

# Appendix 1: Data sources and methodology

## SSRO functions

The SSRO must keep under review the extent to which persons subject to reporting requirements under the Act are complying with them.

The SSRO's compliance methodology directly supports two of our statutory functions:

- the requirement under section 36(2) of the Act to keep under review the extent to which persons subject to reporting requirements are complying with them; and
- the requirement under section 39(1) of the Act to keep under review the provision of the regulatory framework established by the Act and the Regulations.

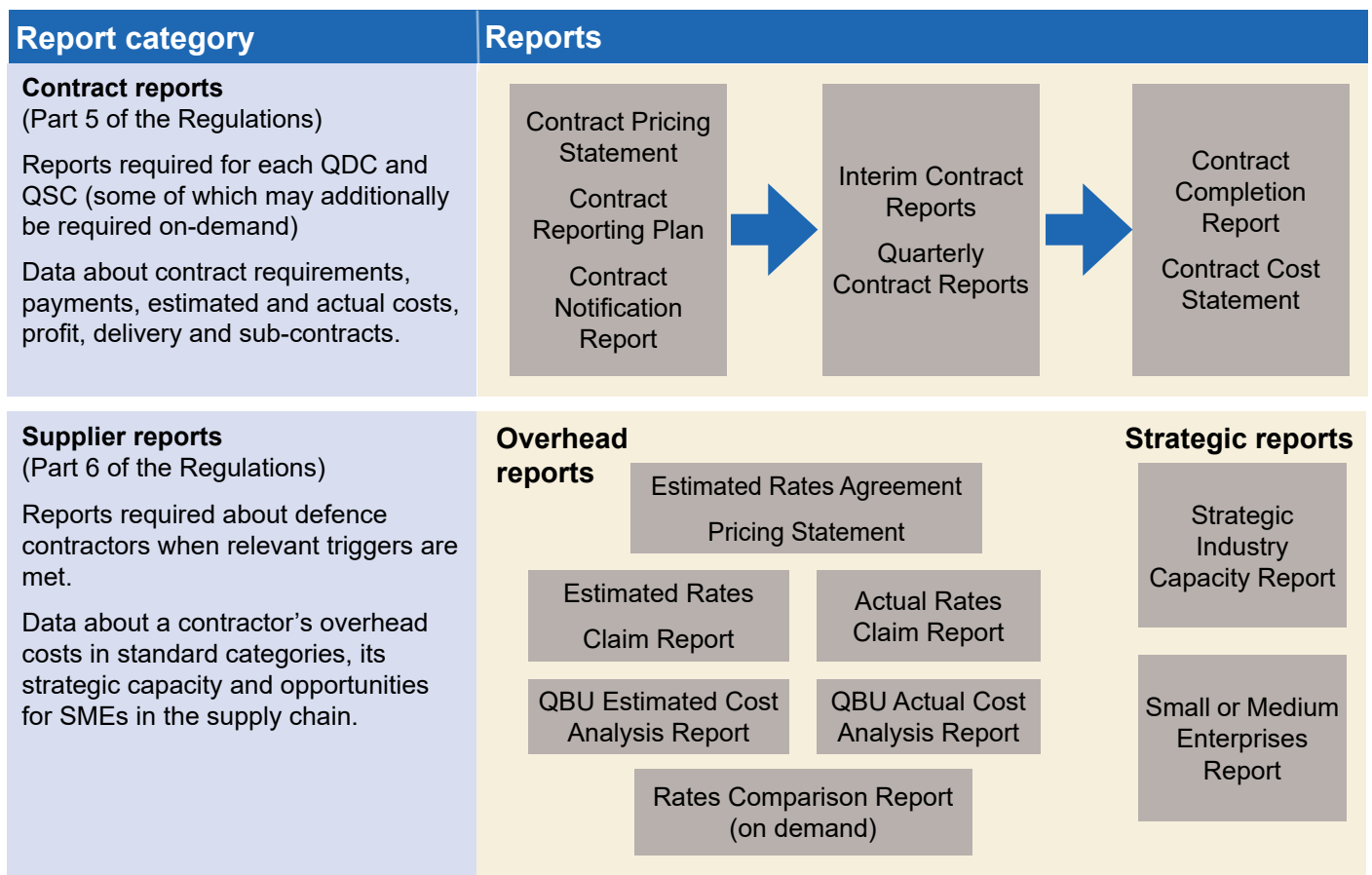
In carrying out these functions, the SSRO must aim to ensure that:

- good value for money is obtained in government expenditure on qualifying defence contracts (value for money); and
- that persons who are parties to qualifying defence contracts are paid a fair and reasonable price under those contracts (fair pricing).

## Submission requirements

Defence contractors are required to submit two categories of reports (contract and supplier), as summarised in Figure 1.

**Figure 1: reports required under the regulatory framework**



Our analysis refers to three types of contract reports, being the initial, update and completion reports:

- ‘initial reports’ being the Contract Pricing Statement (CPS), the Contract Reporting Plan (CRP) and the Contract Notification Report (CNR), known collectively as the Contract Initiation Report (CIR); and
- the ‘update reports’ being the Interim Contract Report (ICR), the Quarterly Contract Report (QCR), and any on-demand report CPS, CRP and ICR; and
- the ‘completion reports’ being the Contract Completion Report (CCR), Contract Costs Statement (CCS) and any on-demand CCS.

We also refer to two types of supplier report:

- ‘overheads reports’ being the Qualifying Business Unit Estimated Cost Analysis Report (QBUECAR), the Qualifying Business Unit Actual Cost Analysis Report (QBUACAR), the Estimated Rates Agreement Pricing Statement (ERAPS), the Estimated Rates Claim Report (ERCR), the Actual Rates Claim Report (ARCR) and the Rates Comparison Report (RCR) which is only triggered by a written notice from the Secretary of State; and
- ‘strategic reports’ being the Strategic Industry Capacity Report (SICR), and the Small or Medium Enterprises (SME) Report.

The QBUECAR and QBUACAR may together be described as the Qualifying Business Unit Cost Analysis Report (QBUCAR). This QBUCAR is made up of a number of different elements but the area where most data entry is required relates to the analysis of costs, captured by last year prior estimate; last year actuals; last year variance; this year estimate; and this year changes.

Overheads reports may be required for a Qualifying Business Unit (QBU) in some years and not others, depending on whether the ongoing contract condition<sup>1</sup> and QBU threshold<sup>2</sup> are met. The SSRO does not have independent access to the information required to assess whether these requirements are met for a QBU and is dependent on notifications from the MOD and the contractor. The analysis is therefore subject to some assumptions made by the SSRO about submissions that are expected when it is aware of certain conditions having been met.

The reporting requirements are set out in Parts 5 and 6 of the Regulations. The SSRO supplements those requirements with reporting guidance, which contractors must have regard to when completing the reports.

## Information included in this report

The SSRO has developed DefCARS, with input from the defence industry and MOD users, to provide an easy to use and secure means of submitting the reports. The majority of the analysis presented in this report is drawn from the data submitted into DefCARS. Compliance-related data was only available in DefCARS for reports submitted from 1 May 2018.

The contract data in this report is sourced from the latest of the CPS, CNR, QCR, ICR, CCR or CCS. Data related to timeliness and quality of submissions are sourced from DefCARS.

This report analyses all of the reports submitted on or before the cut-off date of 30 June 2023. It considers:

- QDCs and QSCs entered into between 1 April 2015 and 31 March 2023 and notified to the SSRO by 30 April 2023;
- associated contract and supplier reports due for submission by 30 April 2023 (to give contractors one month after the date the contract became a QDC/QSC to submit their contract reports);

1 The “ongoing contract condition” is met in relation to a financial year if, at any time in that year, obligations relating to the supply of goods, works or services under one or more of the qualifying defence contracts referred to in subsection (4)(a) or (b) (as the case may be) are outstanding (s25(5) of the Act). Regulation 31(2) notes that this is subject to a minimum value of qualifying defence contract for reporting requirement to be imposed, and the amount specified for the purposes of that subsection is -  
 (a) for the financial years ending on 31 March 2016 and 31 March 2017, £20,000,000;  
 (b) for subsequent financial years, £50,000,000.

2 The total value of what it provides for those purposes in that period is at least £10,000,000.

- all report submissions received and reviewed for compliance issues up to 30 June 2023 to provide the SSRO and MOD time to review and resolve issues within these reports.

## Reporting on compliance issues

The SSRO reviews the reports submitted by contractors and seeks to understand the information provided, relying on automated validation checking in its DefCARS system. More detailed, manual investigations around validation warnings that have not been addressed by the contractor are also considered. The SSRO focuses its manual reviews on issues that can be linked to validation warnings and may base targeted or thematic reviews on issues identified from validation warnings.

Ensuring the accuracy of reported information depends on the MOD also checking reported information and taking action where appropriate. We have enabled the MOD to raise queries with contractors in DefCARS and for contractors to respond, and this information is reviewed by the SSRO as part of the implementation of its compliance methodology.

The SSRO's review process starts after a contract submission has been made and, depending on the timeliness of contractor responses to issues, can continue over a period of several months. The SSRO queries potential errors with report submissions that impact data quality, such as:

- internal inconsistencies;
- arithmetical errors; and
- matters that appear to be erroneous, for example incomplete information.

To keep the provisions of the framework under review, the SSRO may also raise issues with contractors in order to understand relevant explanations relating to the pricing of contracts. In line with the Act and Regulations, contractors are obliged to report the facts, assumptions, and calculations relevant to each element of the Allowable Costs and to describe the calculation used to determine the contract profit rate, including all adjustments to the baseline profit rate.

The compliance approach includes querying obvious errors (for example internal reporting inconsistencies) as well as raising any issues if completed reports seemed to be erroneous (for example reports containing incomplete or limited information).

We consider the extent to which persons subject to reporting requirements have complied with their obligations and what this tells us about how the regime is operating. To deliver our statutory aims and functions, we seek to achieve the following:

- receipt of good quality data from contractors, that is relevant, comparable and reliable;
- identification of issues related to meeting reporting requirements (reporting issues), to data quality and to the application of the regulatory framework, for example pricing control;
- a shared understanding with the MOD and contractors about identified issues; and
- appropriate action by the SSRO, the MOD and contractors to address issues. Action by the SSRO to address issues may include revised support to contractors, updated guidance, development of DefCARS and recommendations for legislative change.

Additionally, we have reviewed the reports submitted by contractors to understand the operation of the provision of the Act and Regulations with respect to the pricing of contracts. While we have sought to understand the operation of the pricing provisions of the regulatory framework by reference to information reported on individual contracts, we have not audited reported costs or profit rates on a contract by contract basis, nor provided any assurances that individual contracts have been priced in accordance with statutory requirements.

As part of the [compliance and review methodology](#), the SSRO typically raises queries arising from report submissions directly with contractors. If the contractor does not respond to issues or provides a response that does not address the issues raised, the SSRO passes these matters to the MOD. Issues raised with the MOD may involve both compliance with reporting requirements and the way in which the system of pricing contracts is being applied.

Where the SSRO raised concerns with the MOD on pricing issues, particularly as to how the price control provisions of the Act and the Regulations were being applied, these concerns were categorised as:

- the facts, assumptions and calculations relevant to an element of the Allowable Costs suggested a breach of the Act and the Regulations or deviation from the statutory guidance which was neither reported nor explained;
- the calculation made under Regulation 11 of the Regulations, including any adjustment under the six steps, to determine the contract price of a QDC appeared to be a breach of the Act, the Regulations or a deviation from the statutory guidance but was neither reported nor explained;
- an unsatisfactory explanation was provided for an apparent contravention of the Act or the Regulations; or
- a deviation from the statutory guidance was reported by a contractor; and other information material to the pricing of the contract was reported and this appeared to suggest a failure to comply with the Act, the Regulations or a deviation from the statutory guidance.

## Revisions to previously published data

Data may also be revised for previous periods where report submissions which were not received by the reporting cut-off date are later received, where suppliers have provided corrected or updated reports with new data, or where the SSRO has been made aware of different reporting requirements that applied.

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

## Adjustments to data

All data is as reported to the SSRO. Some adjustments have been made in circumstances where there are known, and significant, data quality issues so that the analysis is not misleading. Adjustments were made in a small number of cases, for example where some on-demand report requests have been made without an updated CRP.

Additionally, we have manually added to the analysis where the contractor submitted a report outside of the DefCARS system. Mostly, this was for Strategic Industrial Capacity Reports (SICRs), which cannot be submitted in DefCARS.

## Analysis

All analysis defines the financial years as being 1 May to 30 April each year. Contractors have one month after the contract becomes a qualifying contract to submit their reports. For example, a contract entered into on 30 March 2023 will have an initial report due date of 30 April 2023 and therefore the initial report would be included in the analysis for the 2022/23 financial year. The analysis aims to be consistent with the [Annual Qualifying Defence Contract Statistics 2022/23](#), which reports on contracts by the government financial year in which they became QDCs/QSCs.

Totals are calculated on unrounded figures, before being rounded for presentational purposes.

## Timeliness

Analysis of the timeliness of report submissions uses the report due date to group the analysis by financial year. This date is according to the contractor's own reporting plans and report submissions, unless they have not yet been received. In some cases, adjustments may be made to these dates to correct for known errors. Where reporting plans have not yet been received, the SSRO estimates the report due dates where possible, using information available when the contracts are notified to the SSRO.

## Quality

Analysis of the quality of report submissions also uses the report due date to group the analysis into the relevant financial year. Prior to 2021/22 the report submission date was used to group reports into the relevant financial year. Historic figures may therefore have changed in this year's report, to allow for a consistent time series.

Issues raised on a report by the MOD or SSRO only affect the quality indicator if they are related to reporting requirements; those related to pricing matters are excluded from the analysis. When an issue is raised, there is the ability to mark it as not affecting the compliance rating, for various reasons. Where this has occurred, the issue is excluded from the analysis, and does not count as an issue raised for compliance purposes.

If an issue is subsequently closed due to it being resolved (usually due to a correction being made, or additional information being provided), then the report will be counted as being correct on subsequent submissions.

If an issue arises on a CIR submission and is applicable to each of the three initial submissions (the CPS, CNR and CRP), it is counted as three individual issues raised. If it is not applicable to all three initial reports, a mapping exercise has been undertaken to identify, which of the initial three reports the issue relates to. Due to the large numbers of issues raised, this could not be done on a case-by-case basis, and is instead mapped using the broad information category the issue has been assigned to. If an issue has been raised that relates to a field only required in the CPS, for example, this will only count as one issue, and only one of the three initial reports will be assessed as not meeting the statutory requirements. A similar process has been undertaken for QBUCARs, where an issue could be raised on data relating to either the QBUECAR or the QBUACAR.

The overall quality indicator reported in the compliance report considers the proportion of reports where no issues have been raised, for all reports reviewed by the SSRO and the MOD. However, due to the low proportion of MOD reviews seen to date, the rest of the analysis on report quality looks at any reports that have been reviewed by either the SSRO or the MOD, to increase the number of reports available for more in-depth analysis. Some figures have also been reported for reviews undertaken by only the SSRO, and only the MOD separately, for information.

When a contractor or, if the issues have been forwarded to the MOD, the MOD does not respond to an issue raised by the SSRO within 6 months from the date the report was due the issue is automatically closed by the SSRO. Reports in which issues have not been addressed, but closed after six months, have not been counted as being correct in submissions once the issues have been closed.

## Reports accessed

The proportion of reports accessed by the MOD measures if any MOD user has opened a report, regardless of length of time or actions completed whilst in the report. It includes all contract reports and all supplier reports apart from the SICRs. Reports and their corrections are grouped together, so if a user accesses one of the reports then the report group is counted as accessed.

The figure for 2022/23 includes all reports submitted (regardless of their due date) between May 2022 and April 2023, and an additional 15 working days has been given after 30 April to allow users time to access the reports before the measurement was taken. This is similar for the 2021/22 figure.

## Thematic Reviews

All analysis looking at particular themes of the reporting regime looked at contracts that became QDCs/QSCs by 30 June 2023, and where reports were also received (or due to be received) by 30 June 2023. There may therefore be some slight inconsistencies between the analysis of timeliness and quality, and the thematic reviews.

## Glossary

**Allowable Costs:** A term used for the costs incurred to deliver a QDC or QSC. Costs must be appropriate, attributable to the contract and reasonable in the circumstances to be considered Allowable.

**Baseline profit rate (BPR):** Section 17(2) of the Act and regulation 11 of the Single Source Contract Regulations 2014 (the “Regulations”) require that the contract profit rate for any qualifying defence contract must be calculated by applying six steps. The first step requires taking the baseline profit rate which has been determined by the Secretary of State.

**Capital Servicing Adjustment (CSA):** A term used to refer to fixed capital servicing adjustment and positive or negative working capital servicing adjustments collectively.

**Completion reports:** For the purposes of this analysis, the Contract Completion Report (CCR) and the Contract Costs Statement (CCS) have been grouped under the label of ‘Completion reports’.

**Compliance Notice:** A notice issued by the Secretary of State to a person who has contravened section 31 of the DRA (for example, by failing to comply with reporting requirements) where there are steps that can be taken by the person to remedy the contravention. The notice will specify those steps to be taken and will direct the person to take them.

**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.

**Defence Contract Analysis and Reporting System (DefCARS):** The SSRO maintains DefCARS to enable contractors to comply with the requirement to submit reports electronically and provides guidance on its use which is relevant to all contractors using the system to prepare and submit contract reports.

**Defence Reform Act (DRA):** The primary legislation applicable to qualifying contracts.

**Defined Pricing Structure (DPS):** A defined list of cost categories that must be attributed to the contract notification report, interim contract report, and contract completion report. The DPS will vary according to the nature of what is being procured, for example whether it is a contract for equipment design and manufacture or an in-service availability contract. The DPS includes a hierarchy of cost categories, e.g. the costs of a system may be broken out by a sub-system, and a sub-system may be broken down further.

**Designated Person:** A designated person will generally be a company rather than an individual. If the contractor under a QDC or QSC is associated with one or more other persons (in a group of companies), then the designated person is the ultimate parent undertaking. If the contractor is not part of a group, then the contractor will be the designated person.

**Final Price Adjustment (FPA):** Under certain circumstances, a final price adjustment can be made in respect to qualifying contracts priced using the firm, fixed or volume driven pricing method. In the event that the outturn profit rate exceeds the contract profit rate (CPR), or where the outturn costs exceed the contract price, a final price adjustment is required for all qualifying contracts with a value equal to or greater than £50 million, and is at the Secretary of State’s discretion for qualifying contracts with a value at or above £5 million but below £50 million. A final price adjustment may only be made where the amount of the adjustment would be equal to or greater than £250,000.

**Global Ultimate Owner (GUO):** For analysis of contract reports, the SSRO has grouped contracting companies into their respective 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.

**Group Undertaking:** Per section 1161(5) of the 2006 Companies Act a group undertaking, means an undertaking which is— (a) a parent undertaking or subsidiary undertaking of that undertaking, or (b) a subsidiary undertaking of any parent undertaking of that undertaking.

**Initial reports:** For the purposes of this analysis, the Contract Pricing Statement (CPS), Contract Notification Report (CNR) and the Contract Reporting Plan (CRP) have been grouped under the label of 'Initial reports'.

**Overhead reports:** For the purposes of this analysis, the Qualifying Business Unit Estimated Cost Analysis Report (QBUECAR), Qualifying Business Unit Actual Cost Analysis Report (QBUACAR), Actual Rates Claim Report (ARCR), Estimated Rates Claim Report (ERCR), Estimated Rates Agreement Pricing Statement (ERAPS) and the Rates Comparison Report (RCR) have been grouped under the label of 'Overhead reports'.

**Penalty Notice:** A notice issued by the Secretary of State requiring a person to pay a penalty where either the person has failed, without reasonable excuse, to take the steps specified in a compliance notice, or has contravened section 31 of the DRA (for example, by failing to comply with reporting requirements) and there are no steps that can be taken by the person to remedy the contravention.

**Qualifying Business Unit (QBU):** A unit which meets the threshold conditions set out in the legislation and carries out activities for the purposes of an undertaking and for which separate financial accounting statements are produced; or an undertaking or group of undertakings for which a single set of financial accounting statements is produced which is separate from the financial accounting statements of each of these undertakings.

**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.

**Single Source Contract Regulations (SSCR):** The Single Source Contract Regulations 2014 are secondary legislation provided for under Part 2 ('Single Source Contracts') of the DRA 2014. Collectively the DRA 2014 and the SSCR 2014 represent the legislation that governs the Single Source procurement framework.

**Single Source Regulations Office (SSRO):** The SSRO is the regulator of the new single source procurement framework. It is an independent arm's length body, whose aim is to ensure that good value for money is obtained for the UK taxpayer in Ministry of Defence expenditure on qualifying defence contracts, and that single source contractors are paid a fair and reasonable price under those contracts.

**Small and Medium sized enterprise (SME):** Defined by Commission Recommendation 2003/361/EC of 6 May 2003. Extract from Article 2 as follows: 'The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro.'

**Strategic Reports:** For the purposes of this analysis, the Strategic Industry Capacity Report (SICR) and the Small or Medium Enterprises Report (SMER) have been grouped under the label of 'Strategic reports'.

**Statutory Reports:** In relation to any QDC (or QSC) the primary contractor (or sub-contractor) must provide statutory reports as described in Part 5 of the Regulations. The SSRO has provided separate reporting guidance that will assist defence contractors with preparing and submitting the reports required.

**Supplier Reporting Structure:** Classification used by suppliers to categorise and manage the costs of a project/contract. This will commonly be based on the structure of their internal accounting system and should be the same as that used in their own management of the contract. Where multiple structures are used by the supplier, it should be the one used to support the management of the contract by those most directly responsible for the delivery of the contract.

**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.

**Ultimate Parent Undertaking (UPU):** The analysis of supplier reports is performed by Ultimate UPU, rather than GUO. The legislation refers to the 'Ultimate Parent Undertaking' to be consistent with the Companies Act 2006 which defines 'parent undertaking' and 'subsidiary undertaking', however contract report submissions do not identify the UPU and so GUO is used instead. One contracting company has submitted its own strategic reports separate to its UPU. For the purposes of the analysis, we have counted it as its own separate UPU.

**Update reports:** For the purposes of this analysis, the Quarterly Contract Reports (QCR), the Interim Contract Reports (ICR), the On Demand Contract Reporting Plan (OD CRP) and the On Demand Contract Pricing Statements (OD CPS) have been grouped under the label of 'Update reports'.