

**SSRO**

Single Source  
Regulations Office

# **Baseline Profit Rate (BPR) Activities Review**

Response to consultation on BPR Activities Review: proposed changes to the benchmark activities

October 2024

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# 1. Introduction

## Background

- 1.1 The Baseline Profit Rate (BPR) is the first of four steps that contribute to the Contract Profit Rate and supports both value for money in government expenditure and fair and reasonable prices for contractors. The SSRO's assessment of the BPR 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).<sup>1</sup> The SSRO is committed to the ongoing continuous improvement of the BPR methodology.
- 1.2 This paper sets out the SSRO's response to the 'BPR Activities Review: proposed changes to the benchmark activities' consultation. The Baseline Profit Rate Activities Review took place in two phases and is now complete. Phase one examined the activities that enable the performance of QDCs and QSCs and how those informed developments to the BPR methodology. Phase two was concerned with the practical implementation of those developments.<sup>2</sup> A public consultation was open from 8 July 2024 to 16 August 2024 on the SSRO's proposed implementation plans from phase 1.<sup>3</sup> In particular, the consultation sought feedback on the proposed activity types which underpin the benchmark company selection process of the BPR assessment. This document sets out the consultation feedback and how we have responded to it. The updates we now plan to implement ensure that the BPR continues to reflect the principles that underpin the assessment methodology which support good value for money and fair and reasonable prices.
- 1.3 As part of the consultation, 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 Contracts Regulations (SSCR) review team.
- 1.4 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 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. In addition, the SSRO also calculates separate profit rates for Information Technology Services (ITS), Ancillary Services and Construction 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. 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. Using this information, revalidating our benchmark activities and refining them where necessary means we can continue to rely on our methodology to produce a BPR which is an appropriate starting point for the application of the contract profit rate steps.

1 Qualifying Defence Contracts (QDCs) and Qualifying Sub-Contracts (QSCs) are hereafter referred to in this document as 'qualifying contracts'.

2 [https://assets.publishing.service.gov.uk/media/668c0ca4541aeb9e928f4697/BPR\\_Activities\\_consultation\\_July\\_2024.pdf](https://assets.publishing.service.gov.uk/media/668c0ca4541aeb9e928f4697/BPR_Activities_consultation_July_2024.pdf)

3 [https://assets.publishing.service.gov.uk/media/651ad1b36dfda6000d8e3997/BPR\\_Activities\\_Review\\_consultation\\_response\\_October\\_2023.pdf](https://assets.publishing.service.gov.uk/media/651ad1b36dfda6000d8e3997/BPR_Activities_Review_consultation_response_October_2023.pdf)

## Key terms and definitions

Term name	Definition
Activity characterisation	A written description of the group of economic activities and the relevant boundaries which define an activity type.
Activity type	A group of economic activities, defined by the SSRO, which correspond to types of activity that contribute to the delivery of QDCs and QSCs. For example, 'Develop and Make', 'Provide and Maintain', 'Ancillary Services', 'Construction' or 'IT Services'.
Comparable company	A company whose economic activities are included, in whole or in part, within an activity type.
Comparator group	A group of comparable companies undertaking one or more of the economic activities which make up an activity type.

## Consultation proposals

- 1.5 The scope of each activity type is set out in an activity characterisation, which is the fundamental basis upon which comparator companies are selected. The methodology applies a tailored search criteria, linked to each activity characterisation, to a database of company information to identify a range of potential comparator companies that meet a broad set of comparability criteria. By adjusting the activity characterisation and search criteria to reflect different activity types, the group of companies selected change. The two relevant parts of the search criteria are the NACE codes<sup>4</sup> that are assigned to companies in the database and the text search terms used in conjunction with the NACE codes to identify comparable companies within the database. NACE codes are used as an initial broad search criteria, from which individual companies can be identified that match the activity type.
- 1.6 The table below summarises the proposed changes to the activity types that were published for consultation. Making these changes would be expected to exclude certain companies' financial data within the BPR assessment that would otherwise have been included, and also add new companies along with their financial data, into the analysis. By helping to ensure the economic activities used in the assessment continue to reflect those we know contribute to the delivery of QDCs and QSCs, the changes will mean we can continue to rely on our methodology to produce a BPR assessment which supports the SSRO's statutory aims of value for money and fair and reasonable prices and maintaining a pricing system that supports these aims.

Proposed change	Description
1. Removal of rental and leasing from the benchmark activity types in the BPR comparable activities	Specific NACE codes and text search terms would be removed from the methodology. This would result in rental and leasing companies captured by them being excluded from the comparator group used in the BPR assessment going forward.
2. Replacing separate D&M and P&M activity types with a single combined group	A new activity type "Develop, Make and Support" (DM&S) would be created by combining the previous D&M and P&M into a single group alongside the implementation of proposals 1 and 3.
3. Expanding the BPR comparable activities to include technical support services	Additional NACE codes and text search terms would be added to those used in the BPR rates assessment to capture technical support services companies in the comparator group.

<sup>4</sup> NACE is a system of classifying economic activities for the purpose of statistical and other analysis.

Proposed change	Description
4. Expanding the Ancillary Services activity type to include labour outsourcing	Additional NACE codes and text search terms would be added to those used in the Ancillary Services activity type to capture technical support services companies in the comparator group.

1.7 The consultation sought feedback on the following questions:

- **Question 1:** Do you support the removal of rental and leasing activities from the types of activity included in the baseline profit rate assessment?
- **Question 2:** Do you support replacing the current distinct activity types of D&M and P&M with a new single 'Develop, Make and Support' (DM&S) activity type, if rental and leasing were removed from P&M?
- **Question 3:** Do you support technical support services being added in the DM&S activity type (subject to proposal 2) in the proposed manner?
- **Question 4:** Do you support labour outsourcing being added in the Ancillary Services activity type in the proposed manner?
- In addition, we asked for feedback as to how the SSRO would implement these proposed changes.

1.8 We received seven written responses to the consultation (see Table 1).

**Table 1: Breakdown of respondents**

	Government (MOD)	Industry	Industry trade association
Number of responses	1	5	1

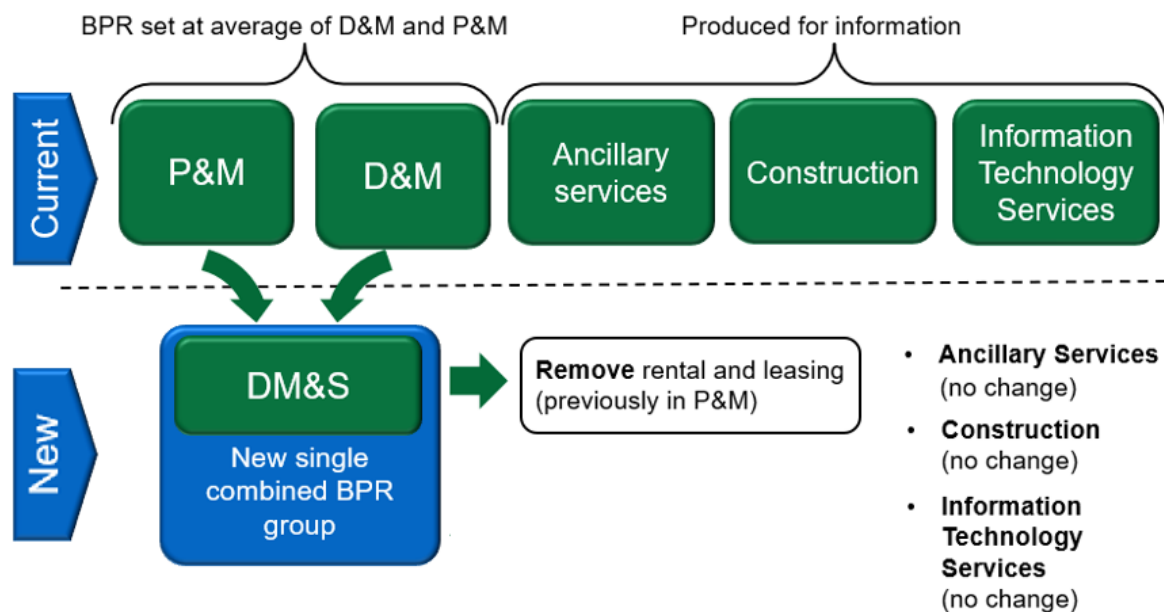
1.9 Respondents welcomed the opportunity to engage with the SSRO on continuing the refinement of the methodology and the implementation of the BPR methodology change proposals. Some respondents also suggested additional changes and future methodology improvements they could jointly pursue with the SSRO. 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. Six respondents provided permission for their responses to be published on the [SSRO website](#).

## 2. Consultation feedback

### Overview

- 2.1 All the respondents provided support to the proposals to remove rental and leasing from the BPR assessment and replace the two existing BPR comparator groups i.e. D&M and P&M with a single “Develop, Make and Support” group (proposals 1 and 2). However, there was mixed support from industry respondents for our proposal to include technical support services as a comparable activity within the BPR assessment, and disagreement by industry for the inclusion of labour outsourcing in the Ancillary Services benchmark (proposals 3 and 4).
- 2.2 The MOD supported all the proposals made in the consultation, and also provided a suggestion on the implementation timings of the changes.
- 2.3 Figure 1 illustrates the changes being made to the activity types for this year having considered the feedback we received, namely actioning proposal 1 and 2 only. A summary of consultation feedback and our response is included in later in this document.

**Figure 1 – Changes to the activity types**



- 2.4 Industry respondents also commented on matters which were outside of the scope of the specific changes that were consulted on. Representations were made in support of a more fundamental review in the SSRO’s approach to the rates assessment and a request that the BPR should be increased to encourage investment into the UK. We have responded to this feedback separately in Appendix C. The SSRO provided a comprehensive response to industry feedback on the methodology in our 2021 consultation response.<sup>5</sup> It was directly as a result of the feedback provided on improvements to comparability at that time that the activities review was initiated, and which resulted in the phase 1 consultation and this subsequent phase 2 consultation.

<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)

- 2.5 The remainder of this section sets out in more detail stakeholder feedback received to the questions posed in the consultation and the SSRO's responses to these. Section 3 sets out the conclusions and next steps for implementation.

### Responses to consultation questions

**Question 1:** *Do you support the removal of rental and leasing activities from the types of activity included in the baseline profit rate assessment?*

**Based on the evidence and the stakeholder feedback received, this proposal has been incorporated into the BPR methodology this year.**

- 2.6 The removal of 'rental and leasing' activities from the BPR was supported by both industry and the MOD. Three industry respondents requested analysis on the number of contracts that were pure rental and leasing qualifying contracts to support their decision. One industry respondent also requested information on whether any QDCs or future proposed QDCs provide the services covered by this question. Our phase 1 consultation set out the extent to which we found QDCs engaged in specific activity types.<sup>6</sup> This found little evidence of rental and leasing being an activity which enabled the performance of QDCs, which is why we have proposed to remove this from the assessment. As such, we have no information on pure rental and leasing contracts, past or proposed that we can supply.
- 2.7 One industry respondent requested a list of companies in the comparator group that would become excluded as a result of this change. We set the methodology with respect to the activities which enable the performance of QDCs and QSCs, rather than the companies that should (or should not) be included. As such, we did not publish a full list of comparator group companies that would become excluded under this proposal. We believe the proposal should be assessed on its own merits, rather than the outcome it might produce.
- 2.8 An industry respondent recommended reconsideration annually of whether rental and leasing activities should form part of the benchmark activities type as the population of QDCs change. The SSRO is committed to ongoing continuous improvement, and this includes the BPR methodology. However, we also see the merits of maintaining stability in the BPR and therefore the need to balance this against the uncertainty that more frequent changes in activity types might cause. Further activities reviews relating to the BPR are not currently scheduled into the SSRO's plans.

**Question 2:** *Do you support replacing the current distinct activity types of D&M and P&M with a new single 'Develop, Make and Support' (DM&S) activity type, if rental and leasing were removed from P&M?*

**Based on the evidence and the stakeholder feedback received, this proposal has been incorporated into the BPR methodology this year**

- 2.9 The feedback received from stakeholders indicated that alongside the removal of the 'rental and leasing' activities in proposal 1, this proposal would be appropriate. All respondents to the consultation agreed with this proposal.
- 2.10 Respondents welcomed the opportunity to streamline these groups through the change proposed and agreed that it helped remove complexity. Respondents also assessed that it did not make sense to have two discrete groups, with an industry respondent stating that most companies provide both D&M and P&M activities and not just one in isolation. This was echoed by other industry respondents and is also consistent with the understanding gained through phase 1 of this review. With the strong support received on this proposal, it will be incorporated into the BPR methodology this year.

<sup>6</sup> [https://assets.publishing.service.gov.uk/media/649302645f7bb700127fae44/BPR\\_Activities\\_Review\\_consultation\\_June\\_2023.pdf](https://assets.publishing.service.gov.uk/media/649302645f7bb700127fae44/BPR_Activities_Review_consultation_June_2023.pdf)

- 2.11 Industry provided broader suggestions on the activity characterisations, including seeking to capture the nature of the contract and the market sector to which it relates in order to understand the market and regulatory context. Two industry respondents commented that they felt some of the descriptors used in the activity characterisations were unrelated to qualifying contracts and so were likely to lead to companies not performing comparable contracts being included. Examples provided by the respondent were structural metal goods, containers and general machinery.
- 2.12 The activity descriptions are broad in nature to capture the wide-ranging activities we observed and confirmed in our phase 1 analysis of those that are enabling the performance of QDCs and QSCs. Previous industry feedback has indicated that the activity descriptions were broadly correct and the SSRO has previously examined this as part of a separate consultation and published a detailed response.<sup>7</sup>
- 2.13 Being an activity-based approach, we do not explicitly limit comparator companies to specific sectors. However, by applying our approach, sectors are excluded which are unrelated to defence, such as food, beverages, tobacco, health care equipment & services and household & personal products. The SSRO acknowledges that these were included under the previous Yellow Book methodology, which the SSRO's approach replaced. As such, we have not further amended the activity characterisations.

**Question 3:** *Do you support technical support services being added in the DM&S activity type (subject to proposal 2) in the proposed manner?*

**On the basis of the consultation feedback, we do not propose to implement this change for 2025/26.**

- 2.14 This proposal was aimed to ensure that the provision of specialised services in respect of data analysis, safety, engineering, training and information services, which we found to form part of the delivery of QDCs and QSCs was captured in our BPR methodology. It was the SSRO's view that these sorts of activities comprised part of what the MOD's single source contractor might undertake as part of performing a QDC or QSC, and so needed to be reflected in the BPR methodology.
- 2.15 We received mixed support for the proposed amendments. One respondent was unable to lend support or object to the proposal without further information. The two industry participants that did provide support for this proposal indicated that this was given with caveats including the need for an understanding of the companies that have been identified as falling under this activity type. In the consultation, we provided three example companies that would fall under the proposed classification of technical support services:
- QinetiQ
  - Ebeni
  - AtkinsRéalis Group
- 2.16 We have noted in 2.7 the reasons why we do not publish extensive lists of companies related to a change in the methodology. In any case, the final result would not be known until the actual BPR assessment is undertaken. However, it would be expected to comprise companies undertaking activities akin to those of the example companies above.

<sup>7</sup> [https://assets.publishing.service.gov.uk/media/610bfb83d3bf7f044630ab27/Response\\_to\\_consultation\\_on\\_the\\_baseline\\_profit\\_rate\\_and\\_its\\_adjustment\\_August\\_2021A\\_.pdf](https://assets.publishing.service.gov.uk/media/610bfb83d3bf7f044630ab27/Response_to_consultation_on_the_baseline_profit_rate_and_its_adjustment_August_2021A_.pdf)



- 2.17 Other industry respondents requested the SSRO provide analysis on qualifying contracts let to date, including the number and value that were purely technical support services compared to the total population. There was also a view by some respondents, that as they claimed there were no pure technical support services contracts (although provided no evidence to support this analysis), there should be no reason to make any changes for technical support services. The DefCARS review of contracts undertaken as part of phase 1 identified that contracts for technical support services comprise 10 percent by total contract price of the overall portfolio of contracts (alongside a detailed analysis of the full portfolio of QDCs and QSCs). It was on this basis that we proposed this inclusion in the range of activities within the new DM&S activity type.
- 2.18 Three respondents agreed with the inclusion of NACE codes 712 (Technical testing and analysis) and 749 (Other professional, scientific and technical activities not elsewhere classified) and some respondents mentioned that these NACE codes were already included in the D&M and P&M categories. The respondents are correct to state that these NACE codes are also included in D&M and P&M categories. These were included in the list of technical support services NACE codes as they are relevant to that activity as well as D&M and P&M.
- 2.19 Four respondents disagreed with the inclusion of NACE code 8020 (Security systems service activities), with respondents explaining that including this NACE code would result in companies doing non-comparable activities being taken into the assessment. No evidence was provided to support this assertion, and we note 8020 is the primary NACE code of QinetiQ. Each of the NACE codes we use in the methodology will be associated with a range of both comparable and non-comparable companies. A company is deemed non-comparable if its activities do not conform with the activity characterisation of a QDC. These companies are identified and excluded from the BPR during the assessment process, irrespective of their NACE code.
- 2.20 The same four respondents also disagreed with NACE code 3820 (Waste treatment and disposal) being included for similar reasons and another industry respondent explained further refinement was needed as in their view it was too broad to include. One reason for inclusion of this code was to identify companies handling hazardous waste including nuclear waste.
- 2.21 The NACE code 7112 (Engineering activities and related technical consultancy) garnered a mixed response, with two industry respondents agreeing with its inclusion and three requesting further evidence of there being qualifying contracts let under this NACE code. NACE codes are assigned to companies to identify their activities and of the current portfolio of QDCs and QSCs, around 3% are companies with NACE code 7112. Examples of companies with the 7112 NACE code include:
- Tetra Tech Inc
  - Sener Grupo de Ingeniería S.A.
  - Afry AB
- 2.22 Given the varying support for this proposal, we are not going to incorporate this proposal into the methodology this year. The full refresh of comparator companies is performed on a three-year cycle and the impact of including technical support services would not materialise until the 2026/27 BPR refresh. This means for the 2025/26 BPR assessment:
- The activity types will exclude the proposed additions in respect of technical support services, and as such companies primarily engaged in those activities will not be considered comparable for the purpose of inclusion in the BPR.
  - Technical support NACE codes which are already being included under the previous D&M or P&M activities types (now to be DM&S) will remain in use i.e. NACE codes 712 and 749.

- Defence suppliers (including QDC holders) who would have otherwise been included under technical support services will be included in the BPR comparator group as part of the “Defence Cross Check”<sup>8</sup> subject to meeting the new DM&S activity type and other relevant selection criteria.

2.23 It is intended that additional engagement is undertaken with respondents following the 2025/26 BPR assessment on how to incorporate into the BPR these activities known to enable the performance of qualifying contracts.

**Question 4:** *Do you support labour outsourcing being added in the Ancillary Services activity type in the proposed manner?*

**On the basis of the consultation feedback, we do not propose to implement this change for 2025/26**

- 2.24 We proposed adding labour outsourcing to the existing Ancillary Services group, which currently comprises administrative, facilities or IT support activities. We provided in the consultation three example companies that would fall under the proposed classification of labour outsourcing:
- Serco Group plc
  - Capita plc
  - GGM Holdings Limited
- 2.25 Industry respondents were not in favour of this proposal, but MOD were supportive of it. One reason industry respondents gave for disagreeing with this proposal was that labour outsourcing is a small proportion of qualifying contracts and that many such contracts would likely be competitive. The SSRO created this group to specifically cater for those circumstances where ancillary services are relevant to single source contracting (i.e. not competed), and our phase one review found cases to support that this occurs. As ancillary services are not a large contributor to qualifying contracts it is not included in the BPR. Although the ancillary services element of single source contracting is small in absolute terms, labour outsourcing is a relatively large part of that, hence the proposed inclusion.
- 2.26 Industry respondents were also concerned labour outsourcing was insufficiently similar to the existing Ancillary Services activities to be included in the same group. In their view, the provision of labour did not bear the output risk that might be associated with the activities already covered in this group. We would be interested to explore further if this matter is economically relevant for the purpose of comparability.
- 2.27 One respondent was unable to lend their support or object to the proposal without further information. The respondent requested supporting analysis showing statistics around qualifying contracts let to date for the activity proposed. This is similar to the request they made as part of proposal 3. The SSRO’s proposals were formed from the findings of the phase 1 consultation which identified labour outsourcing was an activity that contributed to qualifying contracts and analysis was included as part of the phase 1 consultation materials.
- 2.28 Three industry respondents noted that two NACE codes namely 811 and 821<sup>9</sup> are already included in Ancillary Services so this does not represent a change to the NACE codes. This is correct and these codes are listed as they are also relevant to labour outsourcing.

<sup>8</sup> The SSRO examines the MOD trade, contracts and industry statistics along with the portfolio of QDCs and QSCs as part of the BPR assessment process to identify any other relevant comparator companies.

<sup>9</sup> Table 2 and Table 8 in the published consultation document makes reference in the title to ‘technical support services’. This is an error and should have been ‘labour outsourcing’ instead of ‘technical support services’

- 2.29 Given the lack of support for this proposal, we are not incorporating this proposal into the methodology this year. The full refresh of comparator companies is performed on a three-year cycle and the impact of including labour outsourcing would not materialise until the 2026/27 BPR refresh. This means for the 2025/26 BPR:
- The activity types will exclude the proposed additions in respect of labour outsourcing, and as such companies primarily engaged in those activities will not be considered comparable for the purpose of inclusion in the Ancillary Services group.
  - Labour outsourcing NACE codes which are already being included under the current Ancillary Services type will remain in use i.e. NACE codes 811 and 821.
  - Defence suppliers (including QDC holders) who would have otherwise been included under labour outsourcing will be included in the BPR comparator group as part of the “Defence Cross Check” subject to meeting the existing Ancillary Services activity type and other relevant selection criteria.
- 2.30 It is intended that additional engagement is undertaken with respondents following the 2025/26 BPR assessment on how to incorporate into the BPR these activities known to enable the performance of qualifying contracts.
- Additional feedback on implementation proposals to the proposed changes to the BPR methodology.**
- 2.31 Stakeholders welcomed that the three-year rolling average would smooth any impact of the changes to the BPR. The MOD were also accepting of this approach which is expected to lead to less volatility.
- 2.32 One respondent was unsure about whether the text search terms are used on an “and” or an “or” basis and sought clarification particularly as the respondent felt it may lead to a broad search. A full explanation of how text search terms are used can be found in the BPR methodology published alongside this response.<sup>10</sup>
- 2.33 One respondent submitted their own analysis showing that some comparator companies that were included in a comparator group one year but not in the next year and sought additional explanation on why this occurred. The comparator groups are updated each year to ensure the each BPR assessment reflects the latest available data. This means the inclusion of specific companies in the group can change from year to year. The reasons for this include:
- changes in the timing of publishing their statutory accounts, which was particularly pronounced during the COVID-19 pandemic;
  - temporarily being a loss-maker; or
  - mergers and acquisitions.
- 2.34 A complete explanation of the criteria for selection in the comparator groups is included in the BPR methodology. The SSRO’s methodology is designed to ensure that the BPR remains appropriate, irrespective of the changing circumstances of individual companies.

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<sup>10</sup> [https://assets.publishing.service.gov.uk/media/6703b764e84ae1fd8592eed9/Single\\_source\\_baseline\\_profit\\_rate\\_and\\_capital\\_servicing\\_rates\\_methodology\\_October\\_2024.pdf](https://assets.publishing.service.gov.uk/media/6703b764e84ae1fd8592eed9/Single_source_baseline_profit_rate_and_capital_servicing_rates_methodology_October_2024.pdf)

## 3. Conclusion and next steps

- 3.1 The SSRO has published an updated BPR methodology which reflects that the implementation of proposals 1 and 2 will be applied to the 2025/26 rates assessment onwards.
- 3.2 Proposals 3 and 4 have not been implemented into the BPR methodology this year, pending further consideration of each proposal based on the stakeholder feedback received in this consultation. This will involve understanding the concerns raised by respondents and other stakeholders in more detail and determining how best to mitigate these along with consideration of any alternative suggestions.
- 3.3 The BPR methodology anticipates new full database searches to be required once every three years to refresh the comparator companies in each activity group. The next full refresh is due during the 2026/27 rates assessment. Therefore, the impact of proposals 3 and 4 not being implemented as a result of the stakeholder feedback received are minimal, because only during the full refresh would new companies be brought into the comparator group. The effects of recommendations 1 and 2 will be seen in the rates assessment for 2025/26 as they do not result in new companies being added.
- 3.4 We will continue to monitor the BPR methodology as part of the continuous improvement approach that the SSRO adopts to ensure that it remains appropriate and relevant. As part of this, we continually welcome stakeholder feedback and engagement with stakeholders.

# Appendix A: DM&S Activity Characterisation

This is the updated activity characterisation which reflects the changes resulting from the proposals.

The DM&S group activity characterisation replaces the previous P&M and D&M activity characterisations.

The activity characterisations for Ancillary Services, Construction and Information Technology Services have remained unchanged.

Component of an activity description	Develop, Make and Support
The activity we are seeking.	<p>Companies undertaking comparable activities considered as 'Develop, Make &amp; Support' (DM&amp;S) are expected to engage in:</p> <ul style="list-style-type: none"> <li>• manufacturing and the design and development contributing to that process.</li> <li>• delivery of services to ensure the availability of an asset through repair and servicing to third party equipment.</li> </ul>
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>
The type of contractual relationship observed in defence procurement we are seeking to find comparators for.	<p>Comparable activities would typically be of the type that can be likened to those involved in producing, and repair and servicing equipment used for military or defence purposes.</p>
Examples of the functions performed by the company under review that would indicate comparability.	<p>This would include:</p> <ul style="list-style-type: none"> <li>• scientific or technical research.</li> <li>• design, development or testing activities leading to the production of self-contained sub-systems or finished goods.</li> <li>• assembly or construction of a product to the extent that it is likely to represent comparable manufacturing.</li> <li>• repair and servicing of specialised equipment.</li> <li>• provision of training necessary to operate or maintain these assets; or subject matter expertise in these areas.</li> </ul>

<b>Component of an activity description</b>	<b>Develop, Make and Support</b>
<p>Examples of the characteristics of the goods or services provided by the company under review that would indicate comparability.</p>	<p>Comparable manufacturing and design outputs could cover a broad range of products such as:</p> <ul style="list-style-type: none"> <li>• structural metal goods</li> <li>• machinery</li> <li>• electronic and mechanical subsystems</li> <li>• vessels</li> <li>• containers</li> <li>• general machinery</li> <li>• ships</li> <li>• aircraft</li> <li>• wheeled or tracked vehicles or other means of transportation</li> <li>• other items of machinery of an industrial nature</li> </ul>
<p>Clarification on activities often observed in the companies under review where the decision may be judgemental.</p>	<p>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.</p> <p>Electronic or mechanical assemblies or subsystems that are complex and not of a commoditised nature are more likely to be considered the output of a comparable manufacturing process.</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. Diagnosis, repair and installation activities would be expected to require an in-depth knowledge of the asset being serviced.</p>
<p>How the activities being performed should generate value for the comparator.</p>	<p>The value added, cost base or profits of the business are expected to principally derive from, in part or in combination, the manufacturing, design and development activities and/or repair and servicing activities described above.</p>

Component of an activity description	Develop, Make and Support
Examples of value generation that would indicate the company under review is less likely to be comparable.	<p>For example:</p> <ul style="list-style-type: none"> <li>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.</li> <li>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).</li> <li>companies that predominantly supply rudimentary repair and servicing services such as those involving user-serviceable parts, domestic installations (for example domestic white goods), or predominantly provide routine or basic training would not be considered comparable.</li> </ul>
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 including parts, and the distribution and marketing of final goods, health and safety training alongside the technical use training of specialised equipment; and parts procurement, warehousing, logistics or installation). However, these activities are not expected to extend beyond what might reasonably be required to deliver the company's principal business.
Examples of value generation that would indicate the company under review should be rejected.	<p>Significant involvement in activities that are obviously non-comparable in nature would be cause to reject a company.</p> <p>Examples of which may include (but are not limited to):</p> <ul style="list-style-type: none"> <li>provision of financial services</li> <li>marketing or advertising services</li> <li>food processing</li> <li>distribution of third-party goods</li> <li>development or manufacture of pharmaceutical products</li> <li>provision of transferable training</li> <li>business of management consultancy</li> </ul>
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.
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.

# Appendix B: Changes following recommendation acceptance

## Recommendation 1 – Removal of ‘rental and leasing’ from the benchmark activity types

### B1: Removed NACE codes following removal of rental and leasing

NACE code	Description
7735	Renting and leasing of air transport equipment
7739	Renting and leasing of other machinery, equipment and tangible goods n.e.c.
7712	Renting and leasing of trucks
7732	Renting and leasing of construction and civil engineering machinery and equipment
7734	Renting and leasing of water transport equipment

### B2: Removed text search terms following removal of rental and leasing

Text search terms			
rent*	leas*	hir*	
AND			
container*	truck*	tank*	trailer*
aircr*	aviation*	industrial*	defence*
defense*	militar*		

“\*” denotes a part word, for example “tech\*” includes “technical”, “technology”, etc

Note: We removed text search terms and those only relating to the NACE codes in Table B1. However, common terms such as defence\* for other NACE codes remain in the methodology.



## Recommendation 2 – Replacing the separate D&M and P&M activity types with a new single ‘Develop, Make and Support’ (DM&S) activity type

The updated activity characterisation in Appendix A shows the activity characterisation for the new combined DM&S group to reflect the changes made.

### B3: NACE codes and text search terms for the DM&S activity type

Sub-activity	NACE Rev 2 code	Description	Text search terms
Manufacturing	2511	Manufacture of metal structures and parts of structures	(manuf*, produc*, fabric*, build*, defense*, defence*, militar*)
	2529	Manufacture of other tanks, reservoirs and containers of metal	
	253	Manufacture of steam generators, except central heating hot water boilers	
	254	Manufacture of weapons and ammunition	
	2599	Manufacture of other fabricated metal products n.e.c.	
	2630	Manufacture of communication equipment	
	2651	Manufacture of instruments and appliances for measuring, testing and navigation	
	28	Manufacture of machinery and equipment nec	
	29	Manufacture of motor vehicles, trailers and semi-trailers	
	301	Building of ships and boats	
	302	Manufacture of railway locomotives and rolling stock	
	303	Manufacture of air and spacecraft and related machinery	
	304	Manufacture of military fighting vehicles	
	3099	Manufacture of other transport equipment n.e.c.	
Research and development (R&D)	749	Other professional, scientific and technical activities nec	(research*, develop*, design*) <b>AND</b> (test*, equip*, machin*, militar*, vehic*, defense*, defence*)
	721	Research and experimental development on natural sciences and engineering	
	741	Specialised design activities	
	712	Technical testing and analysis	
Repair and servicing	33	Repair and installation of machinery and equipment	(repair*, maint*, upkeep*, update*, training*) <b>AND</b> (equip*, vehic*, aircr*, defense*, defence*, militar*)
	749	Other professional, scientific and technical activities nec	

“\*” denotes a part word. For example, “develop\*” includes “develop”, “develops”, “developed”, “developing”, “developer” and “development”.

# Appendix C: Wider feedback

Respondents provided feedback on aspects of the SSRO's BPR methodology which were not in scope of the specific points we consulted on. Some 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
<p>Changing the comparability principle from one based on economic activity to comparable contractual obligations.</p>	<p>Substantial commentary was received on this theme by nearly all industry respondents. The SSRO has not considered changing the principle of comparability in this consultation, which in our view would amount to a wholesale 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 has begun to set out is one amongst a range of profit control methodologies that are adopted in other regulated settings. The methodology has now operated successfully for nearly a decade. We recognise there may be alternative methods as was the case prior to the SSRO being established. We will continue to work with industry to understand their proposals which we would consider alongside any other suitable alternatives if a decision was taken to reconsider the entire approach to our annual assessment. Any such review would be wide-ranging.</p>
<p>IT Services companies are being excluded from the BPR comparator group but some companies undertaking IT Services should be included in the BPR comparator group.</p>	<p>An IT Services comparator group was introduced in 2023/24 following a public consultation.<sup>11</sup></p> <p>Given contracts for IT Services account for a small minority of single source contract spend they are not included in the BPR. Ancillary Services and Construction are also excluded from the BPR for the same reason. The evidence gathered in this review on the portfolio of QDCs and QSC did not support a proposal to bring the IT Services comparator group into the BPR comparator group. We also note the new Commercial Pricing method may be more suitable for IT services contracts than the price formula and the BPR.</p>
<p>The cost and value for money of producing rates for Ancillary Services, Construction and IT Services is questioned given that the vast majority of qualifying contracts are not in these categories and the MOD would more frequently contract these sectors outside the regime.</p>	<p>The MOD and some industry stakeholders have been supportive of the continued publication of these rates since they were first produced. The IT Services rate has been seen as particularly useful. At present, there are no plans to stop the production of these rates. We continue to welcome the opportunity for further feedback and discussion on all aspects of the rates calculations.</p>

<sup>11</sup> [https://assets.publishing.service.gov.uk/media/6256b280d3bf7f600d405656/Response\\_to\\_IT\\_activity\\_consultation\\_April\\_2022A.pdf](https://assets.publishing.service.gov.uk/media/6256b280d3bf7f600d405656/Response_to_IT_activity_consultation_April_2022A.pdf)

Theme	SSRO comment
<p>The BPR is not delivering a profit rate consistent with other countries such as the US or Australia and will hamper investment in the UK</p>	<p>The current evidence does not suggest that the range of profits available under a QDC or QSC is systemically misaligned with those of similar international regimes, although the approach in other countries differ making like-for-like comparisons challenging. The profit earned on QDCs and QSCs (of which the BPR plays a part) is one potential factor in companies' broader investment decisions along with a range of others. We continue to consider how other similar regimes worldwide are operating alongside their relevance to the UK. We welcome the opportunity for engagement with stakeholders on this issue in the future.</p>
<p>Introducing market sector comparator groups to replace the current comparator groups</p>	<p>This was outside the scope of this consultation, but the SSRO welcomes the additional feedback and understands this consideration is more broadly linked to the theme of changing the comparability principle and method. At present, there are no plans to introduce market sector criteria to the comparator groups.</p>
<p>The SSRO should provide further analysis on the proposals and more broadly. This may include the values, categories and types of qualifying contracts and a list of those companies that would be included or excluded as a result of a consultation proposal.</p>	<p>The SSRO published extensive analysis as part of the phase 1 review related to qualifying contracts. We also publish information on the SSRO website including statistics regularly which can provide some additional insight.</p> <p>We purposefully chose not to provide the lists of companies that would be included or excluded by the proposals to reduce the risk of anchoring by respondents. The proposals in this consultation should be judged purely on their merits. It is noted that some details of contracts would also not be able to be provided due to commercial sensitivities which may hinder some of the analysis stakeholders would like to perform.</p> <p>We welcome the opportunity to continue working with respondents to ensure that they have the information needed.</p>
<p>There are companies within the D&amp;M and P&amp;M comparator group that based on the NACE codes according to the SSRO methodology should be allocated to Construction and not D&amp;M/P&amp;M.</p>	<p>NACE codes are used as an initial broad search criteria, from which individual companies can be identified that match the activity type. Further analysis is undertaken as part of a rigorous manual review to identify the nature of the company and further understand the activities it undertakes. This ensures it meets the set criteria and that each company that is accepted is included in the appropriate group. This will not be changed but as per the published methodology used when calculating the rates for 2025/26 onwards, companies will be assessed according to the criteria. We continue to welcome stakeholder comments and the opportunity to provide further explanations as needed.</p>