

SSRO

Single Source
Regulations Office

Recommendation factsheet

Under the Defence Reform Act 2014, the SSRO must provide the Secretary of State with its assessment of the appropriate rates used to determine the contract profit rate for pricing qualifying defence contracts and qualifying sub-contracts. For further information on the methodology used to calculate these rates please see the *Single Source baseline profit rate and capital servicing rates methodology*.

Baseline profit rate

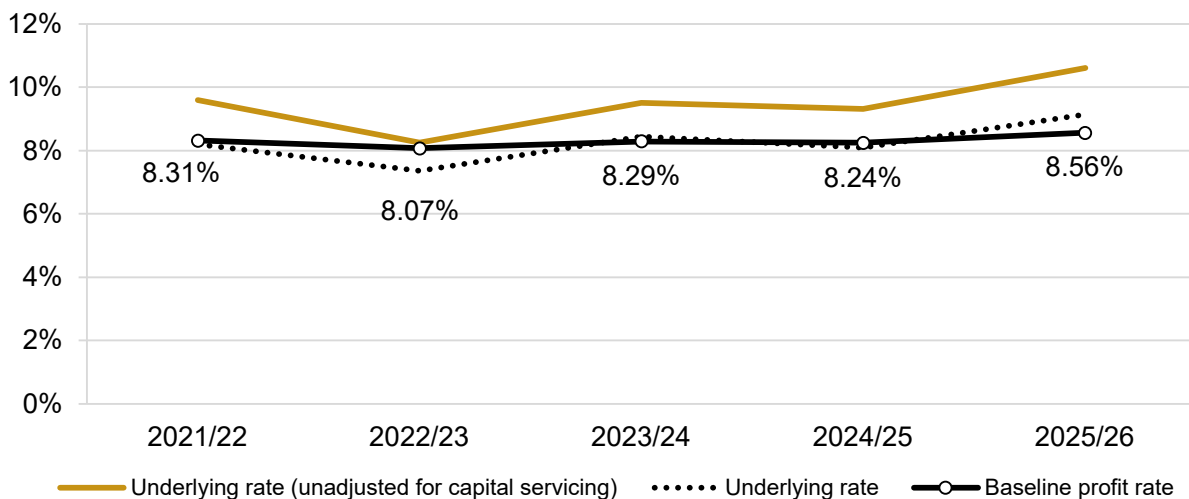
The baseline profit rate is step 1 of the four-step process for determining the contract profit rate for a qualifying defence contract.

The baseline profit rate is calculated from an index of public and private companies. The underlying rate is the median capital servicing adjusted profit on cost of production of the group. The baseline profit rate is the rolling average of the underlying rate.

	2021/22	2022/23 ¹	2023/24	2024/25	2025/26
Underlying rate (unadjusted for capital servicing) ²	9.59%	8.24%	9.50%	9.31%	10.60%
Capital servicing adjustment	-1.40%	-0.89%	-1.06%	-1.22%	-1.46%
Underlying rate	8.19%	7.35%	8.44%	8.09%	9.14%
Baseline profit rate recommended by the SSRO; rolling average of the underlying rate ³	8.31%	8.07%	8.29%	8.24%	8.56%

Note: The 2021/22 to 2024/25 rates are based on the composites of the ‘Develop and Make’ and ‘Provide and Maintain’ activity groups; while the 2025/26 rates are calculated from the ‘Develop, Make and Support’ activity group.

Median capital servicing adjusted return on cost of production



- 1 Shown are the 2022/23 rates recommended by the SSRO. The Secretary of State determined the BPR for 2022/23 as an average of the composite underlying rates calculated by the SSRO for the three years prior to 2021 (8.50%, 8.23%, and 8.19%), keeping the BPR at 8.31 per cent.
- 2 The capital servicing adjustment accounts, at an aggregate level, for different levels of capital employed across the companies in the index and so sets a baseline upon which step 4 of the contract profit rate applies.
- 3 A four-year average was used for 2022/23; a three-year average for pre-2022/23 and a three-year average (excluding the 2022/23 underlying rate) for 2023/24 onwards. The pre-2021/22 underlying rates used for the three-year average were: 2019/20: 8.50%, 2020/21: 8.23%.

Baseline profit rate activity types

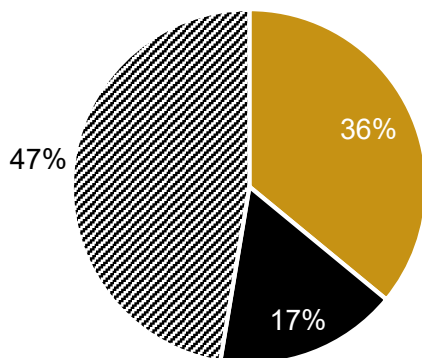
The underlying rate for 2025/26 is calculated using companies in the ‘Develop, Make & Support’ activity group. Companies undertaking comparable activities considered as ‘Develop, Make & Support’ are expected to engage in manufacturing and the design; and development contributing to that process and delivery of services to ensure the availability of an asset through repair and servicing to third party equipment. This would therefore not include manufacturing on behalf of a hiring firm that supplies the design, or those solely undertaking research or design work with no associated manufacturing. Where development activities do not seek to result in a novel or differentiated product the company is less likely to be considered comparable.

The baseline profit rates for 2016/17 to 2024/25 were a composite that combine the results from the ‘Develop and Make’ and ‘Provide and Maintain’ activity groups. For the 2025/26 rates assessment these groups are no longer assessed and have been replaced by Develop, Make and Support. The 2025/26 baseline profit rate assessment is calculated as a three-year average of FY2023^ ‘Develop, Make and Support’ underlying rate, and the historical FY2022 and FY2021 composite underlying rates. Further information on this change can be found in the published Q&A document.

Data sources

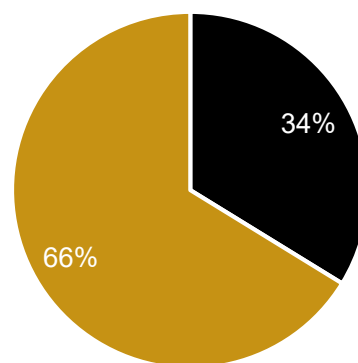
For further information on the data selection approach please see section 7 of the *Single Source baseline profit rate and capital servicing rates methodology*. A company update search of the Orbis database⁴ was carried out on 1 November 2024 on data update number 354001 using software version 354. The financial data for the calculation was extracted from Orbis at the same time.

Proportion of companies by country



- Western Europe excluding United Kingdom
- United Kingdom
- ◌ North America

Proportion of companies with defence keyword



- Defence
- Other

Supplementary statistics

Number of companies	261
<i>of which profit making</i>	228
Aggregate turnover (£billions)	1,184
Total capital employed (CE) (£billions)	275
Average company CP:CE ratio	3.80

Source: Orbis (Cash figures shown in rounded GBP Billions)

⁴ <https://www.moodys.com/web/en/us/capabilities/company-reference-data/orbis.html>

[^] FY2023 means the latest year ending on or before 31 March 2024 that is addressed by the financial statements of each comparator company. For most comparator companies this is the year ended 31 December 2023, but some company financial statements cover different time periods, for example the year ended 31 March 2024, or the year ended 30 June 2023.

Names of companies in the index

Aaon INC	CAE INC *	Gorman-Rupp Company (The)	Maschinenfabrik Berthold Hermle AG
AAR Corp	Carver Group Limited	Graco INC	Mercury Systems INC *
AB Volvo	Castledon LTD	Graham Corp	Mikron Holding AG
Accuracy International Limited *	Caterpillar INC	Greenbrier Companies, Inc. (The)	Miller Industries INC
Aerovironment, Inc. *	Ceco Environmental Corp.	Guzzetti S.P.A. *	MKS Instruments INC *
Aguirre Maquinaria Agricola SL.	Chart Industries INC	Heico Corp	Modine Manufacturing CO
AIR Industries Group *	Chemring Group PLC	Heidelberger Druckmaschinen AG	Moog INC
Airbus SE	Cicor Technologies LTD (J)	Heroux-Devtek INC	Motorola Solutions, Inc.
Airtanker Holdings Limited	CMZ Machine Tool Manufacturer Sociedad Limitada.	Hexcel Corp	Mpac Group PLC
Airtanker Services Limited	CNH Industrial N.V	Hidden Instruments Limited	MS International PLC
Alamo Group INC	Coda Octopus Group, Inc.	Honeywell International INC	MTU Aero Engines AG *
Alimak Group AB	Cognex Corp	Huntington Ingalls Industries, Inc.	Nammo AS
Allient INC	Coherent Corp	IDEX Corp	NC Engineering (Hamiltonsbawn) Limited
Allison Transmission Holdings, Inc.	Cohort PLC	IMI PLC	NFI Group Inc. *
Alstom S.A	Colosio S.R.L.	Indra Sistemas S.A.	Nordson Corp
American Axle & Manufacturing Hldngs INC	Columbus Mckinnon Corp	Industrias Montanasas Electricas Mecanicas SL	Northrop Grumman Corporation
Ametek INC	Commercial Vehicle Group, Inc.	Inficon Holding AG	NOV INC
Amtech Systems INC *	Comtech Telecommunications Corp *	Ingersoll Rand Inc.	Nuova Idropress - Societa' PER Azioni IN Forma Abbreviata NIP S.P.A.
Analog Devices INC	Construcciones Y Auxiliar de Ferrocarriles, S.A.	Innovative Solutions & Support INC	NVE Corporation
Andritz AG	Continental AG	Innovex International INC *	Officina Bocedi SRL
Archrock, Inc.	CPI Aerostructures INC	Interroll Holding AG	Officina Meccanica F.Lli Tabarelli S.P.A.
Ascent Flight Training (Holdings) Limited (J)	CTA International SAS	IPG Photonics Corporation	Onto Innovation Inc.
Astec Industries INC	CTT Systems AB	Istobal SA	Oshkosh Corporation
Astronics Corporation *	Cummins Inc.	Italcab S.P.A.	Oxford Instruments PLC
Astronova, Inc.	Curtiss Wright Corp	Jacobs Solutions Inc.	Oy El-Ho Ab
Atkinsrealis Group Inc.	D.R.A. LTD *	John Bean Technologies Corp	Paccar INC
Atlas Copco AB	Data I/O Corp	John Wood Group PLC	Park Aerospace Corp.
ATS Corporation	David Ritchie (Implements) Limited	Johnson Controls International PLC	Paul Mueller Company *
Aumann AG	de Lorenzo S.P.A.	Jost Werke AG	Ponsse OYJ
Avant Tecno Oy	Deere & CO	Judges Scientific PLC	Portsmouth Aviation Holdings Limited
Avon Protection PLC *	Deutz AG	Kadant INC	Powell Industries INC
Axcelis Technologies INC	Douglas Dynamics, Inc.	Kbr, Inc.	PVA Tepla AG
Axon Enterprise, Inc.	Ducommun INC	Kesla OYJ	Qinetiq Group PLC
Azkoyen SA	Duerr AG	Keysight Technologies, Inc.	Raute OYJ
Babcock & Wilcox Enterprises, Inc.	Electromecanica Naval E Industrial SA	Klingelberg AG	Renew Holdings PLC
Babcock International Group PLC	Elettronica - Societa PER Azioni	Koenig UND Bauer AG	Renishaw PLC
BAE Systems PLC	Energy Recovery, Inc.	Komax Holding AG	REV Group, Inc.
Bailey Trailers Limited	Enerpac Tool Group Corp	Konecranes OYJ	Rheinmetall AG
Barco NV	Espey MFG and Electronics Corp	Kratos Defense & Security Solutions, Inc.	Ricardo PLC *
Barnes Group INC	EVS Broadcast Equipment SA	L3harris Technologies, Inc.	Robson Handling Technology Limited *
Binder + Co AG	Fabricacion de Elevadores SL *	LAM Research Corp	Rockwell Automation, Inc.
Bittium OYJ *	Federal Signal Corp	Leonardo S.P.A.	Rohde & Schwarz GmbH & Co. Kommanditgesellschaft
BK Technologies Corporation *	Filtronic PLC *	Lillbacka Powerco Oy *	Rolls-Royce Holdings PLC
Blue Bird Corporation	Fisher (James) & Sons PLC	Linamar Corporation	Ropsley Limited
BMI Trailers Limited *	Flowserve Corp	Lockheed Martin Corp	RTX Corp
Boeing Company (The) *	Forum Energy Technologies, Inc. (J)	Lombardi Converting Machinery S.P.A.	RWG (Repair & Overhauls) Limited
Broadwind, Inc.	Forvia SE	Magna International INC	Saab AB
Bruker Corporation	G.H.B. (Holding) Limited	Manitex International, Inc.	Saalasti Oy
Brunvoll Holding AS	Genasys Inc. *	Manitou BF	Safran
BWX Technologies Inc.	Gencor Industries, Inc.	Manitowoc Company, Inc. (The)	Sawo Holding A/S
C.M.A. - Costruzioni Montacarichi ED Ascensori - Societa' A Responsabilita' Limitata	General Dynamics Corp	Marel HF	SC Group-Global Limited
Cactus, Inc.	General Electric Company	Mariani Societa' PER Azioni	Schlatter Industries AG
	Gentex Corp	Marshall of Cambridge (Holdings) Limited * (J)	Schmitt - Elevadores, LDA

Servotronics INC *	Technipfmc PLC	Tomra Systems ASA	VSE Corp
Siemens AG	Teledyne Technologies Incorporated	Tornado Global Hydrovacs Ltd.	Wabash National Corp
Skako A/S	Tennant CO	Trakm8 Holdings PLC *	Wacker Neuson SE
Smiths Group PLC	Teradyne INC	Transdigm Group Incorporated	Wartsila OYJ
Solid State PLC (J)	Terex Corp	Trinity Industries INC	Washtec AG
Sonardyne Holdings Limited	Tesmec SPA	Triumph Group INC	Westinghouse AIR Brake Technologies Corp
Spirit Aerosystems Holdings, Inc. *	Tevo Oy *	Tronrud Engineering AS	Wilton Universal Group Limited
Star Refrigeration Limited	Textron INC	TTM Technologies INC	Witt & SON UK Holdings Limited
Systemair AB	Thales	Twin Disc INC	Woodward, Inc.
TAI Milano S.P.A.	THE Shyft Group, Inc. *	Vaisala OYJ	Xylem Inc.
Talleres Mecanicos DEL SUR SA	Thwaites Limited	Veeco Instruments INC	Zebra Technologies Corp (J)
Taylor Devices INC	Thyssenkrupp AG *	Vegsund Slip Holding AS	
Teagle Holdings Limited	Tiber Pack S.P.A.	Viridien SA	

* Indicates that the company is a loss-maker in the year.

(J) indicates a company that was not in either the 'Develop and Make' or the 'Provide and Maintain' activity group last year, but has been added this year in the replacement 'Develop, Make and Support' activity group.

Capital servicing rates

The capital servicing rates are used as part of the Step 4 Capital Servicing Adjustment (CSA) of the four-step process for determining the contract profit rate for a qualifying defence contract. A corresponding adjustment accounts, at an aggregate level, for different levels of capital employed across the companies in the index and so sets a baseline upon which Step 4 of the contract profit rate applies.

The capital servicing rates are calculated from indices of sterling denominated corporate bonds or fixed maturity deposits. The rates are rolling averages of the underlying rates.

	2021/22	2022/23 ⁵	2023/24	2024/25	2025/26
Fixed capital servicing rate	3.27%	2.87%	2.90%	3.26%	3.64%
Positive working capital servicing rate	1.33%	1.09%	1.67%	3.10%	4.69%
Negative working capital servicing rate	0.65%	0.51%	0.51%	1.61%	3.21%

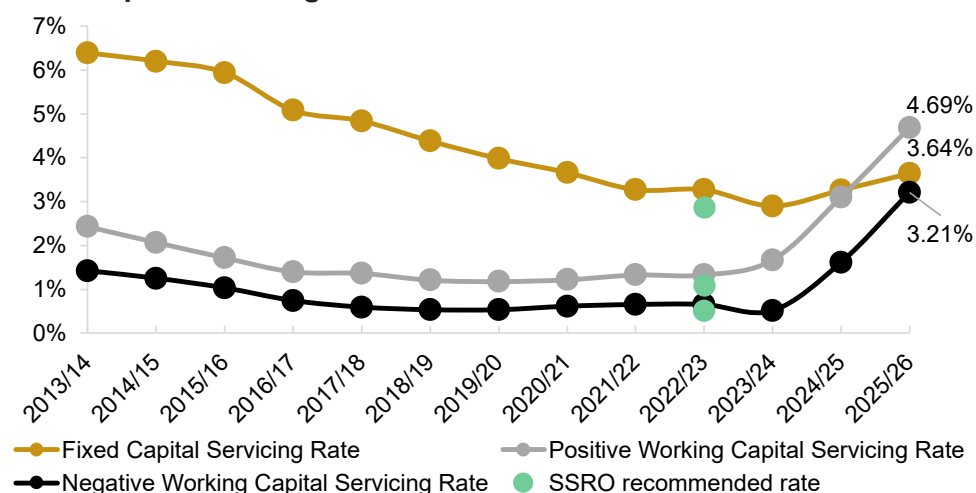
Data sources

For further information on the data selection approach please see section 13 of the *Single Source baseline profit rate and capital servicing rates methodology*.

Rate	Description	
Fixed capital servicing rate	Seven-year average of '15-year BBB GBP' bonds	BVCSGU15 BVLI Index
Positive working capital servicing rate	Three-year average of '1-year BBB GBP' bonds	BVCSGU01 BVLI Index
Negative working capital servicing rate	<i>Three-year average of Monthly average of UK resident monetary financial institutions' (excl. Central Bank) sterling weighted average interest rate - time deposits with fixed original maturity <=1 year from private non-financial corporations (in percent) not seasonally adjusted</i>	CFMBI32

Sources: Bloomberg and Bank of England

Trends in capital servicing rates



⁵ Shown are the 2022/23 rates recommended by the SSRO. The Secretary of State determined the BPR for 2022/23 as an average of the composite underlying rates calculated by the SSRO for the three years prior to 2021 (8.50%, 8.23%, and 8.19%), keeping the BPR at 8.31 per cent. This fixed the capital servicing rates the same as for 2021/22.

Government owned contractor rate

The government owned contractor rate is a baseline profit rate that may be applied to qualifying contracts in place of the baseline profit rate set out on page 1.

The government owned contractor rate must only apply to qualifying defence contracts where:

- a) the contract is between Secretary of State and a company incorporated under the Companies Act that is wholly owned by the UK Government; and
- b) both parties to the contract agree that it should apply.

	2021/22	2022/23	2023/24	2024/25	2025/26
Government owned contractor rate	0.057% ⁶	0.046%	0.038%	0.00%	0.00%

Note: The Government-owned contractor rate was first introduced for 2021/22.

Calculation of Government owned contractor rate

The government owned contractor rate is set to enable a contract profit rated of zero for contracts with companies wholly owned by the Secretary of State.

Prior to 2024/25 the government owned contractor rate was set at a level that is opposite to the application of the SSRO funding adjustment. For 2024/25 onwards, Schedule 10 of the Procurement Act 2023 has come into force removing the SSRO funding adjustment from the previous six-step contract profit rate process, meaning the government contractor rate is now set at zero.

⁶ The SSRO did not recommend a government owned contractor rate for 2021/22 and the rate was assessed by the Secretary of State. The reason for doing so is set out in the London Gazette: <https://www.thegazette.co.uk/notice/3760612>.