



SSRO

Single Source
Regulations Office

SSRO's baseline profit rate, capital servicing rates, and government owned contractor rate recommendation: 2026/27

Supporting analysis

March 2026

This slide pack is provided for information only in support of the SSRO's assessment provided under Section 19 of the Defence Reform Act 2014.

Contents

This pack sets out details of the SSRO's rates recommendation to the Secretary of State:

- Baseline profit rate
- Capital servicing rates
- Government-owned contractor rate

It includes sensitivity and other analyses, including:

- Analysis of the changes to the baseline profit rate since last year
- Changes in the comparator groups since last year
- Defence sector representation in the benchmark
- Geography

Baseline profit rate (BPR): introduction

The baseline profit rate is step 1 of the 4-step process to calculate the contract profit rate of a contract that falls under the Single Source Contract Regulations and is priced using the default pricing method.

The Procurement Act 2023 introduced the 4-step process and, as of 1 April 2024, replaced the previous 6-step process in place since the start of the current regime in 2015.¹

The baseline profit rate is the average of the underlying rates for the last three years.

The underlying rate for a single year is based on the financial performance of a group of companies whose activities are comparable to those that contractors might be expected to perform for single source contracts.

Full details on the approach are set out in the SSRO publication *Single source baseline profit rate and capital servicing rates methodology*.

¹The 6-step process continues to apply to existing contracts, with the 4-step process applying to any amendments made to those contracts after that date.

Baseline profit rate approach and methodology



Objective

OECD: Transfer Pricing principles

Replicable



Reliable

Actual profit on actual cost

IFRS / GAAP numbers



Predictable

Stable approach

3 year rolling average



Calibrated

Stakeholder feedback (including QA of accounting data)

Completed contracts

Company selection process



Baseline profit rate and other activity group rates: Overview

The table below shows the current and historic BPR recommendations and underlying rates.

Current and historic BPR recommendations

BPR rates	2021/22	2022/23*	2023/24	2024/25	2025/26	2026/27
Underlying rate (unadjusted for capital servicing)	9.59%	8.24%	9.50%	9.31%	10.60%	11.68%
Capital servicing adjustment	-1.40%	-0.89%	-1.06%	-1.22%	-1.46%	-1.61%
Underlying rate	8.19%	7.35%	8.44%	8.09%	9.14%	10.07%
Three-year rolling average (BPR recommendation)	8.31%	8.07%	8.29%	8.24%	8.56%	9.10%

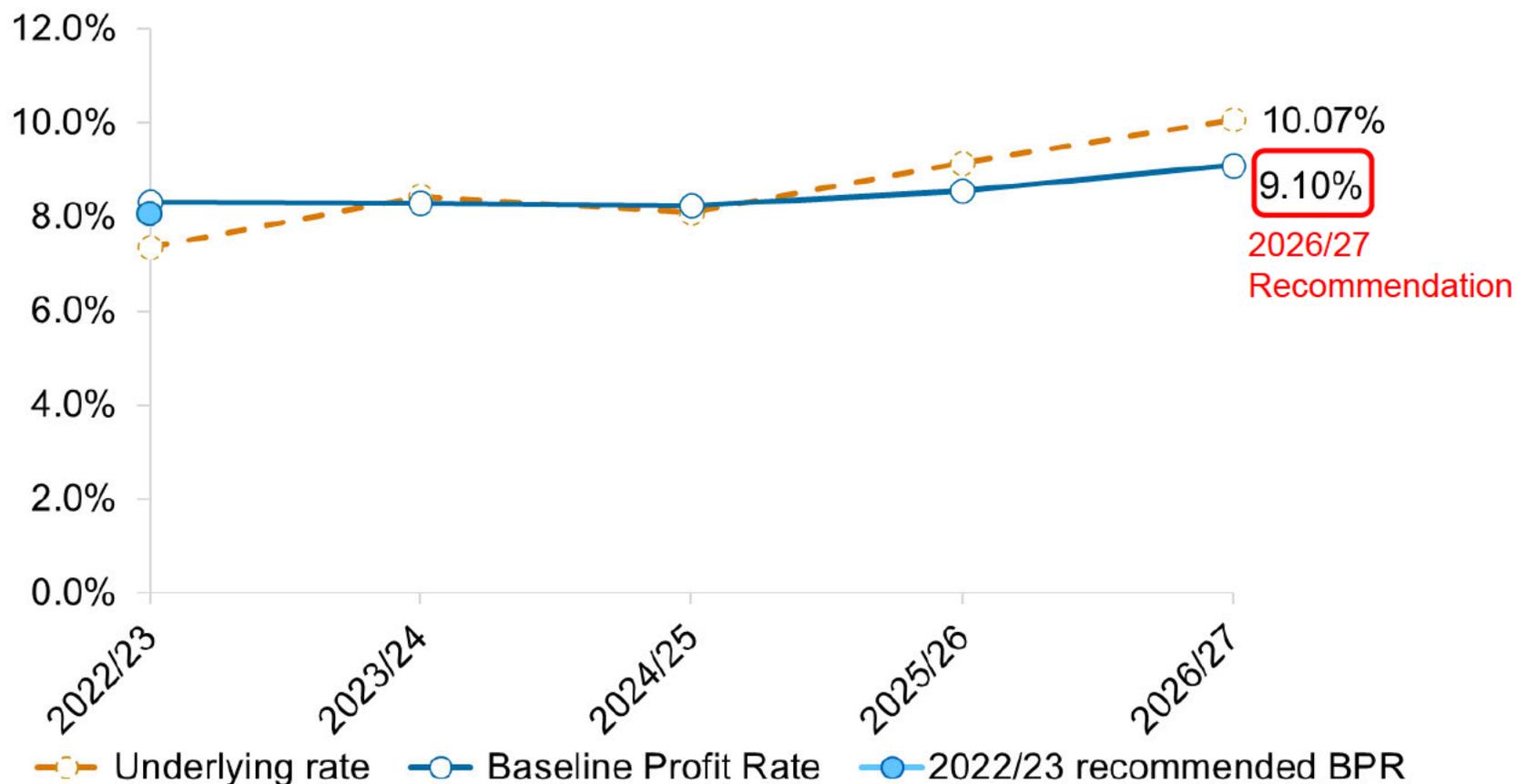
Previously published figures

* The Secretary of State determined that the 2022/23 BPR rates would be fixed at the level of the prior year. The numbers shown here are SSRO's recommendations.

Baseline profit rate

The baseline profit rate is a three-year rolling average of the underlying rate.

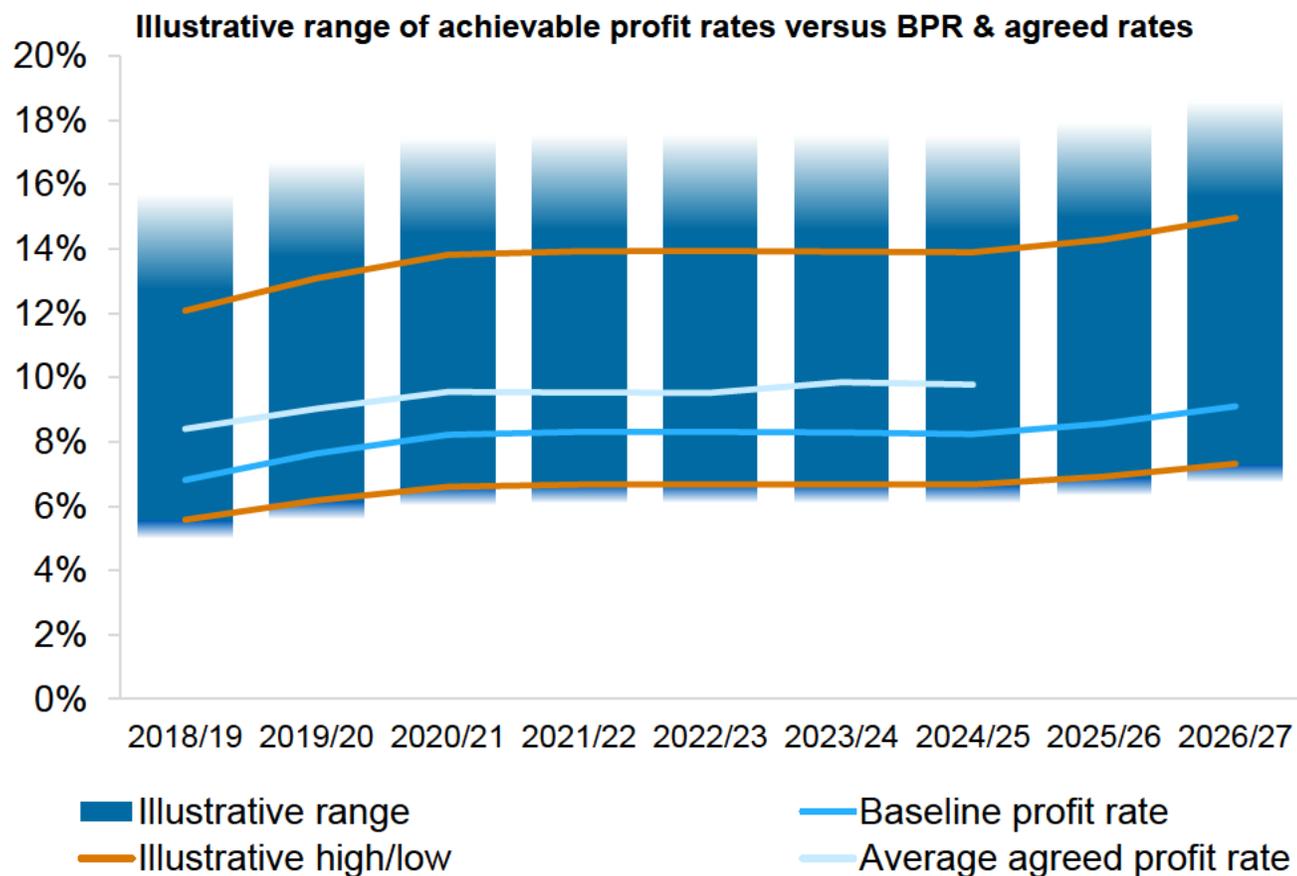
The 2026/27 recommended baseline profit rate is 9.10 per cent.



Notes: The underlying rate is the median capital servicing adjusted profit on cost of production of the group for a single year. The baseline profit rate is the rolling average of three years of underlying rates. Historical baseline profit rates are shown as they were determined by the Secretary of state. The SSRO's recommended rate for 2022/23 is shown as a floating dot. The underlying rate for each year is shown as calculated by the SSRO. The 2022/23 to 2024/25 underlying rates are based on the composites of the 'Develop and Make' and 'Provide and Maintain' activity groups; while those for 2025/26 and 2026/27 are calculated from the 'Develop, Make and Support' activity group.

Source: Orbis, Bloomberg and SSRO calculations.

Illustrative high and low contract profit rate



The baseline profit rate is combined with the other profit rate steps to arrive at the contract profit rate (CPR). There is a range available, depending on the application of these steps. Full details on the calculation are set out in the SSRO publication [*Guidance on the baseline profit rate and its adjustment*](#). Details of the calculation for 2026/27 are presented on the next slide.

Notes: The solid area is an illustrative low/high for a standard contract, applying assumptions about the typical values of certain components of profit. The gradient areas end at a theoretical minimum and maximum, applying reasonable limits where a profit component is unbounded.

The capital servicing adjustment (step 4) is dependent on the characteristics of the contract in question therefore, for illustrative purposes, we have applied to all the periods presented, the average of capital servicing adjustments agreed for contracts entered into for 2018/19 to 2024/25. The latest published data available is up to 2024/25.

Source: SSRO

Illustrative high and low contract profit rate: detail

Notes: The four-step process is set out in the SSRO's publication *Guidance on the baseline profit rate and its adjustment*

¹ See Q19 of the Q&A document for an explanation of how the two 'capital servicing adjustments' interact.

² An adjustment of between -25 and +25 per cent of step 1.

³ A positive adjustment of up to two percentage points may apply to incentivise the achievement of enhanced performance.

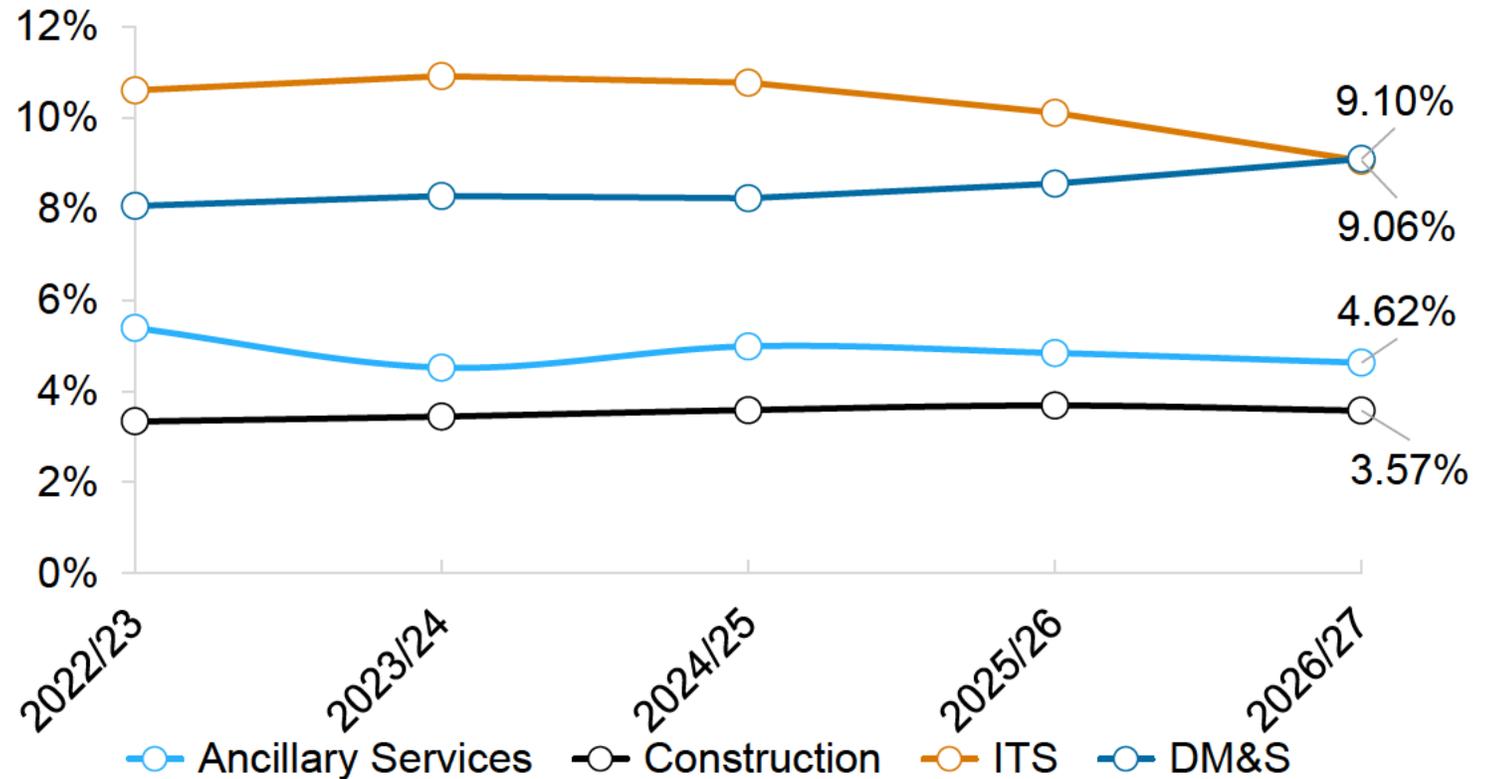
⁴ These figures are the average of actual values reported to the SSRO for contracts priced between 2018/19 to 2024/25. The actual adjustment may be high lower or negative.

Contract profit rate step		Value/Adjustment			
	Unadjusted rate	10.53%			
	Capital servicing adjustment (CSA) ¹	-1.43pp			
Step 1	Baseline profit rate	9.10%			
+ Step 2	Cost risk adjustment ²	-2.27pp to +2.27pp			
+ Step 3	Incentive adjustment ³	up to +2.00pp			
	Range before capital servicing	Low: 6.83%		High: 13.37%	
+ Step 4	Capital servicing adjustment ¹	Minimum	Lower quartile	Upper quartile	Maximum
	Illustrative observations from 2024/25 ⁴ :	-0.07%	+0.49%	+1.59%	+5.23%
=	Contract profit rate	Minimum 6.76%	Low 7.32%	High 14.96%	Maximum 18.60%

Source: Annual qualifying defence contract statistics: 2024/25 (SSRO)

Summary of activity groups

The baseline profit rate is a three-year rolling average of the underlying rate. Rates for the three other groups, Ancillary Services, Construction and Information Technology Services (ITS) are presented for information



Notes: The chart shows results for three year (four year for 2022/23) rolling average of underlying rates. The 2022/23 rates were determined at the 2021/22 levels, but the above chart shows the rates that the SSRO recommended. The ITS group was introduced for 2023/24. Its historical numbers are based on the historical data for the 2023/24 set of comparators. The 2022/23 to 2024/25 underlying rates are based on the composites of the 'Develop and Make' and 'Provide and Maintain' activity groups; while those for 2025/26 and 2026/27 are calculated from the 'Develop, Make and Support' activity group.

Source: SSRO calculations

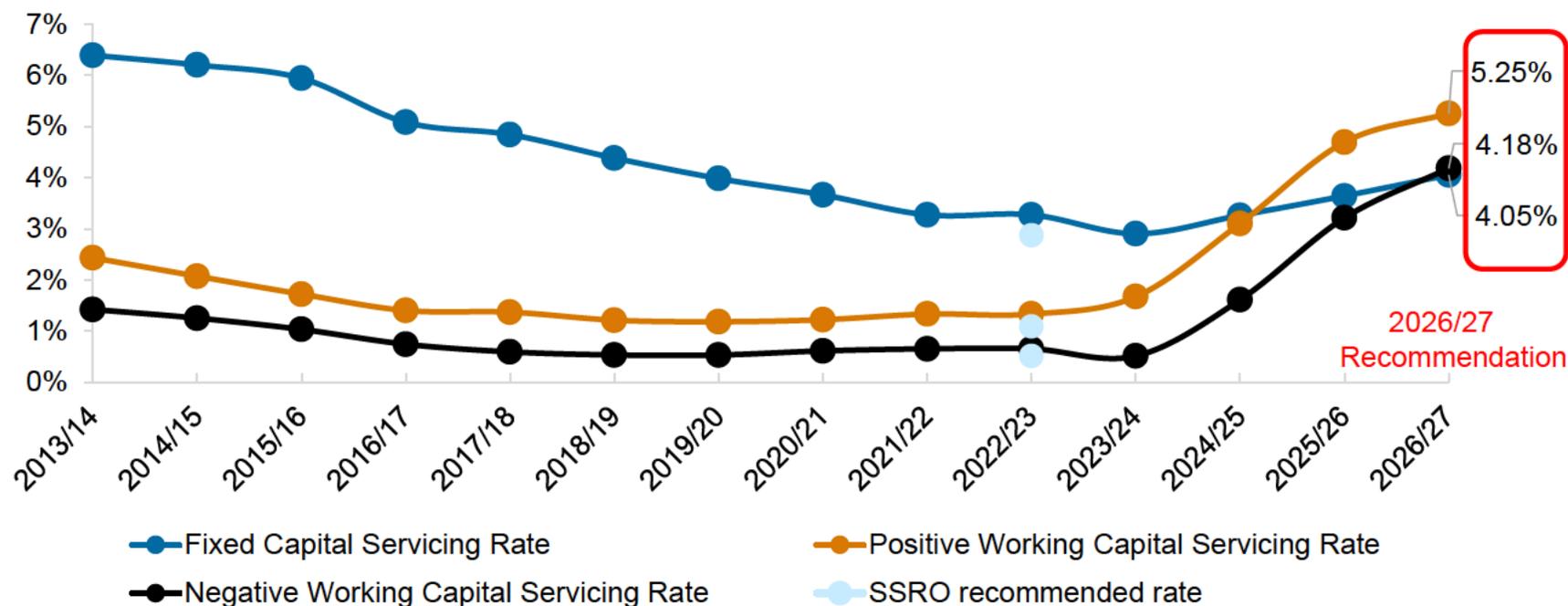
Capital servicing rates: introduction

Each year the SSRO calculates the following three capital servicing rates based on averages of bond yields and interest rate data published by Bloomberg and the Bank of England:

- Fixed capital
- Positive working capital
- Negative working capital

Full details on the approach are set out in the SSRO publication *Single source baseline profit rate and capital servicing rates methodology*.

Capital servicing rates



Notes: The Secretary of State determined that the 2022/23 rates would be fixed at the level of the prior year.

The floating data points shown for 2022/23 are the rates as recommended by the SSRO.

Source: Bloomberg, Bank of England and SSRO calculations.

Rate	Description	Recommendation
Fixed capital servicing	15 year BBB GBP bond index – 7-year average	4.05%
Working capital (positive)	1 year BBB GBP bond index – 3-year average	5.25%
Working capital (negative)	Monthly interest on short term deposits – 3-year average	4.18%

Government owned contractor rate: introduction

The government owned contractor rate is a baseline profit rate that can be used to deliver a contract profit rate (CPR) of zero on QDCs between the Secretary of State and companies wholly owned by the Secretary of State.

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.

Full details on the approach are set out in Appendix D of the SSRO publication *Single source baseline profit rate and capital servicing rates methodology*

Government owned contractor rate

For 2021/22 to 2023/24 the government owned contractor rate was set at a level that was opposite to the SSRO funding adjustment. This approach delivered a contract profit rate of zero when steps 2, 5 and 6 of the then 6-step contract profit rate formula was determined to be zero.

Schedule 10 of the Procurement Act 2023 came into force on 1 April 2024, removing the SSRO funding adjustment from the previous six-step process from 2024/25. The approach remains the same for the four-step process now in force, such that it delivers a contract profit rate of zero if steps 2, 3 and 4 are determined to be zero.

Recommendation	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Government-owned contractor rate	0.057%*	0.046%	0.038%	0.00%**	0.00%	0.00%

Previously published figures

Notes:

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

* 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>

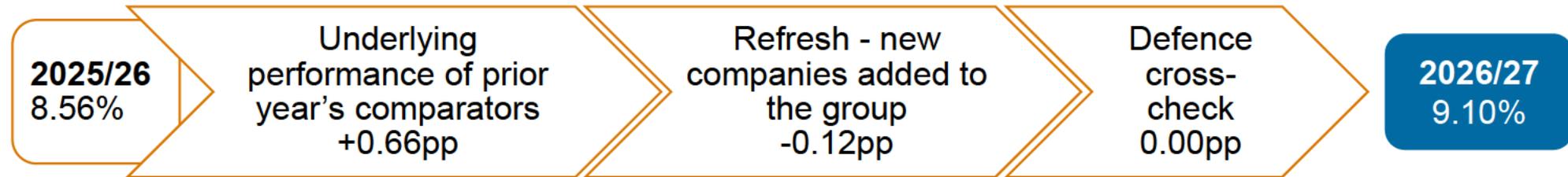
** Had Schedule 10 of the Procurement Act 2023 not come into force the rate would have been 0.036% for 2024/25

Understanding the changes in the baseline profit rate

The following slides set out an analysis of the changes in the baseline profit rate since the prior year, including:

- changes to the companies in the comparator groups; and
- changes to the underlying rate and the baseline profit rate

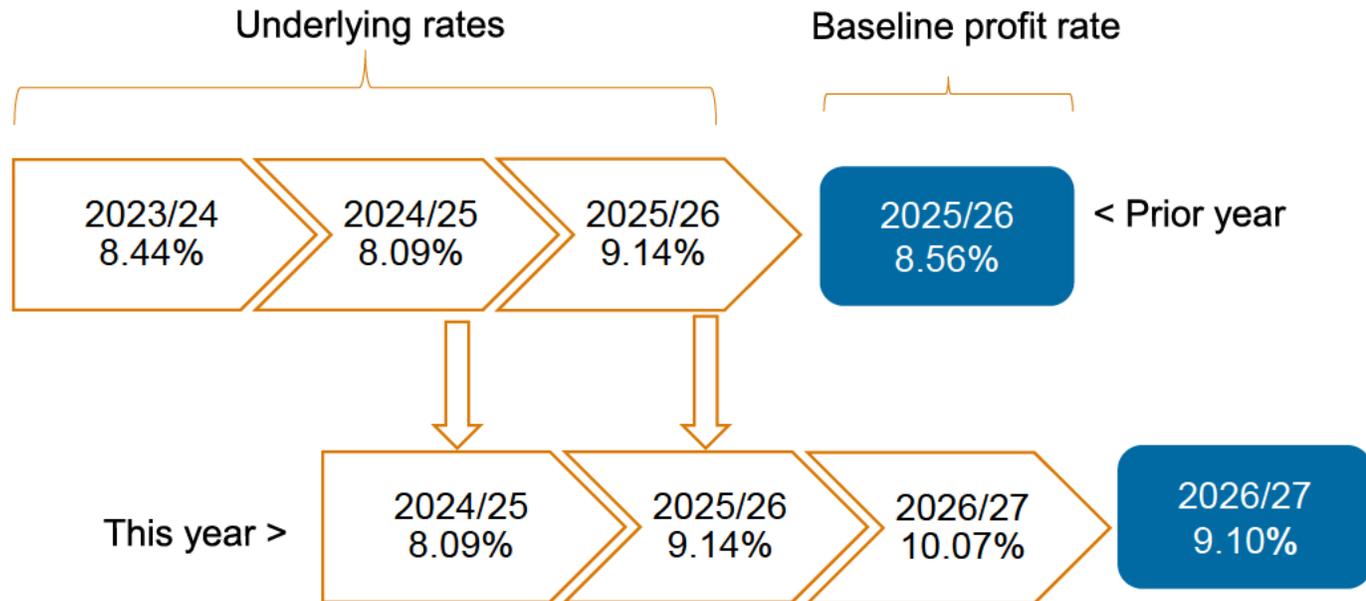
2026/27 Underlying rate: explaining the change from 2025/26



The change in the underlying rate this year (see slide 6) is a product of:

- **Underlying performance:** Changes in the financial performance of the prior year's comparator companies and the effect of updated capital servicing rates. 223 of last year's 261 comparator companies were retained by the Orbis search and company review process, of which 28 were loss makers.
- **Refresh:** Changes due to the financial performance of new comparator companies resulting from the standard refresh cycle and updated capital servicing rates. 142 new companies were identified through the refresh, of which 20 were loss makers.
- **Defence cross-check:** Companies from the MOD supplier lists added to the DM&S activity group comparators identified through the Orbis search. Five companies were added to the comparator group through the defence cross-check but these were not new companies as they were already present in last year's group. not new companies as they were already present in last year's group.

2026/27 Baseline profit rate: explaining the change from 2025/26



The baseline profit rate is the three-year average of the underlying rate of the most recent years.

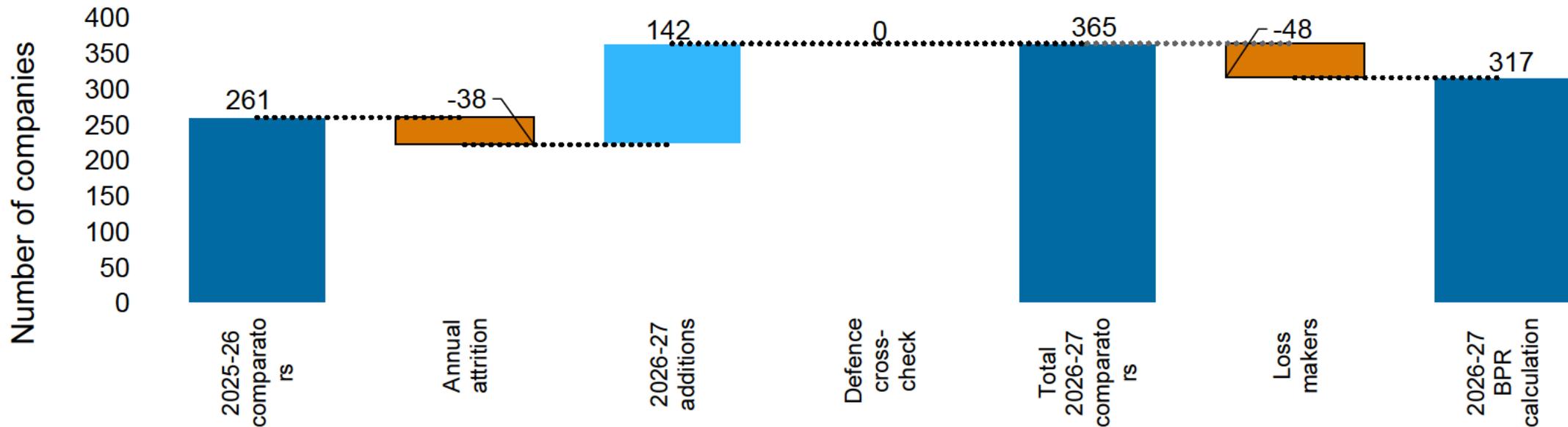
The 2023/24 underlying rate of 8.44% has been replaced by the 2026/27 underlying rate of 10.07%, resulting in a baseline profit rate of 9.10%.

The underlying rates for 2023/24 and 2024/25 used composite underlying rates for the D&M and P&M activity groups, while the 2025/26 and 2026/27 underlying rates are based on the DM&S activity group.

Joiners and leavers to the comparator group

Maintaining an adequate number of comparator companies ensures the underlying rate is robust.

This year we undertook a full company search refresh and started a new three-year company selection cycle. We identified 365 suitable comparators, of which 223 were retained from last year and 142 were new. 48 of the suitable comparators were loss makers, leaving 317 that were used to calculate the BPR.



Note: Question 15 in the published Q&A explains why some companies join/leave the groups.

Source: SSRO calculations

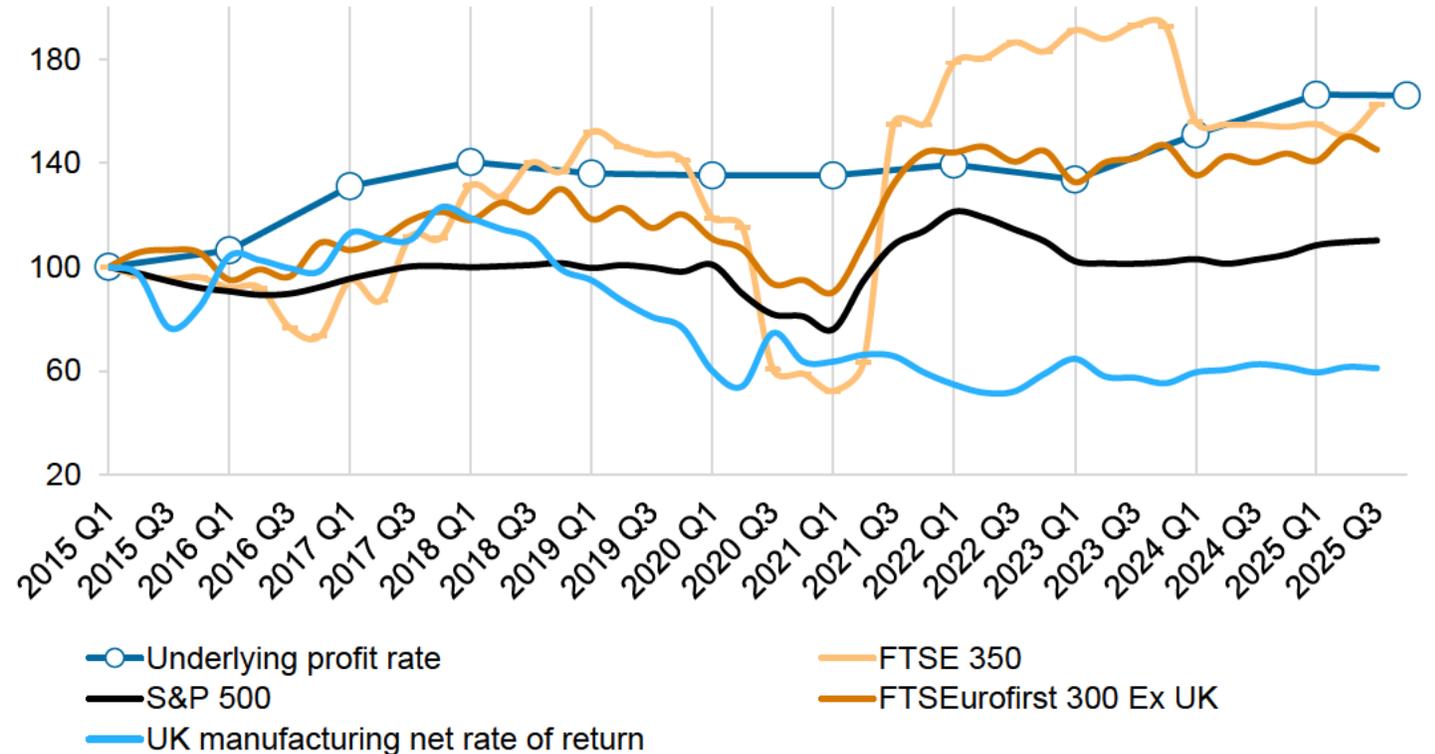
Comparisons and benchmarking

The following slides compare the trend in the baseline profit rate to the trend in macro-economic indicators and benchmark the range available in the UK regime to those available elsewhere:

- Profitability of major UK, US, and European share indices
- ONS data on UK manufacturing rate of return

Trends in the performance

- This chart compares the trend in the underlying profit rate to the trend in profitability of companies included in major UK, US, and European share indices; and in the UK manufacturing sector.
- Note that the ONS' UK manufacturing rate of return is a measure of return on capital for UK companies. Profit on cost and return on capital are not directly comparable, but we can use this data to compare trends in the underlying profit rate assessment to trends in the wider UK economy.



Notes: The underlying profit rate, the operating margin of the companies in the indices, and the ONS measure of profitability (net operating surplus divided by net capital employed) are based to 100 in March 2015. Increases and decreases in those rates are shown over time relative to that starting point.

Source: Bloomberg, ONS Dec 2025 release of *Quarterly net rate of return of manufacturing private non-financial non-UK continental shelf corporations* (series LRYC)

Defence sector representation

It is not the SSRO's intention that the comparator groups contain only companies from the defence industry, but we expect them to be represented because we are benchmarking activities that those companies typically perform.

The following slides set out analysis of defence sector representation within the comparator groups and their influence on the result, including:

- an explanation for the presence, or otherwise, of the MOD's largest private sector suppliers;
- an explanation of the cross-check against MOD supplier lists to ensure that MOD's actual suppliers are represented in the comparator groups; and
- the proportion of defence keyword companies in the analysis and their results compared to non-defence keyword companies.

Presence of the top 20 MOD suppliers in the comparator groups

Explanation for companies not included in an activity group:

* Comparable company that was a loss-maker for the current year, as measured by the adjusted underlying profit rate, failing the criteria for inclusion in the BPR calculation.

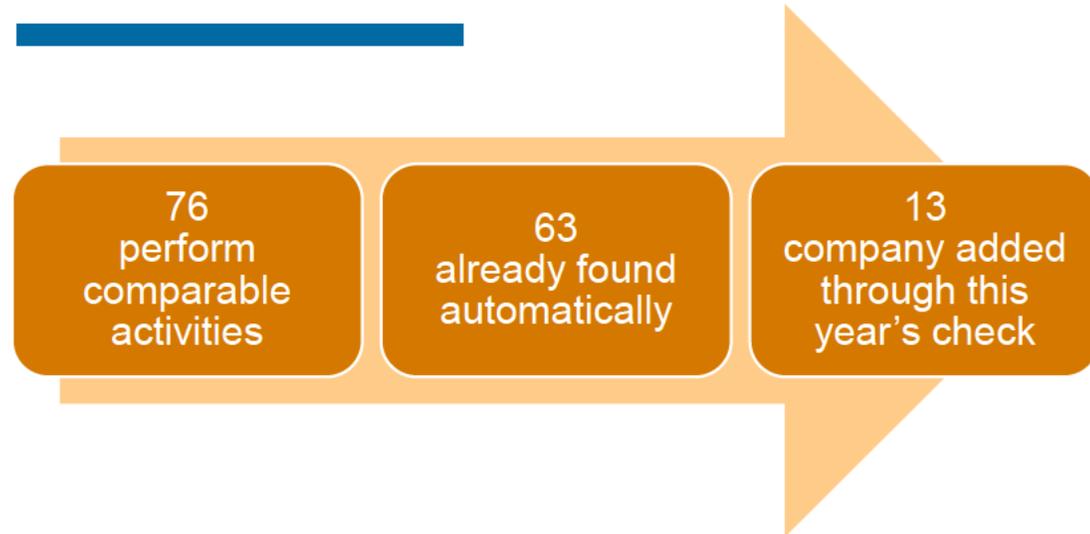
** Companies that failed the Orbis search criteria: The Boeing Company made losses in each of the most recent 5 years, TEKEVER Holdings S.A. failed the turnover threshold criterion, and General Atomics International Services Corporation failed data availability criterion.

*** Companies that sell products predominantly to the general public: BT Group PLC

Company name	Activity Type
BAE Systems PLC	Develop, Make and Support
Babcock International Group PLC	Develop, Make and Support
Rolls-Royce Holdings PLC	Develop, Make and Support
Leonardo SpA	Develop, Make and Support
Thales	Develop, Make and Support
The Boeing Company **	Not Included (loss maker)
Airbus Group SE	Develop, Make and Support
QinetiQ Group PLC *	Develop, Make and Support
Lockheed Martin Corporation	Develop, Make and Support
Serco Group PLC	Ancillary Services
Rheinmetall AG	Develop, Make and Support
TEKEVER Holdings S.A. **	Not Included
Saab AB	Develop, Make and Support
RTX Corporation	Develop, Make and Support
BT Group PLC ***	Not Included
Skanska AB	Construction
Northrop Grumman Corporation	Develop, Make and Support
Kongsberg Gruppen ASA	Develop, Make and Support
General Atomics International Services Corporation **	Not Included
Balfour Beatty PLC	Construction

Notes: Source of companies are MOD statistics of private sector holding companies paid £50 million or more in 2024/25, *Table 4a MOD trade, industry and contracts: 2025 (MOD)*. The table is both compiled and ordered by value of non-competitive spend in 2024/25.

Defence cross-check



Company name	Activity Type
Cohort PLC	Develop, Make and Support
MS International PLC	Develop, Make and Support
SC Group-Global Limited	Develop, Make and Support
Marshall of Cambridge (Holdings) Ltd	Develop, Make and Support
Wilton Universal Group Limited	Develop, Make and Support
Corpay INC	Ancillary Services
Compass Group PLC	Ancillary Services
Kier Group PLC	Construction
Mace Finance Limited	Construction
Wates Group Limited	Construction
Hardwicke Investments Limited	Construction
John Graham Holdings Limited	Construction
NG Bailey Group Limited	Construction

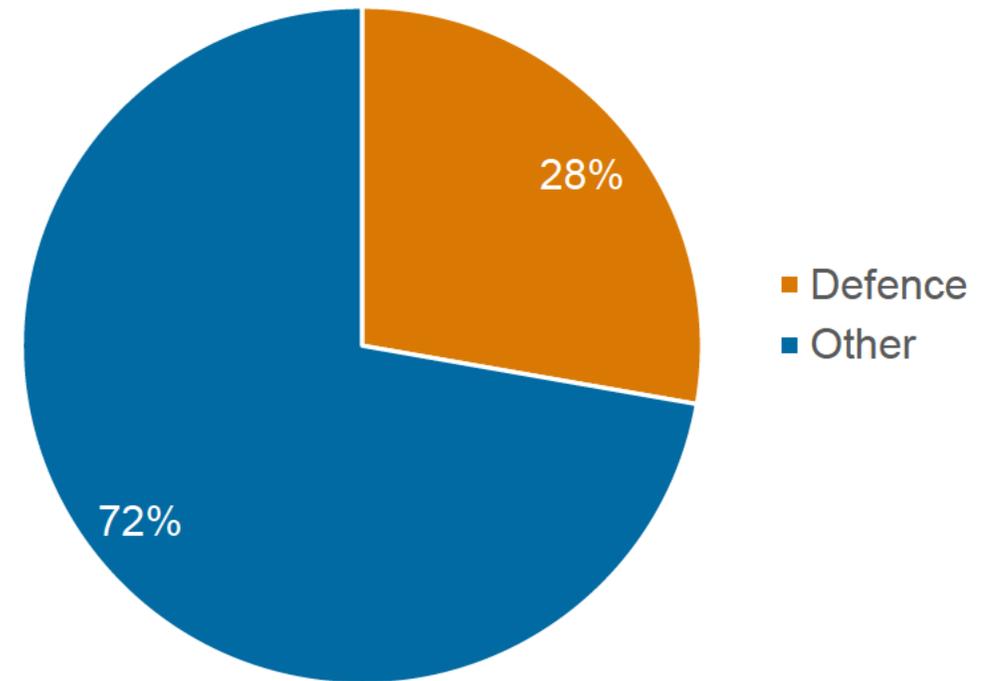
The SSRO inspects MOD statistics on the organisations that the MOD contracts with for more than £5 million and uses DefCARS data to identify any additional comparators that were not found through the search process.

Thirteen additional companies are included in the comparator groups as a result of the defence cross check process, representing 2% of all the activity groups combined. The majority of MOD suppliers performing comparable activities were already identified by the search process

Source: Table 3a and 4a from MOD trade, industry and contracts: 2025 (MOD), DefCARS, Orbis and SSRO calculations.

Proportion of 'defence keyword' companies in the BPR calculation

Companies that either have the word 'defence', 'defense' or 'militar*' included in their Orbis text description account for 28% of the comparator group.

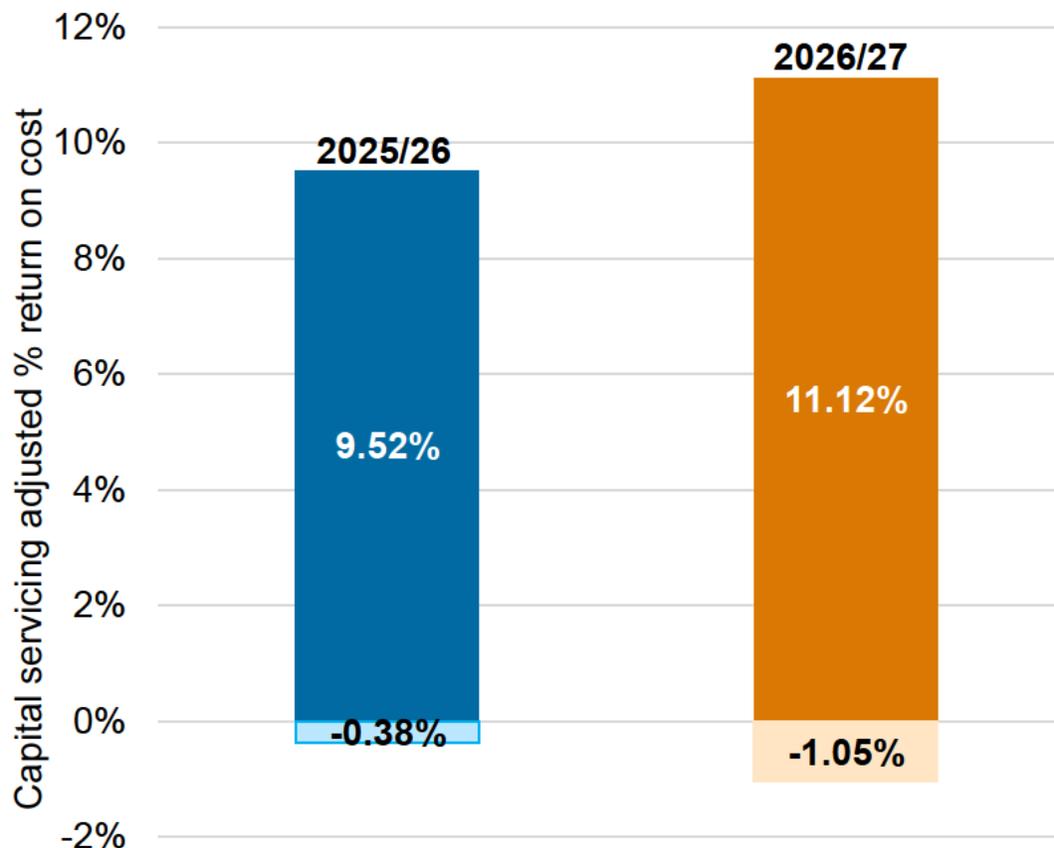


Notes: A company is considered to be a 'defence keyword' company if either the word 'defence', 'defense' or 'militar*' is included in their Orbis text descriptions. The '*' indicates that all words starting with those letters, for example 'military' and 'militarised', are included.

Source: Orbis and SSRO calculations

Impact of 'defence keyword' companies on the result

The chart shows the underlying rate of each comparator group excluding defence keyword companies and the corresponding impact of adding those defence keyword companies back to get to the final result.



Median rate of non-defence keyword companies

Change in rate by including defence keyword companies

■ Prior year

■ Current year

■ Prior year

■ Current year

Notes: A company is a 'defence keyword' company if the word 'defence', 'defense' or 'militar*' is included in their Orbis text description. The '*' indicates that all words starting with those letters, for example 'military' and 'militarised', are included. 'Current year' is the current year comparator group. 'Prior year' is the prior year comparator group.

Source: Orbis and SSRO calculations

Geography

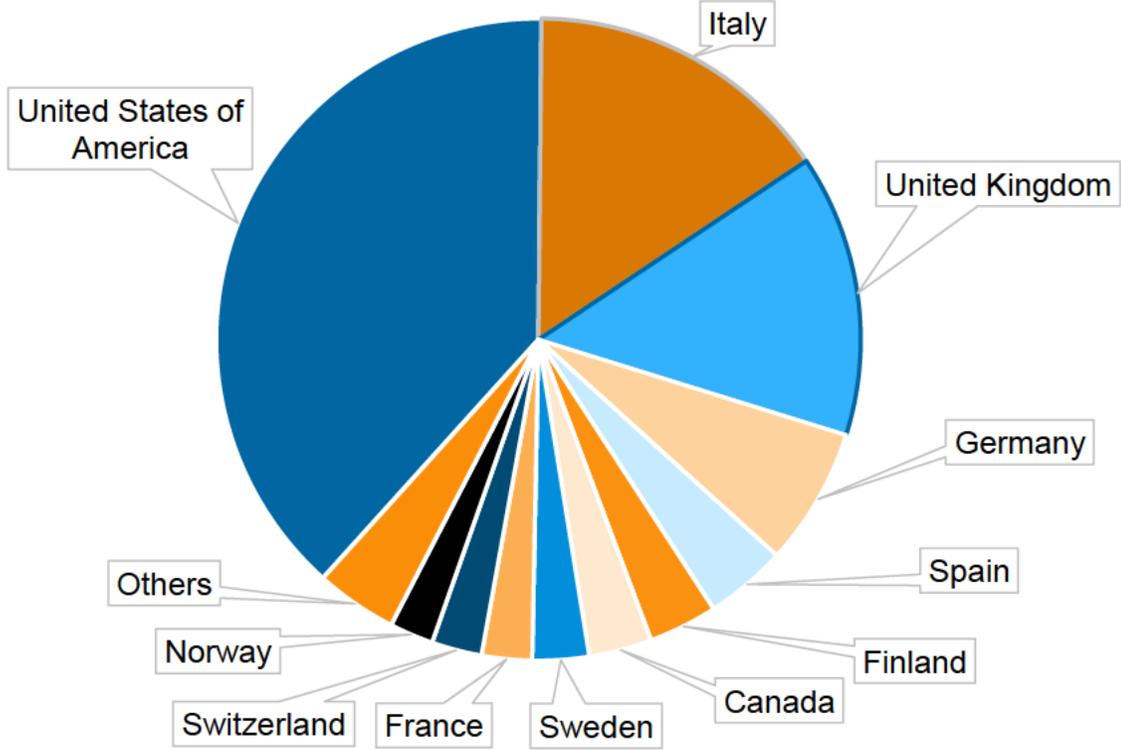
Only companies located in Western Europe and North America are included in the comparator groups.

The following slides set out analysis of the geographical characteristics of the comparator groups, including:

- the proportion of companies in the comparator groups from each country;
- the profitability of companies from each a selection of countries; and
- the impact of those countries on the baseline profit rate analysis.

Geographical distribution of the comparator group

There is wide representation across Western Europe and North America.

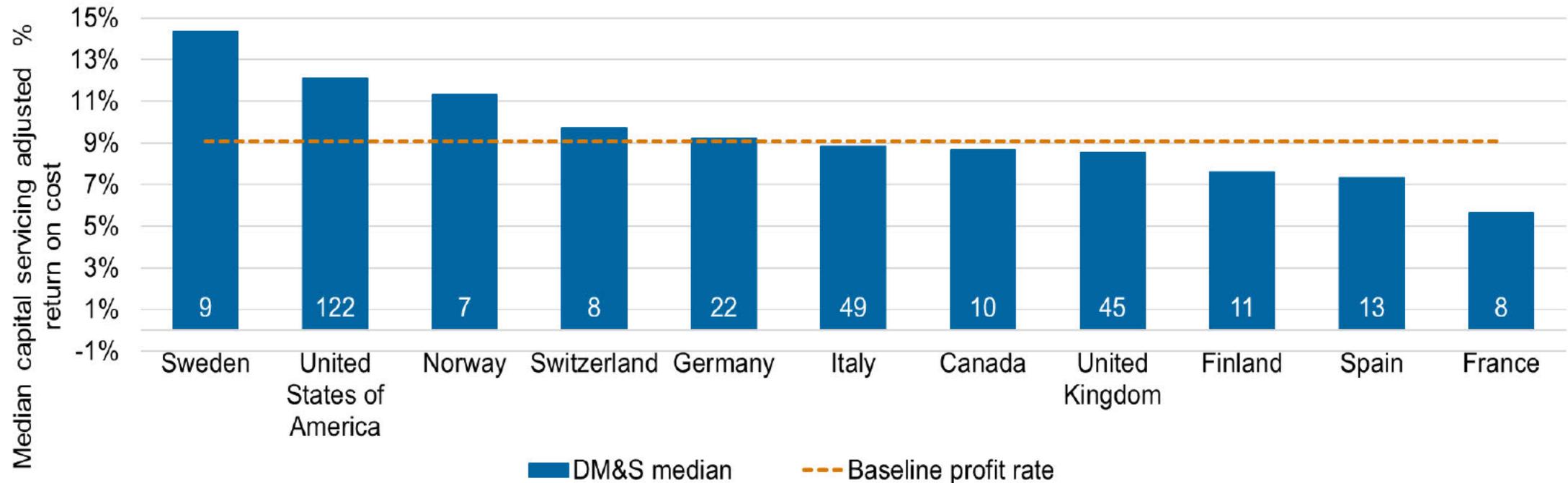


Notes: Countries with < 5 number of companies are merged in to 'Others', which includes: Austria, Belgium, Denmark, Ireland, Netherlands and Portugal.

Source: Orbis

Profitability by country

This chart shows the 2026/27 underlying rate for each country individually compared to the baseline profit rate. The number of companies is shown at the bottom of each bar.

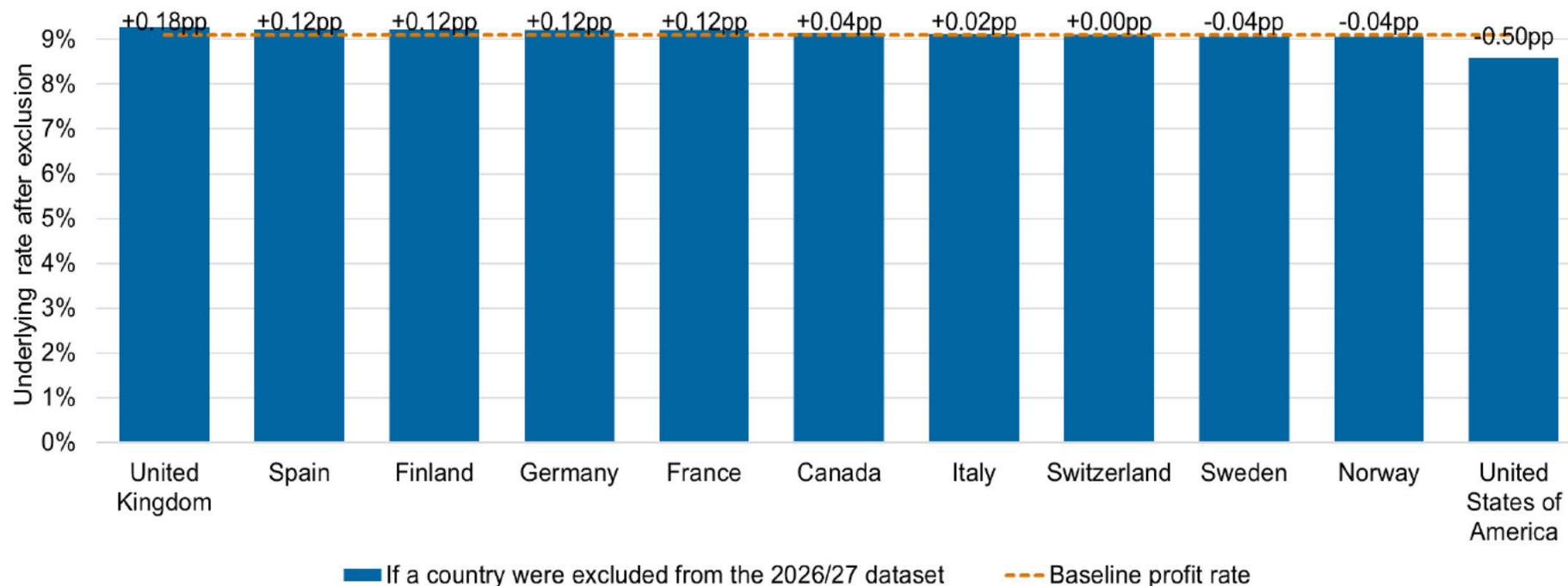


Notes: Only countries with ≥ 5 number of companies are shown

Source: Orbis, SSRO calculation

Sensitivity to the exclusion of a particular country

This chart shows what the baseline profit rate calculation would have been had a particular country been excluded from the analysis of the 2026/27 underlying rate. The figures shown are the differences to the actual baseline profit rate recommendation.



Notes: Only countries with ≥ 5 number of companies are shown

Source: Orbis, SSRO calculation