

**SSRO**

Single Source  
Regulations Office

# **Baseline Profit Rate Activities Review**

Response to consultation on changes to the Baseline  
Profit Rate activity types methodology

October 2023

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# 1. Introduction and summary

- 1.1 This paper sets out the SSRO's response to the Baseline Profit Rate Activities Review consultation. The consultation ran from 22 June 2023 to 10 August 2023. It sought feedback on the SSRO analysis of the DefCARS contract portfolio concerning how MOD's purchasing decisions are evolving and whether this signals the need to further develop the activity types that underpin our baseline profit rate methodology.
- 1.2 The baseline profit rate (BPR) is the first of six steps that contribute to the Contract Profit Rate and supports both value for money in government expenditure and fair and reasonable prices for contractors. It is set with reference to the returns of companies whose economic activities are included in whole or in part in the activity types that contribute to the delivery of Qualifying Defence Contracts (QDCs) and Qualifying Sub-Contracts (QSCs).
- 1.3 The current set of activities which underpin the BPR assessment were established early in the regime. Examining single source contracts at the time, the SSRO identified that the majority of activities involved were captured in two distinct activity types named Develop and Make (D&M) and Provide and Maintain (P&M). The SSRO used these as the activity types on which to base the BPR assessment. The SSRO also calculates separate profit rates for information technology (IT) services, ancillary services and construction activity types which are provided for information purposes only. These are not included in the BPR as to date these activities make up only a small part of single source contract spend.
- 1.4 The SSRO is conducting a review of the contract activities used in the BPR assessment in two phases. We sought stakeholder input on our findings to phase 1 and proposed follow-on work in phase 2 as part of the SSRO's commitment to ongoing continuous improvement of the BPR methodology.
- 1.5 During the consultation period of June, July and August 2023, the SSRO:
- met with members of individual industry companies;
  - engaged with representatives of the Defence Single Source Advisory Group (DSAG); and
  - liaised with the Ministry of Defence's (MOD) Single Source Advisory Team (SSAT).
- 1.6 Phase 1 of our BPR activities review involved assessing if the actual contract activities are comparable with those set out in the relevant activity characterisation used in our BPR methodology included in Appendix A. The underlying principle of the BPR methodology is that an ideal comparable company will undertake the activities described in the relevant activity characterisations and the market characterisation. This analysis was published as part of our consultation which can be found on the SSRO's website.<sup>1</sup>

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<sup>1</sup> <https://www.gov.uk/government/consultations/baseline-profit-rate-activities-review>

- 1.7 The consultation posed four questions arising from the findings of phase 1:
- **Question 1:** Do you agree that the technical support activity complements existing knowledge-based activities and should be added to the provide and maintain (P&M) activity group? Do you have any reasoning why the P&M characterisations should not be expanded to include technical support services?
  - **Question 2:** Do you agree that the logistics activity complements the business-as-usual parts procurement and logistics activities already present in the P&M characterisations such that it should be included as a standalone activity in the P&M group? Do you have any reasoning why the P&M characterisations should not be expanded to include logistics services?
  - **Question 3:** Do you agree that the labour outsourcing activity aligns with existing administrative activities and should be added to the ancillary services activity group? Do you have any reasoning why the ancillary services characterisations should not be expanded to include labour outsourcing?
  - **Question 4:** To what extent does the capacity provision, for example, through contracting for availability or capability, constitute an activity which enables the performance of qualifying contracts? Does it provide support or otherwise for the inclusion of activities involving the provision and/or operation of economic assets to a third party in the P&M activity group characterisations, text search terms and NACE codes<sup>2</sup>?
- 1.8 We received six detailed written responses<sup>3</sup> (see Table 1).

**Table 1: Breakdown of respondents**

	Government (MOD)	Industry	Industry trade association
Number of responses	1	4	1

- 1.9 Respondents welcomed the opportunity to engage with the SSRO on continuing refinement of the methodology and constituent processes and suggested that there are future methodology improvements they could jointly pursue with the SSRO. We thank those who responded to the consultation for sharing their views and for their continued engagement. We look forward to working with stakeholders to further improve the methodology going forward. All respondents gave permission for their responses to be published on [the SSRO website](#).
- 1.10 Phase 1 of the activities review involved a detailed analysis of the DefCARS contract portfolio of 535<sup>4</sup> qualifying contracts, analysing how the contracts the MOD has entered into align with the SSRO's current five activity groups.
- 1.11 The current set of activities which underpin the BPR assessment were developed early in the regime and there is now a significant body of qualifying contracts which did not exist when the original activity types used in our methodology were first developed. Data on these contracts, which are submitted in statutory reports and held in DefCARS, has informed the review of our current activity types.

<sup>2</sup> NACE codes are standardised descriptors that are used alongside text search terms, a word or group of words relating to economic activities, to filter the Orbis database for potentially comparable companies.

<sup>3</sup> It is common, as we saw in two of the industry responses, for individual company responses to reference their agreement with DSAG's response before adding additional comments.

<sup>4</sup> As of 1 May 2023.

- 1.12 Building on the results of phase 1 and the feedback received from the BPR activities review consultation, phase 2 will consider the stakeholder feedback, alongside recommendations made in the consultation, to examine any required refinement to the activities characterisations with the aim of improving the relevance of the comparator company activity groups. These next steps and conclusions are set out in section 3.
- 1.13 The 2023/24 annual assessment (for the 2024/25 BPR) will take place concurrently to phase 2 of this review. As such the SSRO will not be able to implement any proposed changes as a result of this activities review in the current year.
- 1.14 Section 4 sets out a preliminary timetable for 2024/25 (for the 2025/26 BPR) or 2025/26 (for the 2026/27 BPR), dependent on the changes proposed. All proposals require the approval of the SSRO Board to be implemented.

## 2. Consultation feedback

### Overview

- 2.1 Respondents agreed that the technical support activity should be included in our comparator groups. The responses provided support for our proposal that this change would complement the existing knowledge-based activities already present in the provide and maintain (P&M) activity group.
- 2.2 The respondents had mixed views on the inclusion of logistics activities in the P&M activity group and on the inclusion of labour outsourcing in the ancillary services activity group.
- 2.3 All industry respondents held the view that while contracting for capability or availability were activities undertaken by the MOD under the single source regime, these were very different to the leasing of hard assets where no further support was provided and as such the rental and leasing activity characterisation should be removed from the P&M activity type. The MOD did not express a desire for change in the P&M group regarding the rental and leasing activity characterisation.
- 2.4 The scope of phase 1 and the consultation was focused on potential refinements identified during the activities review of DefCARS data. Industry respondents also provided feedback on matters we intend to examine in phase 2 and repeated previous representations in support of a more fundamental review of the SSRO's approach to the rates assessment.
- 2.5 The remainder of this section sets out in more detail the feedback to the questions posed in the consultation and the SSRO's responses to these. Section 3 sets out our overall conclusions that we have drawn regarding potential further developments to the methodology. The preliminary timeline for implementation is set out in Section 4. The sections highlight the need for further stakeholder input and how we propose to synergise the conclusions of phase 1 and phase 2 into the existing SSRO methodological cycle.

### Responses to consultation questions

**Question 1:** *Do you agree that the technical support activity complements existing knowledge-based activities and should be added to the provide and maintain (P&M) activity group? Do you have any reasoning why the P&M characterisations should not be expanded to include technical support services?*

- 2.6 The DefCARS review found that contracts undertaking technical support services comprise six per cent by volume and 10 per cent by total contract price of the overall portfolio of contracts. The activities mainly undertaken by the qualifying contracts under this category relate to, but are not limited to, the provision of technical support on safety, engineering, training and information services. They also include the provision of specialised data analysis services and subject matter expertise. Given this evidence, the SSRO sought feedback on whether it should include these services in the P&M activity type, as this is the group to which the SSRO considered technical support services most closely relates.

- 2.7 The MOD and one industry respondent gave outright support for the proposal to include technical support services in the P&M activity characterisation, while others gave conditional support. Industry commented that it considered technical support services to make up a sizable proportion of their single source activity, either individually or as a component of larger contracts that already fall under the definitions of D&M and P&M activity types.
- 2.8 An industry respondent considered the inclusion of technical support services in the P&M activity characterisation to be appropriate in the absence of any other changes to the BPR Comparator Group selection methodology.
- 2.9 Another industry respondent supported the proposal but only to the extent that the MOD contracted specifically for technical support and if companies earning their profits from performing comparable contracts can be identified. They were not supportive of including this activity if it only forms part of a broader D&M or P&M contractual obligation. This view was supported by two other industry respondents.
- 2.10 An industry respondent noted that technical support can cover many areas that may include both P&M and D&M activities and is not necessarily appropriate to allocate into one of those areas. They also point out that the search criteria in the current methodology already include NACE Rev2 code 749 "Other professional, scientific and technical activities nec" in both D&M and P&M.
- 2.11 We believe the evidence and stakeholder feedback support the addition of technical support services to the P&M activity type characterisation. The SSRO's methodology is based on activities which contribute to the delivery of QDCs and QSCs and recognise that activities may be contracted for directly or may form a substantial part of a broader contractual obligation. We do not agree with taking a more restrictive approach to this as suggested by some industry respondents as this could result in a distorted view of the types of activity that deliver the contractual obligations and consequently the profits.
- 2.12 At this stage we consider technical support activities are most closely aligned with the existing P&M group and so this is the most appropriate place to include them, as we do not seek to duplicate activities across groups in order to maintain their distinct nature. Current inclusion of search criteria for "Other professional, scientific and technical activities nec" covers a wide range of activities that may be relevant to both D&M and P&M which explains the inclusion in the current approach. At present additional company screening would remove any companies picked up under this code that undertake technical support activities, and this is the part we propose to change.

**Question 2:** *Do you agree that the logistics activity complements the business-as-usual parts procurement and logistics activities already present in the P&M characterisations such that it should be included as a standalone activity in the P&M group? Do you have any reasoning why the P&M characterisations should not be expanded to include logistics services?*



- 2.13 The review identified a small but distinct number of qualifying contracts (two per cent by volume and one per cent by total contract price) which undertake logistical supply and support services. The current P&M activity group incorporates logistics as an incidental activity to the main focus of the group. The consultation asked stakeholders to consider if the inclusion of logistics should be made more explicit or left as it is.
- 2.14 The MOD supported the explicit inclusion of logistics in contrast to industry respondents who did not, citing two reasons. Firstly, they were unpersuaded that the prevalence of contracting for logistics from the DefCARS review was sufficient to justify its inclusion. Secondly, industry anticipated that any contracts the MOD lets for pure logistics services to be competed, and that in a single-sourced QDC they would expect logistics services only to be provided as a supplementary activity to a wider, more complex requirement.
- 2.15 We accept the points made by industry respondents which supported maintaining the treatment of logistics activities within the P&M activity group as it currently is. On balance, we are unpersuaded that the evidence in support of the inclusion of logistics as a standalone activity is sufficiently robust to consider that changing this aspect of P&M would enhance comparability. We therefore do not propose any change in respect of logistics to be made at this time and will consider any further representations stakeholders may wish to make on this.

**Question 3:** *Do you agree that the labour outsourcing activity aligns with existing administrative activities and should be added to the ancillary services activity group? Do you have any reasoning why the ancillary services characterisations should not be expanded to include labour outsourcing?*

- 2.16 The consultation explained that our review identified seven qualifying contracts which undertake labour outsourcing activities which were closely aligned to the activities under the current ancillary services group. The activities undertaken by the qualifying contracts under this category mainly relate to provision of a labour pool to undertake tasks as directed by the MOD. We sought input on whether to add labour outsourcing to the ancillary services activity type.
- 2.17 The MOD did not provide a view on the proposed change and requested further clarification on the definition of labour outsourcing.
- 2.18 Industry provided mixed feedback. Two industry respondents supported the proposal to include labour outsourcing in the ancillary services activity characterisation. One of them cited that the low volume and price of contracts identified meant it was appropriate to include them in that group as it did not form part of the BPR.
- 2.19 Two industry respondents did not think a provision of labour, directed by MOD, with no committed outcome to be the same type of contractual obligation as the provision of administration/IT etc. where there is a committed outcome that may also involve capital investment. They noted that ancillary services could comprise a broad range of contracting obligations from the provision of a resource with no committed outcome to contracts where there are committed outcomes. This view is supported by a third industry respondent who also noted that there may be some labour outsourcing crossover with the technical support services raised in question 1.



- 2.20 One industry respondent was unclear as to what the ancillary services activity group is used for given that it does not feed into the BPR calculation, while three industry respondents propose further study, analysis and consultation on the various SSRO activity types if “alternate” BPR activity types, such as ancillary, were to be proposed for use in pricing. A fifth industry respondent also proposed a comprehensive consultation if the SSRO is suggesting the question 3 change with a view to, in future, including ancillary services in setting the BPR.
- 2.21 Subject to further engagement with the MOD, we consider the evidence supports the inclusion of the labour outsourcing as part of the ancillary services group and that the risks highlighted in the feedback can be mitigated. We will ensure that, in finalising the revised characterisation of this group to include these new types of activities, we engage further with the MOD and industry so that the definition of labour outsourcing activities properly reflects that which the MOD is contracting for under the regime. This will mitigate any risk that the definition of this MOD directed labour pool does not properly align with ancillary services.
- 2.22 In respect to feedback on “alternate” activity types, the SSRO has only recently developed a new IT services activity type in response to industry feedback. To the extent that these benchmarks would take on increasing importance for use in pricing, we agree further review may be required. This review provided no evidence that ancillary services should form part of the BPR, only that the standalone group could be refined to improve relevance. In the event this evidence changes, we would consult on any consequential changes, as has been proposed.
- 2.23 In respect of feedback on the purpose of calculating activity benchmark groups which do not form part of the BPR calculation, we produce these because our feedback is that they are of interest and of use to stakeholders. However, we recognise that construction, information technology services and ancillary services account for a minority of single-source contract spend and are therefore not included in the BPR calculation but instead published alongside it.

**Question 4:** *To what extent does the capacity provision, for example, through contracting for availability or capability, constitute an activity which enables the performance of qualifying contracts? Does it provide support or otherwise for the inclusion of activities involving the provision and/or operation of economic assets to a third party in the P&M activity group characterisations, text search terms and NACE codes?*

- 2.24 It was envisaged when the SSRO’s BPR methodology was first developed that capacity provision would be an activity that may be relevant to the fulfilment of a qualifying contract. However, the DefCARS review was inconclusive in this respect, and industry stakeholders have made representation to the SSRO that companies undertaking leasing activities (which the SSRO’s methodology considers as akin to capacity provision) should not form part of the comparator group. The consultation sought feedback on whether a change to the P&M group should be made in this regard.
- 2.25 The MOD was content for the activity characterisations of the P&M comparator group to remain as they currently are, noting the higher profits of hire & leasing companies as a “beneficial inclusion for industry”.

- 2.26 Industry respondents were unanimous in their agreement that contracting for availability or capability was undertaken by the MOD under the single source regime. Each of the four individual industry company respondents gave an example to illustrate their view that such contracts went far beyond the provision of a physical asset, and included ensuring specialist training, equipment and technical personnel were provided over the life cycle of the asset.
- 2.27 One industry respondent proposed the exclusion of renting and leasing in the comparator group on the basis that they are not aware lease contracting is used by the MOD under qualifying contracts; and sees asset leasing as quite different to the P&M contracting conducted by the MOD. These views are supported by two industry respondents; and reflected in the responses of another two industry respondents.
- 2.28 We agree with industry feedback that provision of an asset would typically be accompanied by the necessary services to operate and maintain it over the period of its use. Renting and leasing activities encompass wide ranging types of asset provision including types that industry have expressed support for. This is consistent with our current P&M activity characterisation that states that any hire or lease arrangement must ensure availability of an asset and excludes such activities which are limited to more rudimentary work. We are unpersuaded with feedback that hire and leasing should be removed in its entirety (as opposed to only the removal of the most basic forms or lower value-added form of asset provision which are already excluded). The inclusion of rental and leasing activity has a material upward impact on the profitability of the P&M group. Whilst we do not select companies based on how profitable they are, we also believe the profitability of this activity means a cautious approach is required to any changes we may make. In this respect we propose that any further changes made to the P&M comparator group does not result in unintended consequences. We shall undertake additional analysis and stakeholder engagement to inform how best we can action this proposal in phase 2.

### **Responses to issues not consulted on**

- 2.29 Respondents provided feedback on aspects of the SSRO's BPR methodology which were not in scope of the questions we consulted on. The SSRO provided a comprehensive response to industry feedback on the methodology in our 2021 consultation response.<sup>5</sup> It was as a result of the feedback provided on improvements to comparability at that time that the activities review was initiated, and which resulted in this consultation. In respect of other matters, the 2021 consultation response requested further evidence from industry to support their representations and that we will respond to anything further that is received.
- 2.30 Appendix B summarises the wider feedback on the methodology and the SSRO's response.

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<sup>5</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1009057/Response\\_to\\_consultation\\_on\\_the\\_baseline\\_profit\\_rate\\_and\\_its\\_adjustment\\_August\\_2021A\\_.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1009057/Response_to_consultation_on_the_baseline_profit_rate_and_its_adjustment_August_2021A_.pdf)

## 3. Conclusion and next steps

- 3.1 Phase 2 of the activities review will develop and test the specific technical changes required to implement our proposals for the development of our methodology. The final proposals will be recommended to the SSRO Board for inclusion in the rates assessment in due course. Phase 2 will cover:
- a. Developing proposals to expand the P&M activity group characterisations, text search terms and NACE codes to include technical support services.
  - b. Developing proposals to expand the ancillary services activity group characterisations, text search terms and NACE codes to include labour outsourcing.
  - c. Developing proposals to reflect the division between rental and leasing companies and those that conduct activities comparable with providing availability or capability, ensuring that division is clear in the company selection process<sup>6</sup>.
- 3.2 We will not make any proposals to change the P&M activity characterisations in respect of logistics at this time but will consider any further representations our stakeholders may wish to make on this.
- 3.3 Our review in phase 1 did not identify any division used in our activity groups which is not substantially reflected in the division of qualifying contracts' activities e.g., is developing and manufacturing (D&M) identifiable as a separable activity to asset provision and the maintaining of (P&M) activities, as it is currently reflected in our approach. Given the continued feedback from industry on this point, the SSRO will continue in phase 2 to explore the merits for moving from a BPR as a composite of two distinct activity types (D&M and P&M) to a single activity type reflecting a revised scope. We welcome the input from DSAG and its members on this particular topic and the supporting documentation they have provided. We endeavour to explain the reasons for our decisions in response to stakeholder feedback, having given them due consideration. We would be happy to discuss any aspects of how this feedback has been handled and how representations are made to the SSRO in a way that can have the most positive impact.

## 4. Timeline of implementation

- 4.1 Dependent on discussion with the MOD and industry during phase 2, it is envisaged at this time that a reduction of a comparator group could be implemented next year in 2024/25 for inclusion in the 2025/26 BPR assessment. An expansion to a comparator group would only take effect during a full refresh year of the comparator group, which is currently scheduled in 2025/26 for the 2026/27 BPR assessment but could be brought forward if changes were prioritised.

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<sup>6</sup> Including, but not limited to, activity group characterisations, text search terms and NACE codes as set out in the SSRO's Single source baseline profit rate, capital servicing rates and funding adjustment methodology.

# Appendix A: Activity Characterisations

## A1: Existing activity characterisations

Component of an activity description	Develop and make	Provide and maintain	Ancillary services	Construction	Information technology services
The activity we are seeking	Companies undertaking comparable activities considered as 'Develop and Make' are expected to engage in manufacturing and the design and development contributing to that process	Companies undertaking comparable activities considered as 'Provide and Maintain' are expected to deliver services to ensure the availability of an asset either through repair and servicing to third party equipment, or through hire or lease arrangements that include associated upkeep and maintenance services.	Companies undertaking comparable activities considered as 'Ancillary Services' are expected to deliver either one of administrative, facilities or IT support activities.	Companies undertaking comparable activities considered as 'Construction' are expected to deliver services in relation to the construction of buildings or other structures at fixed locations.	Companies undertaking comparable activities considered as 'Information Technology Services' are expected to engage in the development, or operation and maintenance, of bespoke and complex IT systems; or the integration of off-the-shelf components or software to deliver a bespoke IT system/service
Clarification on aspects of the activity where the decision may be judgemental	<p>This would therefore not include manufacturing on behalf of a hiring firm that supplies the design, or those solely undertaking research or design work with no associated manufacturing.</p> <p>Where development activities do not seek to result in a novel or differentiated product the company is less likely to be considered comparable.</p>			Companies could provide such services either on a contract basis with designs and specifications received or using their own designs.	<p>Where the IT system is embedded within equipment (for example a ship or a vehicle), a comparable company would not typically be expected to carry out equipment design, manufacturing or maintenance activities that extend beyond what might reasonably be required to deliver the underlying IT system.</p> <p>A similar exclusion applies for an IT system that is embedded within network infrastructure (for example telecommunications or internet provision).</p>

Component of an activity description	Develop and make	Provide and maintain	Ancillary services	Construction	Information technology services
Clarification on the types of risk borne by the comparator			Companies undertaking these support services are not expected to bear any significant risks other than that of failing to provide the contracted outputs. This captures risk in relation to the delivery of the services, contract risk, procurement risk, staff risk and some quality control risk in respect of these activities	Comparable companies may be responsible for the management of the construction project, and are likely to bear contract risk, procurement risk, staff risk and some quality control risk in respect of these activities. They are not expected to bear any significant property price risk in respect of these activities	
The type of contractual relationship observed in defence procurement we are seeking to find comparators for	Comparable activities would typically be of the type that can be likened to those involved in producing equipment used for military or defence purposes	Comparable activities would typically be of the type which can be likened to those involved in the support and provision of equipment used for military or defence purposes			Comparable activities would typically be of a type that can be likened to those involved in any of design, production, manufacture, integration or operation of networks and computer systems or services used for military or defence purposes.

Component of an activity description	Develop and make	Provide and maintain	Ancillary services	Construction	Information technology services
Examples of the functions performed by the company under review that would indicate comparability	This would include scientific or technical research, design, development or testing activities leading to the production of self-contained sub-systems or finished goods. To the extent that a product is being assembled or constructed then it is likely to represent comparable manufacturing.				<p>This could cover a broad range of IT management and consultancy services and IT system, software or application development.</p> <p>In addition, comparable companies may also provide the hardware for IT systems or networks, or the training necessary to operate or maintain them.</p>

Component of an activity description	Develop and make	Provide and maintain	Ancillary services	Construction	Information technology services
<p>Examples of the characteristics of the goods or services provided by the company under review that would indicate comparability</p>	<p>This could cover a broad range of products such as structural metal goods, machinery, electronic and mechanical sub-systems, vessels, containers, general machinery, ships, aircraft, and wheeled or tracked vehicles or other means of transportation and other items of machinery of an industrial nature.</p>	<p>This could cover a broad range of products such as structural metal goods, machinery, electronic and mechanical sub-systems, vessels, containers, general machinery, ships, aircraft, and wheeled or tracked vehicles or other means of transportation and other items of machinery of an industrial nature. Comparable companies may also provide the facilities embodying or integrating the equipment and the training necessary to operate or maintain these assets.</p> <p>Repair and servicing activities include arrangements where spares and labour are charged for as they are required or may include these costs as part of a longer term contracting arrangement.</p>	<p>Administrative support relates to outsourced business services such as payroll processing, call centres, HR, basic book-keeping, routine tax or legal advice and other clerical work. IT support services would include data management, data processing, network hosting, IT repairs and maintenance and IT security services.</p> <p>Facilities support services would include property cleaning, property repairs and maintenance, canteen services, laundry, gardening and general guarding and security services.</p>	<p>Buildings would include industrial buildings such as factories, warehouses, plants, and public, commercial or residential buildings of steel-frame or concrete construction (not individual houses) and may include the associated design services.</p> <p>Civil engineering works in the form of the erection of structures in a fixed location, for example in metal and concrete, would also be considered comparable.</p> <p>To the extent that civil engineering works relates to the assembly of a structure at a fixed location then it is more likely to be considered as 'Construction'.</p>	<p>Comparable IT management and consultancy services would typically be:</p> <ul style="list-style-type: none"> <li>• Computer management services (for example IT strategy, computer network services, systems maintenance, automation, security encryption, bespoke cloud services / activities; or IT and information security and network management);</li> <li>• Hardware consultancy services (for example solution design, system architecture, hardware selection, integration, acceptancy testing and recovery; disaster recovery; computer site planning and computer audit);</li> <li>• Software consultancy services (for example business analysis, system quality assurance and review, or system software acceptance and testing); or</li> <li>• Cybersecurity consultancy services (for example security architecture design or forensic analysis of breaches, penetration testing and end user security training).</li> </ul>



Component of an activity description	Develop and make	Provide and maintain	Ancillary services	Construction	Information technology services
					Comparable IT system, software or application development would typically include: bespoke IT system design and building, bespoke software development, or bespoke integration of tailorable third-party software or applications, and subsequent testing.
Clarification on activities often observed in the companies under review where the decision may be judgemental	If the product is a commoditised unit or processed raw manufacturing input, for example generic electrical or mechanical components, sheet metal, shaped plastic, ancillary items such as basic tools, then this may not be sufficiently complex and is likely to be excluded. Electronic or mechanical assemblies or sub-systems that are complex and not of a commoditised nature are more likely to be considered the output of a comparable manufacturing process.	Diagnosis, repair and installation activities would be expected to require an in-depth knowledge of the asset being serviced. This would exclude companies whose capabilities are limited to rudimentary work, such as those involving user-serviceable parts or domestic installations (for example domestic white goods). Hire and leasing arrangements should be focused on items of an industrial or commercial nature.		To the extent that companies engage in tunnelling, pipe-laying, highways maintenance or river and coastal work, these activities are not expected to extend beyond what might reasonably be required to support the delivery of a structure.  Speciality trade contractors, such as outfit contracting services (plumbing, ventilation, electrical installation and windows) must be demonstrably of an industrial nature and be active in the construction of the building.	A bespoke IT system is tailored to the specific customer operating model and requirements. This may include new development or may include the integration or customisation of underlying systems or software created by others.

Component of an activity description	Develop and make	Provide and maintain	Ancillary services	Construction	Information technology services
How the activities being performed should generate value for the comparator	The value added, cost base or profits of the business are expected to principally derive from the manufacturing, design and development activities as described above.	The value added, cost base or profits of the business are expected to principally derive from the asset provision and maintenance activities described above.	The value added, cost base or profits of the business are expected to principally derive from the Ancillary Services activities described above.	The value added, cost base or profits of the business are expected to principally derive from the construction activities described above.	The value added, cost base or profits of the business are expected to principally derive from the services described above.
Examples of value generation that would indicate the company under review is less likely to be comparable	For example, comparable firms would not be expected to derive the majority of their value added through the purchase of raw materials, luxury branding, the exploitation of patents and copyrights or distribution activities.	For example, the provision of aftersales service to products that a company manufactures or sells would be insufficient to consider a company to be comparable. Companies are unlikely to be comparable if they include a significant consumer-targeted sales and marketing model or the sale of associated finance products (for example in the case of consumer automotive sales).	Companies that engage in support services loosely connected to those described above, but which are of a specialised nature would not typically be considered comparable. Such non-comparable services would include provision of security services in prisons, the design and procurement of IT infrastructure, the services of chartered professionals, or the supply of clinical staff to hospitals. Companies that do not undertake activities akin to ancillary support services (for example recruitment, construction, software development, management consultancy, engineering consultancy) are not considered comparable.	Comparable companies are not expected to hold land for long-term appreciation purposes and as such those who engage primarily in real estate development would typically be excluded.	Companies that resell software or applications without tailoring or integrating them are less likely to be carrying out comparable activities.  Companies that generate most of their revenue from subscriptions or licenses are less likely to be carrying out comparable activities

Component of an activity description	Develop and make	Provide and maintain	Ancillary services	Construction	Information technology services
Clarification on activities often observed in the companies under review that are acceptable if they are supporting the primary value generation.	It may be acceptable for comparable firms to engage in some loosely associated activities as part of delivering core comparable business (for example the procurement of inputs and the distribution and marketing of final goods). However, these activities are not expected to extend beyond what might reasonably be required to deliver the company's principal business.	It may be acceptable for comparable firms to engage in some loosely comparable activities as part of normal business (for example parts procurement, warehousing, logistics, installation, or the sale of the company's ex-hire fleet). However, these activities are not expected to extend beyond what might reasonably be required to deliver the company's principle business.		It may be acceptable for comparable companies to engage in some loosely comparable activities in the delivery of their core construction work (for example manufacturing or procurement of construction inputs, earthworks, provision of construction labour, building preservation, site clearance and recycling of reclaimed items from demolition). However, these activities should not be the focus of their business.	
Examples of value generation that would indicate the company under review should be rejected.	Significant involvement in activities that are obviously non-comparable in nature (for example provision of financial services, marketing or food processing) would be a cause to reject a company.	Significant involvement in activities which are obviously non-comparable in nature (for example manufacturing or distribution) is grounds for rejection.		Significant involvement in activities which are obviously non-comparable in nature (for example toll-road operation, property investment, interior design services) is grounds for rejection.	Companies that engage in the provision of rudimentary IT services would not typically be considered comparable, for example the provision of IT support services, data management, routine software maintenance, off-the-shelf solutions, standard standalone cloud services, or IT outsourcing.

Component of an activity description	Develop and make	Provide and maintain	Ancillary services	Construction	Information technology services
Summary of the end customers of the activity	The end customers for the outputs generated by comparable companies are expected to be other businesses, institutions or governments.	The end customers for the services provided by comparable companies are expected to be businesses, institutions or governments.	The end customers for the services provided by comparable companies are expected to be other businesses, institutions or governments.	The end customers for the services provided by comparable companies are expected to be other businesses, institutions or governments.	The end customers for the services provided by comparable companies are expected to be other businesses, institutions or governments.
Examples of market segments that would typically indicate the company is not serving the right end customers	Comparable companies are not expected to maintain marketing models, sales operations, large networks of product outlets or dealerships aimed at the general public.	Comparable companies are not expected to maintain significant marketing models or sales operations in relation to the goods they service, or large networks of service outlets or dealerships aimed at the general public.	Comparable companies are not expected to be entities which solely exist to provide these services to members of their own corporate group. Comparable companies are not expected to primarily serve the general public with, for example, domestic gardening or cleaning services.	Comparable companies are not expected to primarily serve the general public and as such domestic building services, roofing, flooring and general building maintenance contractors would not be considered comparable.	Comparable companies are not expected to primarily engage in the development of public infrastructure or serve the general public with, for example, computer hardware and software and internet services.  Companies that primarily serve customer-facing industries, such as financial services, media and advertising, hospitality or retail are less likely to be carrying out comparable activities

# Appendix B: Wider feedback

B.1 Respondents provided feedback on aspects of the SSRO's BPR methodology which were not in scope of the specific points we consulted on. The majority of these aspects have been raised previously and responded to by the SSRO. The table below summarises key aspects of this feedback and the SSRO's responses.

Theme	SSRO comment
Combining the D&M and P&M comparator groups	Our reasoning for the current approach is set out in paragraphs B60 to B63 of our response to the 2021 consultation <sup>7</sup> . We accept there are alternative approaches which involve creating a new combined D&M and P&M group. These come with benefits such as making some aspects of the company selection more straightforward, but also with some risks to the stability of the BPR and diminishing the contribution of certain types of activity in the BPR which form a part of single source defence contracting. Historical data does suggest the impact on the BPR of such a change is unpredictable but we will consider this matter further in phase 2 of the review.
Changing the comparability principle from one based on economic activity to comparable contractual obligations.	The SSRO has not considered changing the principle of compatibility in this consultation, which in our view would amount to an entire revision of the existing methodology. Our activity-based approach which uses profit rates associated with costs of undertaking particular activities, is consistent with the price formula in which profit is applied to the (allowable) costs which are incurred as a result of undertaking those activities to deliver the contract. The alternative approach that industry have begun to set out is one amongst a range of profit control methodologies that are adopted in other regulated settings. We will continue to work with industry to understand their proposal which we would consider alongside any other suitable alternatives if a decision was taken to reconsider the entire approach to our annual assessment.
The BPR methodology applied by the Review Board for Government Contracts	The Defence Reforms Act requires the SSRO to provide its assessment each year of the appropriate BPR. The SSRO has retained aspects of the methodology applied by the Review Board for Government Contracts where we considered these have merit, but moved away from other aspects which we considered problematic.

<sup>7</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1009057/Response\\_to\\_consultation\\_on\\_the\\_baseline\\_profit\\_rate\\_and\\_its\\_adjustment\\_August\\_2021A\\_.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1009057/Response_to_consultation_on_the_baseline_profit_rate_and_its_adjustment_August_2021A_.pdf)

Theme	SSRO comment
MOD proposals to change the POCO adjustment	We have not identified any aspects of this particular proposal that would impact fair and reasonable prices. The analysis provided by industry to highlight a potential issue in this regard relies on a very particular set of circumstances arising which do not represent how the BPR methodology or the regime operates in practise.
Company size	We responded to this point in detail in paragraphs 6.3 to 6.7 and B31 to B35 of our 2021 consultation response. We will consider any further evidence industry wish to present that company size is a reliable economic indicator that delineates comparable economic activities from those that are not comparable. We remain of the view that if a company was too small to be undertaking comparable activities, we would not find them doing those activities, and so they would never be included in the activity group.
Including IT services companies in the comparator group	We did not consult specifically on IT services on this occasion, having reviewed and consulted on this topic in 2020 and subsequently introduced the IT services activity group. IT services which encompass “design, integration or operation of networks and computer systems or services used for military or defence purposes” are currently included in our BPR comparator group. We would be happy to consider any further proposals to refine this aspect of the methodology that stakeholders may wish to propose.