

SSRO

Single Source
Regulations Office

Assuring value, building confidence

Recommendation factsheet

Under the Defence Reform Act 2014 (the 'Act'), 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. In order to determine the contract profit rate, the parties must begin with a baseline profit rate. The baseline profit rate is calculated from an index of public and private companies.

Composite rate

This group combines search results from "Develop and Make" and "Provide and Maintain". This rate is constructed using the mean average of the capital servicing adjusted three-year rolling averages rates for Develop and Make and Provide and Maintain activity types.

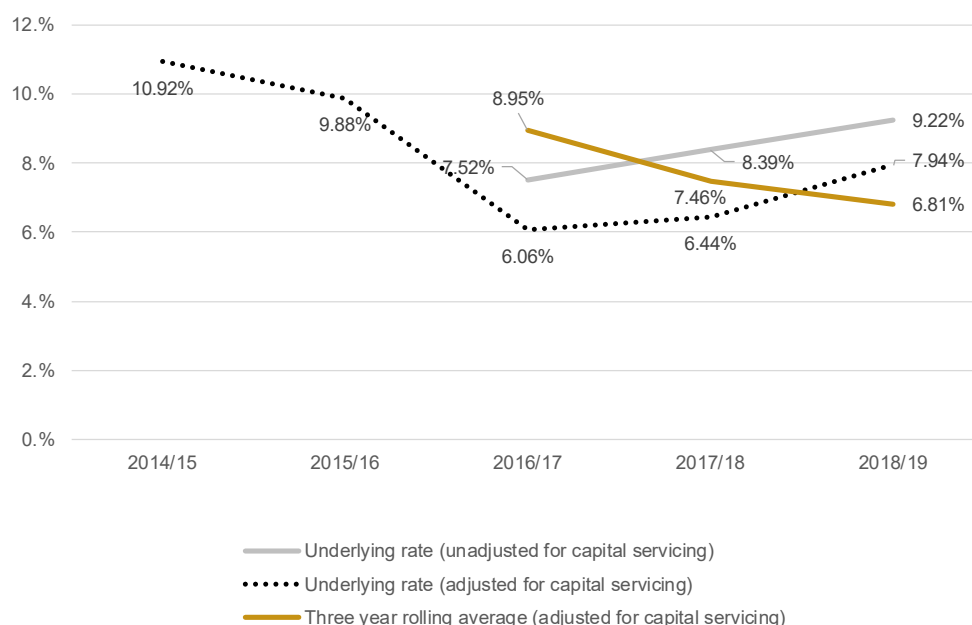
For further information please see the *Single Source baseline profit rate, capital servicing rates and funding adjustment methodology*.

Profit on cost of production

	2014/15	2015/16	2016/17	2017/18	2018/19
Underlying rate (unadjusted for capital servicing)	-	-	7.52%	8.39%	9.22%
Capital servicing adjustment	-	-	-1.46%	-1.95%	-1.29%
Underlying rate	10.92%*	9.88%*	6.06%	6.44%	7.94%
Three year rolling average	10.70%	10.60%	8.95%	7.46%	6.81%

Note: The capital servicing (CS) adjustment accounts for different levels of capital employed across the companies in the index.

Median capital servicing adjusted return on cost of production



**Calculated using the Review Board's methodology, which did not incorporate separate activity types. Consequently, for 2014/15 and 2015/16 the underlying rates used in the SSROs calculations and the three year rolling averages are common across all activity types.*

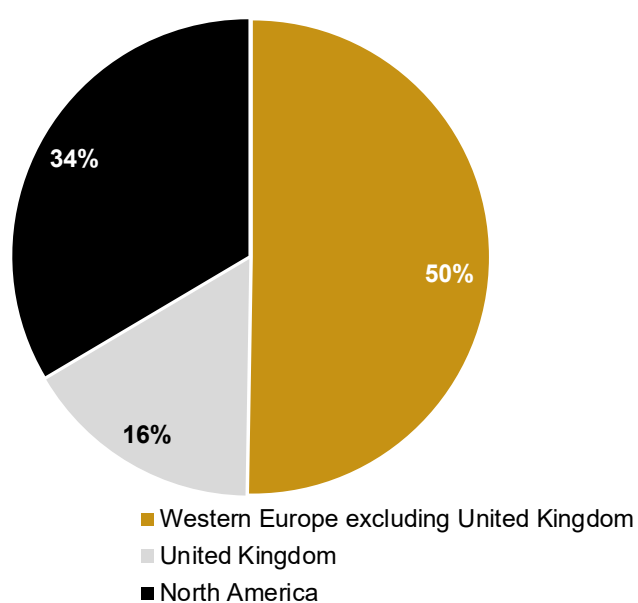
Names of companies in the index

Aeon INC	Bevan Group Ltd	CTT Systems AB	Gentherm INC
AAR Corp	Binter Technic, Sociedad Limitada.	Cubic Corp	GHL Holdings Limited
Ab Solving Oy	Boeing Company (The)	Cummins Inc.	Gilbert Gilkes & Gordon Limited
AB Volvo	Boels Holding B.V.	Curtiss Wright Corp	GKN PLC
Accuracy International Limited	Borgwarner INC	Cuypers Vorkliften	Goltens Oslo AS
Ace Aeronautique	Bradgate Containers (Holdings) Limited	Cyberoptics Corp	Gorman-Rupp Company (The)
Advanced Energy Industries INC	Bram-Cor S.P.A.	Dalair Limited	Graham Corp
Aerocentury Corp	Brembo SGL Carbon Ceramic Brakes S.P.A. In Breve Bscob S.P.A.	Dallan S.P.A.	Granada Material Handling Limited
Aerojet Rocketdyne Holdings, Inc.	Brian James Trailers Limited	Dana Incorporated	Gray & Adams (Doncaster) Limited
Aerovironment, Inc.	Brooks Automation, Inc.	Data I/O Corp	Greenbrier Companies INC
Aggreko PLC	Bruker Corporation	De Lama - S.P.A.	Grovgaarden AS
Aguirre Maquinaria Agricola SL.	BWX Technologies Inc.	Deere & CO	Guzzetti S.P.A.
Air Lease Corporation	Byggesystemer Norge AS	Del BO Impianti S.R.L.	H&E Equipment Services, Inc.
Airbus SE	C.M.A. - Costruzioni Montacarichi ED Ascensori - Societa' A Responsabilita' Limitata	Del Morino - S.R.L.	Haldex AB
Airtanker Services Limited	C.M.A. S.P.A.	Deutz AG	Hameen Rakennuskone Oy
Alamo Group INC	C.M.F. S.R.L.	Diesel Tecnica S.R.L.	Hardinge INC
Alexander Dennis Limited	C.S.C. - S.P.A.	Dinolift Oy	Heico Corp
Allied Motion Technologies, Inc.	Caci International INC	DOM SRL	Helidax
Allison Transmission Holdings, Inc.	CAE INC	Douglas Dynamics, Inc.	Helisim
Alstom S.A.	Calf S.P.A.	Dril-Quip INC	Hemaco SRL
Altra Industrial Motion Corp.	Calpeda S.P.A.	Dublin Aerospace Limited	Hermanos Toimil Garcia SL
Altran Technologies SA *	Capello S.R.L.	Ducommun INC	Heroux-Devtek Inc.
American Axle & Manufacturing Holdings, Inc.	Caprari S.P.A.	Dunphy Technology Limited	Honeywell International INC
American Outdoor Brands Corporation	Carmanah Technologies Corp.	Durr AG	Hudson Technologies INC
American Shipping Company ASA	Carpenteria Manessi S.R.L.	DXP Enterprises INC	Huntington Ingalls Industries, Inc.
Analogic Corp	Carraro SPA	Esco Technologies INC	IDEX Corp
Andritz AG	Caterpillar INC	Espey Manufacturing & Electronics Corp	li-Vi INC
Antonio Carraro S.P.A.	C-Com Satellite Systems Inc.	Esterline Technologies Corp	Indus Holding AG
Aquasium Technology Limited	Chart Industries INC	EUROJET Turbo Gesellschaft mit beschraenkter Haftung	Industrias Maxi SA
Artec Pulverisation	Chemring Group PLC *	Eurotank Oy	Ing. Bonfiglioli S.R.L.
Ascent Flight Training (Holdings) Limited	Ciemmeccalabria S.R.L.	Fabricacion De Elevadores SL	Ingenieria Y Tecnicas De Montajes Lointek SL
Ashtead Group Public Limited Company	Clive Barford Limited	Falkvarv AB	Ingersoll-Rand PLC
Astec Industries INC	CMF Structures	FB Design S.R.L.	Insta Group Oy
Atlas Air Worldwide Holdings, Inc.	CNH Industrial N.V.	Fedegari Autoclavi - S.P.A.	Interroll Holding AG
Atlas Copco AB	Co.Mec.El. Costruzioni Meccaniche Elettroniche S.R.L.	Federal Signal Corp	Introsys - Integration For Robotic Systems - Integracao De Sistemas Roboticos, S.A.
Atop - S.P.A.	Codimag	Flir Systems INC	James Fisher And Sons Public Limited Company *
ATS Automation Tooling Systems Inc.	Cogeim Europe SRL	Flowserve Corp	John Bean Technologies Corp
Autoliv, Inc.	Cognex Corp	Foster & Freeman Limited	John Nixon Limited
Automazione Industriale B.R.C. S.P.A.	Cohort PLC *	Fraccaroli E Balzan S.P.A.	Julio GIL Agueda E Hijos SA
Avation PLC	Cohu INC	Fraste S.P.A.	Kadant INC
Aviation Training International Limited	Colosio S.R.L.	Fratelli Mazzocchia S.P.A.	Kaman Corp
Axcelis Technologies INC	Colt Investments Limited	Frer S.R.L.	Kaoussis, A., S.A.
Axon Enterprise, Inc.	Columbus Mckinnon Corp	Fresia Societa' PER Azioni In Sigla Fresia S.P.A.	Kesla OYJ
Baatservice Holding AS	Comerio Ercole S.P.A.	Futura Robotica SRL	KMG Systems Limited
Babcock International Group PLC	Commercial Vehicle Group, Inc.	G.H.B. (Holding) Limited	Koenig Und Bauer AG
BAE Systems PLC	Construcciones Y Auxiliar De Ferrocarriles, S.A.	Gaditana De Chorro Y Limpieza SL	Konecranes OYJ
Bailey Trailers Limited	Continental AG	Gama Aviation PLC	Kongsberg Gruppen ASA
Barnes Group INC	Cormach S.R.L.	Gatx Corp	Kongsberg Terotech AS
Bas Maskintuleie AS	Cosman - S.R.L.	Gencor Industries, Inc.	Kuortaneen Teollisuuspalvelu Oy
Baurai	Cowles Holdings Limited	Generac Holdings Inc.	L.B. - Officine Meccaniche - S.P.A.
Bavelloni S.P.A.	Cramo OYJ	General De Alquiler De Maquinaria SA	L3 Technologies INC *
Behr-Hella Thermocontrol GmbH	Croma Security Solutions Group PLC	General Dynamics Corp	Laxaa Specialvehicles Aktiebolag
Beretta Alfredo S.R.L.		General Electric Company	
Beta Marine Limited		Gentex Corp	

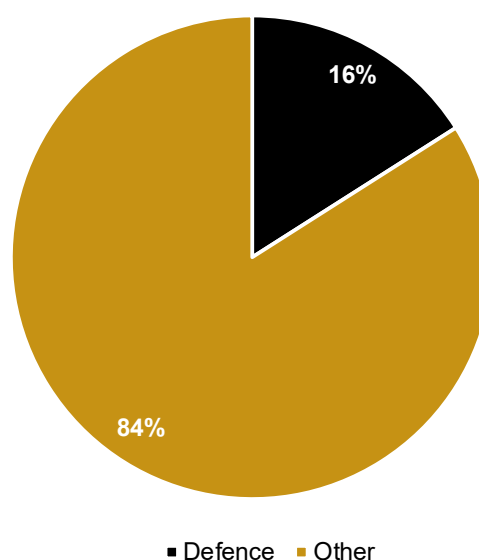
Lecitrailer SA	O.M.A.R. S.R.L.	Sicamb - S.P.A.	Venpa SUD SRL
Leidos Holdings, Inc. *	O.M.V. - Officine Meccaniche Vicario S.P.A.	Smith Brothers (Leicester) Limited	VMS (Holdings) Limited
Leonardo S.P.A.	Ocme - Societa' A Responsabilita' Limitata	Smiths Group PLC	Wabash National Corp
Lewag Holding AG	Officina Meccanica F.Lli Tabarelli S.P.A.	Snec-Lavalin Group INC *	Wabco Holdings Inc.
LGH Holdings Limited	Officina Meccanica Sestese S.P.A.	SOC Francaise Const Materiel Ferroviaire	Wacker Neuson SE
Lid Jarnindustri AS	Officine Bieffebi S.P.A.	Societa' Europea Veicoli Leggeri-Sevel-Spa	Wartsila OYJ
Loc'Hiam	Officine Meccaniche Gallaratesi S.P.A.	Societa' Industriale Costruzione Macchine Agricole S.P.A. - In Sigla S.I.C.M.A.-S.P.A.	Washtec AG
Lockheed Martin Corp	Officine Minelli S.R.L.	Socoges S.R.L.	Westinghouse Air Brake Technologies Corp
Luminex Corp	Orbital Atk, Inc.	Spartan Motors INC	Whale Tankers Limited
M J Church (Plant) Limited	Ormet S.R.L.	Speedy Hire PLC	Willis Lease Finance Corp
M.A.X. Automation AG	Ormac (NO 50) Limited	Spirit Aerosystems Holdings, Inc.	Witt & Son UK Holdings Limited
Macpresse Europa S.R.L.	Oshkosh Corporation	SPX Corp	Woodward, Inc.
Magna International INC	Ovlac Fabricacion De Maquinaria Agricola SA	SRT Marine Systems PLC	Worthington Industries INC
Manitowoc BF SA	Oy Leinolab Ab	Star Refrigeration Limited	X-Airservices
Marden Edwards Limited	Oy Tammlans Ab	Sturm Ruger & CO INC	Xylem Inc.
Marel HF.	Paccar INC	Supertino S.R.L.	Zago S.R.L.
Maschinenfabrik Berthold Hermle AG	Park Electrochemical Corp	Supreme Industries INC	Zambello Riduttori 2 - S.R.L.
Matteuzzi SRL	Parkburn Precision Handling Systems Limited	Svetruck Aktiebolag	Zambello Riduttori S.R.L.
Mcgrath Rentcorp	Pendennis Shipyard (Holdings) Limited	Systemair AB	Zodiac Aerospace
Mecbo - S.R.L.	Pentagas SRL	T.B. Group S.R.L.	
Mediacor Marseille Provence	Polaris Industries INC	T.V.Z. S.R.L.	
Meggitt PLC	Ponsse OYJ	TAI Milano S.P.A.	
Mercury Systems INC	Posimat SA	Talleres Ratera SA	
Mikron Holding AG	Powell Industries INC	Teagle Holdings Limited	
Miller Industries INC	Prensoland SA	Technipes S.R.L.	
Millutensil S.R.L.	Prima Industrie SPA	Techprecision Corp	
Mino S.P.A.	Qinetiq Group PLC	Tecnoeam S.R.L.	
MKS Instruments INC	Radley Engineering Limited	Tecnodinamica S.R.L.	
Modine Manufacturing CO	Ramirent OYJ	Teledyne Technologies Incorporated	
Moog INC	Raytheon Company	Tel-Instrument Electronics Corp	
Morgan Advanced Materials PLC *	Reductores Cunat SA	Tennant CO	
Moss SAS	Renew Holdings PLC	Tenneco Inc.	
MS International PLC *	Rheinmetall AG	TEST-FUCHS GmbH	
MTS Systems Corp	Robor SRL	Textron INC	
MTU Aero Engines AG	Rockwell Automation, Inc.	Thales SA	
MTU Turbomeca Rolls-Royce Gesellschaft mit beschraenkter Haftung	Rockwell Collins INC	Thomas Broadbent & Sons, Limited	
Muehlhan AG	Rodman Polyships SA	Thwaites Limited	
Nammo AS	Roper Technologies, Inc.	Thyssenkrupp AG	
Natural GAS Services Group, Inc.	RWG (Repair & Overhauls) Limited	Tomra Systems ASA	
Nautic Center Sociedad Anonima	S.T.M. - Societa' PER Azioni	Toromont Industries Ltd	
Navalimpianti - S.P.A.	Saab AB	Toscotec S.P.A.	
Navistar International Corp	Saf-Holland S.A	Total Aircraft Product Support (Holdings) Limited	
NC Engineering (Hamiltonsbawn) Limited	Safran	Transdigm Group Incorporated	
New Flyer Industries Inc.	Samp S.P.A.	Triumph Group INC	
NG Bailey Group Limited *	Sandvik AB	Tume-Agri Oy	
Nicolas Correa S.A.	Schmitt - Elevadores, LDA	Ultra Electronics Holdings PLC	
Niederstaetter S.P.A.	Science Applications International Corp	United Rentals INC	
Nogva Motorfabrikk AS	Sele S.R.L.	United Technologies Corporation	
Nordson Corp	Sener Grupo De Ingenieria Sociedad Anonima *	Univer S.P.A.	
Norton S.R.L.	Servotronics INC	Uutech Group OYJ	
Northrop Grumman Corporation	Servovalve S.P.A.	V.N.A. Trucks Limited	
Novanta INC	Sfoggia Agriculture Division S.R.L.	Varian Medical Systems INC	
Nuova Idropress - Societa' PER Azioni In Forma Abbreviata Nip S.P.A.			

*indicates new company for 2018/19

Number of companies by country*



Number of companies by defence as keyword*



* The pie chart is based on companies with a positive capital servicing adjusted profit level indicator.

Supplementary statistics

Number of companies	388	Total capital employed (CE)	£291.90
Aggregate turnover	£1,024.79	Average company CP:CE ratio	3.18

Source: Bureau van Dijk – Orbis (Cash figures shown in GBP Billions)

SSRO

Single Source
Regulations Office

Assuring value, building confidence

Capital servicing rates

The capital servicing adjustment (CSA) is required under section 17(2) of the Defence Reform Act (the Act), and Single Source Contract Regulations 11(7). The Act states that a contractor should receive an appropriate and reasonable return on the fixed and working capital employed in the delivery of a Qualifying Defence Contract (QDC). The CSA represents the combination of measures of fixed and working capital employed and three associated capital servicing rates.

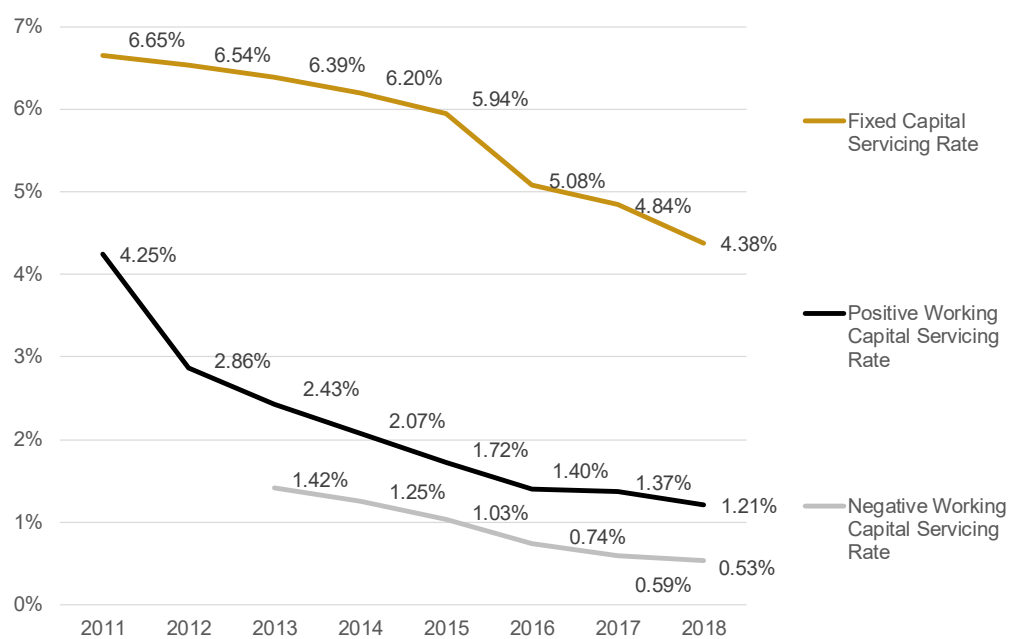
The CSA, and by implication capital servicing rates (CSRs), serve two purposes in the relation to setting the profit rate on QDCs. They are used to adjust the profit level indicators (PLIs) of each company which is used to set the baseline profit rate (BPR). This in most cases has the effect of lowering the BPR. They are then used at 'Step 6' of the adjustment to the BPR, to account for capital employed at the contract level. In summary the CSRs are used to strip out a measure of return on capital from the BPR and then later add it back in at the contract level.

	2015	YoY change	2016	YoY change	2017	YoY change	2018
Fixed Capital Servicing Rate	5.94%	-86bp	5.08%	-24bp	4.84%	-46bp	4.38%
Positive Working Capital Servicing Rate	1.72%	-32bp	1.40%	-3bp	1.37%	-16bp	1.21%
Negative Working Capital Servicing Rate	1.03%	-29bp	0.74%	-15bp	0.59%	-06bp	0.53%

Data sources

Positive Working Capital Servicing Rate ^a	
'BBB GBP' bond	C4051Y INDEX
'BBB Euro' bond	C4681Y INDEX
'BBB-Euro' bond	C4691Y INDEX
'New BBB Euro' bond	BVCSE201 INDEX
'New BBB-Euro' bond	BVCSE101 INDEX
Negative Working Capital Servicing Rate ^b	
Monthly average of UK resident monetary financial institutions	CFMBI32
Fixed Capital Servicing Rate ^a	
'BBB GBP' bond	C40515Y INDEX
^a Bloomberg	
^b Bank of England	

Trends in Capital Servicing Rates



SSRO

Single Source Regulations Office

Assuring value, building confidence

The SSRO funding adjustment

$$\text{SSRO funding adjustment} = \frac{\text{SSRO costs} - \text{Cost of additional tasks requested by SofS}}{\text{Total value of QDCs}} \times \frac{1}{2}$$

The SSRO costs and the costs of additional tasks requested by the Secretary of State are the arithmetic averages of the three full financial years preceding the year of the recommendation.

Where the SSRO's audited financial information is not yet available for three years, the funding adjustment will be based on those years that are available.

Calculation of SSRO funding adjustment

Financial Year		2014/15	2015/16	2016/17	2017/18	2018/19
SSRO running costs (£million)			4.920	5.403	0.000	0.000
SofS task related SSRO expenditure (£million)			0.000	0.000	0.000	0.000
Total Allowable Costs of QDCs and QSCs (£million)			13810.117	7301.541	0.000	0.000
SSRO running costs (£million) - 3 year average	a				4.920	5.162
SofS task related SSRO expenditure (£million) - 3 year average	b				0.000	0.000
Total Allowable Costs of QDCs and QSCs (£million) - 3 year average	c				13810.117	10555.829
SSRO funding adjustment = ((a-b)/c)/2						0.024%

Note: The total Allowable Costs of QDCs and QSCs for 2015/16 has been updated from the amount used to calculate the 2017/18 funding adjustment.

Data sources:

The SSRO costs and the costs of additional tasks requested by the Secretary of State will be drawn from the audited financial statements in the preceding three financial years.

The total Allowable Costs of QDCs is extracted from DefCARS. The total Allowable Costs of QDCs is based on:

- Data for any contract with a time of agreement between 1 April and 31 March of a given financial year, i.e. 1 April 2015 to 31 March 2016.
- The total Allowable Costs (including any Risk Contingency Allowance) reported in the latest available reports as of the date of extraction.