

This annual bulletin presents key statistics relating to contracts that became qualifying defence contracts (QDCs) and qualifying sub-contracts (QSCs) between 1 April 2022 and 31 March 2023. 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 568 contracts that became QDCs/QSCs between 1 April 2015 and 31 March 2023. This analysis is based on 535 contracts that became QDCs/QSCs by 31 March 2023, and which the SSRO had received contract reports for by 30 April 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 30 April 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'.

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. QDC and QSC prices are also reported separately in the 'Price and pricing method' section.

The bulletin contains statistics under the following sections:

- **Number, duration and SME involvement**
- **Price and pricing methods**
- **Profit**
- **Sub-contracts**
- **Outturn price in completed contracts**

Summary

In the financial year between 1 April 2022 and 31 March 2023:

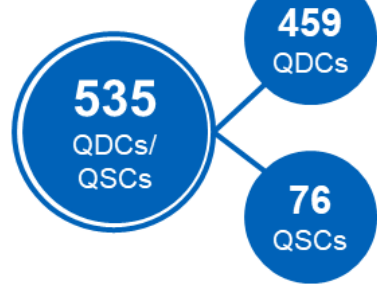
- 73 contracts became QDCs/QSCs (64 QDCs, and 9 QSCs).
- The total estimated price of these QDCs/QSCs was £3.2 billion (£2.5 billion of QDCs and £0.7 billion of QSCs).
- The mean estimated contract profit rate was 9.54 per cent.

Between 1 April 2015 and 31 March 2023:

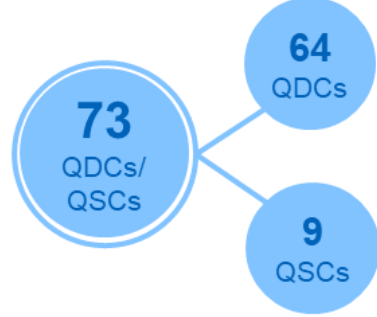
- 535 contracts became QDCs/QSCs (459 QDCs and 76 QSCs).
- The total estimated contract price of these QDCs/QSCs was £83.6 billion (£77.5 billion of QDCs, £6.1 billion of QSCs).
- The mean estimated contract profit rate for these QDCs/QSCs was 9.44 per cent.
- Of the 535 contracts that became QDCs/QSCs in this period, 112 contracts have now completed. These 112 contracts represent 10 per cent of the total estimated contract price of all QDCs/QSCs (£8.5 billion).

Number of QDCs/QSCs

Overall...



In 2022/23...



Supplier Involvement

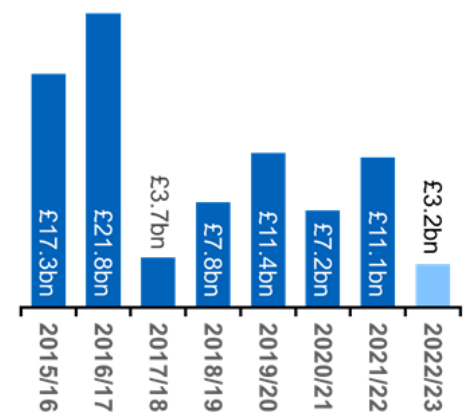
These 535 contracts were with...

180 contracting companies

...which in turn are owned by...

126 Global Ultimate Owners

Estimated Contract Price

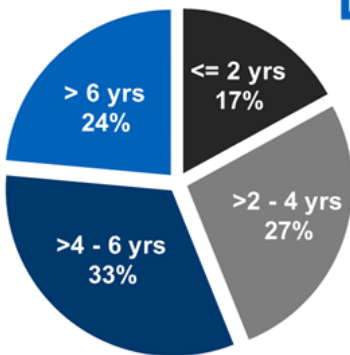


Total estimated contract price

£83.6bn Total

Contract Duration

% of QDCs by duration...



Completed Contracts

112 Contracts completed, representing...

10% of the total contract price

Number of completed contracts reporting variance*

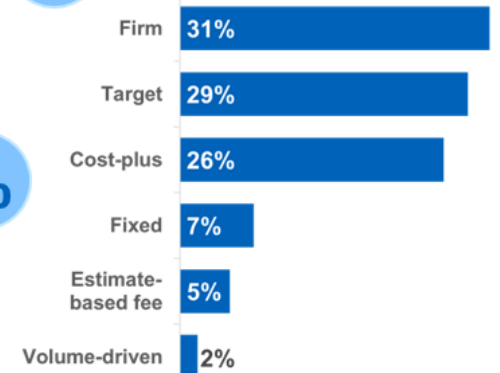
Numbers of QDCs/QSCs	Cost	Profit	Price
▲ Increase	23	51	22
▼ Decrease	69	45	51
- No change	19	14	36

*Some contracts excluded due to insufficient data. Variance between estimates at latest time of agreement and outturn actual and forecast from contract completion report.



Pricing Methods

Proportion of estimated contract price



Average Estimated Profit Rate



Sub-Contracting

£14.6 billion (18%) of total estimated contract price attributable to sub-contracts.

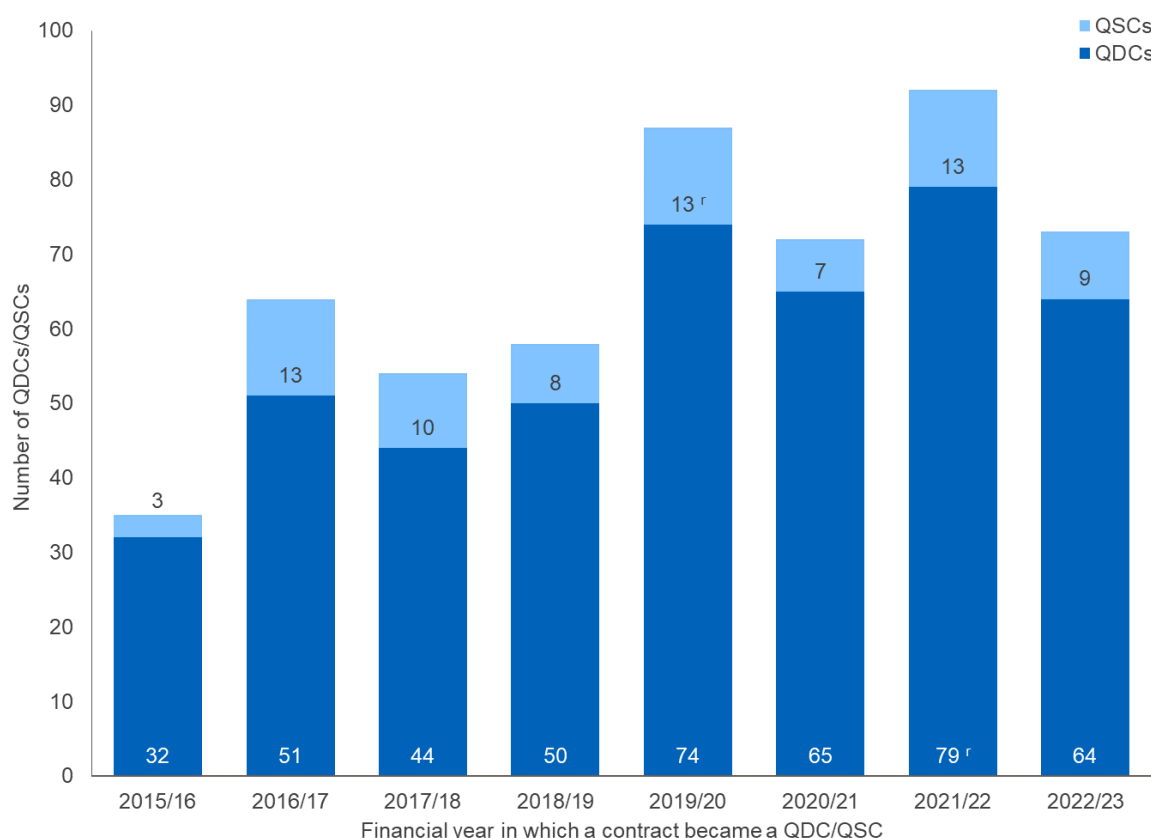
18% of all sub-contracts are with an SME, with an average value **£3.7m** lower than non-SME sub-contracts.

Number, duration and SME involvement

Number and average duration of QDCs/QSCs and the number of QDCs/QSCs contracted to SMEs.

- In 2022/23, the SSRO received initial contract reports for 73 QDCs/QSCs (64 QDCs and 9 QSCs).
- Since 1 April 2015, the SSRO had received reports for 535 QDCs/QSCs (459 QDCs and 76 QSCs).
- Of these 535 QDCs/QSCs, 112 QDCs/QSCs have since completed.
- These QDCs/QSCs were with 180 different contracting companies, and 126 Global Ultimate Owners (GUOs).
- 35 of these 535 QDCs/QSCs were with contracting companies that identified as a small or medium enterprise (SME).
- The average (mean) estimated contract duration was 4.8 years across all QDCs/QSCs.

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



As of 30 April 2023, the SSRO had received reports for a total of 535 QDCs/QSCs (459 QDCs and 76 QSCs), as can be seen in Figure 1 which breaks the total down to show the number of contracts which became QDCs/QSCs in each year. There were 73 contracts that became QDCs/QSCs in 2022/23, compared to 92 QDCs/QSCs in 2021/22.

Figure 2 below shows this number of contracts which became QDCs/QSCs in each year, split between how many have completed or are still active. For the purposes of these statistics, a completed contract is defined as a contract with a submitted Contract Completion Report (CCR), which is due six months after contract completion. If the CCR has not been submitted, then a contract is defined as 'active'. Please refer to the Methodology section for further details on how

completed contracts are defined. Since the start of 2015/16, 112 of the 535 QDCs/QSCs have completed.

The number of completed contracts below provides an indication of how 'final' the data reported for each year is. The majority of QDCs/QSCs are still active, and so will provide further contract update reports with potentially revised data which will be reflected in subsequent bulletins.

Figure 2: Stock of active and completed QDCs/QSCs, by financial year in which the contract became a QDC/QSC, as at 30 April 2023

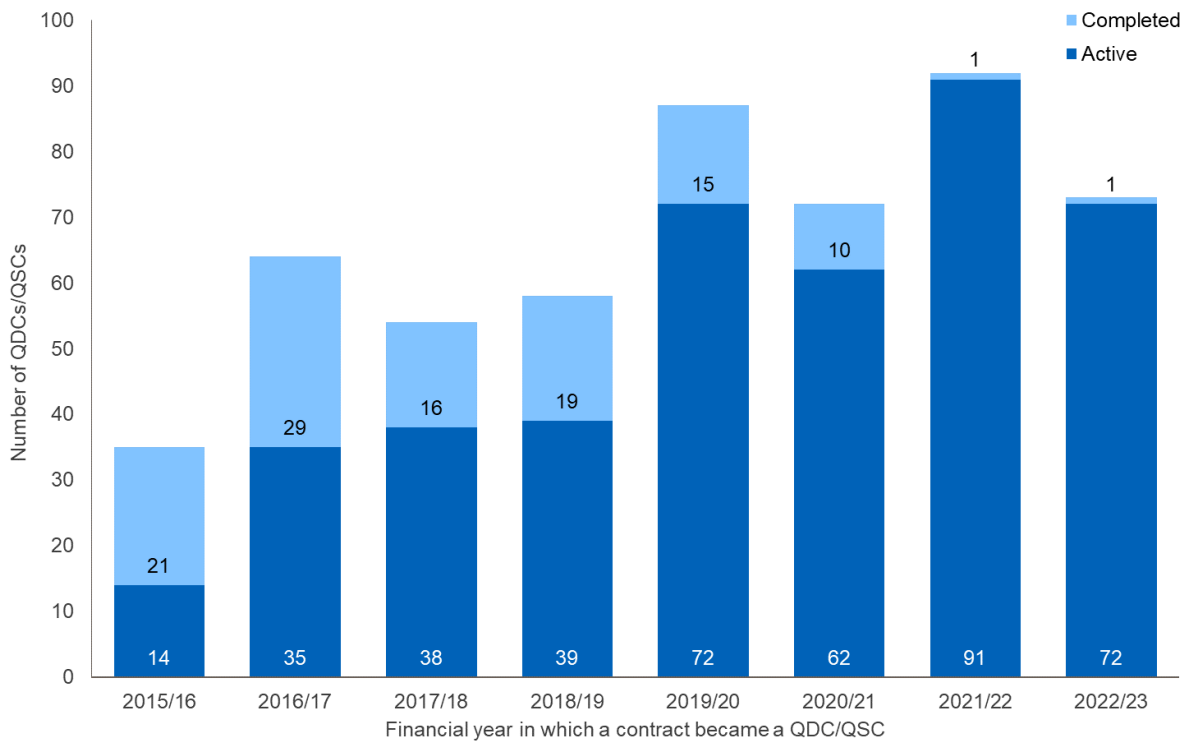
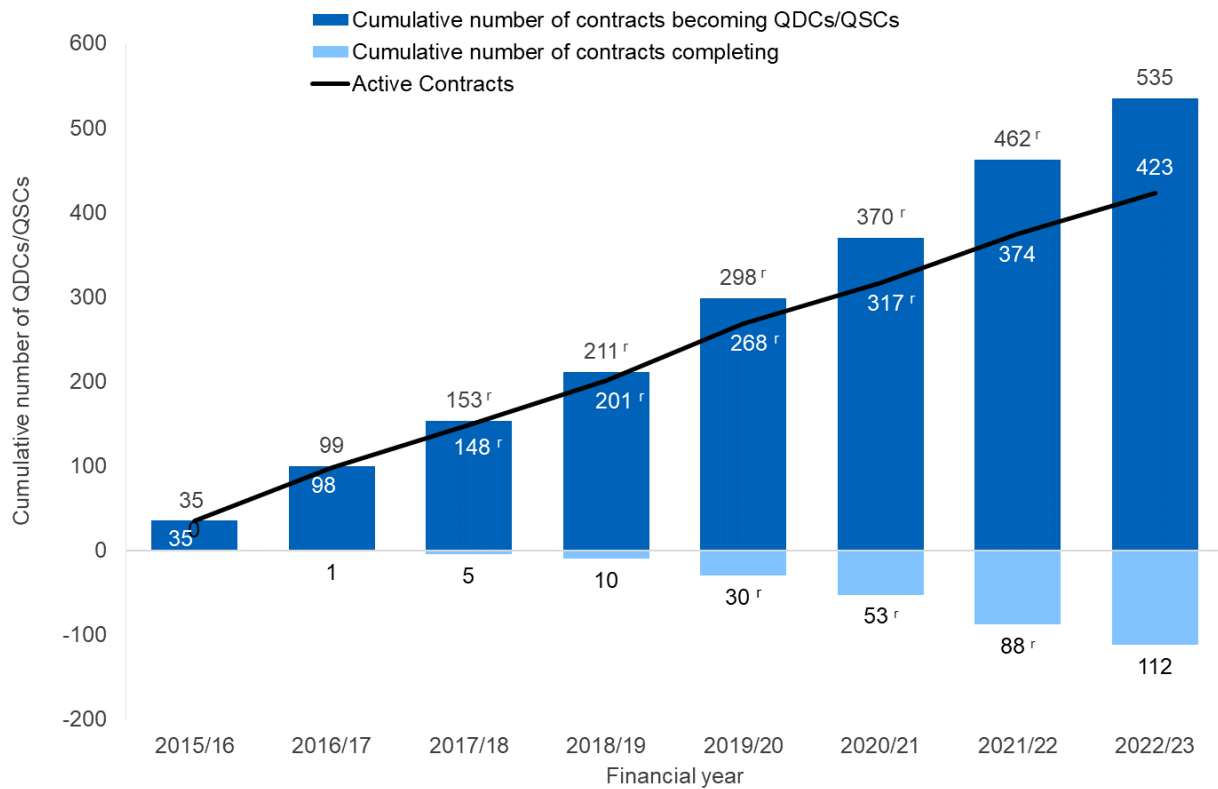


Figure 3 shows the cumulative flow of contracts becoming QDCs/QSCs, and those completing in each year, with active contracts shown as the net of these. It can help with understanding the number of active contracts subject to the regime. Currently, of the 535 contracts which became QDCs/QSCs, 423 are still considered active.

Figure 3: Cumulative flow of contracts which became QDCs/ QSCs and completed and stock of active contracts



Duration

The duration data presented in this section is based on estimated contract duration at the latest time of agreement (either the date the contract became a QDC/QSC, or the date of the latest pricing amendment) and does not necessarily represent the actual duration once the contract is complete. 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.

The average (mean) estimated duration of the 73 contracts which became QDCs/QSCs in 2022/23 was 3.9 years (see Table 1). The average estimated duration across all QDCs/QSCs was 4.8 years. Table 1 also shows the average duration by year as reported in previous statistical bulletins. These are as reported in the relevant previous annual bulletins, and so have not been updated for any corrections or any late submissions made within subsequent years. The average duration of contracts that became QDCs/QSCs in earlier financial years has been increasing, reflecting the fact that contracts can be amended, extended or reports corrected. For example, 2015/16 QDCs/QSCs were reporting an average duration of 4.4 years in the 2016/17 bulletin, but are now reporting an average of 6.2 years. The accompanying data also contains a breakdown of the average duration by QDC/QSC.

Table 1: Average (mean) estimated contract duration¹ of QDCs/QSCs by financial year in which contract became a QDC/QSC, and average duration from previous bulletins

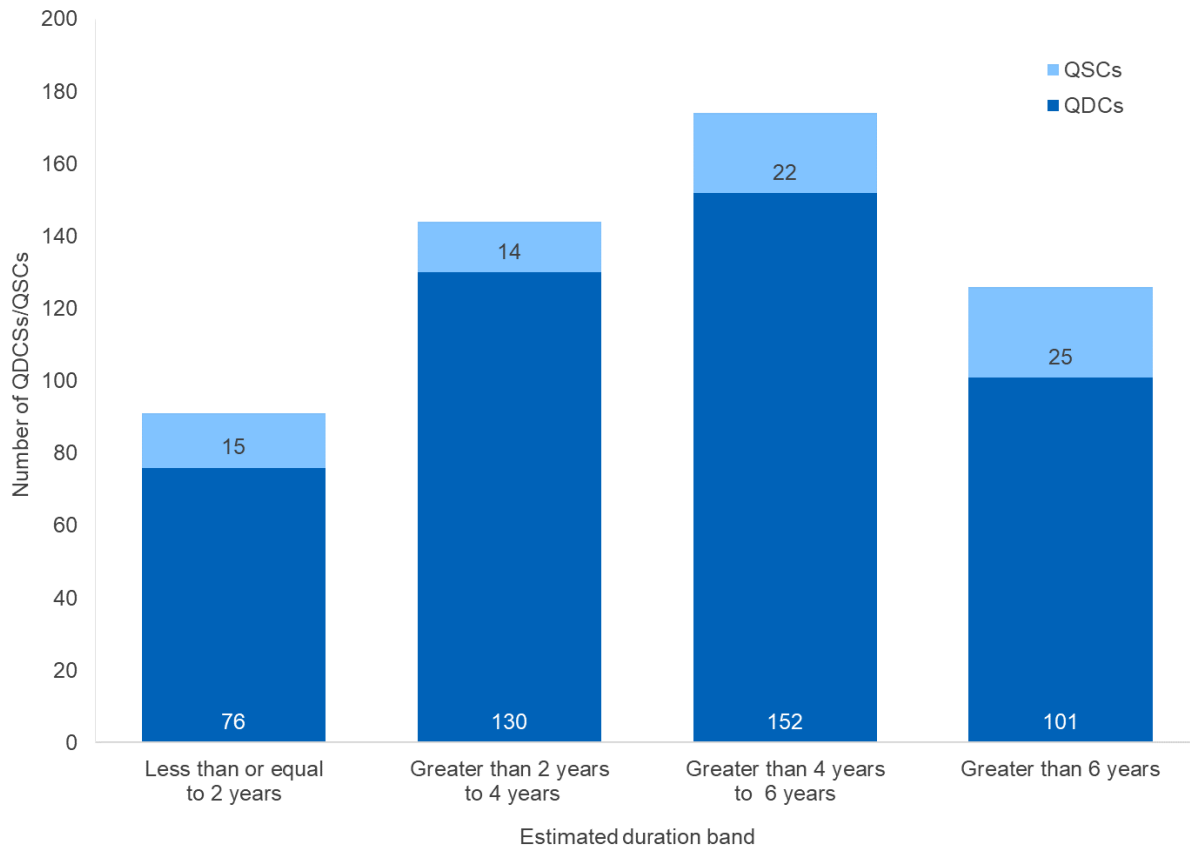
Financial year in which contract became a QDC/QSC	Average duration (years) from 2016/17 bulletin	Average duration (years) from 2017/18 bulletin	Average duration (years) from 2018/19 bulletin	Average duration (years) from 2019/20 bulletin	Average duration (years) from 2020/21 bulletin	Average duration (years) from 2021/22 bulletin	Average duration (years)
2015/16	4.4	4.7	4.7	5.0	5.2	5.5	6.2 r
2016/17	4.5	4.5	4.7	5.0	5.2	5.6	6.1 r
2017/18		3.8	3.9	4.1	4.5	5.0	5.6 r
2018/19			4.3	4.5	4.6	5.2	5.4 r
2019/20				3.9	3.8	4.2	4.5 r
2020/21					3.9	4.1	4.4 r
2021/22						4.0	4.0
2022/23							3.9
Overall	4.4	4.3	4.4	4.4	4.4	4.4	4.8

Note: The 'r' in this table represents a revision from the Q3 2022/23 statistics bulletin, rather than the 2021/22 bulletin shown alongside.

Figure 4 shows the estimated duration of all 535 QDCs/QSCs, with 318 contracts (59 per cent) having a duration of between more than two years to six years. Please see the accompanying databook for a breakdown by financial year in which the contract became a QDC/QSC. As contracts mature they can be amended and extended, so the estimated duration of older contracts tends to be longer than for newer contracts. For example, 80 per cent of contracts which became QDCs/QSCs in 2015/16 are estimated to be completed in more than four years, compared with 41 per cent for 2022/23 QDCs/QSCs. The estimated duration of a contract can continue to change throughout the contract's life; the actual duration will be reported when the contract is complete.

¹ 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.

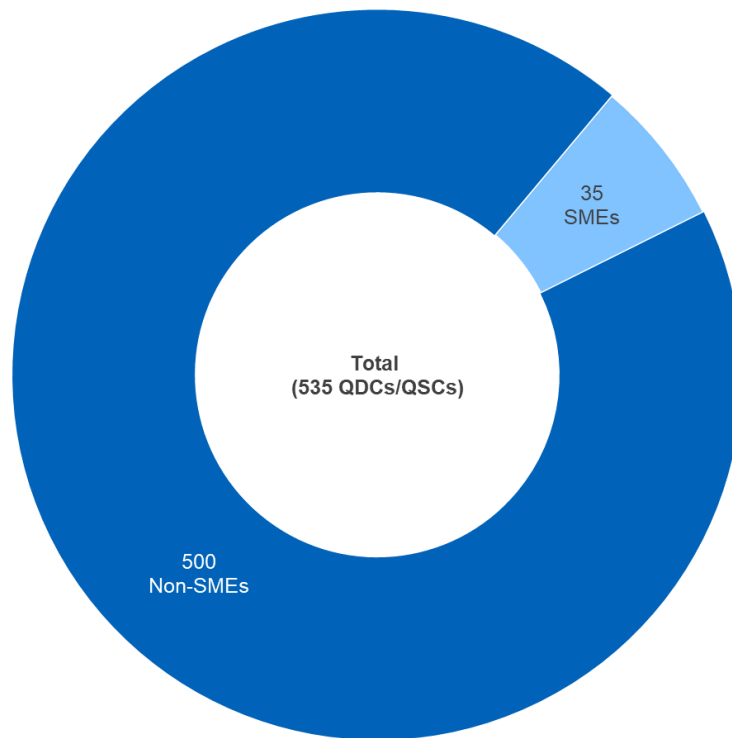
Figure 4: Number of QDCs/QSCs by estimated duration for all QDCs/QSCs



Small and Medium Enterprises (SMEs)

Figure 5 below shows 7 per cent (35 QDCs/QSCs) of all the 535 QDCs/QSCs were contracted with small or medium enterprises (SMEs), as reported by contractors. Of these 35 QDCs/QSCs, 33 were QDCs, and 2 QSCs. For contracts that became QDCs/QSCs in 2022/23, 5 per cent (4 QDCs/QSCs) were with an SME. Please see the accompanying databook for a breakdown by financial year in which the contract became a QDC/QSC, as well as a breakdown by QDC/QSC. Figure 18 in the sub-contracts section also explores the use of SMEs within the supply chain.

Figure 5: Number of QDCs/QSCs that are contracted to SMEs, for all QDCs/QSCs



Contracting companies and Global Ultimate Owners

Table 2 shows how many unique contracting companies and Global Ultimate Owners (GUOs) the QDCs/QSCs were with, by financial year. As of 30 April 2023, the 535 QDCs/QSCs were awarded to 180 different contracting companies, which in turn are owned by 126 unique GUOs. For more details on how the contracting company and GUO are sourced, please refer to the methodology section.

Table 2: Number of unique Contracting Companies and Global Ultimate Owners that have QDCs/QSCs, by financial year in which their first contract became a QDC/QSC

Financial year in which contract became a QDC/QSC	Cumulative number of contracting companies	Cumulative number of GUOs
2015/16	23	16
2016/17	54	36
2017/18	78	48
2018/19	105	68
2019/20	131	83
2020/21	150	100
2021/22	162	108
2022/23	180	126

Price and pricing methods

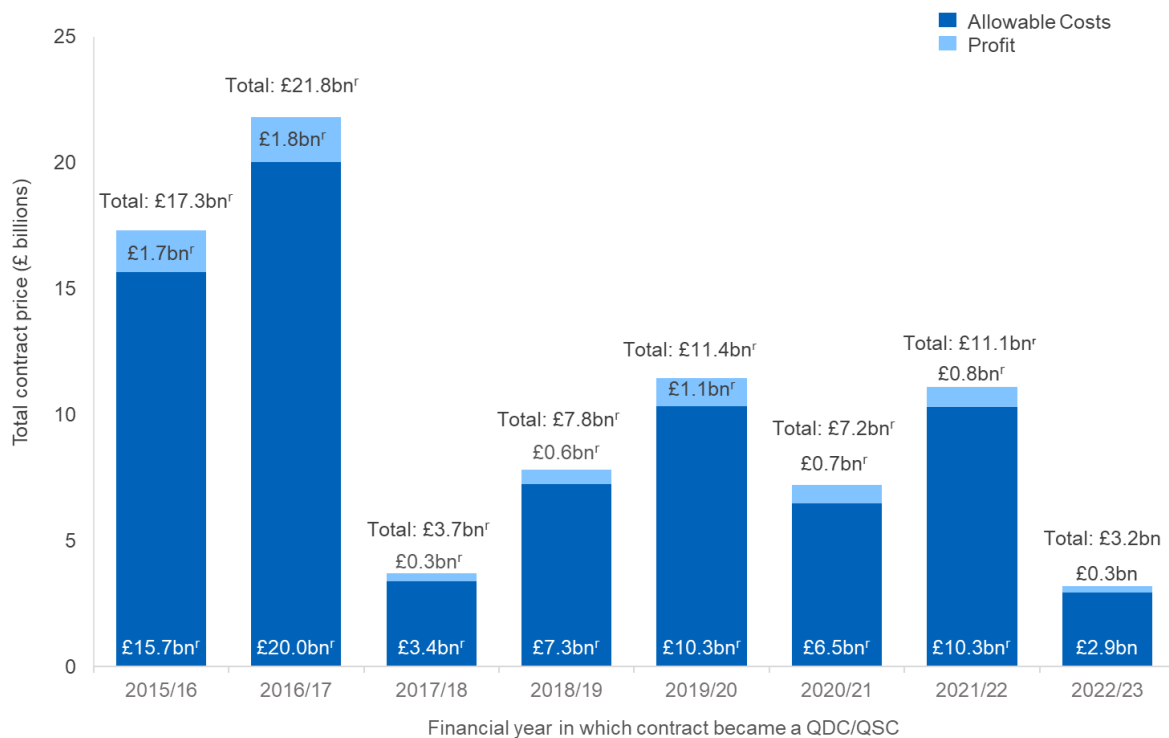
Total estimated contract price of QDCs/QSCs, split by Allowable Costs and profit, and the contract pricing methods employed.

Summary

- The total estimated price of contracts which became QDCs/QSCs in 2022/23 was £3.2 billion (£2.9 billion of Allowable Costs, £0.3 billion of profit). Within this, QDCs had an estimated price of £2.5 billion, and QSCs £0.7 billion.
- Since 1 April 2015, the total estimated price of all QDCs/QSCs was £83.6 billion (£76.4 billion of Allowable Costs, and £7.2 billion of profit). Within this, QDCs had an estimated price of £77.5 billion and QSCs £6.1 billion.
- The mean estimated contract price of a contract that became a QDC/QSC in 2022/23 was £44 million, whilst the median was £15 million.
- Across all years, the majority (74 per cent) of the 528 QDCs/QSCs that submitted pricing method data used firm pricing as the regulated pricing method in all or a proportion of the contract. In terms of the contract price associated with each pricing method, firm pricing was also the method with the highest value associated with it, with 31 per cent of the total estimated contract price attributed to this pricing method, followed by target pricing at 29 per cent.

The data presented in this section is based on the estimated contract price at the latest time of agreement (either the date the contract became a QDC/QSC, or the date of the latest pricing amendment) and does not necessarily represent the price once the contract is complete.

Figure 6: Estimated stock of total contract price of QDCs/QSCs by financial year in which contract became a QDC/QSC², split by estimated cost and profit

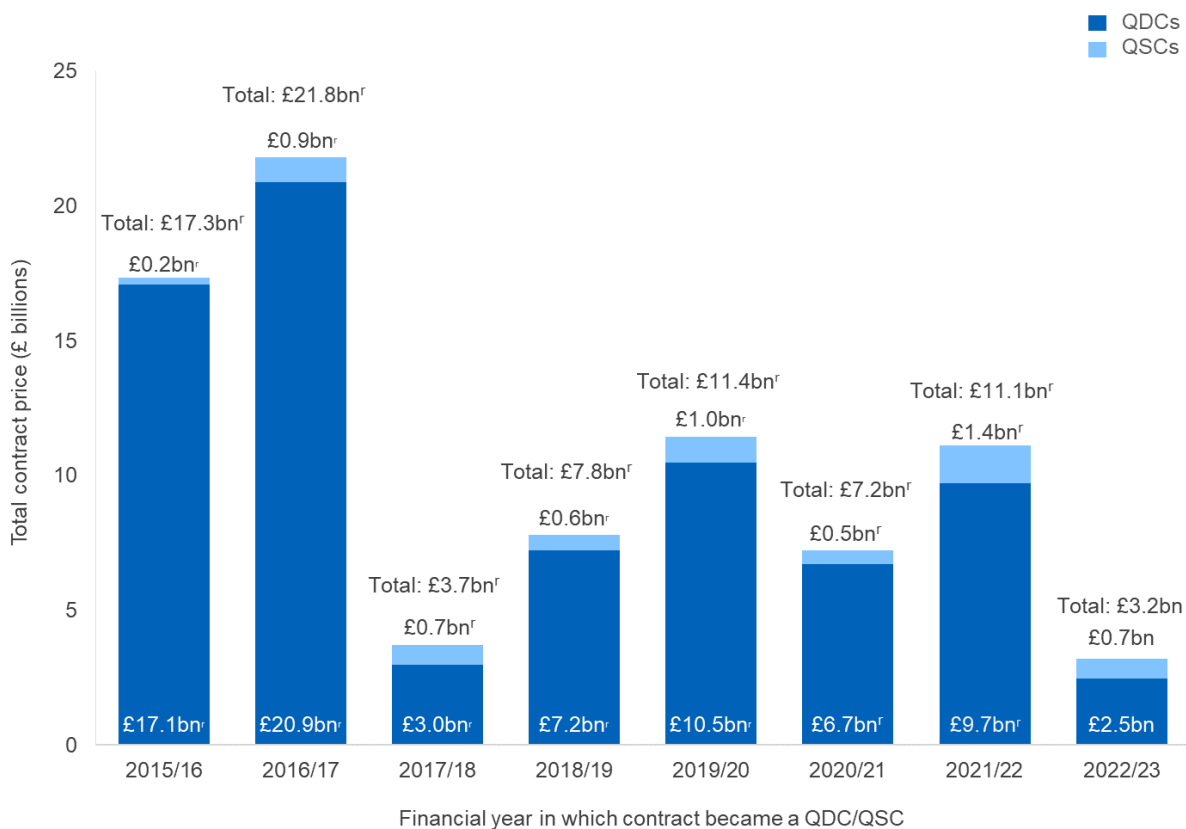


² Note: Calculating the percentage of profit on total Allowable Costs using the above figures represents the cost weighted average profit rate. Therefore, this will differ from the average estimated profit rate reported in Table 5 and Figures 14 and 15.

Figure 6 shows the stock of the total estimated contract price by financial year in which a contract became a QDC/QSC, split by Allowable Costs and profit. The total estimated contract price for contracts that became QDCs/QSCs in 2022/23 was lower than in the previous year, at £3.2 billion in 2022/23 compared to £11.1 billion in 2021/22. Differences in the annual total estimated contract price are influenced by the number and price of contracts which became new QDCs/QSCs each year, as well as amendments to existing QDCs/QSCs affecting previous year’s reported figures. A small number of high value contracts can therefore have a substantial effect on the total. Please note that the total estimated contract price may sometimes include costs incurred before a contract became a QDC/QSC (‘sunk costs’).

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. Figure 7 shows the stock of the total estimated contract price by financial year in which a contract became a QDC/QSC, split by contract type (whether the contract is a QDC or a QSC).

Figure 7: Estimated stock of total contract price of QDCs/QSCs by financial year in which contract became a QDC/QSC, split by contract type



Across all QDCs/QSCs in all financial years, the majority (£77.5 billion; 93 per cent) of the total estimated contract price is associated with QDCs, with approximately seven per cent (£6.1 billion) of the estimated contract price from QSCs. In 2022/23, the percentage of the estimated price associated with QSCs was higher, at 23 per cent.

Table 3 shows the total estimated contract price by year as reported in previous statistical bulletins. These are as reported in the relevant previous annual bulletins, and so have not been updated for any corrections or any late submissions made within subsequent years. As with the average duration, the total contract price of contracts that became QDCs/QSCs in earlier financial years has been increasing, reflecting the fact that contracts can be amended, extended or reports

corrected. For example, 2016/17 QDCs/QSCs were reporting a total contract price of £7.9 billion in the 2016/17 bulletin, but are now reporting £21.8 billion.

Table 3: Total estimated contract price of QDCs/QSCs by financial year in which contract became a QDC/QSC, and total contract price from previous bulletins

Financial year in which contract became a QDC/QSC	Total Contract Price (£m) from 2016/17 bulletin	Total Contract Price (£m) from 2017/18 bulletin	Total Contract Price (£m) from 2018/19 bulletin	Total Contract Price (£m) from 2019/20 bulletin	Total Contract Price (£m) from 2020/21 bulletin	Total Contract Price (£m) from 2021/22 bulletin	Total Contract Price (£m)
2015/16	11,841	8,576	9,556	12,567	12,966	13,562	17,321 r
2016/17	7,894	8,213	10,567	11,939	13,943	17,737	21,816 r
2017/18		2,691	2,827	2,898	2,971	3,175	3,698 r
2018/19			3,805	4,502	5,992	6,670	7,808 r
2019/20				8,888	10,455	10,973	11,446 r
2020/21					4,703	5,888	7,208 r
2021/22						8,105	11,116 r
2022/23							3,209
Overall	19,735	19,481	26,755	40,793	51,029	66,110	83,621

Note: The 'r' in this table represents a revision from the Q3 2022/23 statistics bulletin, rather than the 2021/22 bulletin shown alongside.

Of the £83.6 billion of total estimated contract price, £8.5 billion (10 per cent) is with contracts that have now completed, as can be seen in Figure 8. The remaining 'active' contracts account for £75.1 billion of the total contract price, but this is still subject to change, due to potential future amendments, corrections or extensions, for example.

Figure 8: Cumulative flow of the estimated price of contracts which became QDCs/ QSCs and completed and stock of active contracts

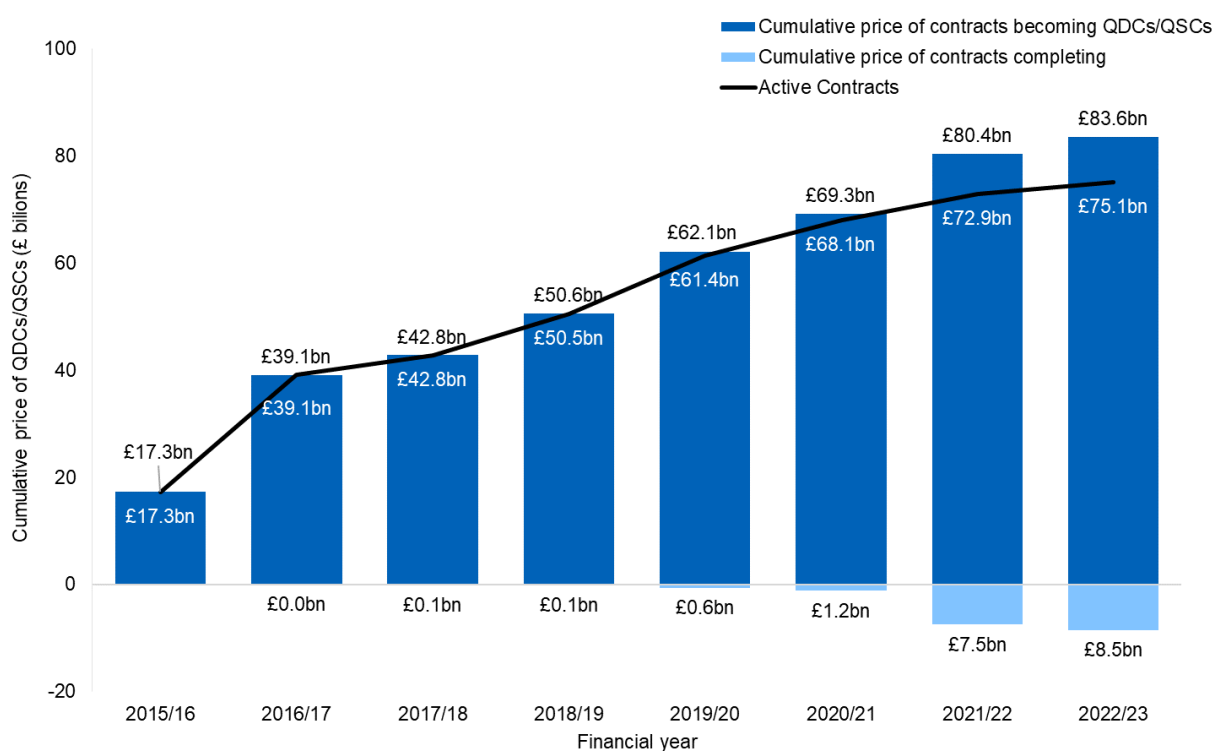
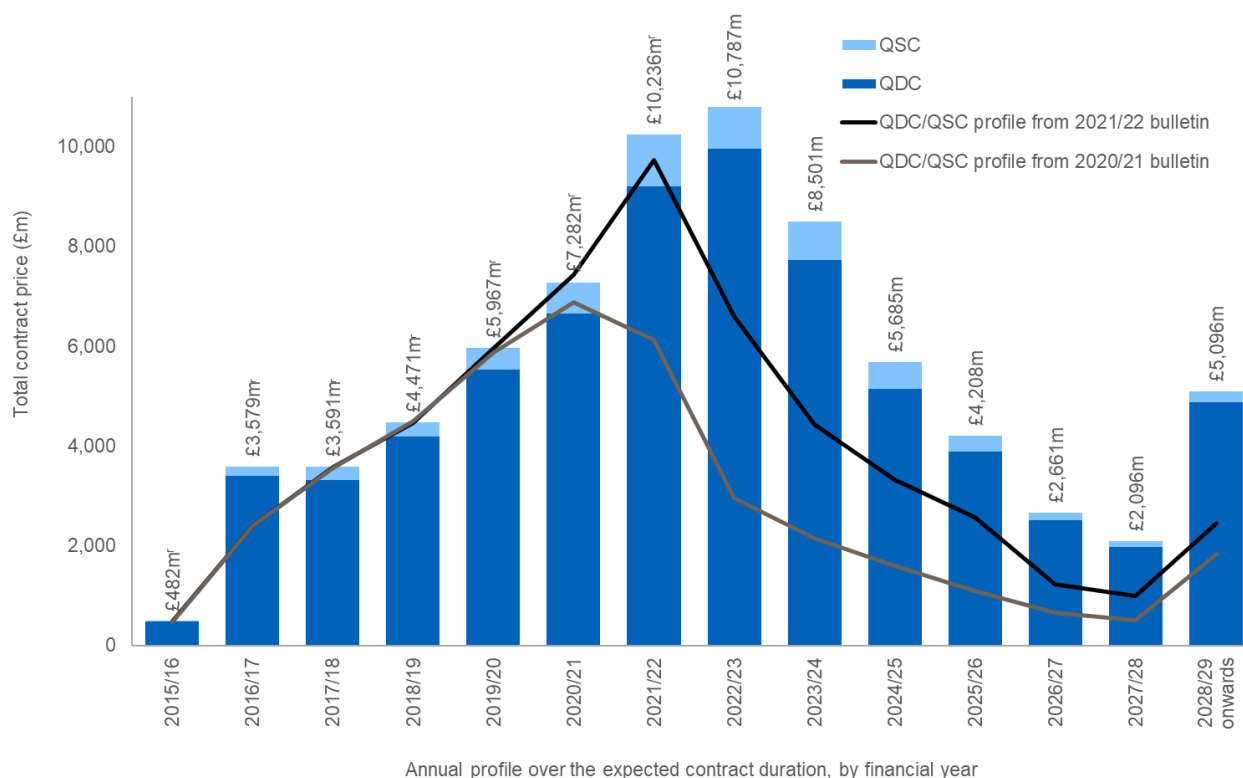


Figure 9: Flow of the estimated total contract price of all QDCs/QSCs, annual profile over the expected contract duration (excluding unprofiled amounts), by financial year



Note: Financial years from 2028/29 onwards have been combined to enable comparisons to previous years, where low numbers of QDCs/QSCs reporting in these years meant they had to be combined. In some cases, the total estimated contract price broken down by annual profile did not equal the total contract price reported elsewhere in the contract reports. The 'profile from [year] bulletin' series is as reported in the relevant previous annual bulletin, and so has not been updated for any corrections or any late submissions made within the last year.

Figure 9 shows the annual flow of estimated total contract price for 524 QDCs/QSCs who had provided annual price data, over the expected contract duration (11 contracts did not provide annual profile data). As per the profiles from the previous bulletins, there was a peak in the total estimated price in the current year, as this is the latest year in which new contracts have entered the regime and many QDCs/QSCs from previous years are still ongoing (the average duration of QDCs/QSCs in 2015/16 to 2018/19 is approximately five years or longer). The annual total estimated price begins to decrease in future financial years, as contracts are expected to complete. Only 126 of the total 535 QDCs/QSCs have an estimated duration of over six years, which may explain the lower total estimated prices expected in later years. As new contracts become QDCs/QSCs, the values in future financial years are expected to increase, as evidenced by the profiles from the previous two bulletins. The figure includes reported pricing data profiled for 2015/16 onwards, but contractors may not profile the price, may only profile some of the price, or may not profile it in the standard fields of the contract reports used in this analysis, for example where there are sunk costs. The data in Figure 9 above accounts for £74.6 billion of the £83.6 billion total estimated contract price reported to date across all financial years.

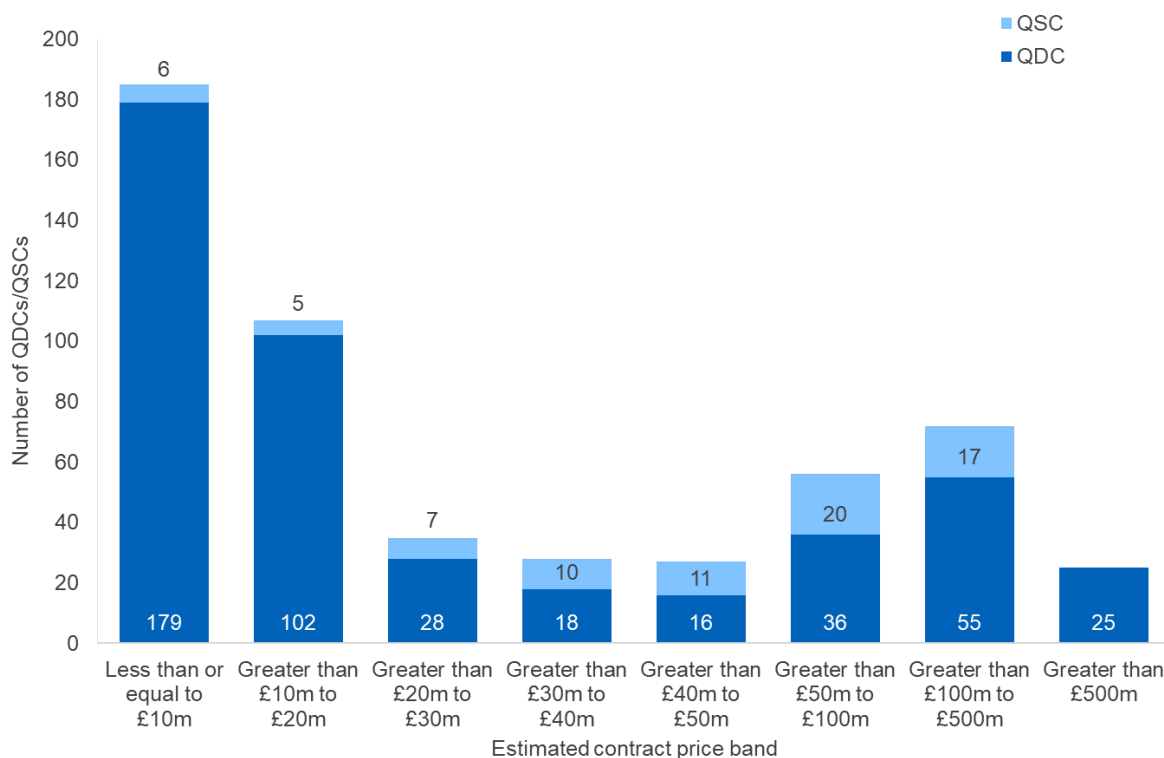
Figure 10: Number of QDCs/QSCs by estimated contract price for all QDCs/QSCs

Figure 10 shows the number of QDCs/QSCs by price band for all QDCs/QSCs. Please see the accompanying databook for a breakdown by financial year in which the contract became a QDC/QSC. For all QDCs, the lower price bands of 'less than or equal to £10m' and 'greater than £10m to £20m' were the two most common price bands. There is a contract value threshold of £25m for a sub-contract to become a QSC, and so there are greater proportions of QSCs within the higher price bands than the lower bands. The value is determined in accordance with Regulation 5 of the Single Source Contract Regulations, and this is distinct from the contract price, which is determined in accordance with Regulation 10. Some QSCs can therefore have a contract price of less than £25 million, and still be assessed as a QSC.

Table 4: Mean and median estimated contract price, by financial year and contract type

Financial year in which contract became a QDC/QSC	Mean contract price (£m)	Median contract price (£m)
2015/16	495 r	35
2016/17	341 r	31 r
2017/18	68 r	15 r
2018/19	135 r	21 r
2019/20	132 r	18 r
2020/21	100 r	15 r
2021/22	121 r	11
2022/23	44	15
Total	156	17
QDC	169	17
QSC	80	17

Table 4 shows the mean and median estimated contract prices, by financial year. Across all financial years, the mean estimated contract price is £156 million, but the median price is £17 million. In each year, the median contract price is much lower than the mean, as there are a smaller number of large contracts that tend to skew the mean upwards. There is a large difference in the mean contract price between QDCs and QSCs, at £169 million and £80 million respectively. However, the median contract price is exactly the same for both QDCs and QSCs.

Regulated pricing methods

The Single Source Contract Regulations 2014 (Regulation 10) specify six regulated pricing methods that can be used to determine the price payable for a QDC/QSC. The method used to price a QDC/QSC can influence the final price and profit payable, and the incentive to control costs. The six pricing methods are as follows:

- Firm pricing;
- Fixed pricing;
- Cost-plus pricing;
- Estimate-based fee pricing;
- Volume-driven pricing; and
- Target pricing.

Regulation 10 of the **Single Source Contract Regulations 2014** introduces the six regulated pricing methods and describes how they operate for the purposes of the price formula. Seven contracts did not provide any pricing method data, and so have been excluded from analysis in this section.

Figure 11 shows how many QDCs/QSCs used one, two or three or more pricing methods in the pricing of their contract. Out of the 528 QDCs/QSCs where pricing method data was provided, the majority (397 QDCs/QSCs; 75 per cent) reported using one regulated pricing method in the pricing of the contract, whilst 109 QDCs/QSCs used two pricing methods (21 per cent) and 22 QDCs/QSCs used three or more pricing methods (4 per cent).

Figure 11: Number of QDCs/QSCs that have used 1, 2 and 3 or more pricing methods used in a proportion of the contract

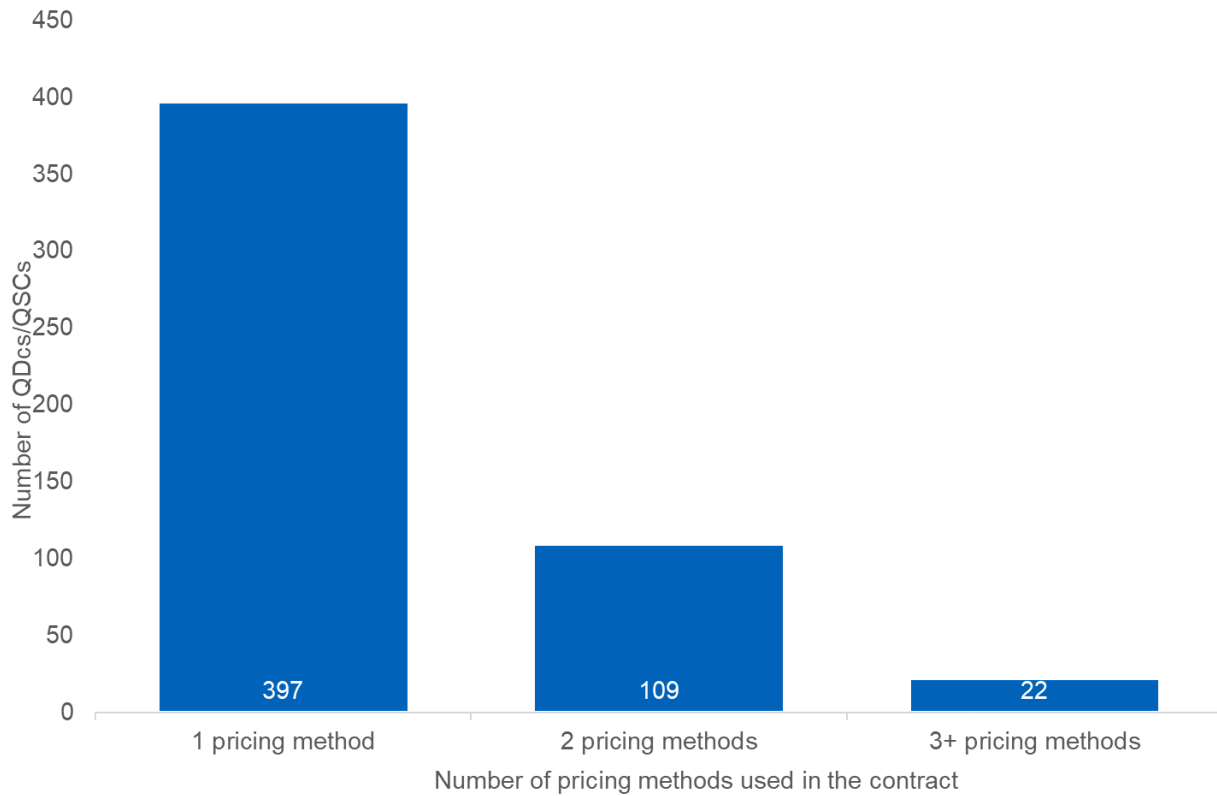


Figure 12 presents the number of QDCs/QSCs that used each of the six pricing methods in a proportion of the contract. The single most reported pricing method across all QDCs/QSCs was firm pricing, with 390 out of 528 QDCs/QSCs (74 per cent) using this pricing method within the contract (sometimes in combination with other pricing methods). Firm pricing has been the most utilised method each year since 2015/16. Please see the accompanying databook for a breakdown by financial year in which the contract became a QDC/QSC, and for further detail on the top 10 combinations of pricing methods used (Figure 12a in the databook).

Figure 12: Number of QDCs/QSCs that use each pricing method in a proportion of the contract, for all QDCs/QSCs

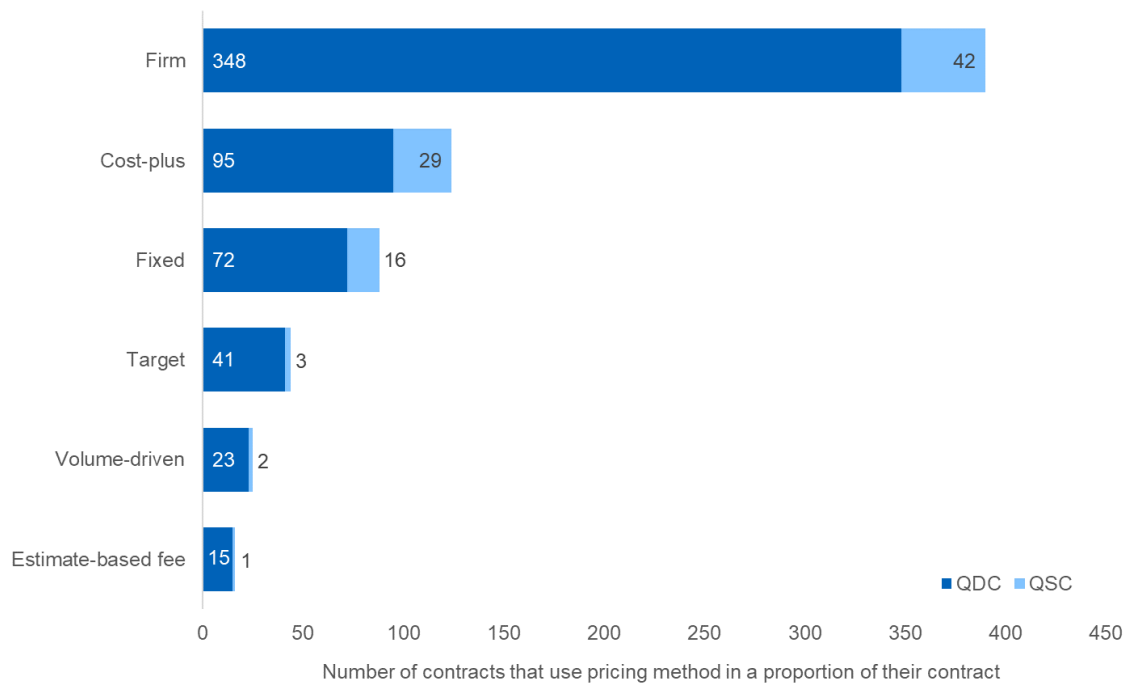
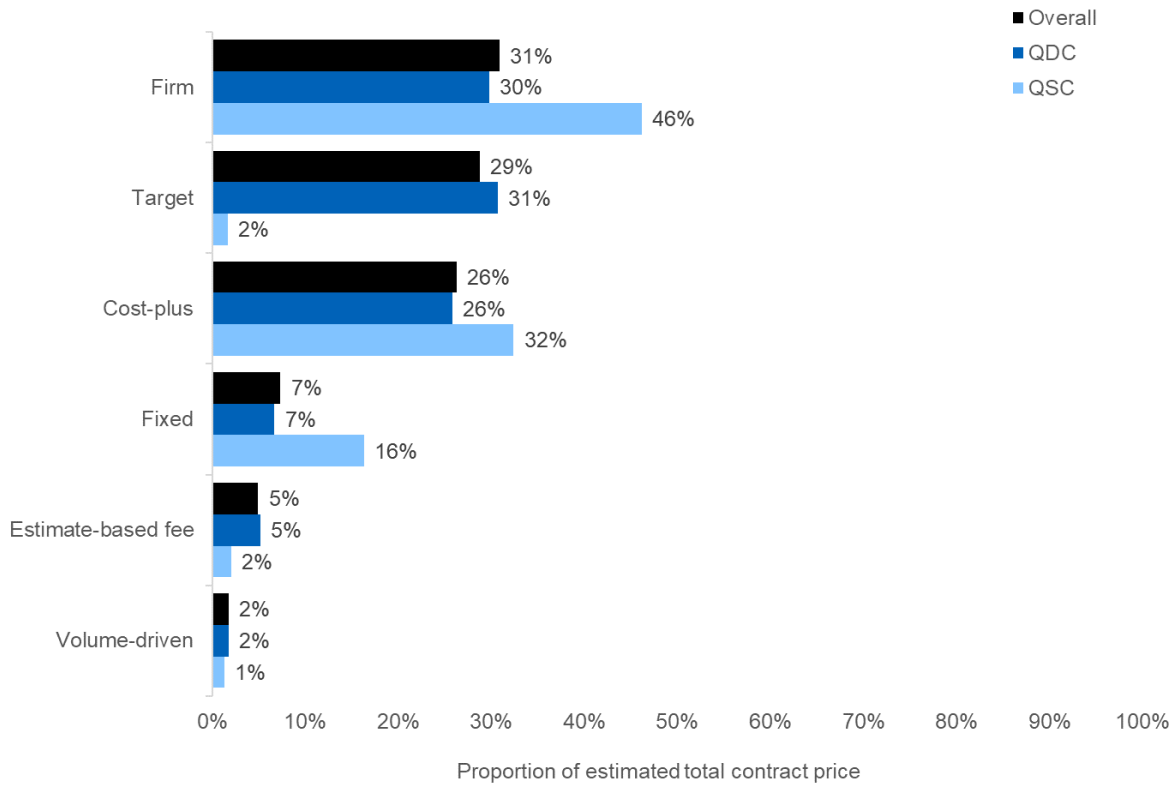


Figure 13 presents the proportion of the estimated contract price attributed to each of the pricing methods across the 528 QDCs/QSCs that provided this data. Please see the accompanying databook for a breakdown by financial year in which the contract became a QDC/QSC. Across the eight years, firm pricing was the pricing method with the highest proportion of the contract price associated with it at 31 per cent (30 per cent for QDCs, 46 per cent for QSCs), closely followed by target pricing, which has 29 per cent of the total contract price associated with it. Volume-driven pricing was the pricing method with the lowest amount of contract price associated with it overall, with 2 per cent of the total contract price utilising this method for both QDCs and QSCs. Variation in the contract price associated with different pricing methods each year can be influenced by a small number of high value contracts.

Figure 13: Proportion of total estimated price of QDCs/QSCs, by regulated pricing method, for all QDCs/QSCs



Profit

Estimated contract profit rates, including the adjustments made to the baseline profit rate.

Summary

- In the 2022/23 financial year, the average (mean) contract profit rate was 9.54 per cent, a decrease of 0.04 percentage points compared to an average of 9.58 per cent in 2021/22 QDCs/QSCs.
- Aside from the baseline profit rate, the adjustment with the most impact on the contract profit rate was the capital servicing adjustment in all financial years. The average (mean) capital servicing adjustment was 1.15 per cent in 2022/23 QDCs/QSCs, an increase of 0.21 percentage points compared to 2021/22.
- Of the 516 QDCs/QSCs across all financial years that submitted profit rate step information, 58 (11 per cent) had reported a profit-on-cost-once (POCO) adjustment, whilst 101 (20 per cent) had reported an incentive adjustment.

The Defence Reform Act 2014 and the Single Source Contract Regulations 2014 together prescribe a six-step process which should be used to determine the contract profit rate for a QDC/QSC. For more information on the profit rate and these six steps, please refer to the **SSRO's *Guidance on the baseline profit rate and its adjustment.***

The data presented in this section is based on estimated profit rates 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 CPS 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 the 'Price and pricing methods' section, which can be sourced from more up-to-date reports that contain the overall profit rate, but not the detail of the six profit rate steps. The 'Outturn price of completed contracts' section includes information on the actual and forecast profit in completed contracts.

There are five QDCs/QSCs that either did not provide any profit rate information, provided information with data quality concerns, or used the Government Owned Contractor Rate (GOCR), and so have been excluded from all the analysis in this section.

Table 5 shows the average (mean) overall contract profit rates for the 530 QDCs/QSCs that were included in the analysis. This table is consistent with the methodology used in the quarterly statistical series of bulletins. The average contract profit rate for 2022/23 QDCs/QSCs is 9.54 per cent, a small decrease from 2021/22 QDCs/QSCs of 9.58 per cent. During the same period the baseline profit rate set by the Secretary of State remained static at 8.31 per cent. Whilst the baseline profit rate is a fixed rate set by the Secretary of State each year, some QDCs/QSCs had reported a different rate to this, sometimes as the result of reporting an average of two or more rates.

Table 5: Average (mean) contract profit rate agreed at the latest time of agreement, by financial year

Financial year in which contract became a QDC/QSC	Average (mean) Contract Profit Rate (%)
2015/16	10.86
2016/17	10.56
2017/18	8.47 r
2018/19	8.34
2019/20	9.05 r
2020/21	9.55
2021/22	9.58 r
2022/23	9.54
Overall	9.44

The following analysis in this section is based on 516 QDCs/QSCs as a further 14 QDCs/QSCs did not provide profit rate step data in the standard fields of their latest submitted report, and so have been excluded from the analysis on the profit steps. Please see the methodology for an explanation of why this might be. Figures 14 and 15 below show the average (mean) adjustments made to the baseline profit rate (BPR) for each profit rate step, for the contracts that became QDCs/QSCs in 2021/22 and 2022/23 respectively.

Figure 14: Average (mean) profit rate steps agreed at the latest time of agreement, for 2021/22 QDCs/QSCs³

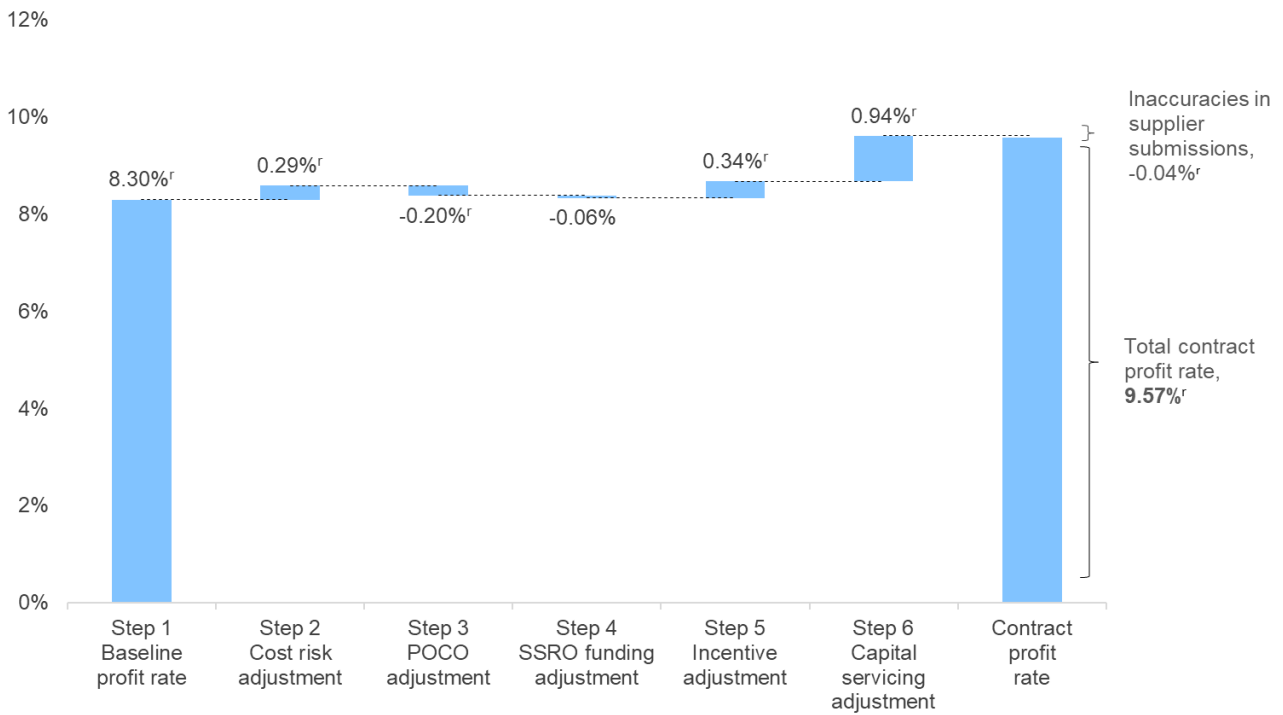
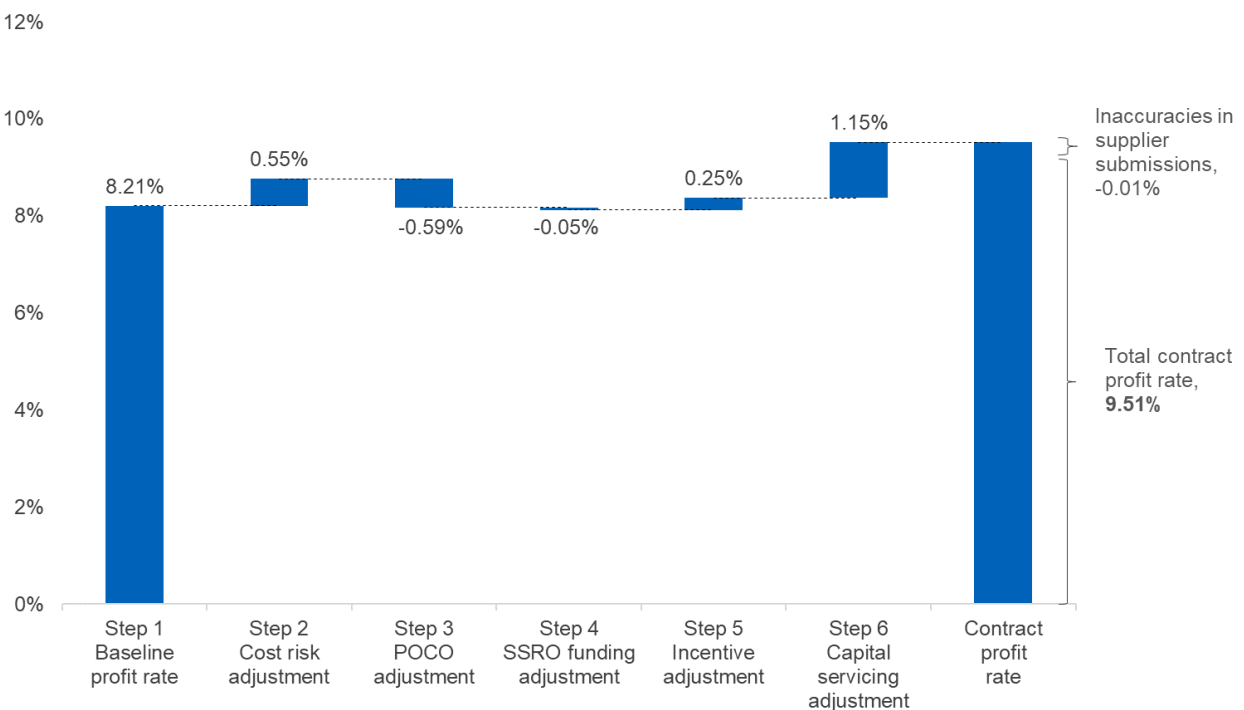


Figure 15: Average (mean) profit rate steps agreed at the latest time of agreement, for 2022/23 QDCs/QSCs³



³ Note: Some QDCs/QSCs had reported a BPR or SSRO funding adjustment that differed from the rate set by the Secretary of State for that year (for example where a profit rate includes sunk costs, before the BPR was set, or where an amendment to a contract uses a BPR from a different year), which explains why these figures do not show the published rates.

For those 516 contracts that supplied profit rate step data, the largest change in the profit rate steps was the average POCO adjustment, which decreased by 0.39 percentage points (from -0.20 percentage points in 2021/22 to -0.59 percentage points in 2022/23). The average cost risk adjustment increased by 0.26 percentage points to 0.55 percentage points for 2022/23 QDCs/QSCs, from 0.29 in 2021/22 QDCs/QSCs (the cost risk adjustment may range between +/- 25 per cent of the baseline profit rate). The average capital servicing adjustment also increased by 0.21 percentage points between 2021/22 and 2022/23 QDCs/QSCs.

The most significant factor in determining a QDC's/QSC's contract profit rate, on average, across all years was the baseline profit rate, comprising on average to 85 per cent of the contract profit rate in 2022/23 (see Table 6). The second most impactful adjustment was the capital servicing adjustment, which comprised 12 per cent of the contract profit rate in 2022/23 QDCs/QSCs.

Of all 516 contracts that were included in the analysis, the majority (80 per cent) of QDCs/QSCs have agreed a contract profit rate above the baseline profit rate in place at the date the contract became a QDC/QSC, due to the other steps involved in agreeing a contract profit rate shown below. For the annual figures showing how many contracts have agreed a profit rate above/below the baseline profit rate, refer to the accompanying data book (Table 6a).

Table 6: The contribution of each profit rate step towards the average contract profit rate, by financial year in which the contract became a QDC/QSC⁴

Profit rate step (%)	2018/19 (%)	2019/20 (%)	2020/21 (%)	2021/22 (%)	2022/23 (%)
Baseline profit rate	83	85	85 r	87	86
Cost-risk adjustment	4	3	4	3	6
Profit-on-cost-once adjustment	-4	-3	-2 r	-2	-6
SSRO funding adjustment	0	0	-1	-1	0
Incentive adjustment	5	3 r	4	4 r	3
Capital servicing adjustment	12	12	10	10	12
Inconsistencies in supplier data	1	0	-1	0	0
Contract Profit Rate	100	100	100	100	100

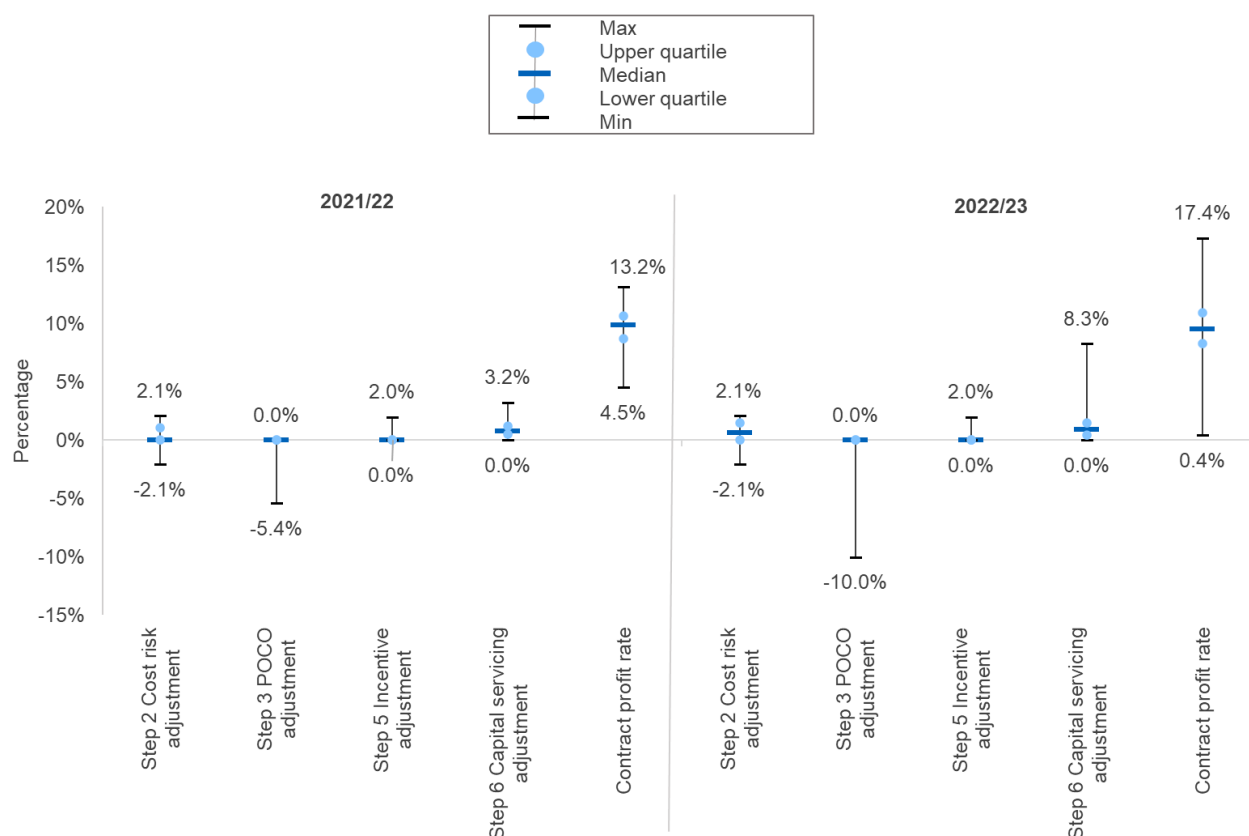
Figure 16 below shows the maximum, minimum, median and interquartile values reported for each of the profit rate adjustments (excluding the baseline profit rate and SSRO funding adjustment, which are fixed values), and the contract profit rate, for 2021/22 and 2022/23 QDCs/QSCs.

Some of the maximum and minimum points may be considered outliers, and so the interquartile range has been included to provide more information on the distribution of data points for each step, specifically the spread of values within the central 50 per cent of the data. The interquartile range of all profit steps has remained relatively consistent for both 2021/22 and 2022/23 QDCs/QSCs.

The contract profit rate of QDCs/QSCs in 2022/23 ranged from 0.4% to 17.4%. In 2022/23 QDCs/QSCs, the range of profit rate steps widened for both the POCO adjustment (between zero per cent and -10.0 per cent) and the Capital Servicing Adjustment (between zero per cent and 8.3 per cent). The range seen in the POCO adjustment may be more volatile due to a small number of contracts using this adjustment (see Table 7).

⁴ The 'inconsistencies in supplier data' row relates mostly to data quality issues, where the reported profit rate steps do not sum to the total contract profit rate reported by contractors.

Figure 16: Maximum, minimum, median and interquartile range of profit rate steps reported in individual QDCs/QSCs, for 2021/22 and 2022/23 QDCs/QSCs



Not all contracts receive an adjustment for each of the profit rate steps. Most contracts did not report a POCO adjustment (this adjustment may not be applicable, for example), or an incentive adjustment. Table 7 below shows the number of QDCs/QSCs that reported a POCO and/or incentive adjustment. Of the 516 QDCs/QSCs that were included in the analysis across all financial years, 58 (11 per cent) had reported a profit-on-cost-once (POCO) adjustment, whilst 101 (19 per cent) had reported an incentive adjustment.

Table 7: Number of QDCs/QSCs that have reported POCO and/or incentive adjustments, by financial year in which the contract became a QDC/QSC

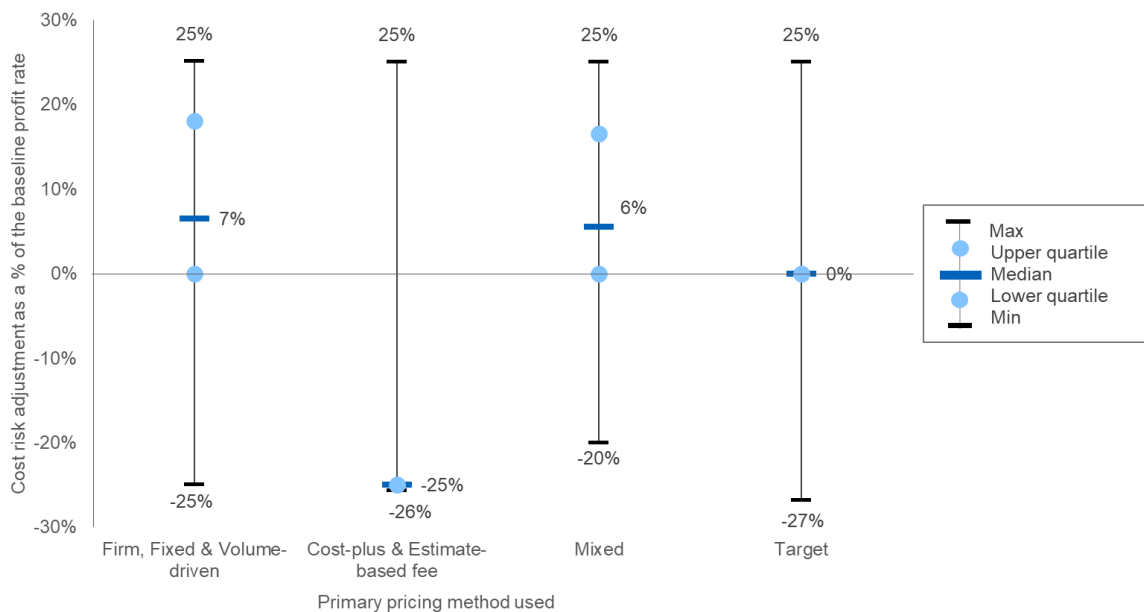
Financial year in which contract became a QDC/QSC	Total number of QDCs/QSCs	Number of QDCs/QSCs with a non-zero POCO adjustment		Number of QDCs/QSCs with a non-zero incentive adjustment	
		Number	%	Number	%
2015/16	32 r	1	3	3	9
2016/17	61 r	5	8	14	23 r
2017/18	51 r	7	14 r	8	16 r
2018/19	58	7	12	14	24
2019/20	85 r	13 r	15 r	17 r	20 r
2020/21	70 r	7 r	10 r	16 r	23 r
2021/22	89 r	8 r	9	17 r	19 r
2022/23	70	10	14	12	17
Overall	516	58	11	101	20

As mentioned, the data presented in this section is based on estimated profit rates at the time of agreement and does not necessarily represent the profit that will be achieved once the contract is complete. The actual profit rate achieved will depend on the performance of the contract, the pricing methods used, and any final price adjustments agreed.

The use of different pricing methods is one of the factors which can expose the contracting parties to varying amounts of risk that the actual costs of a contract differ from the estimated costs. The purpose of the cost risk adjustment is to incorporate into the contract profit rate an addition or deduction to reflect the risk that the contractor’s actual Allowable Costs in delivering the requirements will differ from the estimated Allowable Costs included in the contract price. This adjustment can be between +/- 25 per cent of the baseline profit rate. Further information on this adjustment can be found in the **SSRO’s Guidance on the baseline profit rate and its adjustment**.

Figure 17 below shows the maximum, median, minimum and interquartile range of cost risk adjustments (as a percentage of the BPR) agreed within contracts using each of the pricing methods. Contracts can employ multiple pricing methods, and so QDCs/QSCs have been allocated to a ‘primary’ pricing method if more than 75 per cent of the contract price is reported against that pricing method. Where there is no one pricing method with more than 75 per cent of the contract price, this is classified as ‘mixed’. Some pricing methods have been grouped due to the similar ways in which profit risk sharing is treated in these. In addition to the 19 contracts that have not provided sufficient profit rate data, an additional seven contracts have not reported pricing method data, so the analysis below is based on 509 contracts.

Figure 17: Maximum, median, minimum and interquartile range of estimated Cost Risk Adjustment as a percentage of Baseline Profit Rate, by primary pricing method, for all QDCs/QSCs



The **SSRO’s Guidance on the baseline profit rate and its adjustment** states that for cost-plus and estimate-based fee contracts the cost risk adjustment should be set at minus 25 per cent of the baseline profit rate, which is why the median and interquartile range for these pricing methods appears much lower compared to other pricing methods. For the other pricing methods, there is more variation in the cost risk adjustment applied across contracts, with the full range of +/-25 per cent of the baseline profit rate being used. The median for firm, fixed and volume-driven contracts is higher than for other pricing methods (other than mixed, which will include a large proportion of firm, fixed and volume-driven contracts), at +7 per cent of the baseline profit rate, and a wider

interquartile range is seen here too; the central 50 per cent of these contracts had cost risk adjustment values as a percentage of the BPR between zero per cent to +18 per cent. The interquartile range for target pricing contracts is zero. Some contracts have reported cost risk adjustments that fall outside of the +/- 25 per cent threshold, and the statistics use this data as reported by contractors.

Sub-contracts

Number and estimated price of the sub-contracts that assist in the delivery of QDCs/QSCs.

Summary

- The number of reported sub-contracts (with a value of £1 million or more in each QDC/QSC) has decreased in 2022/23 QDCs/QSCs at 74, compared to 312 in 2021/22 QDCs/QSCs.
- Accordingly, the total estimated price of reported sub-contracts was also lower for 2022/23 QDCs/QSCs than for 2021/22 QDCs/QSCs, at £1.1 billion compared to £2.2 billion.
- The proportion of all reported sub-contracts with SMEs increased this year (46 per cent in 2022/2023 QDCs/QSCs, compared to 14 per cent in 2021/22 QDCs/QSCs).
- Across all years, the average price of a sub-contract with an SME was £6.2 million, compared to an average of £9.9 million for sub-contracts with non-SMEs. The average price of a sub-contract has increased in 2022/23, from £6.6 million in 2021/22 to £10.1 million.

The data presented in this section includes the latest estimated total price of sub-contracting within QDCs/QSCs (Figure 19) and analysis of the estimated or actual price reported about individual subcontracts with a value of £1 million or more (contractors do not need to submit data on individual subcontracts below this threshold, see Figures 18, 20 and 21). QSCs are included in this analysis as they are sub-contracts to QDCs. All data is sourced from the latest report containing information on subcontracts for the whole contract, and the statistics do not necessarily represent the sub-contract prices once the contract is complete.

Figure 18: Number of reported sub-contracts with a value of £1 million or more, by financial year in which contract became a QDC/QSC, and SME status

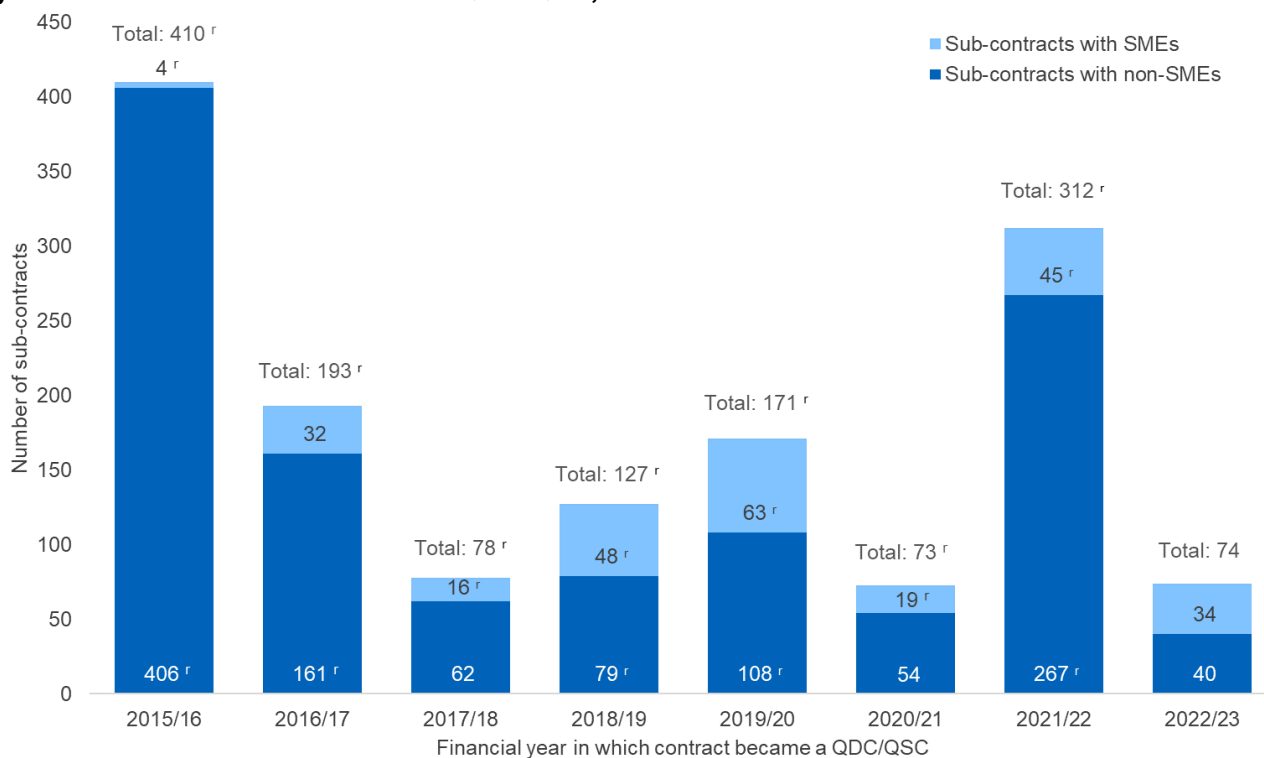


Figure 18 shows there were 1,438 sub-contracts with a value of £1 million or more reported to the SSRO since the start of 2015/16: 74 of these were with 2022/23 QDCs/QSCs. Given only contracts with a value of £1 million or more are reported, this data may not represent the entirety of sub-contracts involved in the delivery of QDCs/QSCs.

For all QDCs/QSCs since 2015/16, 18 per cent of sub-contracts are with SMEs. For 2022/23 QDCs/QSCs, this was 46 per cent, the highest proportion of SME sub-contracts of any financial year to date.

Figure 19 below shows the latest total estimated price of sub-contracts to QDCs/QSCs, by financial year. The total estimated price of sub-contracts in 2022/23 was lower than that seen in 2021/22 (£1.1 billion in 2022/23 compared to £2.2 billion in 2021/22).

Figure 19: Total estimated price of sub-contracts, by financial year in which contract became a QDC/QSC

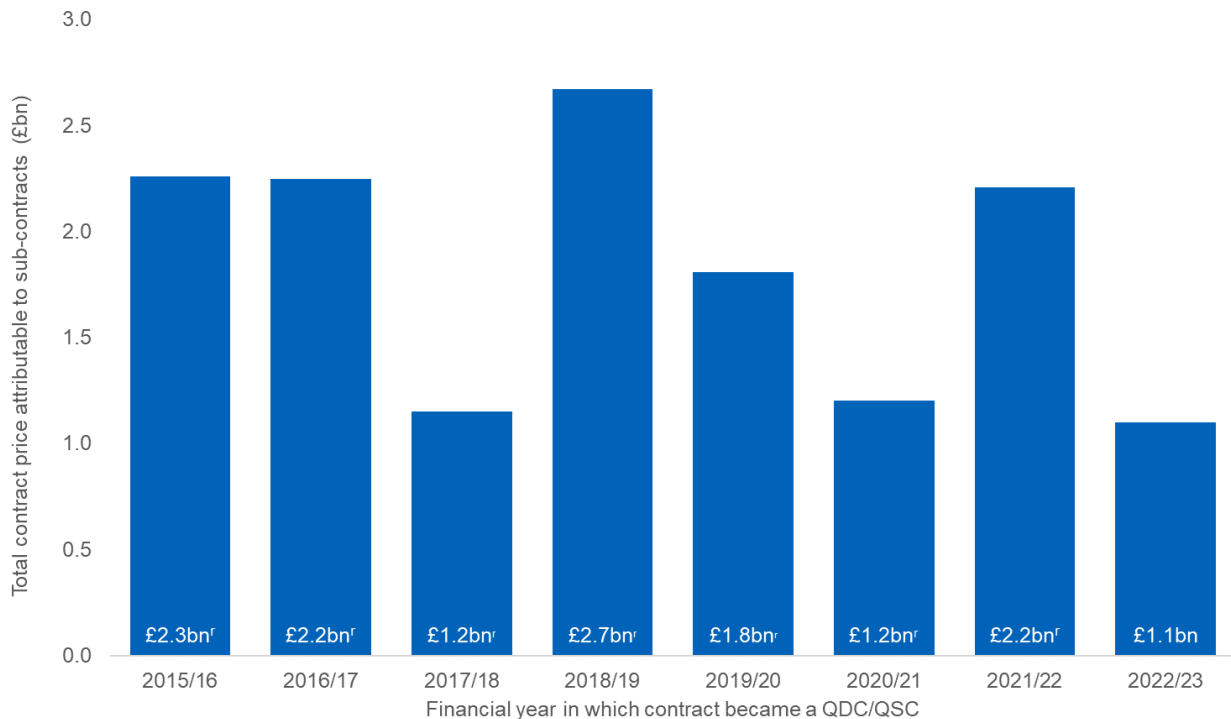


Figure 20 and Figure 21 show the number and price of reported sub-contracts with a value of £1 million or more split by price bands, for all financial years. The majority of reported sub-contracts have tended to be lower value (68 per cent of sub-contracts were £5 million or under), but a small number of large value sub-contracts comprised most of the total reported sub-contract price. Sub-contracts priced at £25 million or greater represented seven per cent of the number of reported sub-contracts, but 56 per cent of the total sub-contract price. The mean reported sub-contract price in 2022/23 contracts was £10.1 million, an increase from 2021/22 where the average was £6.6 million. For sub-contracts with SMEs in 2022/23, the average was £6.9 million, compared to £12.9 million for sub-contracts with non-SMEs.

Please note that some of the individual sub-contracts reported may contribute to more than one contract, so the sub-contract prices reported in Figures 20 and 21 are not necessarily fully attributable to the QDC/QSC it has been reported against. Some of the sub-contract prices used in these figures may therefore overestimate the amount of sub-contracting occurring within the associated QDC/QSC.

Figure 20: Number of reported sub-contracts with a value of £1 million or more, by price band, for all QDCs/QSCs

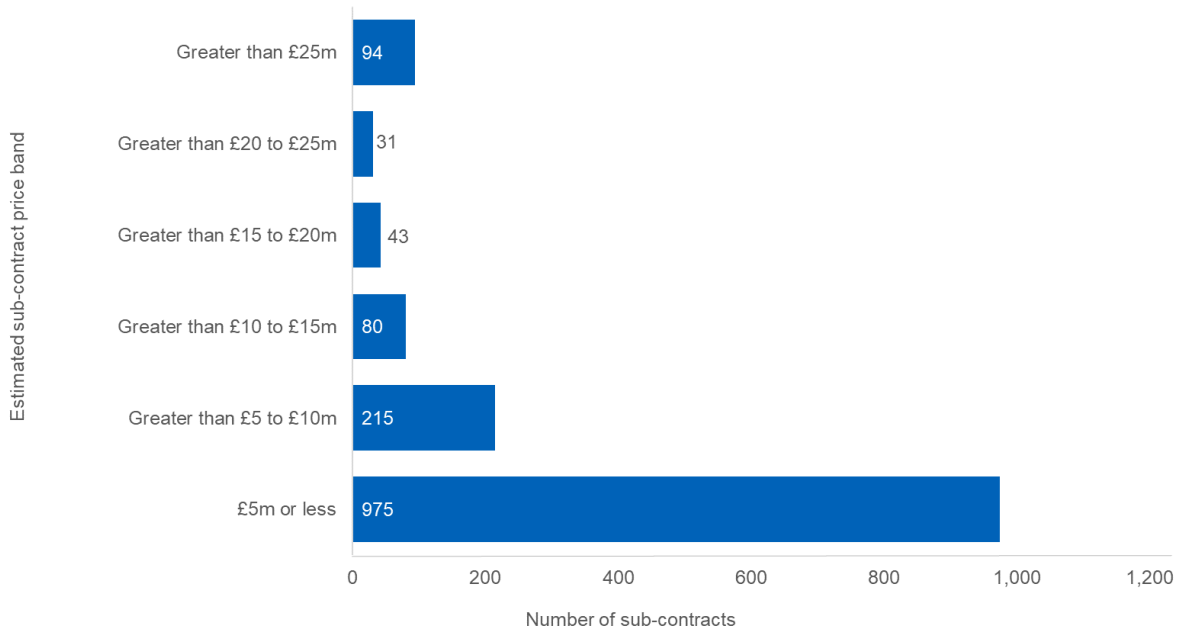
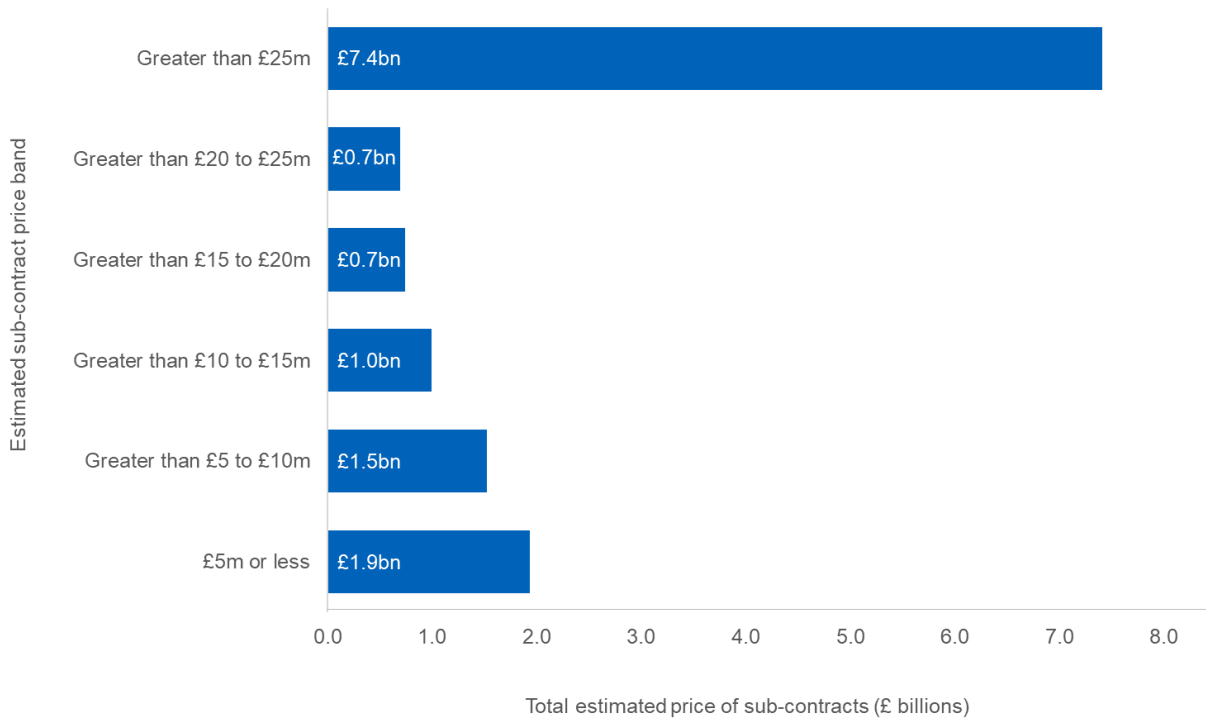


Figure 21: Total estimated price of reported sub-contracts with a value of £1 million or more, by price band, for all QDCs/QSCs



Outturn price of completed contracts

Actual and forecast costs, profit, price and profit rates, for contracts that have submitted contract completion reports.

Summary

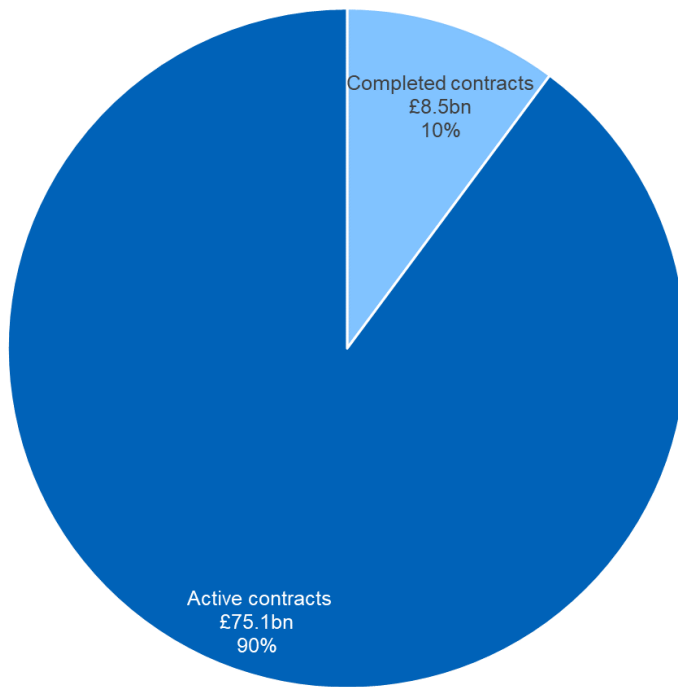
- As of 30 April 2023, 112 of the 535 QDCs/QSCs have submitted contract completion reports, indicating they have completed.
- These 112 QDCs/QSCs had an estimated total contract price (at the latest time of agreement) of £8.5 billion, representing 10 per cent of the total estimated contract price for all QDCs/QSCs. Therefore, the statistics in this section analyse those 112 contracts, and these may not be representative of the outturn at completion of all 535 contracts.
- These contracts reported an actual and forecast price at contract completion of £7.7 billion, a reduction of £0.8 billion compared to the estimated contract price. This consisted of a reduction in Allowable Costs of £0.7 billion, and a decrease in profit of £0.04 billion.
- The largest proportion of completed QDCs/QSCs (51 contracts) reported a reduction in the actual and forecast price of the contract compared to the estimates at the latest time of agreement, whilst 36 QDCs/QSCs reported no change, and 22 reported an increase in contract price. Three contracts did not provide sufficient data to calculate the variance.

For the purpose of these statistics, a completed contract is defined as a contract with a submitted Contract Completion Report (CCR). This is due six months after the contract completion date, so these statistics may not contain contracts that have completed within six months of the data extract date (30 April 2023). If the SSRO has not received a CCR report, then the contract is defined as 'active' within these statistics.

This section reports on the contractors' assessment of the outturn price of contracts payable by the contracting authority, at the date the CCR is submitted. A contractor can still report some forecast costs (up to 5 per cent of the price without an explanation, or more if an explanation is given) when submitting a CCR, so the actual and forecast price may not reflect the final outturn price. It also does not reflect any final price adjustments or target cost incentive fee (TCIF) adjustments. For the purpose of this analysis, variances have been calculated between the estimated price at the latest time of agreement (either the date the contract became a QDC/QSC, or if there has been an amendment, the date of the latest amendment) and the actual and forecast price at the contract completion date. The variances therefore do not reflect changes due to previous amendments during the life of the contract.

Please refer to the Methodology section for further details on how completed contracts are defined.

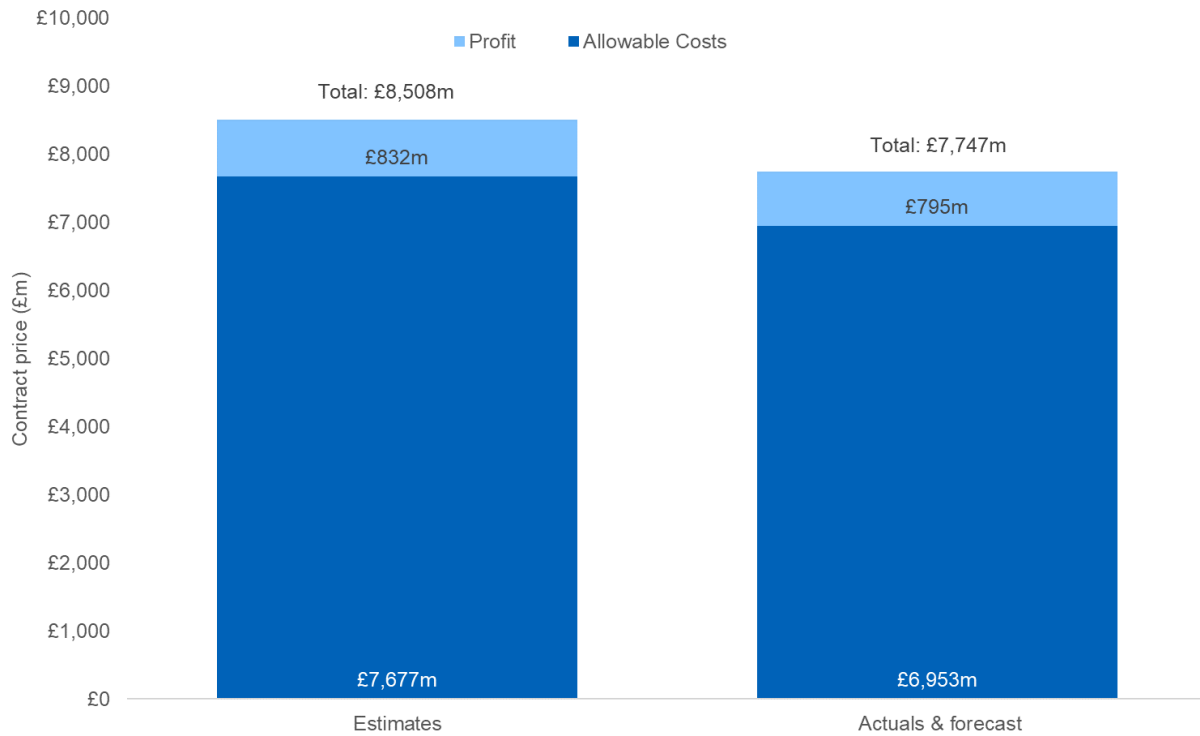
Figure 22: Total estimated contract price of all QDCs/QSCs, by active and completed status



The SSRO has received CCRs for 112 QDCs/QSCs as of 30 April 2023. As shown in Figure 22 above, these contracts have a total estimated contract price of £8.5 billion, representing 10 per cent of the total estimated contract price for all QDCs/QSCs.

These 112 contracts have reported an actual and forecast contract price of £7.7 billion at contract completion; a reduction from the estimated price at the latest time of agreement of £761 million (10 per cent). This is comprised of an overall reduction in Allowable Costs of £724 million, and a decrease in profit of £37 million (see Figure 23).

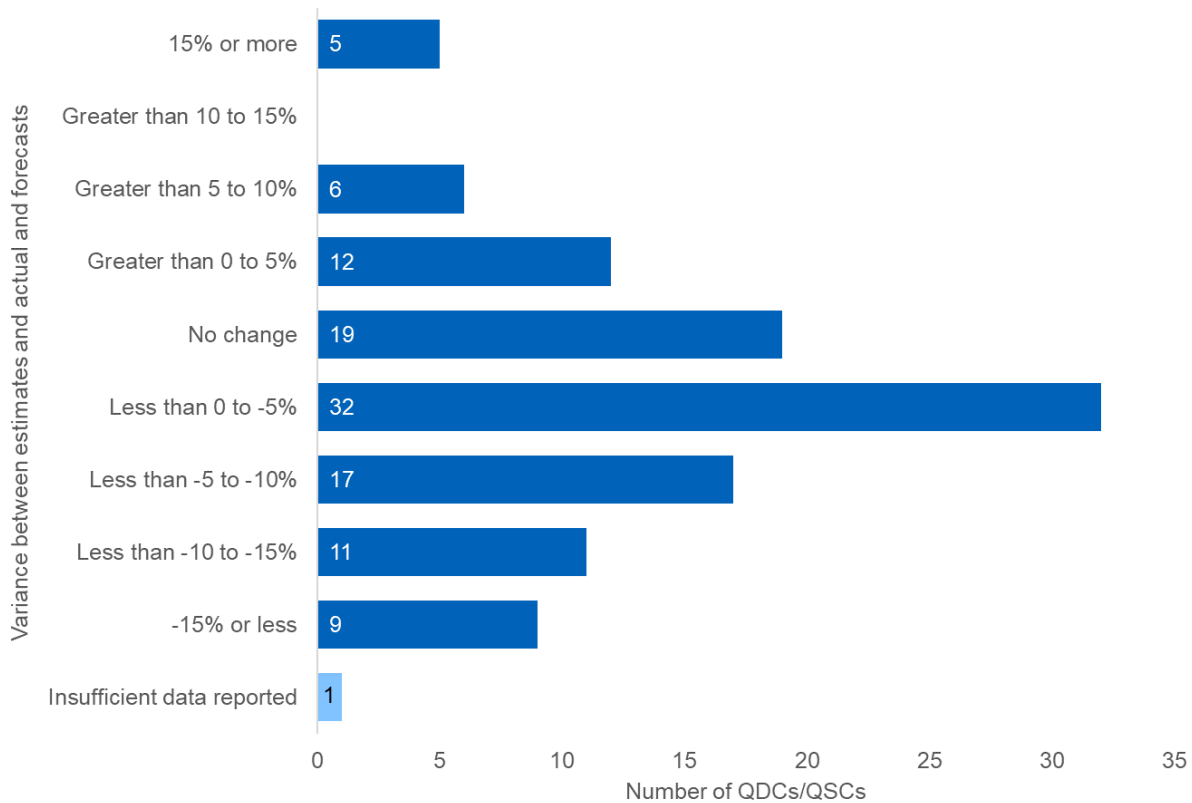
Figure 23: Overall estimated cost and profit at the latest time of agreement and actual and forecast cost and profit at contract completion in 112 completed contracts



Figures 24 to 27 show the number of contracts reporting a variance between the estimates at the latest time of agreement and the actuals and forecasts at contract completion, in their Allowable Costs, profit, profit rate and overall contract price, by variance band. The use of different pricing methods will have an impact on how variation in costs affect the profits and prices of these contracts. The variance data is as reported by contractors. The underlying cost and profit data has been rounded to three decimal places (in line with the SSRO’s Reporting Guidance on providing this data) before calculating the percentage variance. One contract did not provide enough information to calculate Allowable Cost variances, and two contracts did not provide sufficient information to calculate profit variances, and have been excluded from the respective analysis on Allowable Costs, profit and profit rates (Figures 24 to 26). All three contracts have been excluded from the total contract price variance analysis (Figure 27)

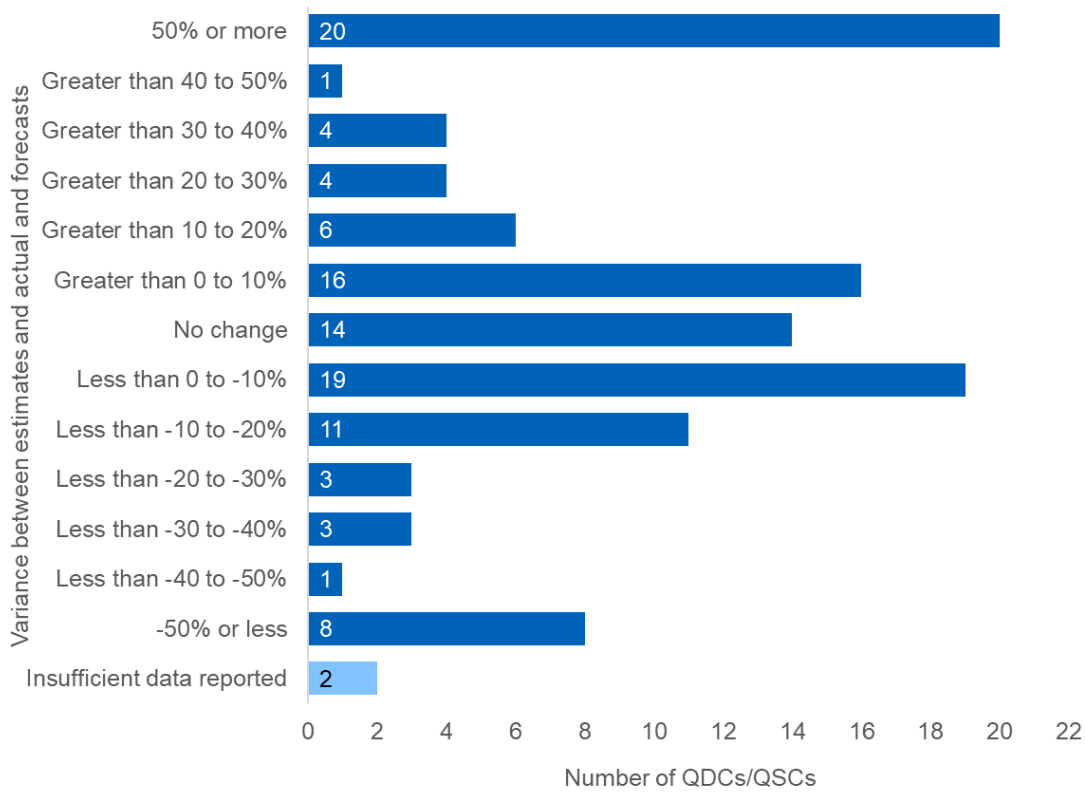
The majority (69 contracts, 62 per cent) of the 111 completed QDCs/QSCs that provided Allowable Cost data reported a reduction in Allowable Costs, with 23 (21 per cent) reporting an increase in Allowable Costs (see Figure 24). Over half of completed contracts (57 per cent or 63 QDCs/QSCs) reported a variance in Allowable Costs of between -5 per cent to +5 per cent.

Figure 24: Variance in Allowable Costs; number of completed QDCs/QSCs (112 contracts) by percentage of variance between the estimated Allowable Costs at the latest time of agreement and actual and forecast Allowable Costs at contract completion



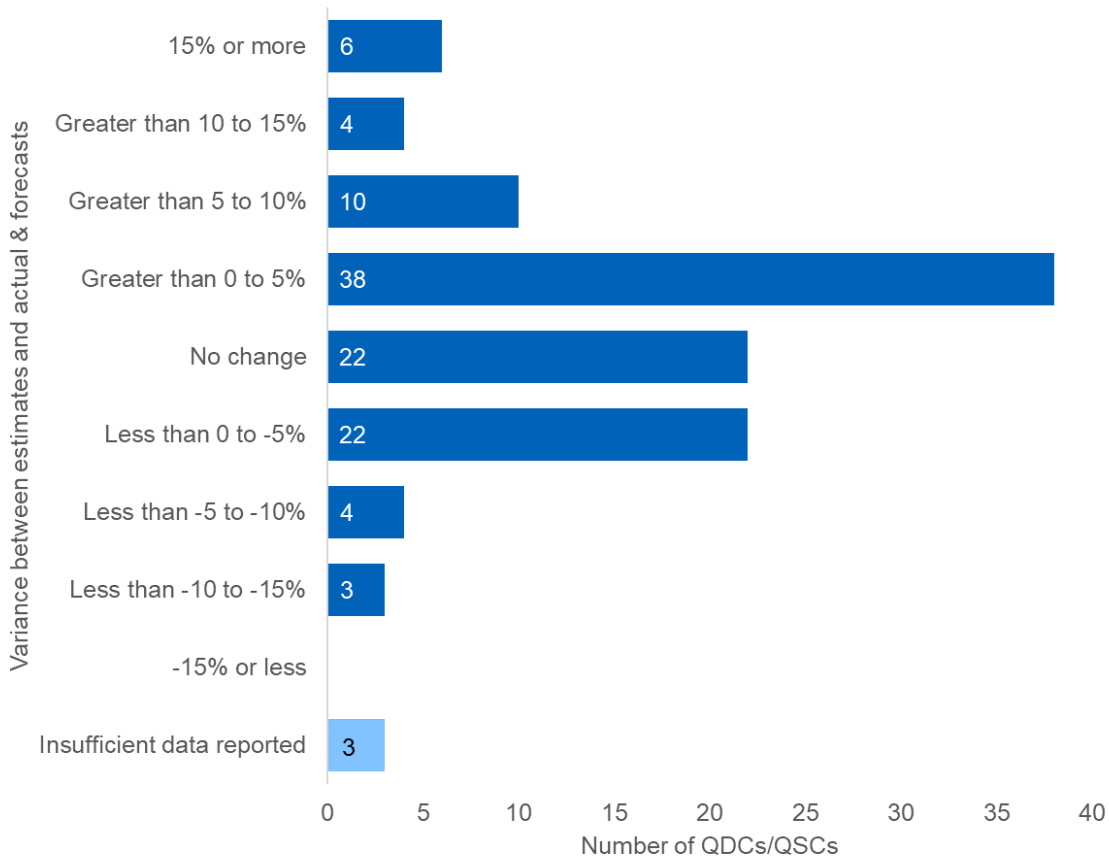
Since profits are a smaller component of the contract price than Allowable Costs, small changes in the amount of Allowable Costs can result in larger percentage variances to profit, as can be seen in Figure 25. There were 45 completed contracts (41 per cent of the 110 QDCs/QSCs that provided profit data) that reported a reduction in profit, with 51 (46 per cent) reporting an increase in profit. Twenty QDCs/QSCs (18 per cent) reported an increase in profit of more than 50 per cent, and eight QDCs/QSCs (7 per cent) reported a decrease in the amount of profit of more than 50 per cent. Two contracts did not report sufficient data for percentage variances to be calculated.

Figure 25: Variance in amount of profit; number of completed QDCs/QSCs (112 contracts) by percentage of variance between the estimated profit at the latest time of agreement and actual and forecast profit amount (£m) at contract completion



Whilst Figure 25 looks at the variance in the amount of profit, Figure 26 analyses the variance in the profit rate percentages of these completed contracts. Two contracts did not report sufficient data for percentage variances to be calculated, and one contract has data quality issues that have resulted in it being excluded from the analysis. The majority of contracts (75 per cent of the 109 QDCs/QSCs that reported profit rate data) reported a variance in profit rates of between -5 and +5 percentage points. Six contracts (6 per cent) reported an increase in their actual and forecast profit rates of more than 15 percentage points.

Figure 26: Variance in profit rates; number of completed QDCs/QSCs (112 contracts) by percentage points of variance between the estimated profit rate at the latest time of agreement and actual and forecast profit rate at contract completion



When looking at the overall contract price, as shown in Figure 27, 51 QDCs/QSCs (47 per cent of the 109 QDCs/QSCs that reported price data) reported a decrease in contract price and 22 contracts (20 per cent) reported an increase in contract price. Similar to the variance seen in Allowable Costs, the majority of completed QDCs/QSCs (65 per cent, 71 QDCs/QSCs) reported between -5 per cent and +5 per cent variance in the total contract price, with 36 of these contracts (33 per cent) reporting no change in contract price.

Figure 27: Variance in contract price; number of completed QDCs/QSCs (112 contracts) by percentage of variance between the estimated contract price at the latest time of agreement and actual and forecast contract price at contract completion

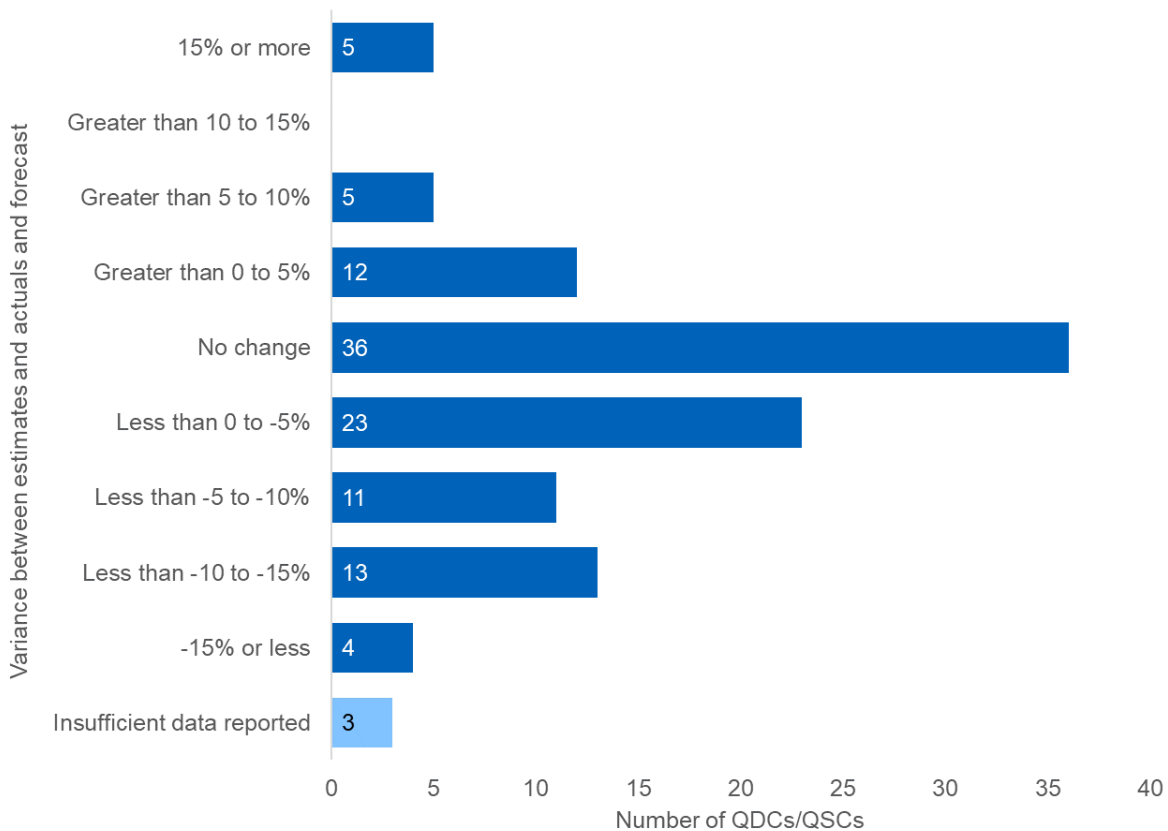


Table 8 shows both the mean and median contract profit rates reported for the 109 QDCs/QSCs that provided sufficient profit rate data, estimated at the latest time of agreement and the actual and forecast profit at contract completion. The mean and median estimated profit rates 9.23 per cent and 9.51 per cent respectively. When looking at the actual and forecast average profit rates, the mean profit rate increased to 11.04 per cent and the median profit rate reduced to 9.48 per cent. These averages are for the 109 contracts that have provided data, and these may not be representative of the outturn at completion of all 535 contracts. A small number of contracts reported particularly high actual profit rates, resulting in a mean actual & forecast contract profit rate higher than the median.

Table 8: Average contract profit rates at the latest time of agreement and actual and forecast at contract completion for 109 completed QDCS/QSCs

Timeframe	Mean contract profit rate (%)	Median contract profit rate (%)
Estimate at latest time of agreement	9.23	9.51
Actual and forecast in contract completion report	11.04	9.48

Notes to the statistics

Data source

This data in this bulletin is reported by defence contractors to the SSRO through contract reports, as required by Part 5 of the Single Source Contract Regulations 2014. It 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 section of 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 March 2023, and that have submitted reports on or before 30 April 2023. 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 date⁵), 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 section in the bulletin is described below.

Number, duration and SME involvement

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

In this analysis a completed contract is defined as a contract with a submitted Contract Completion Report (CCR). This is required six months after the contract completion date and is the first point at which a statutory report submission confirms that a contract has completed. The submission of this report is considered as a more robust method of establishing when a contract completes compared to using the estimated contract completion dates submitted in each report, which may change during the life of the contract. However, there may be a lag of up to six months (or more if the report submission is late) before a contract is classified as complete, and the latest financial year presented in the statistics may not reflect all contracts that have actually completed in that period. Whilst the receipt of the CCR (six months after contract completion) is used as the indicator for when a contract has completed, the financial year in which the contract completed is sourced from the contract completion date in the CCR. Contracts that have not submitted a CCR are defined as 'active'. This may include some contracts which have completed but have not yet submitted a CCR.

When a contract is completed, it is likely that no further contract update reports will be received and the contract data submitted through statutory reports will remain relatively unchanged, unless corrections to these reports are provided. Contract Cost Statements are submitted after the CCR and could update some of the reported data, but these are unstructured reports and so are not used in the analysis. Some contracts had erroneously submitted CCRs and so are still counted as active contracts in this analysis, where we are made aware of the error.

⁵ 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.

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.

The SME status of a contractor or sub-contractor uses data as submitted by the contractors themselves; no verification on whether these align to the definition of an SME as required by the Single Source Contract Regulations 2014 has taken place for the purposes of this analysis. Data on the SME status 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.

The number of unique contracting companies is reported using the registered company details provided by contractors in their latest available report. These contracting companies are then grouped 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. This data is sourced from Bureau Van Dijk's Orbis database.

The number of contracting companies or GUOs may be revised from previous bulletins due to new contracts (and hence contractors) being included in the analysis where reports are submitted late, or due to changes in ownership in contracting companies/GUOs.

Price and pricing methods

The contract price and pricing method 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 (see Figure 28 for an overview of how QSCs are treated in this analysis).

Profit

The contract profit rate data in this section is sourced from the latest available Contract Pricing Statement. The majority of contract profit rate statistics reflect 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 CPS 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 the 'Price and pricing methods' section, which can be sourced from more up-to-date reports.

The mean contract profit rates are an arithmetic mean of the reported contract profit rates reported by QDCs/QSCs within that financial year. Where one of the profit rate steps does not apply (as is the case with the POCO adjustment for many QDC/QSCs), this is treated as a zero in the calculations for averages.

Contracts that have agreed the government owned contractor rate (GOCR) with the MOD have been excluded from all of the profit rate analysis, as have contracts that did not provide any profit data, or where there were data quality concerns with the data provided.

In January 2022, the SSRO released new reporting guidance for on-demand CPS reports, asking contracts that have had a pricing amendment that changes the profit rate to only enter the overall contract profit rate into the standard DefCARS fields, leaving the six steps blank. These should now be provided in an attached excel workbook. Where this happens, the contract has been excluded from the profit rate step analysis (all analysis in the 'Profit' section except Table 5).

Upper quartile and lower quartile values were introduced from 2018/19 onwards in the 2019/20 statistics bulletin, and so figures for previous financial years are not reported in the accompanying databook.

Contracts can employ multiple pricing methods, and so QDCs/QSCs in Figure 17 have been allocated to a 'primary' pricing method if more than 75 per cent of the contract price is reported against that pricing method. Where there is no one pricing method with more than 75 per cent of the contract price, this is classified as 'mixed'. Some pricing methods have been grouped due to the similar ways in which profit risk sharing is treated in these. Note that this differs from how contracts are allocated to pricing methods in the 'Price and pricing methods' section, where contracts are allocated to a pricing method if any proportion of the contract is attributed to a pricing method.

Sub-contracts

QSCs are included within the sub-contracting numbers and price data in this analysis. It is also possible for a sub-contract to a QSC to also become a QSC, and this would be included in both the total price of all contracts, as well as the sub-contracting figures (see Figure 28).

The sub-contract data is sourced from the latest report containing information on subcontracts for the whole contract (the latest of the Contract Notification Report, Interim Contract Report or Contract Completion Report). From the 2020/21 bulletin onwards, Quarterly Contract Reports (QCRs) are no longer used to source sub-contract data, as these reports only require data on sub-contracts entered into in the reporting period covered by the QCR, or the following quarterly period, and therefore don't represent the total sub-contracting picture within a contract.

Figures 18, 20 and 21 reflect the actual or intended sub-contracts with a value of £1 million or more reported by contractors. The price data in Figures 20 and 21 presents the sum of the latest estimated or actual sub-contract prices for sub-contracts with a value of £1 million or more. Contractors are required to submit the expected price of sub-contracts agreed for pricing purposes, which may not reflect the actual price at the end of the contract.

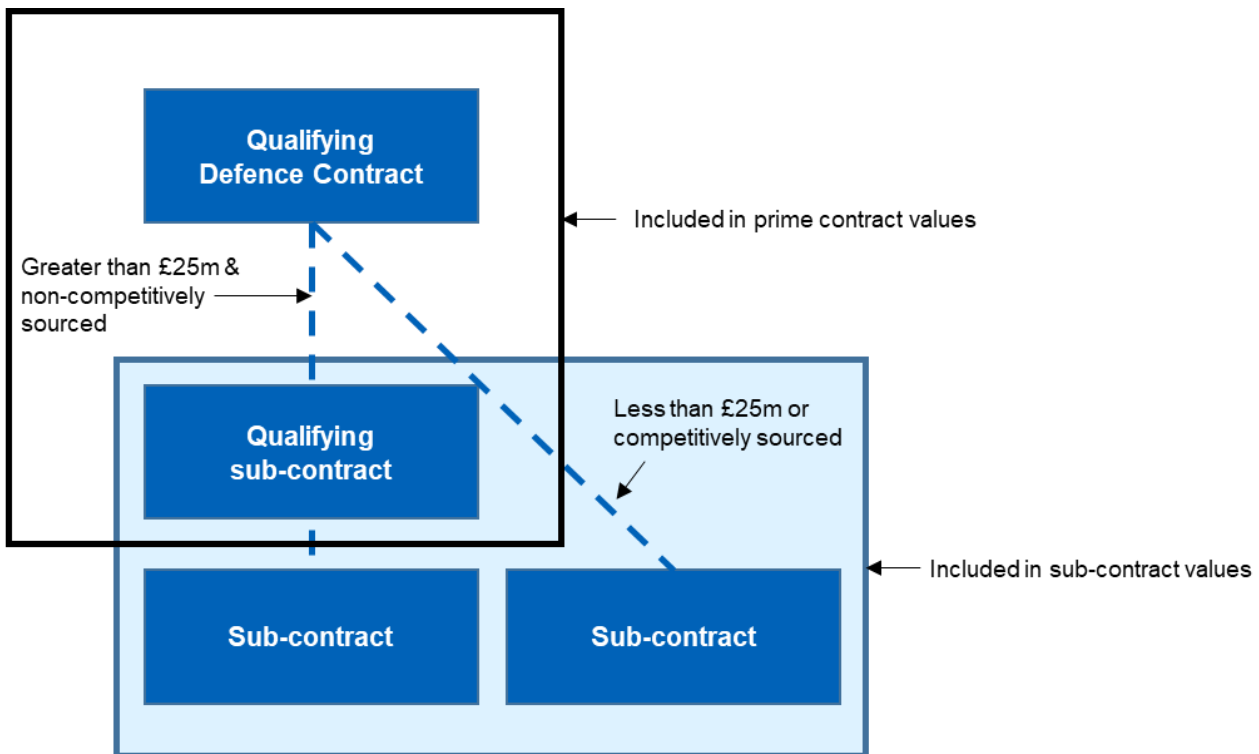
For Figures 18, 20 and 21, the SSRO receives partial data on the details of the supply chain involved in QDCs/QSCs, as only sub-contracts with a value of £1 million or more in each QDC/QSC are reported. This analysis as such may not represent the entirety of sub-contracts involved in the delivery of QDCs/QSCs. However, some of the individual sub-contracts reported may contribute to more than one contract, so the sub-contract prices reported in Figure 21 are not necessarily fully attributable to the QDC/QSC it has been reported against. Some of the sub-contract prices used in these figures may therefore overestimate the amount of sub-contracting occurring within the associated QDC/QSC.

Until September 2019, only the highest value 20 sub-contracts with a value of £1 million or more needed to be reported within the contract reports. Since September 2019, the restriction for the top 20 sub-contracts has been removed, so all sub-contracts with a value of £1 million or more must be reported. The analysis in Figures 18, 20 and 21 showing individual sub-contract numbers/prices introduces a new methodology that now uses all sub-contracts reported in contractors' reports,

which will either be the top 20 sub-contracts with a value of £1 million or more, or all sub-contracts with a value of £1 million or more, depending on whether the report was submitted before or after September 2019. Some contractors provide details of sub-contracts below £1 million, which are still included in the analysis.

The sub-contract price statistics in Figure 19 reflect the latest estimated total price of sub-contracting within QDCs/QSCs. From the 2020/21 bulletin onwards, Figure 19 now uses the ‘Total price of the QDC/QSC that is attributable to sub-contracts’ field in DefCARS, rather than the sum of sub-contracts over £1m, following a review of the data quality of this field. Figure 19 therefore includes sub-contracts with a value of less than £1 million, and only includes the amount of the sub-contracts that are attributable to the QDC/QSC.

Figure 28: Diagram showing how QDC, QSC and sub-contracts have been treated in the analysis



Outturn price in completed contracts

When a contract is completed, it is likely that no further contract update reports will be received and the contract data submitted through statutory reports will remain relatively unchanged, unless corrections to these reports are provided. Contract Cost Statements are submitted after the CCR and could update the reported data, but these are unstructured reports and so are not used in the analysis.

The ‘Number, duration and SME involvement’ methodology section explains how completed contracts are defined in this analysis. All actual and forecast data used in the completed contracts statistics reflect the position at contract completion as reported in the CCR. The estimated costs and profit within this section are also sourced from the CCR and reflect the latest agreed price, which may be the price when the contract was entered into or, if it has been amended, the price following the most recent amendment.

The variances reported within the completed contract statistics have been calculated between the estimated price at the latest time of agreement (either the date the contract became a QDC/QSC

or the date of the latest amendment) and the actual and forecast price at the contract completion date. A contractor can still report some forecast costs when submitting its completion reports (up to 5 per cent of the price without an explanation, or more if an explanation is given), so the actual and forecast price may not reflect the final outturn price. It also does not reflect any final price adjustments or TCIF adjustments. The underlying cost and profit data has been rounded to three decimal places (in line with the SSRO's Reporting Guidance on entering this data in DefCARS) before calculating the percentage variance.

Data quality

Accuracy and reliability

The estimated contract prices, costs, duration, sub-contracts 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 (other than the 'Outturn price in completed contracts' section) are still the estimates as at the latest time of agreement, rather than the outturn costs and profits.

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 carry out reviews of the data quality of data contained within these reports, in line with their 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/sub-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. Therefore 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 also welcomes feedback through the regular engagement it conducts with stakeholders.