

SSRO

Single Source
Regulations Office

**SSRO response to stakeholder feedback on the new
and amended reporting guidance**

Contents

1.	Background	3
2.	Summary of issues raised	5
3.	Contract reporting guidance	9
4.	Supplier reporting guidance	18
5.	Guidance on DefCARS functionality	19
6.	DefCARS	20
7.	Compliance methodology	22
8.	Issues on which we did not consult	23
9.	Conclusions and next steps	24
	Appendix 1 – Other changes made to the reporting guidance documents published on 20 March 2024	25
	Appendix 2 – Consultation responses where consent to publication was provided	28

1. Background

- 1.1 The regulatory framework for single source defence contracts specifies how contracts, that meet the requirements for being qualifying defence contracts (QDCs) or qualifying sub-contracts (QSCs), must be priced and requires transparency by contractors who are a party to those contracts. The SSRO provides guidance, training and support to both the MOD and defence contractors to help them to understand and to apply the requirements of the regulatory framework.
- 1.2 Schedule 10 of the Procurement Act 2023 amended the Defence Reform Act 2014 (the Act) to introduce changes to the pricing and reporting of QDCs and QSCs. Changes to the Single Source Contract Regulations (the Regulations), enabled by the amended Act, were also made, and these ('tranche one') changes came into force on 1 April 2024, with further changes expected.
- 1.3 On 19 February 2024, the SSRO issued a [public consultation](#) on how we considered our reporting guidance would need to change to support the 1 April 2024 legislative amendments. We also consulted on changes to our compliance methodology, necessitated by the introduction of specific reporting requirements for components within contracts. On 20 March 2024, we made available to stakeholders the revised reporting guidance, which applied from 1 April 2024 alongside our public consultation. The public consultation closed on 28 June 2024 which allowed feedback to reflect actual usage of the guidance. This document sets out our response to stakeholder views.
- 1.4 This consultation response document considers the comments made by stakeholders and explains any impact those comments have had on our guidance and DefCARS. Other minor changes made to the reporting guidance identified through engagement with stakeholders, but which have not been consulted on, are also explained in Appendix 1.
- 1.5 We received seven responses to the consultation from the organisations in Table 1.

Table 1: Consultation respondents

Organisation	Number of responses
Individual contractor	5
Trade association	1
Ministry of Defence	1
Other	-
Total	7

- 1.6 This document has been structured around the guidance documents and the compliance methodology which are being amended. The following consultation questions were asked which all respondents addressed in their feedback:
- Does this document adequately explain how contractors are likely to be impacted by the changes to the reporting requirements which have been made by the MOD? If not, what are your main concerns?
 - Do you understand how component information will need to be reported within DefCARS? If not, what are your main concerns?
 - Do you understand the changes to reporting guidance which are being proposed? If not, what are your main concerns?

- d. Do you have any concerns about how you will be able to meet your reporting requirements going forward that could be alleviated through updates to the guidance or DefCARS? Please explain what these are.
 - e. Do you have any comments on the proposals in relation to our update of the compliance methodology? Please say whether you agree or disagree with the different aspects of the proposals.
 - f. Please provide any additional comments on the implementation of the proposals below.
- 1.7 Three of the five contractor submissions indicated that they supported their trade association's submission. One contractor said it was too early to comment on the guidance changes as they had not yet had time to apply them. Another contractor welcomed the detail the SSRO had provided to help them understand what was now required following the legislative changes coming into force on 1 April 2024. Where respondents have provided permission, their response to our consultation are included as part of this document at Appendix 2. In some cases, respondents have wished to remain anonymous, and we have redacted the submissions prior to publication as appropriate.
- 1.8 We would like to thank all respondents for their feedback which has shaped the changes which we have made to the following documents. These have been published alongside this consultation response document:
- a. Guidance on contract reports;
 - b. Guidance on supplier reports;
 - c. Guidance on DefCARS functionality; and
 - d. SSRO's compliance methodology.
- 1.9 During the consultation period the SSRO provided [question and answer packs](#) to members of its Operational Working Group as well as the Reporting and IT sub-group, following queries raised at the SSRO's four teach-ins (two of which covered reporting matters specifically). Other issues also emerged during the consultation period through discussions with individual contractors or via queries submitted to our helpdesk, which we have sought to clarify in our updated guidance.

2. Summary of issues raised

- 2.1 Consultation responses identified areas where further clarity was required in the reporting guidance, and these are explained in sections 3 to 5 of this document. Responses relating specifically to DefCARS are covered in section 6 and those relating to the SSRO's compliance methodology in section 7.
- 2.2 Stakeholders also made comments which fell outside the bounds of the SSRO's reporting guidance and these matters are considered in section 8. Most respondents commented on the consultation document which the SSRO had issued rather than the changes to the guidance documents. Some of the comments received focused on amending information in the consultation document which was not included in the reporting guidance. We have not dealt with these matters in this response document as they did not impact the reporting guidance.
- 2.3 The main points made by stakeholders are summarised in Table 2.

Table 2 – Summary of key points raised

Issue raised	Summary of issue raised	SSRO response	Consultation response paragraph reference
References to the Act and the Regulations	Where the guidance refers to the Act and the Regulations, it should detail the specific section of the Act or Regulation.	There are many references to the Regulations in the guidance documents. These have been reviewed and changes made where better referencing was required.	3.2 to 3.3
Transitional provisions	The guidance should make clear how the Transitional Provisions impact reporting and which contracts they apply to.	A description of the Transitional Provisions has been included in the guidance and their impact has been explained.	3.4 to 3.7
Updating estimates to actuals through reporting resubmissions	The circumstances in which actual costs can be reported as estimates needs to be further explained, including the timing of when the subsequent reporting of the actual costs is expected.	The SSRO has provided further clarity on this issue but has not changed its guidance which states that reports are to be corrected as soon as information on actual costs becomes available.	3.8 to 3.11
Contract and component notification process	The guidance should explain the process by which contractors notify the SSRO about contracts and their components.	The SSRO has provided more information about the contract and component notification process.	3.12

Issue raised	Summary of issue raised	SSRO response	Consultation response paragraph reference
Reporting higher value contracts	The guidance needs to clarify what component information is required to be submitted alongside contract reports for those contracts valued at £50 million and above.	The SSRO has reviewed its guidance on the reporting of component information for higher value contracts and has made some further amendments.	3.13 to 3.17
Reporting component level information for lower value contracts	Stakeholders thought that the SSRO had requested that they use the wrong report type (an ICRL instead of an ICRH) to submit component information.	The SSRO has explained why an ICRL is the correct report type.	3.18 to 3.20
Cross cutting requirements for alternative pricing methods	The guidance on this is confusing and needs to be clarified.	The SSRO has made changes to the guidance to include these cross cutting requirements.	3.21 to 3.22
Reporting of group sub-contracts	The approach to reporting profit on cost once (POCO), now that it is no longer an adjustment made to the contract profit rate, needs to be clear.	The guidance has been amended to suggest that where an adjustment has been made to the Allowable Costs to take account of POCO that this adjustment can be explained in an attached file.	3.23 to 3.24
Capital servicing adjustment (CSA) calculation	The guidance should not mandate the use of the SSRO's CSA calculator.	The current guidance requires either completion of the calculator or the provision of the CSA calculation in an alternative format so therefore no change has been made to the guidance.	3.25 to 3.26

Issue raised	Summary of issue raised	SSRO response	Consultation response paragraph reference
Reporting of components where the profit rates are different but costs cannot be tracked separately	The guidance should clarify how contractors report components where the same pricing method is used (default pricing methods excluding cost plus) but the component has been created because of a different profit rate. Concerns were raised about the ability to track costs where individual profit rate changes were creating new components.	The SSRO has explained the circumstances in which contractors can use estimates as actuals where it is not possible to track actual costs separately.	3.27 to 3.30
Worked examples	One stakeholder commented that the inclusion of worked examples in the reporting guidance would be helpful.	The SSRO has explained why worked examples can be difficult to include in its reporting guidance but has added some new examples where it was considered appropriate.	3.31
Supplier report guidance	No changes to the guidance were suggested by stakeholders.	The SSRO has made some changes to this guidance following stakeholder engagement outside of the formal consultation exercise.	4.1 to 4.5
Guidance on DefCARS functionality			5.1 to 5.2
Validations	Stakeholders questioned whether having to ignore validations when reporting component information was the best approach.	The SSRO has reviewed its validation messages and has amended their application in limited circumstances for contracts entered into post 1 April 2024.	6.1 to 6.2
Profit rate steps	Stakeholders questioned whether having to ignore profit rate steps where they did not apply for their contract or component was the best approach.	The SSRO has explained more clearly in the guidance why it is necessary to retain six profit steps and in what circumstances individual steps should be ignored.	6.3

Issue raised	Summary of issue raised	SSRO response	Consultation response paragraph reference
Auto-population of information	When information is reported about a contract there should be auto-population of that information for components.	The SSRO has explained the reasons the current system cannot be developed to auto-populate component information from that submitted for contracts.	6.4 to 6.5
Data upload	The trade association are content to engage with the SSRO further on the use of data upload in DefCARS to submit statutory reports.	The SSRO has confirmed that this is a future DefCARS development and does not require any guidance change at this stage.	6.6
Compliance methodology	Stakeholders did not suggest that changes to the methodology were inappropriate, but did highlight concerns about the review of the additional information being provided.	The SSRO has made some changes to the compliance methodology following stakeholder engagement outside of the formal consultation exercise.	7.1 to 7.3
Re-pricing of contracts	Stakeholders wanted the SSRO's guidance to say that contracts should be re-priced to take account of new reporting obligations.	The SSRO considers this to be a contractual matter for both contracting parties and has not changed its guidance.	8.2
Cost and complexity of reporting	Stakeholders commented on the increased cost and complexity of reporting following the 1 April 2024 changes.	The SSRO considers this to be a matter for the MOD to address and it is not covered in its guidance.	8.3 to 8.4
Reporting thresholds	Reporting thresholds should be introduced to minimise the reporting burden on industry.	This is a legislative matter for the MOD to address and therefore no change to the reporting guidance has been made.	8.5
Commercial purpose test	The term 'commercial purpose' needs to be defined to enable its application when a component is being created.	The SSRO does not consider this matter needs to be covered in reporting guidance as it is included in its pricing guidance.	8.6 to 8.7

2.4 The SSRO has made some minor changes to its reporting guidance which were not raised by stakeholders as part of the consultation. These changes are explained in Appendix 1.

3. Contract reporting guidance

3.1 In this section we explain the issues raised which relate to the contract reporting guidance and associated use of DefCARS, the SSRO's response to the issues and any guidance changes we have made.

References to the Act and the Regulations

3.2 The trade association and one contractor suggested that where the SSRO reiterates or refers to the Act or Regulations, it should state the specific updated section of the Act or Regulation.

3.3 The SSRO has considered this and has conducted a full review of the current guidance. We are satisfied that all references to the Act and the Regulations in the reporting guidance are correct. There are a small number of references to the Act but many references to the Regulations within the guidance. In some places we refer the reader to the relevant Regulation whereas in others we consider it necessary to include exactly what the Regulation states. In one place we have added a new footnote to explain a reference in the Act which enables a particular provision in the Regulations.

Guidance changes:

- Paragraph 3.4 – reference to a section of the Defence Reform Act included in guidance has been explained in a footnote

Transitional provisions

3.4 For contracts entered into before 1 April 2024, the transitional provisions either delay the introduction of new reporting requirements or mean that certain reporting requirements do not apply. Contractors need to consider for each contract they have entered into prior to 1 April 2024, how the transitional provisions apply. The trade association and two contractors stated that there was inconsistency between the guidance in Table 3 (included in the consultation document but not in the guidance) and the transitional provisions.

Table 3 – Component report information required [as per consultation document]

Scenario	Contract level reporting	Component level reporting
New contract with components	CIR in DefCARS.	CIR for each component.
Existing contract amended with component(s) created post 1 April 2024.	Revised CPS and CRP using on-demand functionality in DefCARS.	New on-demand (OD) CPS and OD CRP for each component using on-demand functionality in DefCARS.
Existing contract entered into pre 1 April 2024 with existing component for which an FPA may apply.	As normal.	New on-demand (OD) CPS and OD CRP for each component using on-demand functionality in DefCARS.

3.5 The transitional provisions relating to reporting are set out in Table 4 and confirm that, for contracts entered into before 1 April 2024, the reporting of component information in the on-demand Contract Pricing Statement (CPS) and Contract Reporting Plan (CRP) is not required.

Table 4 – Transitional provisions

Report type	Summary of provision
Contract Pricing Statement (CPS) Contract Reporting Plan (CRP)	For contracts entered into, or to any amendment to such a contract agreed, before 1 April 2024, the amendments made to regulation 23 (the CPS) and regulation 24 (the CRP) do not apply.
Quarterly Contract Report (QCR)	For contracts entered into before 1 April 2024, the amendments made to regulation 26 (the QCR) do not apply until 1 April 2025.
Interim Contract Report (ICR)	For contracts entered into before 1 April 2024, the requirement to report cost recovery base information under regulation 27(4A)(e) and (g)(ii) within the ICR does not apply.

- 3.6 The SSRO recognises the need to make clear in its guidance how the transitional provisions apply. Table 2 which was in our consultation document has been amended (covering more contract scenarios than the SSRO had initially identified) and included in the SSRO's contract reporting guidance. The updated information requirements are included in Table 5 below. While submission of the OD CPS or OD CRP is not required when component information is being submitted for any contract entered into prior to 1 April 2024 due to the transitional provisions, our guidance strongly suggests that contractors submit an OD CRP. In this report contractors only need to complete the entered into and completion dates in the 'contract' page and the reporting schedule in the 'reporting plan' page. Doing so will ensure that it is clear from a system perspective when reporting on future component information is to be expected.

Table 5 – Component report information required [updated]

Scenario	Contract level reporting	Component level reporting
New contract entered into post 1 April 2024 with components	CIR in DefCARS.	CIR for each component.
Contract entered into post 1 April 2024, amended to include an additional component(s) with a component value over £10m	OD CRP and OD CPS	OD CRP and OD CPS for each component.
Contract entered into post 1 April 2024, amended to include an additional component(s) with a component value less than £10m	OD CRP and OD CPS at next update report stage	OD CRP and OD CPS at next update report stage for each component.
Existing contract, entered into before 1 April 2024, amended with component(s) created post 1 April 2024	No change to existing reporting requirements.	New OD CRP for each component using on-demand functionality in DefCARS to report component entered into date, completion date and reporting schedule.

Scenario	Contract level reporting	Component level reporting
Existing contract, entered into before 1 April 2024, with existing components	No change to existing reporting requirements.	New OD CRP for each component using on-demand functionality in DefCARS to report component entered into date, completion date and reporting schedule.
Existing contract, entered into before 1 April 2024, with existing components and new components created post 1 April 2024	No change to existing reporting requirements.	New OD CRP for each component using on-demand functionality in DefCARS to report component entered into date, completion date and reporting schedule.

- 3.7 The trade association and two contractors suggested that the SSRO’s guidance should also clarify that there is no retrospective reporting required and, as a result, no requirement to re-state historic reports for contracts entered into before 1 April 2024 where components exist. The SSRO has made this clear in guidance. We have also explained that whilst no retrospective reporting is required, if components under extant contracts entered into prior to 1 April 2024 exist by virtue of applying the legislation as of 1 April 2024, then the new requirements to report component level information will apply in relation to that contract from 1 April 2024 onwards.

Guidance changes:

- Paragraph 3.12 – retrospective reporting
- Paragraphs 3.17 – 3.19 (including Table 1 and 2) – transitional provisions

Updating estimates to actuals through reporting resubmissions

- 3.8 In our consultation document we had explained that where a regulation requires a statement of actual costs, actual price payable or actual volumes¹, but permits 5 per cent or more of those to be estimated, the contractor must provide the actual costs, price, or volumes as soon as is reasonably practicable after that information becomes available (as per regulation 22(6A)). The SSRO had suggested that contractors could meet this new requirement via a correction to the original submission.
- 3.9 The trade association and two contractors commented that they thought that the update of estimates to actuals was only appropriate for Contract Completion Reports (CCRs) and Contract Costs Statements (CCSs) as these would include a small percentage of estimated costs. They also suggested that where the estimates were reported instead of actuals in a QCR or ICR that the information would be provided in the next update report and therefore a correction of the original submission was not necessary and that any requirement to correct reports should only be applicable to reports submitted post 1 April 2024.

¹ The previous regulation 22(6) requirement has been amended to include price payable and volumes as well as costs where a contractor is reporting estimates rather than actuals in a report which requires a statement of actuals.

- 3.10 It is important for time series analysis that where a contractor has estimated costs in a report which requires a statement of actual costs, that they should correct the relevant submission when the actual costs become available. We note the points made by industry that estimates would get updated in the next planned update report particularly where reports are being provided on a quarterly basis, however submissions are made with respect to a specified reporting date and against a specific time period. To update information in the next available report would not meet the legislative requirement of providing the actual costs, price, or volumes in relation to that report as soon as is reasonably practicable after that information becomes available in relation to a submission that has already been made. For this reason, the guidance which deals with this issue remains unchanged. However, it is important to note that this only applies to reports submitted post 1 April 2024 and no update of prior reports is required.
- 3.11 The trade association and one contractor suggested that the guidance should make clearer the regulation 29(3) and (4) requirement about the reporting of estimated costs in a Contract Costs Statement. The SSRO's guidance on the Contract Cost Statement does not explain that in this report a contractor's actual costs can contain up to 2 per cent of estimates without explanation and 2 per cent or more as estimates providing an explanation is given for why it had not been possible to provide actuals and when those actuals would be made available. The SSRO accepts that this is a gap in Chapter 8 of the contract reporting guidance and has amended this.

Guidance changes:

- Paragraphs 5.43, 5.48, 6.46, 6.50, 6.62, 7.38, 7.47 and 7.59 – correction of reports only applies to those submitted after 1 April 2024
- Paragraph 8.18 – reporting estimated costs, price payable or volumes instead of actuals in a CCS

Contract and component notification process

- 3.12 The trade association thought that the notification process for adding contracts and any components associated with them should be explained in the reporting guidance. Contractors want to be clear on the information which they need to provide to the SSRO to enable contracts and components to be added to DefCARS. The SSRO accepts this and has added information about the notification process for contracts and components to DefCARS in the reporting guidance.

Guidance changes:

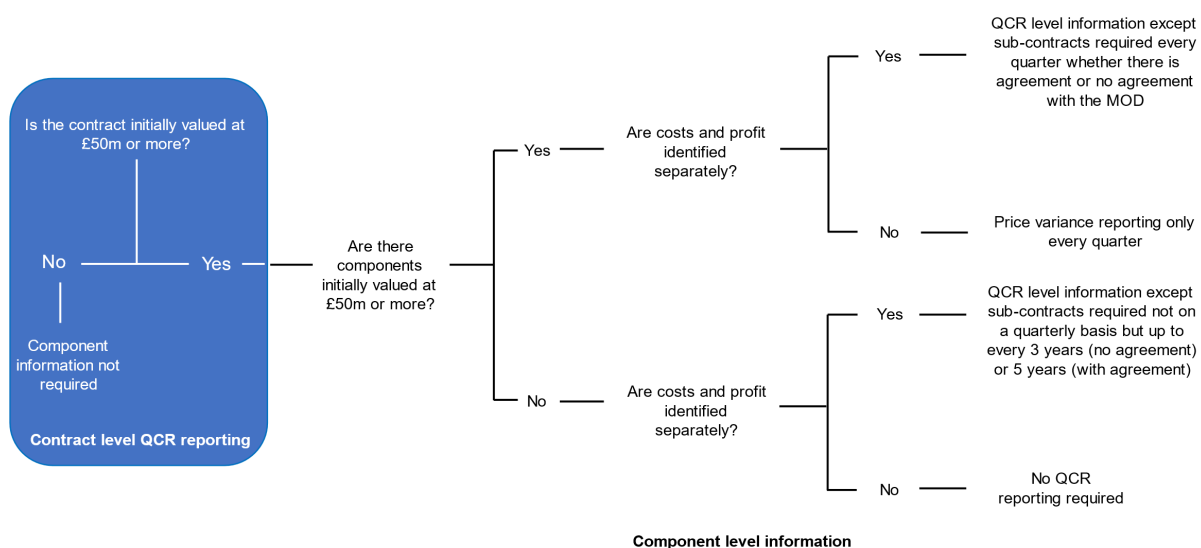
- Paragraphs 3.14 – 3.16 (including Exhibit 3) – contract and component notification process

Reporting higher value contracts

- 3.13 The regulation 5 value assessment is undertaken to determine whether a contract is a QDC or QSC and whether QCRs are required. The trade association and three contractors said that they thought the guidance needs to be clear that once this assessment is undertaken, and the type and frequency of reports is confirmed in the CRP, it is not revisited regardless of any components created in the future or their value. They also considered that the guidance needed to be clear that if a component is created and its value is assessed, this assessment does not impact the initial regulation 5 contract value assessment. For example, if the contract value is assessed at less than £50 million and QCRs are not required, an amendment resulting in a £50 million component being created would not trigger a requirement to submit QCRs for either the contract or the component.

- 3.14 In particular, the trade association said that the guidance should be clear that:
- It is the contract value assessment, made when the contract was originally entered into, that determines if QCRs need to be submitted;
 - Where QCRs are required, the value of a component determines the timing and content of reporting for that component; and
 - If the contract value is less than £50 million, QCRs are not required for the contract and its components irrespective of the value of any component.
- 3.15 It is possible that a contract is assessed with a value of greater than £50 million meaning that QCRs are required at contract level. If the contract then contains components in respect of which costs and profits are determined and identified separately for the purpose of pricing the contract and those components are valued at below £50 million, relevant component information needs to be provided in a QCR where the information is different to that provided in relation to the contract. The only QCR information which is not considered to be relevant component information relates to the reporting of sub-contracts, which will only be reported at the contract level.
- 3.16 This relevant component information needs to be provided on dates agreed between the MOD and the contractor, no more than five years following the time of agreement. Where there is no agreement, the due date for the information is more frequent, becoming due three years after the last day of the calendar quarter during which the initial reporting date fell.
- 3.17 In the consultation document the SSRO explained the reporting requirements for contracts or components which were valued at over £50 million and where the default pricing methods were used. The SSRO also set out the requirements where an alternative pricing method had been used. The SSRO considers that the guidance is generally clear on these points but has made some minor changes to provide further clarity and to include more of the content from the consultation document. A new exhibit (see Exhibit 1 below) has been added to the guidance.

Exhibit 1 – QCR flowchart to identify component information required



Guidance changes:

- Paragraphs 5.4 – 5.10 (including Table 28 and Exhibit 5) – QCR contract and component information and due dates

Reporting component information for low value contracts

- 3.18 Industry stakeholders suggested that Table 29 (now Table 32) of the guidance could be misinterpreted. It could be confusing because it indicates that for contracts that have a value of less than £50 million (which would mean at the contract level that the ICRL report type is applicable) and where there are components, where costs and profit are determined and identified separately, contractors should use an ICRL to report the ICRH² requirements plus the following:
- TCIF or FPA forecast (Final Payments page);
 - Events and circumstances (Variance Events Circumstances page); and
 - Milestones (Milestones page).
- 3.19 The trade association suggested that it might be clearer if the guidance suggested that where costs and profits are determined and identified separately and where the contract value is less than £50 million, an ICRL report is used to submit component information. The contractor would complete the fields that would normally be completed in an ICRH plus the requirements at paragraph 3.18(a) – (c). The SSRO considers that this is what Table 32 indicates but has added some additional wording to make this clear. The ICRL includes all the potential reporting requirements, and it is then for contractors to familiarise themselves with what is required in their specific scenario and to report that information, ignoring the parts of the ICRL which are not required.
- 3.20 Stakeholders indicated an error in Table 5 of the consultation document (the first row should have said component information instead of contract information). The information in Table 5 is included in Tables 33 and 34 of the contract reporting guidance and the SSRO is content that these tables are correct and no changes have been made to what was consulted on.

Guidance changes:

- Table 32 – ICR requirements for component level information

Cross cutting requirements for alternative pricing methods

- 3.21 The trade association and a contractor said that the cross-cutting requirements for alternative pricing methods needs to be clearer in the guidance. The SSRO had explained these in the consultation document as:
- where 'costs' (estimated or actual) were used primarily as the basis for pricing, in some cases the 'price payable' or 'volumes' are to be reported instead of the costs;
 - where the price of a contract or component is determined entirely using a method that does not require costs to be distinguished from profits (regulations 19A Commercial Pricing, 19B(3) Prices determined in accordance with law, 19C previously agreed price or 19E Competed rates applied to uncompleted volumes), any requirement to report information split by the Defined Pricing Structure (DPS) does not apply); or

² ICRL – means lower value Interim Contract Report and ICRH means higher value Interim Contract Report

c. where the contract or component price was determined in accordance with a contract pricing method that does not require costs to be distinguished from profits, any reference in the legislation to the 'costs of the contract or component' is to be treated as a reference to the 'price of the contract or component'.

3.22 Stakeholders asked for clarity on the circumstances in which the scenario explained in paragraph 3.21(a) of the consultation would apply. The cross-cutting requirements which apply depend on the alternative pricing method being used. In paragraph 3.21(a) the alternative pricing method competed rates applied to uncompleted volumes (CRUV) method has been used and the contractor must report a price based on applying the relevant competed unit price or rates to the estimated or actual volumes. In paragraphs 3.21(b) and (c) alternative pricing methods where costs are not distinguished from profits are being used. The SSRO has clarified this in paragraph 3.23 of the guidance.

Guidance changes:

- Paragraph 3.22 – cross cutting requirements for alternative pricing methods

Reporting of group sub-contracts

3.23 Before 1 April 2024, contractors needed to describe the calculation of the Profit On Cost Once (POCO) adjustment or deduct the POCO adjustment through Allowable Costs. Contractors were only obliged to report the adjustment made through profit as part of the six step profit rate calculation. From 1 April 2024, POCO is only dealt with through a reduction to the Allowable Costs of the contract where there are group sub-contracts. Industry stakeholders said that the guidance does not adequately explain the approach to reporting POCO. They also commented correctly that POCO adjustments do not directly impact the allowable costs or pricing of group subcontracts, or further group subcontracts. It is the price of the QDC that is adjusted and not the group sub-contract which relates to it. The SSRO considers this last point to be a pricing matter which is not covered in the reporting guidance.

3.24 The SSRO's guidance requires allowable costs to be reported after adjustments have been made for POCO. There is no specific reporting requirement for contractors to confirm the adjustment they have made where they have group sub-contracts to a QDC or QSC, or the amount of costs which are not allowable relating to the profit of group sub-contracts. However, we have amended the guidance to state that where a contractor wishes to report this adjustment, they can do so using a separate file attachment on the profit page within the CPS.

Guidance changes:

- Table 13 and Appendix 5 – Profit data input

Capital Servicing Adjustment (CSA) calculation

3.25 Industry stakeholders suggested that the Regulations do not require completion of the SSRO's CSA Calculator if alternative supporting documents which evidence the basis of agreement are provided.

3.26 The SSRO considers its guidance to be clear on this. The calculator is provided as a way of enabling the contractor to meet their reporting requirement of describing the calculation of the CSA but does not mandate that the calculator is used. Table 14 of the guidance (row on the CSA) says the following:

The SSRO provides an approach to calculating the CSA in its statutory guidance on the Contract Profit Rate. A CSA Calculator is provided in DefCARS to mirror the approach.

Alternatively contractors can manually enter a % amount for the CSA. If the contractor has used the CSA Calculator, any manual overwrite which does not match the calculated figure will generate a validation warning, and the contractor should consider providing supporting information to explain.

If the contractor has chosen not to use the calculator, the numerical value should be supported by equivalent information (as set out in Table 15) on how it was calculated.

Reporting components where the profit rates are different but costs cannot be tracked separately

- 3.27 The trade association and three contractors recommended that the SSRO sets out an approach to reporting components which have the same pricing method but a different profit rate and it is not practical to track costs discretely by priced component without having to change the approach to managing the contract. In the consultation responses from the trade association and one contractor they described the scenario of a 'non-separable' contract amendment. In this scenario, stakeholders considered it was not practical to separately record the actual costs of the original contract and the amendment. However, the contractor would need to separately identify the estimated costs of the amendment in order to price it in accordance with the Schedule.
- 3.28 Regulation 22(7A) has been introduced to help contractors in this type of scenario. It states that where a regulation requires reporting of the costs or profit of a component which was created because of a pricing amendment to which paragraph 7 of the Schedule to the Regulations applied, the parties may agree that the costs or profit are to be reported as the costs or profit originally determined in accordance with that paragraph (irrespective of any variance to the costs or profit which subsequently occur).
- 3.29 The trade association provided the following example (see Exhibit 2) of this scenario and how the component which was reporting estimates as actuals would not result in any variances, with variances only at the contract level.

Exhibit 2: Approach to reporting a component where estimates are used as actuals

Contract with 2 components - same pricing method

		To date £000's	To come £000's	At Outturn £000's		
Original contract	Component 1 As contracted	Price	50600.0	40700.0	91300.0	Actual results are total contract less component 2 reported as contracted i.e. all variances reported against component 1 and total contract
		Cost	46000.0	37000.0	83000.0	
		Profit	4600.0	3700.0	8300.0	
	%	10.0%	10.0%	10.0%		
	Actual	Price	48262.5	43037.5	91300.0	
		Cost	44500.0	39500.0	84000.0	
		Profit	3762.5	3537.5	7300.0	
	%	8.5%	9.0%	8.7%		
	Variance	Price	2337.5	-2337.5	0.0	
		Cost	1500.0	-2500.0	-1000.0	
Profit		837.5	162.5	1000.0		
Amendment A	Component 2 As contracted	Price	2737.5	7665.0	10402.5	Actual results reported as contracted
		Cost	2500.0	7000.0	9500.0	
		Profit	237.5	665.0	902.5	
	%	9.5%	9.5%	9.5%		
	Actual	Price	2737.5	7665.0	10402.5	
		Cost	2500.0	7000.0	9500.0	
		Profit	237.5	665.0	902.5	
	%	9.5%	9.5%	9.5%		
	Variance	Price	0.0	0.0	0.0	
		Cost	0.0	0.0	0.0	
Profit		0.0	0.0	0.0		
Total Contract	As contracted	Price	53337.5	48365.0	101702.5	Actual results captured and input as total contract
		Cost	48500.0	44000.0	92500.0	
		Profit	4837.5	4365.0	9202.5	
	%	10.0%	9.9%	9.9%		
	Actual	Price	51000.0	50702.5	101702.5	
		Cost	47000.0	46500.0	93500.0	
		Profit	4000.0	4202.5	8202.5	
	%	8.5%	9.0%	8.8%		
	Variance	Price	2337.5	-2337.5	0.0	
		Cost	1500.0	-2500.0	-1000.0	
Profit		837.5	162.5	1000.0		

- 3.30 The contract reporting guidance explains that when reporting component level information about cost variance, events, and circumstances, this only needs to be provided when it is different to that identified for the contract. We have expanded the guidance to explain that there is no requirement to report variances where regulation 22(7A) is being applied. The SSRO considers that in this scenario the contractor should confirm that agreement has been reached with the MOD to report costs and profit in this way.

Guidance changes:

- Paragraphs 5.38, 5.44, 5.61, 6.41, 6.47, 6.53, 7.37 and 7.43 – Regulation 22(7A)

Worked examples

- 3.31 One contractor suggested that the SSRO should include more worked examples in its guidance to assist users. The SSRO considers worked examples to be difficult as they would likely be too simplistic and could not cover the wide range of individual pricing circumstances which now exist. However, there are three areas of the guidance where the SSRO has added worked examples to improve understanding. Those which the SSRO included in its consultation document to illustrate examples of component creation and the associated reporting requirements have been amended and incorporated into Appendix 2 of the guidance. If industry can provide other examples of reporting difficulties, then the SSRO can consider whether they can also be included in its guidance.

Guidance changes:

- Exhibit 2 – components in contracts example
- Paragraphs 7.5 and 8.1 – component completion information
- Appendix 2 – examples of component creation and reporting requirements
- Appendix 5 – examples of how to complete the 'profit' page in different contract scenarios

4. Supplier reporting guidance

- 4.1 No comments were made by respondents about the SSRO's guidance on supplier reporting guidance. Recent discussions with the MOD's Single Source Pricing Support (SSPS) team and individual contractors have identified changes which should be made to the supplier reporting guidance to make it clearer. These changes are explained below and in Appendix 1.
- 4.2 The SSRO has also decided to make a small number of minor changes to its guidance on supplier reporting following stakeholder feedback. A contractor explained that the SSRO's guidance on the revenue analysis page was not correct. This paragraph explains that providing a quantified analysis of revenue in a Qualifying Business Unit Cost Analysis Report (QBUCAR) is not applicable for a non-pricing Qualifying Business Unit (QBU). The contractor explained that there may be circumstances where this is applicable and the SSRO agrees and has amended paragraph 5.18 to make this clear.
- 4.3 Additionally, paragraph 5.18 provides an explanation of how the revenue analysis should be provided. It incorrectly stated that DefCARS calculates the total revenue under category 1 and 2. This sentence has been removed. The SSRO also received a recent helpdesk query about how this page should be completed in a particular contract scenario and have supplemented guidance at paragraph 5.19 to address this.
- 4.4 A contractor was having difficulties with completion of the cost breakdowns in the QBUCAR. This was because in the penultimate column of the breakdown (remove costs recovered direct from BU/contracts) they were not entered as negative values. This is clear in the copy and paste [template](#) on the SSRO's website but was not adequately explained in the relevant guidance. We have therefore amended Table 5 (column 20) in the supplier report guidance.
- 4.5 The Secretary of State can by written notice request further submissions of the QBUCAR and Estimated Rates Agreement Pricing Statement (ERAPS). This was clear in the SSRO's reporting guidance in respect of the ERAPS but not the QBUCAR. This has been addressed.

Guidance changes:

- Paragraph 5.2 and Table 4 – further submissions of QBUCAR
- Paragraph 5.18 – revenue analysis may be required for a non-pricing QBU and removal of a sentence about how DefCARS operates.
- Paragraph 5.19 – new contract scenario example
- Table 5 – better explanation of data required in column 20

5. Guidance on DefCARS functionality

- 5.1 No comments were made in consultation responses about the SSRO's guidance on DefCARS functionality. A contractor, in separate discussions with the SSRO, has indicated a change which could be made whereby the guidance on raising issues in DefCARS could be clearer that issues may also be raised on supplier reports as well as contract reports. The SSRO has decided to make a minor change (see guidance paragraphs 2.44 – 2.48) to its guidance on DefCARS functionality to address this.
- 5.2 At the SSRO's Reporting and IT sub-group meeting in July 2024, contractors raised the issue about knowing which contracts DefCARS users were allocated to, so they knew which components they needed to give users access to. The SSRO has decided that the best way to resolve this issue is to provide Management Information (MI) containing details on users to contractors on request via the SSRO helpdesk. The guidance on DefCARS functionality (see guidance paragraph 1.8) has been amended to make this clear.

Guidance changes:

- Paragraph 1.8 – availability of MI on DefCARS users
- Paragraph 2.44 – 2.48 – issue raising on supplier reports

6. DefCARS

Validations

- 6.1 As a workaround solution the SSRO has had to set up components as contracts in DefCARS. This ensures familiarity with how the system works when contractors are providing component information. As a result of this approach contractors have been encouraged to ignore some existing validation warnings when providing component information. Two contractors were unhappy with this approach as they thought that asking systems users to ignore something such as a validation warning was not a good principle to follow.
- 6.2 It is technically challenging to turn off validations as they can apply to multiple report types. We have identified a limited number of validations which can be turned off for contracts which were entered into after 1 April 2024. Paragraph 1.14 of the contract reporting guidance explains that users need to understand which validation warnings apply based on the particular information they are submitting. We have therefore updated the validations information which the SSRO publishes on its website to incorporate these changes.

Profit rate steps

- 6.3 The profit page in reports is currently based on the previous six profit rate steps, although the numbering of each individual step has been removed. The six steps have been retained because legacy contracts in place prior to 1 April 2024 would have reported the CPR in this way. Going forward contractors with new contracts will only need to report four profit rate steps. The trade association and one contractor commented that they thought this was confusing. We have made some minor amendments to guidance at paragraph 4.25 and Table 14, to the field names on the profit page and added two new validations to ensure contractors are clear why there are six profit rate steps on the page and the circumstances in which only four should be used.

Auto-population

- 6.4 One contractor asked if DefCARS could be developed so that component level information could be auto-populated based on information already entered about the contract. There is currently auto-population within DefCARS between one contract report and the next one when it is created by the system. However, in its current configuration DefCARS cannot auto-populate across contracts and the components that are associated with them, as DefCARS treats a component as a contract. DefCARS has been set to avoid information from one contract being used in another contract for data security. We therefore do not intend in the short term to make changes to enable this to be possible.
- 6.5 We have added paragraph 1.8 to the guidance on DefCARS functionality which explains that DefCARS users are not automatically allocated to components in DefCARS. Therefore, Administration Users will need to know which contracts users currently have access to and ensure they are allocated to the components that are associated with those contracts. This information is not automatically available in DefCARS for the user, but if Administration Users contact the SSRO's helpdesk (helpdesk@ssro.gov.uk) this information will be provided. Administration Users will need to ensure each user can see the components that relate to their contracts.

Data upload

- 6.6 The trade association and one contractor commented on the data upload trial which the SSRO has been undertaking with contractors. The aim of this trial was to test out a capability for uploading data into DefCARS and is part of the delivery of the SSRO's DefCARS Future Technology Strategy. The trade association have shared views on the trial with the SSRO and meetings have been held to discuss the SSRO's next steps in relation to data upload. The SSRO's current reporting guidance does not include use of data upload capability as this remains a potential future development.

7. Compliance methodology

- 7.1 There were no specific comments on the SSRO's compliance methodology other than concerns which were raised by stakeholders about the ability of the MOD and the SSRO to have the capacity to review the increased volumes of component level information being submitted in DefCARS. The trade association and three contractors highlighted the issues with the current level of report review being undertaken by the MOD and said this increased the likelihood that component information would also not be reviewed, resulting in questions about the value of the reporting changes.
- 7.2 The SSRO recognises the need to ensure that reports are reviewed shortly after they have been submitted to ensure that the regulatory framework is achieving its aims and will continue to work with the MOD to ensure DefCARS data is being reviewed and utilised. In the consultation document we proposed to update the compliance methodology to allow flexibility in the SSRO's methodology for the quality and timeliness KPIs, allowing for:
- our timeliness indicator to continue to be based on supplier report submissions and contract level submissions but to also include the new component completion reports;
 - our quality KPI calculations to be initially based on contract level data in contract report and supplier report submissions, including the new component completion report submissions but excluding any other component level information included in contract reports. As familiarity grows with the updated reporting requirements, the KPI calculation will be adjusted to take into account component level information in the future; and
 - flexibility so that the quality KPI can be focused in the future on the reviews undertaken by the MOD only. In any one year, the SSRO may undertake its own supplementary reviews. Additionally, the SSRO may undertake additional Targeted or Thematic reviews, but these would not count towards the KPI.
- 7.3 The SSRO has made the changes to its compliance methodology:

Guidance changes:

- Paragraph 2.2 and 3.1 - confirmation that calculation of the KPI is based on submissions that have been reviewed.

8. Issues on which we did not consult

- 8.1 Stakeholders in their responses commented on matters which were not consulted on by the SSRO. The majority of these matters related to the legislative changes which the MOD has made but other issues were also raised. We summarise these matters in this section and provide explanation, but have not made any changes to the reporting guidance for them.

Re-pricing of contracts

- 8.2 The trade association and three contractors suggested that the SSRO's guidance should indicate that contractors should seek to re-price contracts where the current price of the contract did not include provision for the new reporting obligations which now apply. The SSRO considers this to be a contractual matter between the MOD and the contractor. If the contract is priced based on actual allowable costs, then any additional reporting costs may simply form part of the 'to go' contract price, subject to the parties being satisfied that those costs are allowable. For the remaining default pricing methods, while there is not a compulsion for the MOD to agree to amend the contract, if the price of the contract were being re-determined on amendment (for some reason) the contractor could seek to claim the reporting costs from part of the allowable costs under the re-determined price.

Cost and complexity of reporting

- 8.3 The trade association and four contractors also commented on the increased costs and complexity which had resulted from the reporting changes. In particular, there is concern about multiple profit rates in contracts which will create large numbers of components which each have their own reporting requirements. One contractor commented on the changes to established reporting systems and processes which would be required. The MOD has chosen to introduce these new and amended reporting requirements following consultation with industry and have conducted an Impact Assessment. One contractor commented that they would only report on components by exception and urged the MOD to make changes to the Regulations to further amend the reporting requirements. Compliance action can be taken by the MOD for any actionable contravention by a contractor in relation to their reporting obligations. However, the MOD has confirmed that it will not take compliance action for the non-submission of component information until April 2025.
- 8.4 The trade association suggested that a review of the benefit of the reporting requirements should be undertaken. The SSRO does not see the benefit in undertaking such a review so soon after the reporting changes have been implemented but will keep the legislation under review in accordance with its regulation 39(1) duty so that it can make recommendations to the Secretary of State in the future if this is appropriate and necessary.

Reporting thresholds

- 8.5 The SSRO had not commented in its consultation on reporting thresholds as the MOD are not proposing to change those which currently exist. The trade association and one contractor suggested that new reporting thresholds or 'de minimis' levels should be introduced to reduce the burden of reporting. While no such de minimis exists, in the guidance we explain that an amendment threshold of £10 million already influences the frequency of when some component information is required. The SSRO will continue to keep the legislation under review in accordance with its regulation 39(1) duty and may make recommendations to the Secretary of State in relation to reporting thresholds in the future.

Commercial purpose

- 8.6 The trade association and one contractor suggested that the SSRO's guidance should provide a definition of 'commercial purpose' to assist with the application of regulation 9(A) (2) where a commercial purpose needs to be demonstrated when creating a component to a contract. Guidance on the 'commercial purpose' test is included in the SSRO's pricing guidance (see paragraph 1.14 of the SSRO's guidance on Allowable Costs). This guidance has not been amended following the SSRO's consultation on pricing guidance which closed on 17 April 2024.
- 8.7 In stakeholder responses on this issue the SSRO notes some misunderstanding that the componentisation regulation relates to how a QDC or QSC has been priced and is separate and distinct from the regulations which govern how contract prices and components of the price are subsequently reported on. The construction of components should not be used as a way in which to disapply reporting requirements. If the parties wish to limit reporting associated with componentisation, this requires the parties to agree fewer instances in which one part of a contract is priced distinctly from another.

9. Conclusions and next steps

- 9.1 The SSRO has published updates to its three reporting guidance documents, validations document and compliance methodology alongside this consultation response. We expect to consult in the future on any changes which are required to our guidance in response to further tranches of legislative amendments.
- 9.2 The SSRO remains ready to support contractors who are experiencing difficulties with applying its reporting guidance whether this be through providing training or discussions with practitioners. We will continue to keep our guidance under review. We remain open to feedback, and any further updates to this guidance will be considered as part of our corporate planning process. In particular we encourage stakeholders to share concrete examples of the application of our guidance and any difficulties which they experience.
- 9.3 Finally, we would like to thank stakeholders for the significant involvement in this piece of work and their input across the consultation, written responses and informal engagement.

Appendix 1 – Other changes made to the reporting guidance documents published on 20 March 2024

The tables below explain other guidance changes in addition to those identified in the main body of this document. Consequential paragraph numbering has not been detailed below.

Contract reporting guidance version 12

Paragraph/Table	Change
1.1	Addition of 'including component level information' to the second sentence.
1.13	Deletion of 'can be found in the appendices to the version of this document within DefCARS but'. The guidance referred to is not published.
1.14	New last sentence at the end of the paragraph to indicate to DefCARS users that they may need to ignore validation warnings when reporting component level information.
1.15	Word 'any' deleted before 'future changes' in the first sentence. New penultimate sentence to explain that there may be workaround solutions in DefCARS before more permanent solutions can be introduced.
1.16	Deletion of 'in the system' as unnecessary wording at the end of the paragraph.
1.19	A new sentence explaining that any contractor with a QDC or QSC can be a member of the Reporting and IT sub-group.
1.21	Details about the SSRO's ability to accept referrals added.
1.22	Details about the SSRO's ability to provide non-referral advice added.
2.5	Deletion of 'paragraphs 2.39 – 2.63' and replacement with 'section'.
2.6	Addition of 'need to' in the first sentence.
3.6	Inclusion of a footnote to explain that the Contract Initiation Report does not appear in the Regulations.
3.9	Inclusion of all the default pricing methods in the first sentence.
3.13	New paragraph to provide guidance to clarify for contractors that when a component is added to a contract, two components rather than one are created.
3.20	Inclusion of additional wording to clarify when a CIR is required for each new component.
3.21	Inclusion of additional wording to make clear what to report when a contract entered into post 1 April 2024 has new components created.
4.2	Addition of the word 'additionally' to the penultimate sentence as well as a new table reference.
4.3	Addition of 'within one month of the date of novation' to improve clarity at the end of the paragraph.
4.6	Inclusion of a new sentence to explain that new data captured post 1 April 2024 is not included in Excel download reports.
4.8	Inclusion of 'or component of a contract' to confirm that supplier details are pre-populated in DefCARS for both contracts and components.

Paragraph/Table	Change
Table 10, row 2	Clarification that submission of a revised CPS and CRP for the contract and component is only applicable for contracts entered into after 1 April 2024.
Table 11, row 4	New guidance explaining what contractors should do if they do not have their own contract or component reference number to report.
Table 11, row 12	New guidance to explain what to do if the date contract became a QDC is incorrect.
Table 11, row 15	New guidance to assist contractors to report the correct contract or component value.
4.15	Replacement of 'are asked to' with 'should'.
4.19	Addition of 'reporting plan' in the first sentence to be specific about which page to complete.
Table 12, row 3	Addition of 'in a component level QCR' to be clear what type of report the suggested action applies to.
Table 12, row 5	Change to DefCARS to make CNR due dates editable so they can be deleted on the Reporting Plan page when component information is being reported.
Para 4.22	Second sentence amended to 'Paragraphs 4.70 – 4.79 of this guidance explains the reporting of assumptions, but contractors can consider all facts, assumption and calculations which relate to Allowable Costs' to provide a clearer reference.
Para 4.23	Addition of 'From 1 April 2024' at the beginning of the paragraph and a minor amendment at the end of the paragraph to split the penultimate sentence.
Para 4.24	Amendments to explain that four and six profit rate steps can be reported on this page
Para 4.25	Addition of a paragraph to explain the circumstances in which four and six profit rate steps will be reported.
Table 13, row 4	Explanation of how to report where an adjustment has been made to Allowable Costs to take account of POCO.
Para 4.25	Addition of a reference to new examples on how to complete the profit page.
Table 14, row 7	Amendment to guidance on completion of the CSA calculator to remove '(e.g. it might be necessary where a contract has come into the regime on amendment)'
Table 14, row 9	Addition of 'to the profit page' to the guidance on reporting the Contract Profit Rate % to make clear which page calculations should be attached to.
Table 14, row 13	Addition of a reference to the alternative pricing guidance when reporting a 19G Aggregation of Components price.
Para 4.29	Addition of a new sentence – 'If the pricing method is not applicable, it should be left blank'.
Para 4.30	Replace 'undertakes' with 'highlights'.
Para 4.35	Addition of new sentence – 'Ancillary Services or Specialist Equipment may be the most relevant if the outputs are not related to a particular equipment type.'
Table 18, row 2	Addition of '(exactly the same name as)' in the guidance on reporting the Pricing Business Unit Name
Table 19, row 10	Addition of 'Contractors should ensure the total matches the total Allowable Costs reported elsewhere' in the guidance on the total.
Para 4.94	Addition of 'excluding the new data requirements introduced from 1 April 2024'.

Paragraph/Table	Change
Para 5.61	Addition of 'where the price of a contract or component is determined entirely from costs which are distinguishable from profits' and '(except where regulation 22(7A) applies to the component)' to the first sentence.
Para 6.37	Addition of 'regulation 27(4)(c-f)' to the first sentence to correct for an error.
Para 7.57	The word 'regulation' has been added where it was missing.

Supplier report guidance version 10

Paragraph/Table	Change
1.17	A new sentence explaining that any contractor with a QDC or QSC can be a member of the Reporting and IT sub-group.
1.19	Details about the SSRO's ability to accept referrals added.
1.20	Details about the SSRO's ability to provide non-referral advice added.
5.2	Inclusion of new paragraph to explain that the MOD can give written notice for a further submission of the QBUCAR and guidance on how this type of report should be submitted.
5.9	Request for contractors to attach any mapping they have done of their cost data to the cost categories used in the QBUCAR.
6.2	Guidance added on how this type of report should be submitted.

Guidance on DefCARS functionality version 12

Paragraph/Table	Change
1.11	A new sentence explaining that any contractor with a QDC or QSC can be a member of the Reporting and IT sub-group.
2.5	Addition of a new penultimate sentence to explain how sorting on the MOD Contract Number can help contractors to easily see any components associated with contracts.
2.14	New second sentence explaining that contract level information does not auto-populate into component level information.
2.17	New second sentence explaining that validation tolerances only apply within reports and not from one report to another.

Appendix 2 – Consultation responses where consent to publication was provided

Where an organisation consented to their comments being attributed to them, we have named them below.

Question 1 - Does this document adequately explain how contractors are likely to be impacted by the changes to the reporting requirements which have been made by the MOD? If not, what are your main concerns?

Organisations	Comment
Contractor 1	<p>We remain unclear as to exactly what is required re components and wish to discuss further. We believe that some worked examples would be helpful. The implication is that there will be a significant additional burden, which we need to understand and quantify.</p>
Contractor 2	<p>Generally yes, and is appreciated that SSRO have produced such a detailed document. But that in itself highlights the key problem. The Tranche 1 amendments to the regulations introduce huge amounts of largely non value added reporting obligations on Defence contractors. The MOD are pushing contractors to reduce costs on the one hand but ignoring that that requires simplicity and efficiency on the other hand. The Tranche 1 amendments introduce unnecessary complexity and cost.</p> <p>One specific area that isn't clear, though, (in the consultation document) is the requirements for component QCRs. This document could have more clearly referenced the contract-level determination (which comes first). If the contract level reporting doesn't require QCRs then no component level QCRs should be required (whatever the value of the component). See para 5.3 of v12 of contract reporting guidance. But it is v12 document that is the important one and that is clearer. The consultation document itself is superseded by the v12 reporting guidance itself. We really need to be reviewing that guidance document rather than the consultation document.</p>
Defence Suppliers Advisory Group (DSAG)	<p>General Comment</p> <p>Wherever guidance reiterates or refers to the Act or Regulation, please could it include reference to the specific updated Section of the Act or Regulation?</p> <p>Section 3 - Reporting using DefCARS</p> <p>Paragraph 3.6: DSAG has provided separate feedback on the reporting pilot and are happy to engage further on the future of the upload trial in particular.</p> <p>Section 4 - Reporting implications following changes to Part 5 of the Regulations</p> <p>General requirements:</p> <p>Paragraph 4.3 requires further clarity. This stipulates that in cases where estimates have been used in contract reports, the contractor is required to resubmit the actual costs, price or volumes via a correction to their original submission.</p>

Organisations	Comment
Defence Suppliers Advisory Group (DSAG)	<ul style="list-style-type: none"> • Guidance appears to imply that this requirement applies to all reports where 5% or more of the costs, price payable or volumes may have been estimated costs. Industry question the benefit which would be added by resubmitting reports which are required as part of the initial reporting suite (CIR) or the regular reporting drumbeat (QCR and ICR). Many of these reports naturally include actuals and estimates and will be resubmitted with updated actuals and estimates though the normal cycle of reporting. • Industry believes the Regulations' request for updated actuals, where estimates have been used, is only appropriate to contract completion reports / cost statements. There may be a relatively small percentage of costs not finalised when these reports are required and hence a request for an updated report once the actuals are incurred feels appropriate. • Guidance also needs to clarify that any requirement to update reports containing estimates would only be applicable to reports submitted post 1 April 2024 and not retrospectively applied. • Industry are concerned by the SSRO's interpretation of Regulation 22 6(A) in this regard. Industry will separately raise the issue as part of Tranche 2 engagement with MOD, if required. <p>Components:</p> <p>For contracts let before 1 April 2024, where regulation introduces extra obligations beyond those priced at the time of agreement, this must oblige parties to the contract to re-agree the terms and price of the contract accordingly. Industry understand this is a matter for the MOD, however industry believe it would be useful for Guidance to acknowledge that such circumstances may need to be addressed to ensure contractors are paid a fair and reasonable price as per the requirements of Section 13 of the Defence Reform Act.</p> <p>Paragraph 4.8: To provide clarity on the requirements industry believe it would be helpful if this paragraph included further explanation, specifically for contracts and amendments entered into before 1 April 2024, including:</p> <ul style="list-style-type: none"> • No retrospective DefCARS reporting is required (no restatement of historic reports into components). • Clarity on the requirements for future component reporting in DefCARS (from 1 April 2024 in line with transitional provisions), of those contracts.

Organisations	Comment
Defence Suppliers Advisory Group (DSAG)	<p>In addition Paragraph 4.8 Table 1 advises that an existing contract entered into pre 1 April 2024 with an existing component for which an FPA may apply requires a new OD CRP and OD CPS for each component. This requirement does not appear to be within the Regulations. Please can this be clarified?</p> <ul style="list-style-type: none"> • The Transitional Provisions within Regulation 44 of the SSCR amendments advises that amendments made by Regulation 27 (CRP) and 28 (CPS) do not apply to QDCs entered into, or to any amendment to such a contract agreed, before 1st April 2024. • There appears to be a contradiction between the Transitional Provisions within Regulation 44 and the SSROs guidance which needs to be rectified. <p>Paragraph 4.5 of the consultation document specifies contractors will need to notify the SSRO that they have a contract which contains components, how many components there are, and to which contract they relate. The actual data requirements necessary to create a component in DefCARS are not included in the Contract Reporting Guidance and industry believes this process needs to be made explicit.</p> <ul style="list-style-type: none"> • Likewise no details of SSRO's Contract Notification Process have been incorporated into the Reporting Guidance. Providing details of the data required to enable the SSRO to add a contract to DefCARS would ensure a successful upload. <p>Industry believe clarity could be provided regarding the reporting of contracts which existed prior to 1 April 2024. Specifically industry believe it would be helpful if Regulation 44, Transitional Provisions, be referenced and included in the Guidance so it is clear to the user what is and isn't required on contracts which existed prior to 1st April 2024.</p> <p>QCRs</p> <p>Paragraphs 4.13, 4.17 & 4.34: Industry thinks a discussion on QCRs should start by reiterating when QCRs are required.</p> <ul style="list-style-type: none"> • The Regulation 5 contract value assessment, made when the contract is first let, determines if there is a qualifying contract and the level of reporting required: • Once assessed / the contract is let, the test is not repeated when further amendments (components) are entered into. • If the contract value is £50m or more then QCRs are required. • The component value assessment, made when an amendment (component) is entered into determines when component reporting is required (i.e. it does not cause reassessment of whether quarterly reporting is required): • The assessment is of the components price, as it is only subject to Regulation 5(1), (2) & (3). • The value (price) of the component is relevant to the timing of reporting for that component (see paragraphs 4.10, 4.17 and table 3).

Organisations	Comment
Defence Suppliers Advisory Group (DSAG)	<p>In paragraph 4.30: The last sentence includes: "...where the value of that contract or component is less than £50m." and;</p> <p>In paragraph 4.31 the last sentence includes: "...where the value of the contract or component is £50m or more, a QCR must contain..."</p> <p>Industry think these paragraphs and table 7 should explain:</p> <ul style="list-style-type: none"> • It is the contract value test, made when the contract was originally entered into, that determines if QCRs are applicable. • Where QCR's are required, the value (price) of a component determines the timing and content of reporting for that component. • And, if the contract value is less than £50m, QCRs are not required for the contract and its components irrespective of the value of any component. <p>Industry believe paragraph 4.34 requires amendment to recognise it is only the contract value test that determines the level of reporting required. If the contract value assessment is below £50m then quarterly contract reporting is not required and subsequent component value assessments do not cause reassessment of the contract value assessment or quarterly contract reporting.</p> <p>It is clear in section 5.3 of the Contract Reporting Guidance that QCRs are not required for contracts that are valued at less than £50m. However, subsequent paragraphs then introduce ambiguity around this. Sections 5.4, 5.6 & 5.9 of the Contract Reporting Guidance do not take Section 5.3 into consideration but state that QCRs are required for any contract or component valued at £50m or above.</p> <p>Should paragraph 4.45 of the Consultation also explain that up to 2% of any price, or volume, variance does not require explanation?</p> <p>Section 5 – DefCARS developments</p> <p>Table 12 of the Consultation document and paragraphs 4.26 – 4.28 of the Reporting Guidance on Preparation and Submission of Contract Reports require clarity. Industry understands it is a requirement to submit the CSA and support to its basis of agreement. However industry do not think Regulations require completion of an SSRO CSA calculator if alternative supporting documents which evidence the basis of agreement are provided?</p> <p>Costs associated with group profits (here termed "POCO")</p> <p>Reporting guidance does not seem to include the approach to the reporting of "POCO". Industry suggests guidance might include:</p>

Organisations	Comment
Defence Suppliers Advisory Group (DSAG)	<ul style="list-style-type: none"> • “POCO” adjustments are only applicable to contracts, or components, that are priced using a default pricing method and where the group subcontract, or further group subcontract, was not the result of a competitive process and the value of which is no less than £250,000. • “POCO” adjustments are to be reported on the basis of the Regulations, guidance and pricing applicable at the date the contracts were entered into: <ul style="list-style-type: none"> • As either a step within the profit rate calculation or as an adjustment to cost for contracts and amendments entered into before 1 April 2024. • For contracts and amendments entered into from 1 April 2024 POCO is an adjustment made to the allowable costs to remove a group subcontract’s or further group contract’s, attributable profit, where the group subcontract meets thresholds and complies with Regulation 13A(3) and the attributable profit is as defined in 13A(5) through to (8). • POCO adjustments are applicable to QDCs allowable costs. POCO adjustments do not directly impact the allowable costs or pricing of group subcontracts, or further group subcontracts. The price payable to a group subcontractor should not be impacted.
BAE Systems	<p>Paragraph 4.3 requires further clarity. This stipulates that in cases where estimates have been used in contract reports, the contractor is required to resubmit the actual costs, price or volumes via a correction to their original submission.</p> <p>Guidance appears to imply that this requirement applies to all reports where 5% or more of the costs, price payable or volumes may have been estimated costs. We question the benefit which would be added by resubmitting reports which are required as part of the initial reporting suite (CIR) or the regular reporting drumbeat (QCR and ICR). Many of these reports naturally include actuals and estimates and will be resubmitted with updated actuals and estimates though the normal cycle of reporting.</p> <p>We believe the Regulations’ request for updated actuals, where estimates have been used, is only appropriate to contract completion reports / cost statements. There may be a relatively small percentage of costs not finalised when these reports are required and hence a request for an updated report once the actuals are incurred feels appropriate.</p> <p>Guidance also needs to clarify that any requirement to update reports containing estimates would only be applicable to reports submitted post 1 April 2024 and not retrospectively applied.</p>
Leonardo	<p>Comments:</p> <p>Where guidance reiterates the Act or Regulations, please could it include reference to the specific section or regulation it is quoting.</p> <p>3 Reporting using DefCARS</p> <p>3.6 - DSAG provided a consolidated response on the reporting pilot, making some alternate recommendations. They and we are happy to engage further.</p>

Organisations	Comment
Leonardo	<p>4 Reporting implications</p> <p>General requirements</p> <p>4.3</p> <p>Stipulates that where estimates have been used in contract reports, the contractor is required to resubmit the actual costs, price or volumes via a correction to their original submission. This would seem very onerous and of little purpose. We recommend that regulation 22(6) and 22(6A) is reconsidered under tranche 2 or 3 changes to limit this requirement to contract completion reports only.</p> <p>In the meantime, to ensure purpose and efficiency of the regime, we recommend guidance includes where there is regular contract reporting, such as QCRs or ICRs, it would be reasonable to update estimates with actual costs/volumes etc. (up to 2% or 5%) at the next regular reporting submission. Where the report is a completion report, the estimates are to be updated with actuals as soon as the actual information is available.</p> <p>Components:</p> <p>For contracts let before 1/4/2024, if regulation introduces extra obligations beyond those priced at the time of agreement, we recommend guidance instructs the contracting parties to consider any implications to allowable costs and price in order to comply with Section 13's fair and reasonable pricing requirements.</p> <p>4.8</p> <p>We believe this paragraph, and table 1, is inconsistent with the transitional provisions included in the changes to Regulations and request they are both reconsidered.</p> <p>Our understanding of the Transitional Provisions within regulation 44 of the SSCR amendments is that amendments made by regulation 27 (CRP) and 28 (CPS) do not apply to QDCs entered into, or to any amendment to such a contract agreed, before 1st April 2024.</p> <p>We also think it would be helpful to state, for contracts and amendments entered into before 1/4/2024, there is no requirement to retrospectively resubmit reports by component in DefCARS.</p> <p>QCRs</p> <p>4.13</p> <p>We recommend guidance on QCRs starts by reiterating when they are required:</p> <ul style="list-style-type: none"> • The regulation 5 contract value assessment, made when the contract is first let, determines if there is a qualifying contract and the level of reporting required: • Once assessed/the contract is let, the test is not repeated when further amendments (components) are entered into. • If the contract value is £50m, or more, then QCRs are required.

Organisations	Comment
Leonardo	<ul style="list-style-type: none"> • Whereas the component value assessment, made when an amendment (component) is entered into, determines when component reporting is required (i.e. it does not cause reassessment of the contract value and whether quarterly reporting is required). • The assessment is of the components price, as it is only subject to regulation 5(1), (2) & (3). • The value (price) of the component is relevant to the timing of reporting for that component (see 4.10, 4.17 and table 3). <p>4.30</p> <p>The last sentence includes: “..where the value of that contract or component is less than £50m.”</p> <p>And</p> <p>4.31</p> <p>The last sentence includes: “..where the value of the contract or component is £50m or more, a QCR must contain:...”</p> <p>Again, we think these paragraphs and table 7 should explain:</p> <p>It is the contract value test, made when the contract was originally entered into, that determines if QCRs are applicable.</p> <p>Where QCR’s are required, the value (price) of a component determines the timing and content of reporting for that component.</p> <p>4.34</p> <p>We believe this paragraph requires amendment to recognise it is only the contract value test that determines the level of reporting required. If the contract value assessment is below £50m then</p> <p>quarterly contract reporting is not required and subsequent component value assessments do not cause reassessment of the contract value assessment or quarterly contract reporting.</p> <p>4.45</p> <p>Should this also explain that up to 2% of any price, or volume variance does not require explanation?</p> <p>5 DefCARS developments – Table 12</p> <p>We understand it is required to submit the CSA and support to its basis of agreement. We do not think regulations require completion of an SSRO CSA calculator if alternate evidence is provided?</p> <p>Costs associated with group profits (here termed “POCO”)</p> <p>Reporting guidance does not seem to include the approach to reporting of “POCO”, we suggest guidance might include:</p> <p>“POCO” adjustments are only applicable to contracts, or components, that are priced using a default pricing method and where the group subcontract, or further group subcontract, is non-competitive and it meets other regulatory requirements.</p>

Organisations	Comment
Leonardo	<p>POCO contracts entered into before 1/4/2024</p> <p>Are to be reported on the basis of the regulations, guidance and pricing applicable at the date the contracts were entered into.</p> <p>POCO contracts and amendments entered into on, or after, 1/4/2024</p> <p>Are to be reported on the basis of the regulations, guidance and pricing applicable at the date the contracts were entered into. That is for contracts and amendments entered into from 1/4/2024 POCO is an adjustment made to the allowable costs to remove a group subcontract's or further group contract's, attributable profit, where the group subcontract meets thresholds and complies with regulation 13A(3) and the attributable profit is as defined in 13A(5) through to (8). POCO adjustments are not made to the allowable costs or pricing of group subcontracts, or further group subcontracts, it is an adjustment applicable to QDCs.</p>

Question 2 - Do you understand how component information will need to be reported within DefCARS? If not, what are your main concerns?

Organisations	Comment
Contractor 1	<p>We had previously understood that component reporting would not apply historically, but now that doesn't appear to be the case. If Industry is required to identify components for contracts existing before 1 April 2024, there is clearly a risk that costs haven't been collected in a way which enables us to report components accurately on existing contracts. Presumably, if that is the case, we would have to apportion costs as best we could?</p> <p>For existing contracts are you able to confirm that the only difference is that the contract level CIR will not need updating and the deadline for the first reporting at component level is later than new contracts?</p> <p>Where work is the same, with the only difference being a change in profit rate, the additional work resulting from the creation of different components does appear to be significant, for no obvious benefit to any party. It would appear to be a far more pragmatic solution to treat this work as one component with a blended profit rate and we would appreciate the opportunity to discuss this further.</p>
Contractor 2	<p>Yes, the requirements are understood but the requirement for these requirements is not understood. This brings huge reporting complexity which does not provide value-added information of benefit to anyone. We believe that it is highly unlikely that most of the reports will be read.</p> <p>We strongly recommend the introduction of reporting thresholds. For example it can't be in anyone's interest to separately create/report a component of value only £50,000. There needs to be a 'de minimis' level.</p>

Organisations	Comment																																																																																																																																																																														
<p>Defence Suppliers Advisory Group (DSAG)</p>	<p>Comments: see comments in Question 1 regarding components.</p> <p>Components</p> <p>Industry recommends guidance includes:</p> <ul style="list-style-type: none"> • How to report components where the same pricing method is used but a different profit rate applies and it is not practical to track costs discretely by priced component without having to change the approach to managing the contract in a way that would increase cost, price and possibly result in delay to the delivery schedule. • An example might be a “non-separable” contract amendment to a large capability, or availability, contract. In this example the amendment is to provide an enhanced part that substitutes the original specified part. The contracted enhancement is incorporated by the originally contracted labour with a marginal change in time required. Pricing is on a marginal basis substituting the price of the new part for the original part, along with the marginal change in labour cost to incorporate it. This provides the customer with the most cost effective and timely solution but it means it is not practical to separately record actual costs of the original contract and the amendment. • Reporting, in DefCARS, of “non-separable components”, that have the same pricing method but have a different profit rate, is by reporting the amendment/component as it was priced. That is, the component reports its priced costs as its “actual” costs (no variance) and the priced profit as being the actual profit (no variance), with any actual cost variances being reported against the main contract component (see example 1). <p>Example 1:</p> <p>Contract with 2 components - same pricing method</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2"></th> <th>To date €000's</th> <th>To come €000's</th> <th>All Outturn €000's</th> <th></th> </tr> </thead> <tbody> <tr> <td rowspan="10">Original contract Component 1</td> <td>As contracted Price</td> <td>50600.0</td> <td>40700.0</td> <td>91300.0</td> <td></td> </tr> <tr> <td>Cost</td> <td>46000.0</td> <td>37000.0</td> <td>83000.0</td> <td></td> </tr> <tr> <td>Profit</td> <td>4600.0</td> <td>3700.0</td> <td>8300.0</td> <td></td> </tr> <tr> <td>%</td> <td>10.0%</td> <td>10.0%</td> <td>10.0%</td> <td></td> </tr> <tr> <td>Actual Price</td> <td>48262.5</td> <td>43037.5</td> <td>91300.0</td> <td>Actual results are total contract less component 2 reported as contracted</td> </tr> <tr> <td>Cost</td> <td>44500.0</td> <td>39500.0</td> <td>84000.0</td> <td>a. 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Organisations	Comment
Defence Suppliers Advisory Group (DSAG)	<p>Paragraph 4.20 – Table 5 depicts ICR reporting dates for component level information. The first line of the table data is titled: “Contract information: Agreed dates”. Industry believes this should read “Component information: Agreed dates”.</p> <p>Reporting guidance on preparation and submission of contract reports Version 12</p> <p>Table 29 – ICR requirements for component level information</p> <ul style="list-style-type: none"> • For situations where “Costs and profits are determined and identified separately”. Table 29 advises (first column) where the “contract value is < £50m (Use ICRL in DefCARs)” that the information required is as per ICRH information plus 3 additional requirements, industry recommends this is reviewed and made clearer for the reader, as it may appear confusing. • As a suggestion, it should clarify for a component ICR where the contract value is <£50m (and therefore at the contract level ICRLs are required), that: • The ICRL report option should be selected in DefCARs; • In line with Regulations, the relevant component information for an ICRL does NOT reflect the full ICRL requirements, but instead reflects the relevant fields as per an ICRH; plus 3 additional requirements, being: • TCIF or FPA forecast (Final Payments page); and • Events and circumstances (Variance, events and circumstances page); and • Milestones (Milestones page).
BAE Systems	<p>Comments:</p> <p>BAES continues to have significant concerns about the impact of componentisation. Segregating components to fulfil the reporting requirements could have material effects on our processes and we are currently spending a considerable amount of time to fully assess componentisation impacts across all of our QDC programmes.</p> <p>Many of our larger QDCs have a complicated contracting structure and the criteria for componentisation (differing pricing types and profit rates) is likely to drive reporting requirements that are disconnected from the way our programmes are reviewed & managed for contract management purposes (both within BAES and MOD). We would question the value for money that the increased reporting will provide.</p> <p>It is not a given that our systems as configured today will be able to easily segregate data in a way that would be required for component level reporting, likely driving manual intervention to ensure compliance.</p> <p>Guidance would benefit from providing clarity on how to report components where the same pricing method is used but a different profit rate applies and it is not practical to track costs discretely by priced component without having to change the approach to managing the contract in a way that would increase cost, price and possibly result in delay to the delivery schedule.</p>

Organisations	Comment
BAE Systems	<p>We understand that there appears to be the option of reporting a new component at estimate value throughout the life of the component where cost data for a component is not separately identifiable. In our mind, this entirely negates the purpose of reporting a component separately, and therefore further calls into question the value for money of requiring this reporting in the first place.</p> <p>It is unlikely contracts let prior to 1 April 2024 have been priced in a way to account for this increased reporting burden. The ongoing impact assessments required to assess our obligations under the changed Regulations, the increased cost in amending our contract reporting mechanisms and the ongoing obligation to report our contracts at a component level will drive increased costs. We understand this is a matter for the MOD, however we believe it would be useful for Guidance to acknowledge that such circumstances may need to be addressed to ensure contractors are paid a fair and reasonable price as per the requirements of Section 13 of the Defence Reform Act.</p> <p>We would look to the SSRO to form their own opinion on the cost-benefit balance of component reporting, especially where only driven by marginally different profit rates, and to fulfil their responsibilities under Section 13 of the Defence Reform Act by sharing their conclusions in further development of the legislation.</p> <p>We believe it would be helpful if guidance provided further clarity on the requirements for contracts and amendments entered into before 1 April 2024. We think it would be beneficial for the guidance to explicitly state no retrospective DefCARS reporting is required (no restatement of historic reports into components) for contracts entered into prior to 1 April 2024.</p> <p>Given that any contract amendment that falls into a new year attracts a new profit rate simply through an update to the most recent BPR, components may be created routinely. Many of our long-term contracts have regular contract amendments, often without necessarily a change to the requirement, but for example to uplift funding availability over a number of years. We believe it would be beneficial for guidance to explain:</p> <ul style="list-style-type: none"> • If a contract had only one profit rate, which may have been “blended” over time through contract amendments with differing CPRs, and the same regulated pricing method, profit rates are not a basis of componentisation and all reporting will continue to be at a contract level only. • Where there were two or more profit rates blended for reporting purposes only it may also be impossible to retrospectively “un-blend” and complete reports on a componentised basis going forwards. Guidance should acknowledge this and should therefore offer a pragmatic solution for compliance. <p>It would be helpful if Regulation 44, Transitional Provisions, be referenced and included in the Guidance so it is clear to the user what is and isn’t required on contracts which existed prior to 1st April 2024.</p>

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Leonardo	<p>Comments:</p> <p>See comments in response to question 1.</p> <p>We recommend guidance includes how to report components where the same pricing method is used, but a different profit rate applies and it is not practical to track costs discretely by priced component without having to change the approach to discharging the contract that would increase cost, price and possibly result in delay in delivery schedule.</p> <p>An example might be a “non-separable” contract amendment to a large capability, or availability, contract. In this example, the amendment is to provide an enhanced part that substitutes the original specified part. The contracted enhancement is incorporated by the originally contracted labour with a marginal change in time required. Pricing is on a marginal basis substituting the price of the new part for the original part, along with the marginal change in labour to incorporate it. This provides the customer with the most cost effective and timely solution but it means it is not practical to separately record actual costs of the original contract and the amendment.</p> <p>Reporting, in DefCARS, of “non-separable components”, that have the same pricing method but have a different profit rate, is by reporting the amendment/ component as its was priced. That is the component reports its priced costs as its “actual” costs (no variance) and the priced profit as being the actual profit (no variance). Any actual cost variances being reported against the main contract component (see example 1).</p> <p>Example 1</p> <p>Contract with 2 components - same pricing method</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2"></th> <th>To date</th> <th>To come</th> <th>At Outturn</th> <th></th> </tr> <tr> <th colspan="2"></th> <th>£000's</th> <th>£000's</th> <th>£000's</th> <th></th> </tr> </thead> <tbody> <tr> <td rowspan="10">Original contract Component 1</td> <td>As contracted Price</td> <td>50000.0</td> <td>40700.0</td> <td>91300.0</td> <td></td> </tr> <tr> <td>Cost</td> <td>48000.0</td> <td>37000.0</td> <td>85000.0</td> <td></td> </tr> <tr> <td>Profit</td> <td>4800.0</td> <td>3700.0</td> <td>8300.0</td> <td></td> </tr> <tr> <td>%</td> <td>10.0%</td> <td>10.0%</td> <td>10.0%</td> <td></td> </tr> <tr> <td>Actual Price</td> <td>48262.5</td> <td>43037.5</td> <td>91300.0</td> <td rowspan="2">Actual results are total contract less component 2 reported as contracted i.e. all variances reported against component 1 and total contract</td> </tr> <tr> <td>Cost</td> <td>44500.0</td> <td>39500.0</td> <td>84000.0</td> </tr> <tr> <td>Profit</td> <td>3762.5</td> <td>3537.5</td> <td>7300.0</td> <td></td> </tr> <tr> <td>%</td> <td>8.5%</td> <td>9.0%</td> <td>8.7%</td> <td></td> </tr> <tr> <td>Variance Price</td> <td>2337.5</td> <td>-2337.5</td> <td>0.0</td> <td></td> </tr> <tr> <td>Cost</td> <td>1500.0</td> <td>-2500.0</td> <td>-1000.0</td> <td></td> </tr> <tr> <td>Profit</td> <td>837.5</td> <td>362.5</td> <td>3000.0</td> <td></td> </tr> <tr> <td rowspan="10">Amendment A Component 2</td> <td>As contracted Price</td> <td>2737.5</td> <td>7965.0</td> <td>10402.5</td> <td></td> </tr> <tr> <td>Cost</td> <td>2500.0</td> <td>7000.0</td> <td>9500.0</td> <td></td> </tr> <tr> <td>Profit</td> <td>237.5</td> <td>665.0</td> <td>902.5</td> <td></td> </tr> <tr> <td>%</td> <td>9.5%</td> <td>9.5%</td> <td>9.5%</td> <td></td> </tr> <tr> <td>Actual Price</td> <td>2737.5</td> <td>7965.0</td> <td>10402.5</td> <td>Actual results reported as contracted</td> </tr> <tr> <td>Cost</td> <td>2500.0</td> <td>7000.0</td> <td>9500.0</td> <td></td> </tr> <tr> <td>Profit</td> <td>237.5</td> <td>665.0</td> <td>902.5</td> <td></td> </tr> <tr> <td>%</td> <td>9.5%</td> <td>9.5%</td> <td>9.5%</td> <td></td> </tr> <tr> <td>Variance Price</td> <td>0.0</td> <td>0.0</td> <td>0.0</td> <td></td> </tr> <tr> <td>Cost</td> <td>0.0</td> <td>0.0</td> <td>0.0</td> <td></td> </tr> <tr> <td>Profit</td> <td>0.0</td> <td>0.0</td> <td>0.0</td> <td></td> </tr> <tr> <td rowspan="10">Total Contract</td> <td>As contracted Price</td> <td>53037.5</td> <td>48665.0</td> <td>101702.5</td> <td></td> </tr> <tr> <td>Cost</td> <td>48500.0</td> <td>44000.0</td> <td>92500.0</td> <td></td> </tr> <tr> <td>Profit</td> <td>4837.5</td> <td>4365.0</td> <td>9202.5</td> <td></td> </tr> <tr> <td>%</td> <td>10.0%</td> <td>9.9%</td> <td>9.9%</td> <td></td> </tr> <tr> <td>Actual Price</td> <td>51000.0</td> <td>50702.5</td> <td>101702.5</td> <td>Actual results captured and input as total contract</td> </tr> <tr> <td>Cost</td> <td>47000.0</td> <td>46500.0</td> <td>93500.0</td> <td></td> </tr> <tr> <td>Profit</td> <td>4000.0</td> <td>4202.5</td> <td>8202.5</td> <td></td> </tr> <tr> <td>%</td> <td>8.5%</td> <td>9.0%</td> <td>8.8%</td> <td></td> </tr> <tr> <td>Variance Price</td> <td>2337.5</td> <td>-2337.5</td> <td>0.0</td> <td></td> </tr> <tr> <td>Cost</td> <td>1500.0</td> <td>-2500.0</td> <td>-1000.0</td> <td></td> </tr> <tr> <td>Profit</td> <td>837.5</td> <td>362.5</td> <td>3000.0</td> <td></td> </tr> </tbody> </table>			To date	To come	At Outturn				£000's	£000's	£000's		Original contract Component 1	As contracted Price	50000.0	40700.0	91300.0		Cost	48000.0	37000.0	85000.0		Profit	4800.0	3700.0	8300.0		%	10.0%	10.0%	10.0%		Actual Price	48262.5	43037.5	91300.0	Actual results are total contract less component 2 reported as contracted i.e. all variances reported against component 1 and total contract	Cost	44500.0	39500.0	84000.0	Profit	3762.5	3537.5	7300.0		%	8.5%	9.0%	8.7%		Variance Price	2337.5	-2337.5	0.0		Cost	1500.0	-2500.0	-1000.0		Profit	837.5	362.5	3000.0		Amendment A Component 2	As contracted Price	2737.5	7965.0	10402.5		Cost	2500.0	7000.0	9500.0		Profit	237.5	665.0	902.5		%	9.5%	9.5%	9.5%		Actual Price	2737.5	7965.0	10402.5	Actual results reported as contracted	Cost	2500.0	7000.0	9500.0		Profit	237.5	665.0	902.5		%	9.5%	9.5%	9.5%		Variance Price	0.0	0.0	0.0		Cost	0.0	0.0	0.0		Profit	0.0	0.0	0.0		Total Contract	As contracted Price	53037.5	48665.0	101702.5		Cost	48500.0	44000.0	92500.0		Profit	4837.5	4365.0	9202.5		%	10.0%	9.9%	9.9%		Actual Price	51000.0	50702.5	101702.5	Actual results captured and input as total contract	Cost	47000.0	46500.0	93500.0		Profit	4000.0	4202.5	8202.5		%	8.5%	9.0%	8.8%		Variance Price	2337.5	-2337.5	0.0		Cost	1500.0	-2500.0	-1000.0		Profit	837.5	362.5	3000.0	
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Question 3 - Do you understand the changes to reporting guidance which are being proposed? If not, what are your main concerns?

Organisations	Comment
Contractor 1	<p>We recognise that guidance has been issued showing tracked changes, so changes are visible, however, until we try to use, it's difficult to assess whether it's clear to understand.</p> <p>Do we understand correctly that it may be possible to file DEFCARs reports according to calendar years (mirroring our Company reporting calendar/FY), rather than MoD Financial Years?</p>
Contractor 2	<p>Yes, we understand the requirements, and thank you to the SSRO for detailing them. But we have significant concerns as to these being highly onerous requirements which introduce a huge additional volume of reporting for little benefit.</p> <p>One specific suggestion we picked up from a user is below for your consideration:</p> <p>As the components are part of the overall it might be an idea to auto populate elements and then allow a tick box – an example would be key deliverables and milestones. I appreciate there is a paste from excel function, this does take some effort and actually means you have to go through each deliverable anyway as it has to be linked to a DPS. It would have been really time saving and useful if the key deliverable tab was auto populated from the main report and we could then select what applies to the component.</p>
Defence Suppliers Advisory Group (DSAG)	<p>Comments:</p> <p>See comments at questions 1 & 2</p> <p>The first bullet in paragraph 4.26 requires clarity. It states “where ‘costs’ (estimated or actual) were used primarily as the basis for pricing, in some cases the ‘price payable’ or ‘volumes’ are to be reported instead of the costs”. Please can clarity be provided as to the circumstances in which this would apply?</p> <ul style="list-style-type: none"> • In the case of a default pricing method, reporting would include costs that are actual to date and estimated to come to provide the outturn position; • Whereas in the case of alternative pricing it may include prices or volumes to date and prices or volumes to come to provide the outturn?
BAE Systems	<p>Comments:</p> <p>See comments above.</p>
Leonardo	<p>Comments:</p> <p>See comments at questions 1 & 2.</p> <p>4.26</p> <ul style="list-style-type: none"> • We find the first bullet confusing. Is it explaining, whereas in the case of a default pricing method reporting would include costs that are actual to date and estimated to come to provide the out turn position, in the case of alternative pricing it may include prices or volumes to date and prices or volumes to come to provide the out turn?

Question 4 - Do you have any concerns about how you will be able to meet your reporting requirements going forward that could be alleviated through updates to the guidance or DefCARS? Please explain what these are.

Organisations	Comment
Contractor 1	<p>We believe that reporting requirements will become more complex and time consuming and are therefore concerned about the additional time and cost involved.</p> <p>In addition, we understand the additional reporting effort/cost on contract reporting will comply with AAR requirements, and as such these reporting cost deltas will be passed onto the Contracting Authority.</p>
Contractor 2	<p>The alleviation really needs to be achieved through additional amendments to the regulations. We agree that componentisation is helpful where different pricing methods are used. But should not be required for contract amendments with different CPRs. Where components are required there need to be materiality considerations. Thresholds need to be introduced for components. Even then, when we do have a material component that needs reporting, the DefCARS reporting is still over-blown. Rather than huge amounts of contract reporting in ICRs and QCRs surely MOD really only need high-level KPIs for such components. Why can't component reports be limited to initial reports and completion reports? With interim reports only being required on request.</p>
Defence Suppliers Advisory Group (DSAG)	<p>Comments:</p> <p>Componentisation Reporting</p> <ul style="list-style-type: none"> • Our prime concern is the complexity and the increase in time and cost of reporting by component. Where a contract has a single pricing method, but has different profit rates, componentisation will add complexity in operating, discharging and reporting the contract, so adding cost with no improvement to contract performance of cost, quality, or schedule. This will not provide value for money unless solutions to make reporting as simple as possible are found. Routes to explore could include reporting frequency, thresholds, component definition etc. • - Where components are required there should be materiality considerations. Thresholds could be introduced for components to allow a more proportionate approach to componentisation. • - Even when a contractor has a material component that would need reporting industry believes DefCARS reporting requirements require further simplification. Rather than large quantities of contract reporting in ICRs and QCRs can the possibility of high-level KPIs for such components be considered? With component reports limited to initial reports and completion reports. With interim reports only being required on request.

Organisations	Comment
Defence Suppliers Advisory Group (DSAG)	<p>DSAG understands through clarification from the MOD that the ‘commercial purpose’ test for the forming of components is intended as an anti-avoidance measure, i.e. to prevent parties from forming components to impact FPAs. This is not adequately clear in the Regulation or Statutory Guidance. Industry is still keen to explore the concept of ‘commercial purpose’ to avoid any unnecessary and non-value adding proliferation of component reporting. Industry would look to the SSRO to form their own opinion on the cost-benefit balance of component reporting, especially where only driven by marginally different profit rates, and to fulfil their responsibilities under Section 13 of the Defence Reform Act by sharing their conclusions in further development of the legislation.</p> <p>Reporting guidance on preparation and submission of contract reports Version 12</p> <p>Industry recommends Paragraph 5.8 is changed to remove “... or component”. It is the contract value test that determines whether quarterly reporting is required, not the component’s value.</p>
BAE Systems	<p>Comments:</p> <p>BAES’ prime concern is the overall surge in reporting complexity and the increase in time and cost of reporting by component. The reporting regime was already complex, with many non-compliances, in our experience, driven by lack of understanding on behalf of even relatively experienced staff. The addition of a whole new dimension of reporting requirements for components is causing a step change in reporting requirement complexity, which is unwarranted and unworkable, and we are concerned that this will bring with it a deterioration in compliance. Changes in the legislation should be aimed at simplification and concentrate on the real value drivers. Routes to explore could include reporting frequency, thresholds, component definition etc. We urge the SSRO to engage in a full bottom-up review of avenues to explore ahead of the next legislative review recommendations being made.</p>

Organisations	Comment
Leonardo	<p>Comments</p> <p>Our concerns are with the complexity and increase in time and cost of reporting by component.</p> <p>We appreciate if parties to a contract agree to use different pricing methods, within a contract, they will have agreed a price commensurate with the extra time and effort in operating and reporting the contract using components and the parties will have judged it provides value for money and a fair price (Section 13). However, we do not see commercial or operational benefit of using components on a contract where the same pricing method is used but different profit rates exist.</p> <p>MOD have explained the ‘commercial purpose’ test in regulation 9A(2) before a component can be agreed to, is intended as an anti-avoidance measure, i.e. to prevent parties from forming components to impact FPAs.</p> <p>Our reading of this regulation is not fully consistent with that explanation. Regulation 9A(2) states “For the purposes of section 15(8), the <u>parties to a contract may not agree that a part of a contract is a component of the contract unless they can demonstrate a commercial purpose for such agreement other than to affect the amount of any final price adjustment</u> determined under regulation 16.</p> <p>This suggests a commercial purpose, other than one that affects a final price adjustment, is required.</p> <p>In the case of a contract with a single pricing method, but different profit rates, we do not see componentisation adding any commercial benefit (purpose). It will add complexity in operating, discharging and reporting the contract, so adding cost but with no improvement to contract performance of cost, quality, or schedule. This does not provide value for money (Section 13) and unless solutions to make reporting as simple as possible are found, we recommend changes to regulation are made to remove the requirement for components where there is simply a different profit rate.</p> <p>Not the consultation paper but a comment on the <u>Contract Reporting guidance v12</u></p> <p>Para 5.8 we recommend is changed to remove “..... or component”. It is the contract value test that determines whether quarterly reporting is required, not the component’s value.</p>

Question 5 - Do you have any comments on the proposals in relation to our update of the compliance methodology? Please say whether you agree or disagree with the different aspects of the proposals.

Organisations	Comment
Contractor 1	<p>There appears to be very limited evidence to date of MoD reading the reports currently provided, so to assess the contractor where documents have been reviewed, rather than make it a requirement for MoD to review does feel a little imbalanced.</p>
Contractor 2	<p>Re. paragraph 2.2: The key change is the introduction of “where reviewed”. SSRO won’t have the capacity to review 100% of the huge volume of reports being submitted. We agree with this change. But observe that this highlights that SSRO won’t be reviewing all the reports. And begs the question as to whether anyone in MOD will be reviewing them either.</p> <p>Re. paragraph 3.1: Fine, good luck reviewing the proliferation of reports being generated. There is a potential implication of this in that rather than having a small volume of higher quality reports we will move to having a higher volume of low quality reports. As individuals struggle to pull all this together (whilst doing the rest of their roles) they could inevitably do this to a lesser standard.</p>
Defence Suppliers Advisory Group (DSAG)	<p>Comments:</p> <p>Paragraph 3.4 states <i>“Contractors should be aware that some validation warnings within component level information may flag when they are not applicable to the component information being reported... The contract reporting guidance will explain that, where such validation warnings arise, they should be ignored by contractors when submitting component level information”</i>. Treating validation warnings in this way will cause confusion:</p> <ul style="list-style-type: none"> • Is it clear what should / shouldn’t be ignored? Ignoring validation warnings may undermine the controls in place and therefore result in “true” validation errors been missed / ignored. • Will the circumstances in which a validation warning has been ignored by the contractor be clear to those reviewing the reports? Could this result in misunderstandings which result in inaccurate compliance metrics/ action? <p>In Section 5.3 Table 112, under profit, the consultation document states <i>“The step numbering from the profit calculation will be removed as the current steps 3 and 4 will not be applicable for contracts entered into from 1 April 2024, but will need to remain for contracts entered into prior to 1 April 2024, but will need to leave these fields blank in future for new contracts/components”</i>.</p> <ul style="list-style-type: none"> • Industry understands the requirement to leave a field to populate the information for the SSRO funding and POCO adjustments (previously steps 3 and 4) in the profit calculation for contracts entered into prior to 1 April 2024 However, industry is concerned this may be confusing for users when populating DefCARS. Is it possible for DefCARS to include a pop up or validation warning flagging that these fields should only be populated for contracts prior to 1 April 2024?

Organisations	Comment
Defence Suppliers Advisory Group (DSAG)	<p>Section 8, Table 14, Paragraph 2.2 & 3.1: The key change is the introduction of “where reviewed”. Industry believe it is unlikely the SSRO will have the capacity to review the increased volume of reports being submitted as a result of the new reporting requirements. This wording change suggests that SSRO recognise they are unlikely to be reviewing all the reports and begs the question as to whether the MOD will be reviewing them all either. Again industry questions if the volume of reporting will represent value for money.</p> <p>There is a potential implication of this in that rather than having a small volume of higher quality reports there will be a move to having a higher volume of low quality reports. As individuals struggle to pull all the required detail together (which may not be easily done in contractors management systems) they could inevitably do this to a lesser standard.</p>
BAE Systems	<p>Comments:</p> <p>Paragraph 3.4 states “Contractors should be aware that some validation warnings within component level information may flag when they are not applicable to the component information being reported... The contract reporting guidance will explain that, where such validation warnings arise, they should be ignored by contractors when submitting component level information”. Treating validation warnings in this way will invariably cause confusion:</p> <ul style="list-style-type: none"> • Is it clear what should / shouldn’t be ignored? If there is no clear summary of warnings to be ignored that staff can readily refer to, this will cause delays in the submission process and add time and cost into the process. • Ignoring validation warnings may undermine the controls and therefore result in “true” validation errors being missed / ignored. • A process that relies on people ignoring warnings in our mind creates a suboptimal compliance culture. We encourage staff not to ignore validation warnings, and worry that this approach will make it acceptable, if not even expected, to click through and not stop and seriously consider a warning. <p>We strongly encourage the SSRO to look into ways to avoid the requirement for staff to ignore validation warnings.</p> <p>In Section 5.3 Table 112, under profit, the consultation document states “The step numbering from the profit calculation will be removed as the current steps 3 and 4 will not be applicable for contracts entered into from 1 April 2024, but will need to remain for contracts entered into prior to 1 April 2024. Contractors will need to leave these fields blank in future for new contracts / components”. We understand it is required to leave a field to populate the information for the SSRO funding and POCO adjustments (previously steps 3 and 4) in the profit calculation for contracts entered into prior to 1 April 2024. However, we are concerned this may be confusing for users when populating DefCARS. Is it possible for DefCARS to include a pop up or validation warning flagging that these fields should only ever be populated for contracts let prior to 1 April 2024?</p>

Organisations	Comment
BAE Systems	BAES have concerns around the SSROs / MODs capacity to review the increased volume of reports which will need to be submitted as a result of the new reporting requirements. We have examples within the organisation where reports under the regime prior to 1 April 2024 are not being fully utilised / reviewed (as supported by the evidence presented in the SSRO's annual Compliance Report). Again we question if the volume of reporting will represent value for money and would ask the SSRO to consider this in preparation for making recommendations to MoD during the next round of legislative review.
Leonardo	Comments: None.

Please provide any additional comments on the implementation of the proposals.

Organisations	Comment
Contractor 1	We would welcome the opportunity to have a separate discussion on the implementation of the changes please.
Contractor 2	To the SSRO team, please try to put yourself in the shoes of the teams within the Defence contractor organisations that will be swamped by the new requirements. Please proactively consider ways by which you can limit the reporting requirements. For each bit of data being requested ask yourself “do we really need it” and, if so “how do we more efficiently enable this data to be populated”.
Defence Suppliers Advisory Group (DSAG)	<p>Considerable concerns remain across industry around the increased reporting requirements introduced by the Tranche 1 amendments to the Regulations. It is our view that the new requirements introduce a large amount of non-value adding reporting obligations on Defence contractors. Contractors are under increasing pressure to reduce costs and provide value for money goods and services, and to do so requires simplicity and efficiency. SSRO must do everything within their power to help find pragmatic, workable solutions to the issues raised by industry throughout the engagements on Tranche 1 changes and help find an acceptable way forward to balance MoD's perceived need for additional (potentially unused) data and the cost of producing it to both contractors and taxpayers.</p> <p>To this end industry would suggest a wholesale review to understand the usefulness of reporting requirements as they stand today. In industry's view, the reporting of Single Source Contracts is costly, time consuming, and ultimately does not appear to drive value for money or efficiency. Industry is currently submitting information which is not being reviewed, and as such Industry would welcome a complete end to end analysis of what is the minimum level of reporting required for the SSRO and the MOD to fulfil its legal obligations, and what legal obligations could be removed to drive efficiency and overall cost reductions. Industry would be keen to support this review in partnership with the SSRO and the MOD, through DSAG.</p>

Organisations	Comment
BAE Systems	In addition to our specific concerns highlighted above BAES is supportive of the broader DSAG inputs to this consultation.
Leonardo	Comments: None.