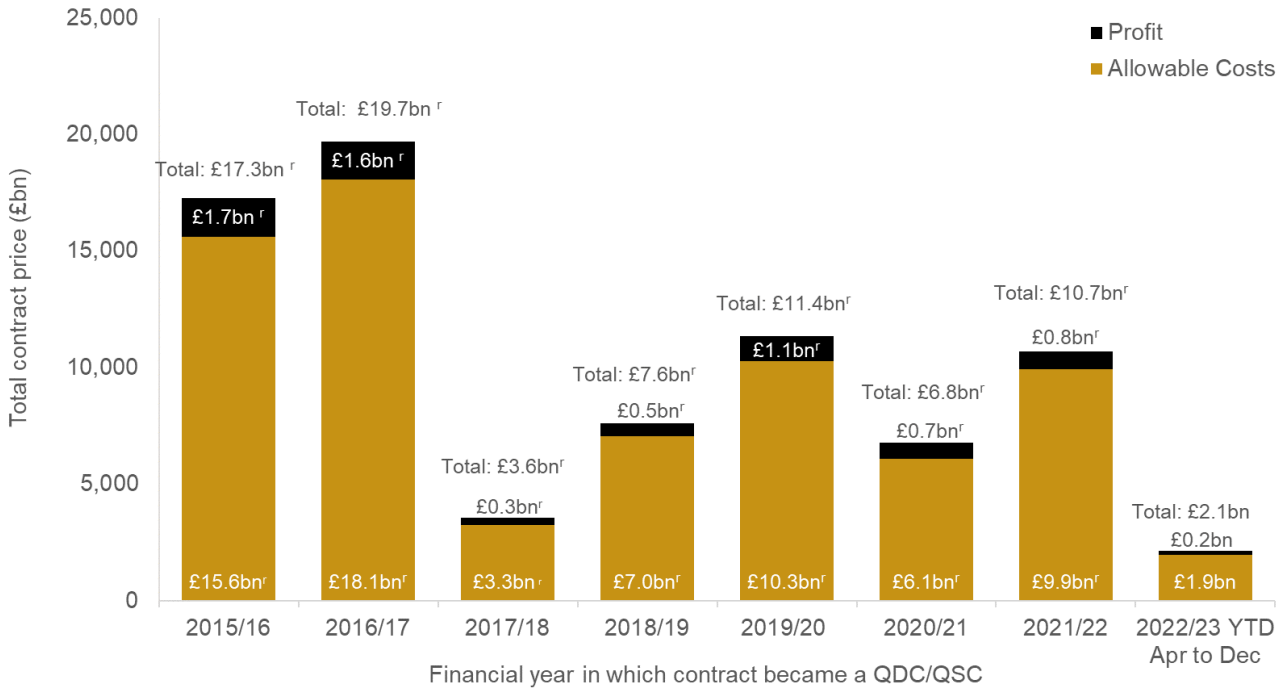


Table 1: Number of QDCs/QSCs by financial quarter in which contract became QDC/QSC

Financial quarter in which contract became a QDC/QSC	QDCs	QSCs	Total
Q1 2015/16	2	0	2
Q2 2015/16	3	0	3
Q3 2015/16	12	1	13
Q4 2015/16	15	2	17
Q1 2016/17	9	1	10
Q2 2016/17	9	1	10
Q3 2016/17	19	5	24
Q4 2016/17	14	6	20
Q1 2017/18	6	0	6
Q2 2017/18	13	3	16
Q3 2017/18	15	3	18
Q4 2017/18	10 r	4	14 r
Q1 2018/19	6	0	6
Q2 2018/19	5	1	6
Q3 2018/19	21	6	27
Q4 2018/19	18	1	19
Q1 2019/20	15	5	20
Q2 2019/20	13	0	13
Q3 2019/20	20	2	22
Q4 2019/20	26	5	31
Q1 2020/21	16	4	20
Q2 2020/21	12	1	13
Q3 2020/21	19	1	20
Q4 2020/21	18	1	19
Q1 2021/22	21	4	25
Q2 2021/22	17	3	20
Q3 2021/22	20	4 r	24 r
Q4 2021/22	20 r	2	22 r
Q1 2022/23	14 r	1	15 r
Q2 2022/23	15 r	2 r	17 r
Q3 2022/23	13	2	15
Total	436	71	507

Table 2: Estimated stock of total contract price of QDCs/QSCs by financial year in which contract became a QDC/QSC, split by estimated cost and profit¹

Financial year in which contract became a QDC/QSC	Allowable Costs (£m)	Profit (£m)	Total Contract Price (£m)
2015/16	15,618 r	1,668 r	17,286 r
2016/17	18,083 r	1,623 r	19,706 r
2017/18	3,251 r	306 r	3,557 r
2018/19	7,050 r	543 r	7,592 r
2019/20	10,263 r	1,091 r	11,354 r
2020/21	6,083 r	689 r	6,772 r
2021/22	9,935 r	756 r	10,691 r
2022/23 YTD Apr to Dec	1,945	180	2,125
Total	72,229	6,854	79,083

Table 3: Average (mean) estimated contract profit rate agreed at the latest time of agreement by financial year in which contract became a QDC/QSC

Financial year in which a contract became a QDC/QSC	Average contract profit rate (%)
2015/16	10.86 r
2016/17	10.56
2017/18	8.49 r
2018/19	8.34
2019/20	9.03
2020/21	9.55
2021/22	9.53 r
2022/23 YTD Apr to Dec	9.37
Total	9.41

Table 4: Average (mean) estimated contract duration² of QDCs/QSCs by financial year in which contract became a QDC/QSC

Financial year in which contract became a QDC/QSC	Average duration (years)
2015/16	6.1 r
2016/17	5.9 r
2017/18	5.5 r
2018/19	5.3 r
2019/20	4.4 r
2020/21	4.3 r
2021/22	4.0 r
2022/23 YTD Apr to Dec	4.2
Total	4.8

¹ Calculating the percentage of profit on total Allowable Costs using these figures would represent the cost weighted average profit rate. Therefore, this will differ from the average (mean) estimated profit rate reported in Table 3.

² The estimated contract duration presented is the time between the date the contract became a QDC/QSC, and the expected, or actual where available, contract completion date.

Forthcoming changes to the statistics in the annual and quarterly bulletins

Following discussions with stakeholders, the SSRO would like to make users aware of a number of new statistics and changes to existing statistics, being introduced within the Annual Qualifying Defence Contract Statistics: 2022/23 bulletin, due to be published in June 2023. In summary, the following changes will be made:

- A new statistic will be added showing the change over time to the total estimated contract price by financial year in which the contract became a QDC/QSC.
- A new statistic will be added showing the cumulative flow of the estimated price of contracts that have completed and contracts that are active.
- A new breakdown to the mean and median estimated contract price statistics, to show the average contract price by QDC and QSC.

Additionally, stakeholders were asked for feedback on the usefulness of the quarterly bulletins. Stakeholders provided positive feedback on the insight gained from the quarterly bulletins, and therefore these will continue to be published. A new breakdown will be added to the quarterly bulletin series, showing the estimated contract price broken down by financial quarter. This will start to be provided in the Q1 2023/24 statistics bulletin, to be published in August 2023.

If you would like further information on these planned changes, please email us at helpdesk@ssro.gov.uk.

Notes to the statistics

Data source

The data in this bulletin is sourced from contract reports submitted to the SSRO by contractors and collated in the Defence Contract Analysis and Reporting System (DefCARS). The individual contract reports used in each statistic in the bulletin are described in the methodology below. For further information about the data used, the **SSRO's reporting guidance** for these reports is available on the SSRO's website.

Methodology

The analysis reports on all contracts which became QDCs/QSCs between 1 April 2015 and 31 December 2022, and that have submitted reports on or before 31 January 2023. This means the majority of data presented relates to active contracts but data for a small proportion of completed contracts are also included. Data for both QDCs and QSCs are included in these statistics, and are reported separately where specified.

All time-series data is reported using the date a contract became a QDC/QSC (the initial reporting date³), unless otherwise specified. Defence contractors are required to submit their initial contract reports within a month of this date. This statistical bulletin reports on the latest agreed position for each QDC/QSC.

The methodology for each statistic in the bulletin is described below.

Number and duration

While the bulletin reports on QDCs/QSCs which have submitted contract reports, the total number of QDCs/QSCs notified to the SSRO is measured by the amount of QDCs/QSCs (that are not currently

³ Either the date the contract was entered into, or if it is a contract brought into the regime following an amendment, the date of the amendment.

marked as a potential QDC/QSC) added to DefCARS, regardless of whether reports have been submitted or not for that contract.

Contract duration figures reflect the latest reported expected or actual duration reported at the latest time of agreement (either the date the contract became a QDC/QSC, or the date of the latest pricing amendment). The estimated contract duration presented is the time between the date the contract became a QDC/QSC, and the expected, or actual where available, contract completion date. Average contract duration is an arithmetic mean of all QDCs/QSCs within that financial year. Contract duration data is sourced from the latest of the Contract Pricing Statement, Contract Notification Report, On-demand Contract Reporting Plan, Quarterly Contract Report, Interim Contract Report or Contract Completion Report.

Price

The contract price statistics reflect the estimated price, at the latest time of agreement (either the date the contract became a QDC/QSC, or the date of the latest pricing amendment). The total contract price may sometimes include costs incurred before an amended contract becomes a QDC/QSC ('sunk costs'). Pricing data is sourced from the latest submitted Contract Pricing Statement, Contract Notification Report, Quarterly Contract Report, Interim Contract Report or Contract Completion Report.

The total price of all contracts in these statistics includes the price of all QDCs and QSCs, meaning that QSC prices are counted both within the 'parent' QDC price and separately, representing the total price of all contracts subject to the Single Source Contract Regulations.

Profit

The contract profit rate data is sourced from the latest available Contract Pricing Statement. The contract profit rate statistic presented in Table 3 reflects the agreed position at the latest time of agreement (either the date the contract became a QDC/QSC, or the date of the latest pricing amendment if an on-demand Contract Pricing Statement has been received) and does not necessarily represent the profit that will be achieved once the contract is complete. This may differ from the profit information reported in Figure 2, which can be sourced from more up-to-date reports.

The mean contract profit rates are an arithmetic mean of the contract profit rates reported for QDCs/QSCs within that financial year. Contracts that have agreed the government owned contractor rate (GOCR) with the MOD have been excluded from the average contract profit rate calculations.

Data quality

Accuracy and reliability

The estimated contract prices, costs, duration and profit rates reported are those used for contract pricing purposes and may not reflect the outturn costs and profit of the contract once it is completed. Where a contract has submitted a Contract Completion Report, the estimated price, cost and profit rate reported in all analysis are still the estimates as at the latest time of agreement, rather than the outturn costs and profits. The **Annual qualifying defence contract statistics: 2021/22** bulletin includes data on the outturn costs and profits in completed contracts.

The SSRO monitors the extent to which report submissions comply with the reporting requirements under Section 36(2) of the Single Source Contract Regulations. The **SSRO Annual Compliance Report 2022** provides details on the data quality of report submissions with respect to the extent they comply with the reporting requirements. The SSRO's compliance review function does not involve providing assurance that individual contracts have been priced in accordance with statutory requirements, nor is it an audit of individual submissions. The MOD also carries out reviews of the data quality of data contained within these reports, in line with its own commercial guidance. It is

important to note that, whilst reviews of the data do take place, reviews may not have taken place on all the data by both organisations at the time of production of this bulletin. Data is as reported by contractors unless there are significant data quality issues (see 'Data adjustments' below).

Data revisions

All figures are provisional and may be updated in future planned statistical releases. 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 data is revised from a previously published statistic, the figure will be indicated with an 'r'.

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

Data adjustments

All data is as reported by defence contractors, except in circumstances where there are known, and significant, data quality issues. Where there are issues, the data has been amended to ensure the statistics are not misleading. In summary, the following adjustments were made in a small number of cases:

- some dates the contract became a QDC/QSC were amended, if the reported date fell within a different financial year to the known date the contract became a QDC/QSC;
- some contract prices were amended, for example where these were reported in different units or currency; and
- where the latest contract report did not provide the required data, a previous contract report was used if that did contain the relevant data.

Additionally, where contractors have entered monetary values in currencies other than pounds sterling, values are converted using the exchange rates published by the Bank of England as of the first day of the month in which the contract became a QDC/QSC.

Rounding

Totals are calculated on unrounded figures, before being rounded for presentational purposes. Some totals may not sum due to rounding.

Commercial sensitivity

Due to the commercial sensitivity of this data, the SSRO does not release any information that will enable identification of individual contracts or contractors included within the analysis. Where publication of a low number of QDCs/QSCs within a particular data point may risk anonymity, this is suppressed, denoted by a "**".

For more information on the SSRO's handling of commercially sensitive information, see the **SSRO's statement on its website**.

Glossary

Allowable Costs: A contractor's costs (which include those already incurred and those which are anticipated) are Allowable Costs in a QDC or QSC to the extent they are appropriate, attributable to the contract and reasonable in the circumstances.

Contract completion date: Provided by the contractor, it may be a date specified in the contract or a date on which it is expected the contractor will become entitled to final payment, or the date on which the contract is terminated.

Contract price: Under a QDC/QSC the contract price must be determined in accordance with the formula as required by The Defence Reform Act 2014 (the Act):

$$\text{Price} = (\text{Contract Profit Rate} \times \text{Allowable Costs}) + \text{Allowable Costs}.$$

Contract profit rate (CPR): When agreeing the contract profit rate, contractors and the MOD must follow a six-step process set out in section 17(2) of the Act and Regulation 11 of the Single Source Contract Regulations 2014.

Contract value: As determined under Regulation 5. The contract price and the contract value may be the same but in determining the contract value the contracting authority must take account of contract options which may not be included in the contract price and the likelihood of them being exercised.

Date became a QDC/QSC: Either the date the contract was entered into, or if it is a contract brought into the regime following an amendment, the date of the amendment.

Qualifying Defence Contract (QDC): A non-competitively procured defence contract entered into on or after 18 December 2014 with a value of £500 million or more (if entered into prior to 31 March 2015), or £5 million or more (if entered into on or after 31 March 2015). Non-competitively procured contracts with a value of £5 million or more and entered into before 18 December 2014, and competitively procured contracts with a value of £5 million or more, may become QDCs if they are amended without competition on or after 18 December 2014 and the parties agree to them being brought within the regulatory framework.

Qualifying Sub-contract (QSC): A sub-contract that has been assessed as meeting the requirements to be a QSC, once notice of the assessment has been given in writing to the sub-contractor and the Secretary of State (or an authorised person). The requirements for a sub-contract to be a QSC include that it is not the result of a competitive process, is valued at £25 million or more and delivers anything for the purposes of a QDC or another QSC. The Defence Reform Act specifies the circumstances in which a contract will be a QDC or a QSC and sets out relevant exclusions and exemptions.

Time of agreement: Either the date on which a QDC/QSC is entered into, the date of an amendment if it is a QDC/QSC by amendment, or if the price payable is re-determined, the date of that redetermination.

Further information

The SSRO is committed to engaging with stakeholders to improve these statistical releases. If you would like to get in touch, please email us at helpdesk@ssro.gov.uk. The SSRO is also happy to receive feedback through the regular engagement it conducts with stakeholders.