SSRO | Single Source Regulations Office

Recommendations to the Secretary of State

Review of Part 2 of the Defence Reform Act 2014 and the Single Source Contract Regulations 2014

Published July 2026

Contents

Introduction

The Single Source Regulations Office (SSRO) is required to keep under review the regulatory framework for qualifying defence contracts established by Part 2 of the Defence Reform Act 2014 (the Act) and the Single Source Contract Regulations 2014 (the SSCRs).

The Act requires the Secretary of State to undertake periodic reviews of Part 2 of the Act and the SSCRs, with the first taking place within three years of the SSCRs coming into force and further reviews at five-year intervals. The next review must therefore be completed by the end of 2027. However, the 2025 Defence Industrial Strategy[1] called for an earlier review of the SSCRs, with the aim of ensuring they incentivise investment and efficiency. The Strategic Defence Review recommended that the MOD should "develop a package of support for its industrial partners that removes barriers to collaboration and drives better, more cost-effective results", including working across Government to amend the SSCRs. A review is now underway by the Ministry of Defence (MOD) in response to that.

The SSRO may, in accordance with section 39 of the Act, recommend to the Secretary of State for Defence such changes to the Act and SSCRs as it considers appropriate. The SSRO delivered recommendations in June 2017 to support the first review, and again in June 2021 to support the second review. The SSRO is now providing recommendations to coincide with the MOD's plans and timeline for the current review. Many of the recommendations in this document are measures that are deliverable through changes to the SSCRs. However, some of our proposals require primary legislation to amend the Act and we have identified these explicitly. We are aware that the MOD's current plans do not involve changes to the Act, but believe it is important, even if part of a longer-term plan, that not only the SSCRs be amended, but also the Act, to ensure the regulatory framework operates optimally. Our recommendations are focused on incentivising investment, improving contract performance and greater efficiency of the administration of the framework.

In reviewing the regulatory framework, the SSRO has taken into account its statutory aims of ensuring that:

- the Government obtains good value for money in its expenditure on qualifying defence contracts (QDCs); and
- contractors are paid a fair and reasonable price under those contracts.

The recommendations also take account of the current policy context, including the Government's focus on accelerating defence capability delivery and readiness, and on ensuring that defence procurement supports wider economic growth, including by improving pace and removing unnecessary regulation and other barriers.

1 Defence Industrial Strategy 2025: Making Defence an Engine for Growth - GOV.UK, paragraph 7.2.4.1

The SSRO takes an evidence-based approach to reviewing the regulatory framework, and our recommendations are informed by a wide range of sources, drawn from the following:

- **Our statutory functions:** including through giving opinions or making determinations on matters referred to the SSRO; developing, consulting on and updating guidance on allowable costs, profit rate steps, alternative pricing, reporting and penalties (where stakeholder feedback and questions frequently highlight new issues to address); conducting compliance reviews of contractors' reporting (which may flag common misunderstandings or instances of non-compliance); operating the Defence Contract Analysis and Reporting System (DefCARS) and analysing the reported contract and supplier data; and carrying out the annual rates assessment process (during which observations may arise about the profit mechanism or its inputs).
- **Engagement with stakeholders:** including regular touchpoints such as helpdesk enquiries, onboarding and training sessions, workshops and routine meetings, and through the provision of informal, authoritative advice via our non-referral advice service (NRAS), which supports the MOD and industry stakeholders in resolving complex contract-specific issues.

In developing its recommendations, the SSRO balances the potential benefits of change against the associated costs and impacts, to ensure proportionality. Its approach is evidence-led and focused on improving the operation of the framework. The SSRO makes recommendations only where they would, if implemented, support its statutory aims and where there is a clear and sufficient evidential basis for change.

No	Recommendation
1	To ensure any change to the QDC threshold advocated by the MOD should be evidence led, with appropriate safeguards, and prospective only, with a single uniform threshold for new QDCs.
2	To reflect the aims of the Strategic Defence Review and Defence Industrial Strategy, we recommend reviewing the approach to using profit to incentivise optimal risk sharing and contractor performance.
3	To eliminate the complex procedure of removing profit through the "profit on cost once (POCO)" calculations and avoid paying profit where it is not necessary, introduce a "pass through" alternative pricing method where no extra profit is added to the cost of all or part of a contract.
4	To avoid unnecessary complexity, address rules for splitting contracts into components for pricing by simplifying pricing amendments (including allowing use of the original contract profit rate) and limiting component reporting to core cost/profit/pricing-method data, so components are required only where there is a genuine need and value is added.
5	To focus on optimisation and VFM, review and simplify supplier reporting requirements and move to an on-demand model for supplier reporting, where appropriate.
6	To avoid administrative burden on industry, redefine Defined Pricing Structure (DPS) reporting so that standard contract reports use the contractor's natural cost structure by default, with separate DPS reports required only when specified.

No	Recommendation
7	To encourage innovative small and medium sized enterprises (SMEs) to become more involved in single source contracting, enhance protections for sub-contractors. Introduce an explicit pre-award notification deadline for positive Qualifying Sub-Contract (QSC) assessments and enable a six-month window to appeal (including post-award).
8	To enhance consistency, reduce disputes and speed procurement, extend the statutory duty to "have regard to" all SSRO guidance.
9	To close the current enforcement gap, enable unilateral referrals to the SSRO for a binding determination on whether a contract (or sub-contract) is a QDC/QSC.
10	To support data integrity, comparability and system stability, retain the requirement for all reports to be submitted in pounds sterling, rather than functional currency reporting.

Wider thinking on the evolution of the regulatory framework and the SSRO's role

The single source regulatory framework has delivered important value for money benefits for taxpayers and fair and reasonable prices for contractors, providing structure, transparency and consistency in non-competitive defence procurement. Nearly half of UK defence equipment and support procurement falls under the framework: over £120bn since 2015, including major capabilities such as submarines, complex weapons and the nuclear deterrent. The SSRO provides 'guardrails' that underpin and enable swift, effective procurement and delivery of contracts.

There is, however, significant scope for the framework to operate more effectively and to support faster, more efficient delivery of defence capability. The global security environment has changed markedly since the framework was established. We believe there is broad recognition that the framework and the SSRO's role within it should evolve to respond to changed circumstances. The opportunity lies in strengthening the application of existing regulatory tools, improving the quality and use of data, and equipping the SSRO with proportionate and targeted powers that reinforce its independence and effectiveness. The current framework, while successful in establishing fairness and transparency, can be overly prescriptive and slow to adapt to new challenges.

Our view is that the following changes would support the government's broader policy objectives set out in the Strategic Defence Review (SDR) and Defence Industrial Strategy (DIS), such as growing the UK economy, improving industrial resilience and supporting innovation and SME access to Defence. These suggestions for improvement are set out below.

Adapting to evolving financing models

The framework will need to support the development of evolving financing and contracting models. As new approaches such as public-private partnerships or alternative financing structures are explored through the work of the Defence Investors Advisory Group (DIAG) to develop a Defence Finance and Investment Strategy, appropriate guardrails will be required to ensure value for money and effective oversight, particularly where monopoly characteristics apply. There may also be opportunities for the SSRO's expertise and methodologies to be applied in establishing and applying the new frameworks that are developed and we are pleased to be playing a positive role as part of the DIAG officials' group.

Using the framework strategically to strengthen UK defence industrial capacity and support economic growth

The framework should be used more strategically to support industrial and economic policy outcomes. Non-competitive procurement is a fallback when competition is not viable or due to reasons of national security. The regulatory framework can underpin long-term partnering, support investment in UK industrial capability, and foster innovation and SME access. With significant public expenditure (roughly 1% GDP) routed through the framework, there is meaningful scope to use it to help drive productivity, growth and strategic resilience, supported by clear regulatory structures and guidance. The SSRO could be used to establish guidance and regulatory structures to support these objectives.

Driving better portfolio-level oversight and assurance

There is substantial potential to strengthen portfolio-level oversight. Defence single source procurement can be overly focused on contract-by-contract arrangements and annualised budgeting, which limits the ability to take an enterprise view of major programmes and to use procurement as a strategic lever. An expanded role for the SSRO across the lifecycle of significant single source projects - supported by systematic use of DefCARS and other data - could provide earlier warning signals, stronger assurance, and better value for money outcomes.

Recent reviews of different regulatory regimes reinforce these themes. The Independent Water Commission's review led by Sir Jon Cunliffe (July 2025) recommended a more integrated and outcomes-focused regime in water - including stronger supervision of companies with a "whole-firm" view, and measures to restore investor confidence through regulatory stability. Taken together, these reviews support stable, evidence-led oversight and practical mechanisms working with industry that improve outcomes without adding undue process.

Enhancing regulatory independence and stability

The effectiveness of the framework also depends on the stability and independence of the regulator. Reviewing the SSRO's current funding model could help reinforce the perception of independence, support long-term planning and enable strategic investment in capability. A more stable, arm's-length funding arrangement could reduce annual uncertainty and ensure that resourcing remains aligned with the scale and complexity of the framework. This might include, for example, a long-term funding commitment from the Treasury that reinforces confidence in our independence.

Speed up decision making and delivery of contracts through strengthened use of the existing framework

More consistent use of the existing framework would drive improvements in both pace and value for money. The framework already contains important levers, guidance and data, but these are not always used as systematically as they could be. More consistent use of the framework would:

a. Drive value for money, through targeted enhancements to our DefCARS data platform - ensuring that it minimises the reporting obligation on industry and collects information focused on MOD's needs, including benchmarking costs and schedules.

b. Increase the pace of dispute resolution between contracting parties, through more regular use of the SSRO's ability to issue formal opinions and determinations.

c. Hold contracting parties to account for applying the framework as intended, through providing the SSRO with proportionate compliance and enforcement powers (in line with regulators in other sectors). Persistent non-compliance with reporting requirements remains a significant challenge in the single source regulatory framework.

Improving access to information to drive improvement in procurement and contract management

Enhancing the SSRO's ability to obtain relevant information for specific statutory functions would strengthen oversight and analysis. The SSRO's existing access to information is largely limited to standard reporting requirements. Providing the ability to request additional relevant information for defined functions would allow for more robust review, guidance and analytical work, similar to arrangements in other regulated sectors. The current limitations in information gathering powers were highlighted by the Defence Committee and Public Accounts Committee, and by the SSRO's own 2017 review of the Single Source Contract Regulations, which noted that the SSRO has at times been unable to obtain the data necessary to carry out its review, guidance and analysis functions.

One such statutory function is providing assistance or services to the Secretary of State pursuant to a request from the MOD under section 37 of the Act. The SSRO should be able to require relevant information from contracting parties that is necessary to fulfil that section 37 arrangement effectively. Granting such powers, with appropriate safeguards, would bring the SSRO in line with other regulators and enable more rigorous oversight and analysis.

Keeping the framework agile and responsive to market conditions and government objectives

To keep the framework responsive to changing circumstances, there is a case for enabling certain key parameters to be adjusted periodically. At present, changes to aspects of the regulatory framework require formal legislative amendment, which is time-consuming and lacks flexibility. Allowing for periodic adjustments within a defined and transparent process would support better alignment with emerging data, trends and policy objectives.

The SSRO sees value in a specific and limited 'enabling' power in the Act allowing the SSRO, as the independent expert body, or the Secretary of State to adjust specified parameters of the framework - such as QDC/QSC thresholds, the profit rate step boundaries and the final price adjustment. We suggest setting an expectation that, on a periodic basis (for example alongside the statutory five-year review) the SSRO considers parameter updates informed by published analysis and consultation with the MOD and industry. This would provide a predictable mechanism for making changes at pace and for keeping parameters aligned with evidence (for example, inflation and data trends) and policy.

This approach mirrors practice in other regulated sectors, where key regulatory parameters - such as price caps, thresholds or allowed revenues - are periodically updated, often following a set process of consultation. It also applies the government's 'constrained discretion' principle - autonomy to respond to changing circumstances within defined limits, transparent criteria and parliamentary oversight - an approach discussed in recent cross-sector reviews, including Cunliffe's Independent Water Commission and the Nuclear Regulatory Review led by John Fingleton.

Collectively, these proposals could proportionately strengthen the existing framework. Many improvements can be made without legislative change, while targeted statutory adjustments would enhance the SSRO's ability to provide independent assurance. A more consistent, data-driven and strategically oriented application of the framework would support faster procurement, better industrial outcomes and improved value for money whilst minimising burdens on industry.

Recommendations by the SSRO

Recommendation 1: Review and revise QDC thresholds (evidence-based and prospective)

Introduction

1.1 Regulation 6 of the SSCRs sets the minimum value for a QDC at £5 million.[2] This threshold has remained unchanged since the SSCRs came into force in 2014,[3] and a decade of inflation has effectively reduced the QDC threshold in real terms. The MOD is considering raising the current £5 million level.

1.2 The SSRO recognises the Government's and MOD's commitment to reducing the administrative cost of regulation and reporting obligations, particularly for SMEs, and agrees that the threshold should be reviewed. Any change however should be evidence-based and designed to preserve the framework's key protections and transparency.

The SSRO's view

1.3 The MOD has indicated it may increase the QDC threshold substantially (up to £25 million). Had a QDC threshold of £25 million been applied to existing active QDCs, approximately 58% of those QDCs (249) representing £2.5 billion (around 2.4% of the total active estimated contract price)[4] would not have fallen under the scrutiny of the framework. But a large reduction in scope should be balanced against clear trade-offs:

- Reduced statutory protections: fewer single-source contracts subject to statutory profit and cost controls, intended to achieve value for money and fair and reasonable prices. This places an onus on the MOD to recreate assurance by other means.
- Impact on smaller suppliers: by removing them from the protections the framework provides.
- Less transparency and weaker benchmarking: a threshold increase would reduce the availability of statutory transparency and benchmarking data, which would be skewed towards higher value contracts held almost entirely by major defence contractors, excluding smaller and more diverse contractors.

1.4 The SSRO's proposal is that any change to the threshold should be carefully considered, proportionate and not unduly compromise the regulatory framework's effectiveness in delivering value for money for the taxpayer. The rationale for a substantial increase needs to be tested.

1.5 In any threshold-change scenario, the MOD should be clear about how it will secure value for money and fair and reasonable prices for single-source contracts that fall below the revised threshold, including what pricing principles would be applied contractually (rather than statutorily) and what if any reporting requirements would be maintained.

2 The minimum value for a qualifying subcontract (QSC) is £25 million.
3 Other than for a temporary period before 31 March 2015 when, for a QDC, the threshold was £500 million.
4 "Contract price" is used as a proxy here for contract value. Figures as at 20 August 2025.

1.6 Our view is that the MOD should consider a modest increase to the threshold. Setting the threshold at £10 million would still be a significant change (doubling the current £5 million level), is closer to an inflation-adjusted uplift and, if applied to the current group of active QDCs[5], would result in around 145 of 427 active QDCs (34%) - or approximately £0.8 billion (0.8%) of the total active estimated contract price - falling below the threshold, reducing the volume in scope without substantially reducing the value of contracts in the framework. Reducing administrative burden could be secured through the application of a lighter touch reporting model for lower value contracts (see, for example, Recommendation 6 on redefining DPS reporting).

1.7 Reviewing the QDC threshold on an evidence-led basis, with any resulting change applied prospectively, would improve proportionality by focusing statutory pricing and reporting requirements on higher-value contracts where regulatory oversight adds the most value.

1.8 By maintaining clarity through a single uniform threshold and managing trade-offs around transparency and benchmarking data, the following recommendations would help reduce avoidable burden, lowering compliance costs while keeping the framework effective.

SSRO's recommendations	
1)	**Any change to the QDC threshold should be evidence-based and designed with appropriate safeguards.** The MOD should assess the deregulatory benefits from raising the threshold against the need for pricing protections and loss of comparator data that the framework affords.
2)	**Application should be prospective.** All contracts that are QDCs prior to any change to the contract value threshold should remain subject to the regulatory framework. This maintains trust and certainty in the framework and preserves the completeness of data to contract completion for future benchmarking.
3)	**There should be a single threshold applied uniformly to all new QDCs.** Simplicity and clarity should be guiding principles.
4)	**Consideration should be given to establishing periodic reviews of the QDC/QSC thresholds.** This could be aligned with the Secretary of State's review of the SSCR to take account of inflationary pressures. Alternatively, the Act could be amended to insert a specific, limited "enabling" power to allow the Secretary of State or the SSRO following consultation to alter the thresholds based on published SSRO analysis. It may also be necessary to review other thresholds, including the final price adjustment, to recalibrate them to the new QDC threshold.
5)	**The MOD should consider how it will manage the pricing of new single source contracts that fall outside the regulatory framework on account of an increased QDC threshold applying** to ensure it continues to receive value for money in the absence of competition whilst providing fair and reasonable prices for suppliers even where not enforced by statute.

5 "Contract price" is use as a proxy here for contract value. Figures as at 20 August 2025.

Recommendation 2: Review the permitted range for the contract profit rate (with safeguards)

Introduction

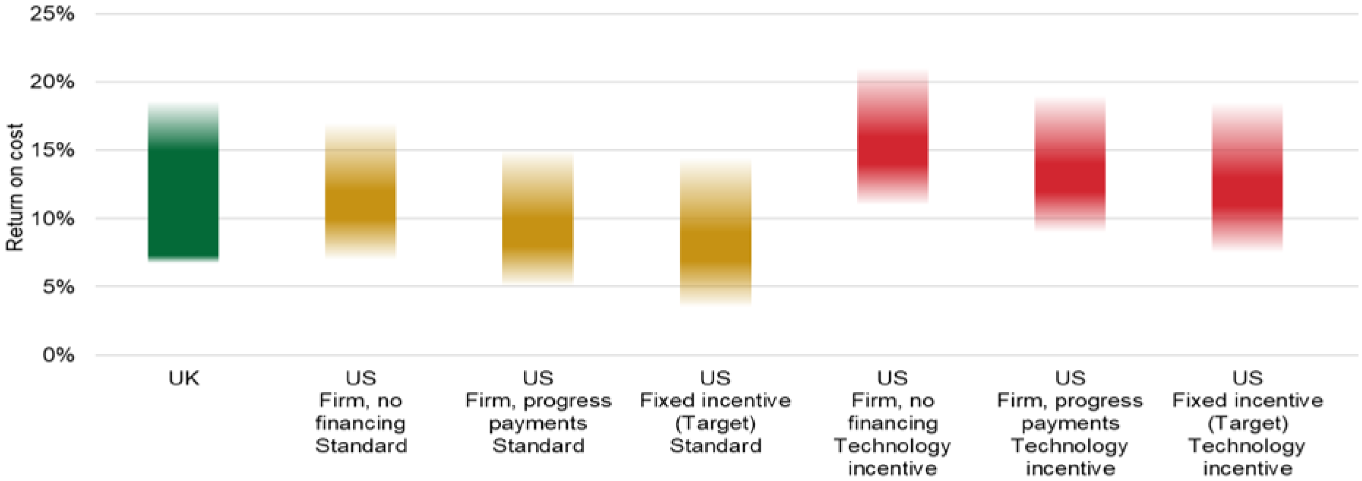
2.1 The price payable under a QDC or QSC using the default pricing method must be determined using the statutory formula, which incorporates a contract profit rate (CPR) calculated by applying a four-step process. The baseline profit rate (BPR) used at step 1 and capital servicing rates (CSRs) used at step 4 are assessed annually by the SSRO and determined by the Secretary of State for Defence. The cost risk adjustment (CRA) step 2, applied to adjust for financial risk, and the incentive adjustment (IA) step 3, which rewards enhanced performance of provisions of the contract, are agreed between contracting parties.

2.2 The MOD has expressed the desire to evaluate the range of potential CPRs to introduce stronger incentive mechanisms in relation to contract performance (as set out in the DIS) and provide greater rewards for innovation whilst reflecting the reality of risk sharing. In doing so, the MOD may consider allowing for higher profit to be made to reward improved performance through greater efficiency, delivery times and innovation as well as for high-risk contracts, whilst considering lower profits for underperformance and for low-risk contracts. The SSRO notes that the current framework already permits a range of achievable CPRs, and that for many contracts the existing range appears adequate and comparable with other regimes. Any widening should therefore be evidence-based, reserved for clearly defined circumstances, and accompanied by clear guardrails and implementation arrangements (including training and effective use of SSRO referral/determination powers) to avoid paying higher profit for business-as-usual outcomes.

The SSRO's view

2.3 The SSRO is supportive of exploring ways to adapt the regulatory framework to better support the MOD's policy aims in this area, where these are consistent with value for money and fair and reasonable prices. SSRO analysis of market benchmarks and international comparators show that market rates of profit for some sectors are lower than the current achievable bounds and where similar regimes allow for both lower and higher rates of profit than the UK these are only where certain often stringent criteria are met. The current framework allows for a wide range of CPRs (c.6.8% to 18.6%) to be accommodated within the current methodology; where similar regimes show higher maximums, those are typically achievable only where specific, demanding criteria are met (and therefore in a narrow set of circumstances) - see figure 1 below.

Figure 1: Available profit ranges in the United States



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

2.4 However, in assessing any changes, the MOD must ensure it considers the impact of those changes on the entire portfolio of contracts within the framework, to which the extended range of profits will be available, and not just the largest suppliers. Additionally, safeguards need to be in place around the increased CPR range, with the necessary training and enforcement required to ensure that the contractual outcomes the MOD is seeking are achieved in return for higher profit rates, and that failure to deliver is not rewarded. This should be supported by the effective use of referrals to the SSRO to resolve disputes.

2.5 Profit on qualifying contracts can be a strong lever for advancing policy objectives related to contractor performance. Further benefits could be achieved by reviewing how the mechanism operates. In particular ensuring that the CRA and IA are calibrated using the best available evidence may help optimise contractual risk-sharing, reward exceptional performance, and provide stronger disincentives for failure. This would more closely align the profit mechanism with the direction set by the SDR and the DIS, supporting stronger delivery and pace in defence procurement.

SSRO's recommendations

1) **Any widening of the Contract Profit range must be evidence based.** This would include ensuring that desirable contract outcomes are suitably rewarded, thereby incentivising contractors to align their actions with the MOD's objectives, both in the short and long term.

For most contracts, the existing "normal" range of profit appears adequate, and the contracting parties should not need to spend time during negotiations discussing whether to depart from this range. If the range is widened, legislative safeguards should be introduced to explicitly reserve the extended range of the adjustments for types of contracts and contracting arrangements that justify its use.

SSRO's recommendations	
2)	**Robust legislative control and on-the-ground implementation plans should be put in place to support any IA change.** At present, the IA is used in less than 20 per cent of qualifying contracts (and fewer contracts include the full amount). If higher profit rates are introduced, a specific and measurable performance framework for delivery against these larger incentives must be established, supported by enhanced training for MOD staff who negotiate and manage these contracts. The success of these measures will depend heavily on the MOD's implementation and the role of contracting officers in agreeing IAs in line with the legislation and statutory guidance. The MOD needs to avoid paying more profit for outcomes that would have been achieved absent the incentive - it needs to induce additional effort or investment, which in turn results in enhanced performance, and not compensate for business as usual where the outcomes sought are deliverable. The availability of an IA should, therefore, be reserved for those contracts where the MOD is seeking specific demanding outcomes over which the contractor has material control, but which are not certain and whose outcome is hard to contract for.
3)	**Legislative safeguards should be put in place to direct the navigation of the CRA.** The MOD is not currently exploiting the full range of the CRAs on its existing contracts, or it is offering higher CRAs with little evidence of risk being transferred. These issues need to be addressed alongside any potential widening of the CRA range. The SSRO's ability to issue formal opinions and make legally binding determinations provide the ultimate safeguard against misapplication of any extension to pricing provisions. In updating the legislation, the MOD must ensure that these referral powers are aligned with the changes.
4)	**The MOD should consider how it might better align the available profit with competitive market rates and the approaches taken by other international regimes or other regulated sectors where that is justified by the evidence.** In considering options to encourage innovation and a long-term focus on investment, the MOD should also look to what works in other regulated sectors, which would require major reforms to the existing primary legislation such as directly regulating the investment decisions made by defence suppliers themselves, rather than just the costs and profit they can recover under contracts with the MOD.
5)	**Additional controls should apply to maximum rates of profit. This would prevent contract profit rates from exceeding levels that would be expected in a competitive market.** In this regard, it may also be necessary to review the banding of the final price adjustment to recalibrate it to any new range of contract profit rates, both to protect against excess profits and to mitigate the risk of unconscionable losses if the lower band of the CRA is significantly reduced. The regulatory framework is borne out of a need to mitigate the risk to value for money, where in the absence of competition contractors can seek to increase profit without risk of being undercut. A significant widening of the profit band reduces the constraints on profit, which act as a key statutory protection for the MOD. This in turn places more reliance on how the framework is applied by the contracting officers to ensure value for money and fair prices are achieved, and the MOD should plan for adequate training in its implementation of any changes.

Recommendation 3: Reduce inappropriate profit layering in the supply chain and introduce pass-through

Introduction

3.1 Profit layering occurs when each company in a supply chain adds its own markup to the cost of the goods or services it is supplying. As work gets passed from one contractor to another, such as from a supplier/sub-contractor to a QDC holder, each layer adds its own profit margin. Profit layering is a normal part of how supply chains operate and should not be seen as inherently undesirable often reflecting genuine value added, but there are some instances where this may not be the case and mitigations are required.

3.2 The framework's pricing regulations presents two challenges in respect of the way it deals with profit layering:

- By forcing the addition of profit in circumstances where it is not wanted by the contracting parties, without any provision to avoid this ("pass through").
- By requiring a complex adjustment process to remove profit layering on single source contracts between connected parties ("profit on cost once - POCO" or more recently "costs associated with group profits").

3.3 There are circumstances where contracting parties to QDCs do not wish to add layers of profit in the supply chain but may be required to do so under the SSCRs. There are also cases where contractors have reported that complying with the requirements to adjust for profit layering in the absence of a competitive process for sub-contracts with another connected company has led to the application of workarounds. The SSRO thinks these are legitimate issues and this aspect of the framework requires reform and significant simplification.

The SSRO's view

3.4 Introducing a "pass through" alternative pricing method would remove unwarranted profit and reduce complexity by ensuring profit is applied only where it adds value, and not to costs that are simply being transferred through the supply chain. This would remove the need for workarounds, therefore simplifying compliance, and provide a solution for pricing arrangements such as handling-agent activity or certain indemnity payments where profit would not be appropriate.

3.5 Replacing or simplifying the existing POCO approach through a simpler rule set would reduce administrative burden and risk of dispute, while preserving protections that ensure contractors can still recover allowable costs and receive a fair rate of profit on their own costs. Overall, the change would support better value for money in single source procurement.

SSRO's recommendations	
1)	**A new "pass-through" alternative pricing method should be introduced that allows the price of a contract, or components of a contract, to be determined based solely on allowable costs, with no profit added.** This would create an accessible and simple solution. Contractors would still recover all their allowable costs (including appropriate overhead allocations) under a pass-through arrangement, and profit would be added to all other allowable costs under the contract where it was desirable and justified. This would allow for simplification of the current POCO arrangements and for payments to be made between parties, by agreement, without profit needing to be added. This would ensure contractors in the supply chain still have their full rate of profit applied on their own allowable costs (including capital servicing) but could not earn profit on profit through subcontracting to their own subsidiaries. This would vastly simplify the process whilst delivering the policy intent and avoiding the current practice of workarounds. Protections would be required to ensure the MOD could not deny contractors a fair rate of profit when it is due. This would also potentially simplify reporting in line with the approach to existing alternative pricing methods which have reduced reporting requirements.
2)	**The MOD should replace the current POCO regulations with a clear rule: no additional profit may be added to the prices of group subcontracts or further group sub-contacts.** Through legislation mandating the use of the new pass-through alternative pricing rule for group sub-contracts throughout the supply chain, this would remove the complexity of adding layers of profit and then calculating deductions.
3)	**The MOD should review the scope of POCO in relation to connected parties.** The scope of restricting profit layering on sub-contracts is more widespread in other international regimes compared to the UK, with some nations preventing it entirely.[6] Maintaining consistency with accounting standards would make identifying these relationships through the disclosure requirements straightforward. The MOD should consider bringing into scope joint venture relationships, which would not meet the definition of a "group undertaking" by connected parties to prevent artificial generation of profit layering. Accounting standards use a concept of "significant influence"[7], which is concerned with the power to participate in the financial and operating policy decisions of the investee (generally greater than 20% ownership) as a threshold for additional reporting and disclosure of information in a group's financial statements, even though the associated company is not controlled.
4)	**The MOD should seek confirmation from HMRC that POCO arrangements do not conflict with related party transaction tax requirements.** Most tax jurisdictions require related party transactions to be priced at arms-length (i.e. the price independent parties would have agreed). Industry has raised concerns that POCO could conflict with this principle. However, where a statutorily controlled price applies, such as under the SSCRs, tax authorities often treat that regulated price as effectively substituting for an arm's length benchmark. It should be noted that the SSRO does not know of any instances where a POCO adjusted price has been challenged by the tax authorities as inconsistent with the arm's length principle.

6 UK Single Source Regulations Office, Same Challenges, Different Solutions: A survey of international arrangements for single source contracting (2025). All International Industrial Cost Analysis and Verification Community of Practice members (Australia, Belgium, Canada, Germany, Denmark, European Space Agency, France, Netherlands, Norway and USA) reported that adjustments are made to contract prices to prevent profit layering, with some nations disallowing it entirely.

7 IFRS (2011), IAS 28 Investments in Associates and Joint Ventures, https://www.ifrs.org/issued-standards/list-of-standards/ias-28-investments-in-associates-and-joint-ventures/

Recommendation 4: Simplify contract components rules to reduce complexity

Introduction

4.1 Changes to the Act in 2024 introduced the definition of a "component" of a QDC or QSC. A component, in relation to a contract, is defined as a part of a contract that is treated distinctly from other parts when determining the price payable under the contract.

4.2 The introduction of componentisation as defined under the Act enables contracts to be priced in multiple parts, including by using different pricing methods or profit rates, with each part identified separately in statutory reporting. Previously a QDC or QSC could include multiple pricing methods but only one CPR (unless later amended), and reporting in practice at the whole-contract level (contrary to what was permitted) using a blended single contract profit rate, obscuring transparency. The MOD emphasised the importance of separately identifying pricing data for different components in statutory reports, noting that the reporting costs are allowable, whilst contractors had raised and continue to raise concerns about the additional reporting obligation created by componentisation given QDCs can be subject to numerous pricing amendments.

4.3 The SSRO acknowledges an increase in the volume of statutory reporting arising from the changes to componentisation enacted in April 2024, with an additional 589 components created on DefCARS since April 2024. Whilst appreciating the MOD's position, the SSRO believes there is scope to simplify pricing requirements for components of QDCs and QSCs, reducing the volume of associated reporting while still providing the MOD with transparency.

The SSRO's view

4.4 Simplifying the rules for pricing amendments and the treatment of components and clarifying their application to QSCs would reduce avoidable negotiation time and administrative effort across the life of a contract. Allowing, by agreement, the use of the original contract profit rate when pricing amendments would reduce pricing anomalies, particularly where changes involve descoping or straightforward adjustments to the original contract. Rationalising component reporting so it focuses on the core cost, profit and pricing-method information would reduce reporting volumes and potentially improve the usability of reported data. Collectively, these changes would support pace and simplicity while maintaining transparency where separate component treatment adds genuine value.

SSRO's recommendations	
1)	**The SSRO recommends simplifying the Schedule and associated pricing provisions to allow the use of the original CPR**, rather than requiring a new CPR to be determined for each amendment. The SSRO also recommends that where components are required to be reported on, the extent of this reporting should be limited to basic data, including the costs, profit and pricing method associated with that component. This is a deliberate, and in our view, acceptable trade off: it prioritises simplicity over precision, in the same way that the CPR for the original contract price of a QDC or QSC continues to apply throughout the life of the contract even though the BPR and CSRs may change significantly over time. This change would remove the need to treat many amendments as new components where the parties have no desire to maintain separate pricing and reporting. However, the option to preserve that separation should remain if parties consider it necessary. This approach would resolve the anomaly which results in the MOD and contractor getting the wrong price reduction when descoping contracts as well as reduce the need for workarounds to comply with the current Schedule. The Schedule is itself a complex part of the legislation which parties routinely struggle to understand and comply with and there remains a broader opportunity for the MOD to simplify this aspect of the framework.
2)	**The MOD should update the SSCRs to ensure they are clear and aligned to the policy intent around components of a QSC and the associated reporting requirements.** The MOD should retain the current pricing arrangements, allowing QSCs (as is the case for QDCs) to be priced in distinct parts, but review the extent of reporting requirements for each part of a QSC. The SSCRs prescribe several circumstances in which a QDC has components, such as when its price is determined using multiple contract profit rates or pricing methods and the Act confirms that the treatment of components for QSCs applies in practice in the same way as for QDCs with the associated reporting requirements. However, the modifications to the SSCRs for QSCs (in particular the disapplication of regulation 9A) have created uncertainty. This has led to some confusion and disagreement among stakeholders.

Recommendation 5: Transform supplier reporting to a more proportionate, on-demand model

Introduction

5.1 Part 6 of the SSCRs sets out several supplier reporting obligations (overhead reports and strategic reports) intended to provide cost transparency and support the agreement of cost recovery rates.

5.2 The current reporting requirements are perceived by industry as imposing a significant administrative obligation on suppliers and capture some suppliers that objectively the MOD may have less interest in for a given year. To our knowledge, some submissions are not reviewed or used by the MOD, and when a supplier meets the criteria but fails to submit, enforcement has been inconsistent.

5.3 Some definitions in the SSCRs are unclear, causing confusion over who must report. For instance, the definition of a Qualifying Business Unit (QBU) refers to the term “separate financial accounting statements”, which is not defined and therefore causes difficultly for companies in determining whether a particular part of their business qualifies as a QBU. This ambiguity, along with phrases like “the total value of what is provided by a QBU”, results in a lack of consistent application.

5.4 The content and format of the required supplier reports are not standardised in the SSCRs and as such the SSRO’s reporting guidance provides only limited structure for some reports to accommodate different stakeholders’ internal systems. This results in suppliers often using their own format which differ in levels of detail, categorisation of costs and interpretation of requirements. This prevents easy comparison or benchmarking across suppliers.

5.5 The SSRO’s analysis also suggests that review by the MOD of the reported information is uneven: for 2024/25 supplier reports, the MOD reviewed 53 per cent within DefCARS itself.[8]

The SSRO’s view

5.6 The SSRO proposes that supplier reporting should be made more proportionate, less ambiguous, more consistent and useful, supporting improved utilisation through targeted legislative changes. Investment in DefCARS and related digital capability would help maximise the benefits by making the data easier to access and use.

5.7 Supplier reporting should be on an “as-needed” basis rather than automatic.

5.8 The content and format of supplier reports should be standardised, so that the data provided is consistent and more user-friendly, improving traceability to facilitate analysis of variances and benchmarking across suppliers, with supplier reporting definitions clarified to remove ambiguity.

8 SSRO’s Annual_Compliance_Bulletin_2025, Page 8

5.9 Moving supplier reporting to an on-demand model would reduce the reporting obligation for suppliers by ensuring information is provided when it is expected to be used, rather than routinely and irrespective of utility. This would support better value for money by reducing avoidable compliance effort and enabling MOD and SSRO analytical attention to focus on targeted, relevant datasets. Clarifying key definitions and further standardising report structures would also improve consistency and comparability, making it easier to interpret and benchmark reported information as required. Overall, the approach would strengthen proportionality and data usefulness while supporting the Government's wider deregulatory objectives.

SSRO's recommendations	
1)	**The MOD should introduce only on-demand supplier reporting.** Supplier reporting should be only on an "as-needed" basis rather than automatic, thereby reducing obligations on both suppliers and the MOD, and contributing to value for money. The framework should make the current obligation to submit the following overhead and strategic supplier reports: Actual and Estimated Rates Claim Reports (ARCR/ERCR), Estimated Rates Agreement Pricing Statement (ERAPS), Qualifying Business Unit cost analysis reports comprising QBU Actual and Estimate Cost Analysis Reports (QBUCAR), Rates Comparison Report (RCR), Strategic Industry Capacity Report (SICR), Small and Medium Enterprise report (SME), only a requirement upon written notification from the Secretary of State rather than automatically triggered by threshold conditions. This ensures reporting effort is focused on information the MOD will use, reducing unnecessary effort by suppliers. The existing thresholds should be retained and used to determine from which suppliers the Secretary of State may require reports to be submitted.
2)	**The SSCRs should clarify key definitions related to supplier reporting.** Ambiguous terms such as "separate financial accounting statements," "total value of what is provided by a QBU" and "material assumption" should be defined to ensure consistent application and remove ambiguity. The legislation could through better definitions reduce uncertainty, and contractors would be able to determine with certainty (and in advance) whether they have reportable units. It should also be clear whether the ongoing contract condition can be met by aggregating smaller contracts.
3)	**The SSCRs should standardise the content and format of Supplier reports across the board** so that the data provided is consistent and more user-friendly, facilitating analysis of variances and benchmarking across suppliers as well as improved traceability of data from proposed rates to actuals. ARCRs, ERCRs and QBUCARs should use consistent cost categories and structures to enable direct comparison and reconciliation. This may require a legislated template or SSRO-prescribed format. Legislation should ensure the ERAPS captures material assumptions and factors in a consistent way, especially those that have a material impact, aiding the MOD in understanding and challenging forward-looking rates.
4)	**The SSCRs should refine headcount reporting** changing the headcount and staffing data in the QBU reports to an average full-time equivalent (FTE) staff as a more meaningful measure of workforce size over time. The distinction between permanent and contractor staff should be clarified to ensure consistent reporting across suppliers.

SSRO's recommendations
5) **The MOD should align the reporting of cost recovery rates with what happens in practice.** The "Actual values" section for cost recovery rates in the QBUCAR, which in reality, at the time of reporting, may still be proposed (claimed) rates rather than agreed should be renamed "Cost Recovery Rate Claims" (or similar) to reflect that it is intended to capture the rates the supplier is claiming or using, whether the MOD has formally promulgated them or not. The SSCRs should clarify that the rates provided in the QBUCAR must correspond with those used or proposed in the ARCR and ERCR for the same periods, making the QBUCAR a one-stop summary for all relevant rate data. The SSRO also sees the benefit in capturing the final "agreed" rates data once negotiations conclude and these being recorded in DefCARS ensuring both claimed and agreed rates data is captured for future benchmarking and analysis.

Recommendation 6: Refocus Defined Pricing Structure (DPS)[9] reporting to reduce duplication and improve usability

Introduction

6.1 The purpose of the DPS is to support benchmarking and estimating the cost of future defence capabilities, by establishing a single, centrally available, comprehensive data set to determine relationships between costs and outputs, and record the estimated and outturn costs, for every QDC and QSC.

6.2 From the inception of the regulatory framework up to 31 March 2024, 610 contracts have been subject to DPS reporting, covering approximately £86.7 billion in total allowable costs. Of these, approximately 66% of contracts used five or fewer cost categories, even on very high-value projects, and 33% reported their costs under only a single DPS line. This means the DPS data often fails to provide the granular cost split it was intended to capture. This inconsistent depth of reporting suggests that many contractors are not following SSRO guidance or that the DPS templates are not always well-suited, resulting in limited compliance. Contractors might not see the value in providing a detailed DPS breakdown if it is not enforced or utilised and focus instead on their own cost structure used for internal control.

6.3 By contrast, the contractor's own cost reporting structures (used where Quarterly Contract Reports (QCRs)[10] are applicable) are entirely bespoke. The SSRO's thematic review of DPS and contractor reporting structures compared the detailed QCR cost breakdown to the DPS breakdown for the same contracts, finding in 82% of the cases examined that they did not match and that most contractors did not submit a "mapping" to explain how internal cost categories relate to the DPS categories. There is also no common standard or taxonomy with different contractors breaking down costs by nature, by function or work breakdown structure (WBS).

6.4 The lack of mapping or standardisation means that the QCR data cannot readily be aggregated or compared across suppliers, with the result that the MOD cannot effectively use that data for parametric cost estimating or benchmarking one project against another.

The SSRO's view

6.5 The SSRO proposes a significant refocusing of how cost breakdown data are collected under the regulatory framework. The guiding principles of the proposal are:

- request granular data only when it will be used (with sufficient notice);
- use contractors' internal cost structures by default (since those align with how they price and manage their projects); and
- deploy the DPS selectively as a tool for specific analytical needs rather than universally.

9 The Defined Pricing Structure (DPS) is a product and service-orientated hierarchy. The purpose is to support benchmarking and parametric estimating.

10 A QCR is the statutory quarterly return for higher-value contracts; it reports costs using the contractor's own (bespoke) cost breakdown structure rather than the DPS.

6.6 Redefining DPS reporting so that standard contract reports use contractors' natural cost structures by default would reduce duplication and unnecessary re-mapping effort, while improving clarity by aligning statutory reporting with how contracts are managed in practice. A targeted approach - with separate DPS reports required only where specified - would enable granular DPS data to be collected selectively for contracts where it will be used for benchmarking or cost modelling, improving the quality and utilisation of the dataset. This would better balance standardisation with proportionality, reducing routine effort while preserving the ability to obtain structured information when it provides clear analytical value.

SSRO's recommendations	
1)	**The SSRO recommends that contractors should report cost data using their own internal cost structures by default** in standard contract reports such as the CIR, ICR, and CCR, rather than being required to use the DPS, aligning contract reporting with how contracts are priced and managed. This is consistent with the direction in the MOD's 2022 command paper.[11] This approach acknowledges that each contractor may categorise costs differently; however, this would facilitate a more meaningful dialogue between the MOD and contractor, as it reflects the reality of the project's cost management.
2)	**The SSRO recommends that DPS reporting should become targeted and optional with the DPS dataset being maintained for strategic use.** This decoupling of DPS submissions will ensure that DPS data is collected with the intention of actively using it for analysis, making them purposeful. Standalone Initial, Interim, and Final DPS reports should be introduced and required only where specified in the Contract Reporting Plan (CRP) or at the direction of the Secretary of State. The MOD and SSRO should identify criteria for when a DPS report is required. This would ensure that DPS data are collected only when it is necessary for cost modelling or benchmarking, thereby focusing effort where it delivers the most value. In the absence of such a requirement, contractors would rely solely on their own reporting structures. The SSRO will continue to maintain DefCARS as the repository for DPS data from selected contracts with compliance activities to ensure high quality data that can inform analysis such as cost benchmarking and long-term planning that provide insights into contracting within the framework. The SSRO envisages that under this model, most contracts would not need separate DPS reports.

11 Defence and Security Industrial Strategy: reform of the Single Source Contract Regulations

Recommendation 7: Strengthen protections for sub-contractors (notification and appeal rights)

Introduction

7.1 Under the regulatory framework, a QSC is a sub-contract which satisfies the conditions set out in section 28 of the Act and Regulation 58. However, a QSC which meets these conditions is not subject to the pricing and transparency requirements of the regulatory framework automatically, but only once the contracting authority has made a positive QSC assessment and provided written notice to the MOD and the sub-contractor of this.

7.2 In practice, sub-contractors can face unfairness and uncertainty as to QSC status (and associated pricing and transparency requirements) as there are weaknesses in the drafting of both the notification rules and the ability to challenge QSC decisions:

- Timely and clear notification. Sub-contractors, particularly SMEs, need certainty about whether a contract to which they are intending to be a party falls under the regulatory framework. Late notifications lead to confusion and uncertainty of obligations and, for the MOD, a delayed or failed notification jeopardises enforceability of reporting.
- Right to challenge inclusion or exclusion. Sub-contractors do not currently have a clear mechanism to contest their contract (or proposed contract) being assessed as a QSC. A sub-contractor can appeal to the SSRO against a positive QSC assessment within six months of receiving the assessment, but that right is extinguished by entering into the contract.

7.3 The Act has been amended to enable the SSCRs to provide for a right of appeal against a negative QSC assessment, but the SSCRs currently contain no provision to this effect, so a sub-contractor therefore currently has no right, at any time, to appeal a negative QSC assessment.

The SSRO's view

7.4 The SSRO's position is that there should be enhanced protections for sub-contractors and prospective sub-contractors. It proposes improvements in relation to notification deadlines and the right of appeal.

7.5 Providing late notification should not prevent a sub-contract that otherwise meets the statutory conditions from becoming a qualifying sub-contract, as this would create a clear avoidance opportunity and would be inconsistent with the wider anti-avoidance mechanisms in the regulatory framework.

7.6 Enhancing protections for sub-contractors through clear pre-award notification requirements and a practical appeal window would reduce uncertainty and support fair treatment for suppliers whose contracts may be brought into the framework as QSCs. Earlier and more reliable notification would help sub-contractors prepare for any statutory obligations and reduce the risk of uncertain compliance requirements after award. Allowing a reasonable period to appeal - without extinguishing rights on contract award - would improve procedural fairness and confidence in the operation of the framework. Collectively, these measures would support a more resilient and innovative supply chain by reducing barriers to entry and strengthening transparency around QSC status.

SSRO's recommendations	
1)	**There should be prompt notification of QSC status.** A requirement for notification of negative QSC assessments should be included in the SSCRs and, for both negative and positive QSC assessments, an explicit deadline should be included, requiring the contracting authority to issue notice of the outcome of the QSC assessments in advance of the sub-contract being entered into. Any failure for such notification to be given will then, rightly, enable enforcement action to be taken against the contracting authority under the existing provisions of Act. To avoid stakeholder uncertainty, the legislation should confirm that late notification (deliberate or otherwise) will not prevent Part 2 of the Act or the SSCRs applying to a QSC, but application should apply only from receipt of the written notice.
2)	**Extension of the Right of Appeal.** Sub-contractors should always have the right to appeal the outcome of a QSC assessment, whether positive or negative, within a reasonable (for example six-month) window commencing on the date of receipt of the contracting authority's notification. This right to appeal should not be extinguished by entering into the sub-contract, to avoid placing subcontractors in a position of choosing between proceeding with contract award and preserving their statutory right to challenge the status of their subcontract.
3)	**Notice of assessment.** The contracting authority should be required to inform the sub-contractor, in the notice of assessment, of their right to appeal the QSC assessment to the SSRO.

Recommendation 8: Extend the statutory “have regard” duty to all SSRO guidance

Introduction

8.1 The effectiveness of the regulatory framework will be enhanced where there is consistent application of the regulatory requirements and disputes about how the requirements should be applied are minimised and resolved quickly.

8.2 The requirement to “have regard to” SSRO guidance means that parties must comply with it unless there are clear and proper reasons for departure. This is expressed in the Act and SSCRs only in specific and limited cases - notably in relation to allowable costs, the baseline profit rate and profit adjustments, reporting and certain penalty amounts. Internationally and in other UK regulatory regimes, it is common for all guidance to carry statutory weight.

8.3 The Procurement Act 2023 broadened the SSRO’s guidance-issuing powers, enabling it to issue any guidance as it considers appropriate in relation to the application or interpretation of the regulatory framework. In practice, this means that the SSRO is empowered to issue guidance on any aspect of the regulatory framework.

8.4 However, there is currently no corresponding statutory requirement for contracting parties to have regard to such guidance and the SSRO has observed divergent practices, leading to delays, disputes and inefficiencies in contract negotiations and management. In its 2022 Command Paper,[12] the MOD acknowledged the value of a broader requirement to “have regard” to all SSRO guidance and indicated support for legislative change to reflect this.

The SSRO’s view

8.5 The SSRO proposes that all the guidance it issues under an express statutory duty or power be given meaningful and consistent weight by contracting parties. The SSRO proposed this in its 2017 review and reiterated it in 2021. This avoids a two-tier system and will give greater consistency, clarity and predictability to the application and interpretation of the regulatory framework. It will increase trust in how the regulatory framework is interpreted and applied, avoid potential disputes and speed up procurement. Ultimately it will support the SSRO’s statutory aims of value for money and fair pricing, by tightening weak points in the regulatory architecture.

8.6 To ensure the expanded statutory duty has practical effect, it should be accompanied by a strengthened focus on training for MOD commercial staff and industry suppliers on applying SSRO guidance, and by proportionate monitoring of how guidance is being applied in practice.

12 Defence and Security Industrial Strategy: reform of the Single Source Contract Regulations

SSRO's recommendations	
1)	**The SSRO recommends a targeted legislative change to strengthen the framework:** the statutory obligation to "have regard to" SSRO guidance should apply to all guidance issued by the SSRO under an express statutory duty or power. This would ensure that all guidance is always properly considered, promoting consistency and potentially reducing unnecessary disputes. This change would align the SSRO's powers with those of comparable bodies. To ensure this change has practical effect, the strengthening of the guidance status should be accompanied by active monitoring and training to resolve issues early and build consistent precedent.

Recommendation 9: Enable unilateral SSRO determinations on QDC/QSC status

Introduction

9.1 When there is disagreement between the MOD or another contracting authority and a contractor about whether a contract or proposed contract meets the requirements to be a QDC or QSC, there is currently no clear mechanism for the SSRO to determine the matter,[13] even if one or both parties wish the SSRO to do so.[14] Without a regulatory mechanism to resolve such disputes, qualifying contracts may wrongly be left outside the regulatory framework or non-qualifying contracts may wrongly be treated as subject to it.

9.2 There is also scope for disruption of the SSRO's consideration of certain other referrals where there is a dispute as to whether the subject contract is or is not a qualifying contract subject to the regulatory framework. Internationally and in other UK regulatory regimes, it is common for regulators to have the power to resolve such disputes. The proposed change, if enacted, would align the SSRO's powers with those of comparable bodies.

9.3 The MOD's 2022 Command Paper agreed with the SSRO's recommendation that the SSRO should be able to make a determination specifically in relation to whether a contract or proposed contract meets the conditions to be a QDC or QSC. However, the proposal was not included in the most recent legislative amendments.

The SSRO's view

9.4 The SSRO proposes that either the MOD, another contracting authority, or a contractor or prospective contractor should be able to ask the SSRO to determine whether a contract or proposed contract meets the requirements to be a QDC or QSC. The SSRO first recommended the introduction of a unilateral referral power on contract qualification in its 2017 review and reiterated this proposal in 2021. The MOD accepted the principle in its 2022 Command Paper, but legislative opportunity has not yet allowed for implementation.

9.5 Introducing a clear, statutory mechanism for unilateral referral to the SSRO in contract status would close the regulatory gap, prevent strategic avoidance and ensure that the framework is applied as intended. It would enable efficient dispute resolution, prevent uncertainty and strengthen confidence that the framework is applied as intended.

SSRO's recommendations
1) **The SSRO recommends a targeted legislative change to strengthen the framework:** The legislation should be amended to allow either contracting party (or prospective contracting party) to refer disputes about whether a contract qualifies (or would qualify) as a QDC or QSC to the SSRO for determination.

13 Other than, for QSCs, pursuant to a QSC assessment appeal pre-contract (see recommendation 7), or in the very narrow circumstance pursuant to Regulation 63 where a QSC no longer meets the required value or dependency conditions contained in Regulation 58(3) or (4).

14 The SSRO may give an opinion on the matter under section 35(3) of the Act if a reference is made by the MOD or a (prospective) contractor under a (proposed) contract with the MOD.

Recommendation 10: Retain the requirement to report in pounds sterling

Introduction

10.1 Regulation 22(8) of the SSCRs requires that all monetary values in statutory reports must be expressed in UK pounds sterling. The single-currency approach supports consistency, comparability and clarity in financial oversight.

10.2 Industry stakeholders have questioned whether this requirement is still optimal. Some contractors - particularly those operating internationally or as subsidiaries of overseas parent companies - maintain their internal accounts in other currencies (such as US dollars or euros). They have argued that allowing statutory reports to be prepared in their functional currency could reduce administrative effort, minimise conversion errors and better reflect their business reality. This has been raised in both formal consultation responses and direct engagement with the SSRO.

The SSRO's view

10.3 The SSRO considered these representations in both its 2017 and 2021 recommendations but has consistently concluded that the case for retaining sterling as the sole reporting currency remains strong. The rationale is as follows:

- **Practicality and prevalence.** The majority of qualifying contracts are awarded in GBP, as the MOD typically contracts in sterling by default. For contracts denominated in another currency, the established practice is for the MOD and contractor to agree an exchange rate at the outset for reporting purposes. This approach is well understood and generally accepted by industry and has not been identified as a significant issue.
- **International and cross-sector practice.** Multi-currency statutory reporting is the exception internationally. Most comparable regimes - whether in defence or other regulated sectors - require reporting in the national currency, even where contractors' internal accounts are in a foreign currency. This ensures that the relevant government can aggregate, compare and scrutinise financial information with reduced chance of error or ambiguity.
- **Data integrity.** The regulatory framework, including the DefCARS reporting system, is structured around a single-currency (GBP) model, as required by Regulation 22(8). Introducing multi-currency reporting would require significant changes to data fields, validation rules, and aggregation logic. It would also complicate compliance monitoring and trend analysis, as all oversight and statutory thresholds are set in sterling.

10.4 Retaining sterling as the required reporting currency would preserve consistency, comparability and confidence in statutory data across contracts, supporting effective oversight and benchmarking. A single-currency approach reduces the risk of ambiguity, conversion inconsistency and aggregation error, and avoids the significant systems and process changes that multi-currency reporting would entail. Where contracts are denominated in other currencies, established practice (including agreed exchange rates for reporting) can continue to manage conversion efficiently while keeping official reporting coherent. Overall, the recommendation supports data integrity and system stability while maintaining clarity for stakeholders and decision-maker

SSRO's recommendations	
1)	**The SSRO's recommendation is to retain sterling as the sole reporting currency for the single source regulatory framework.** The SSRO recognises the need to address industry concerns about clarity and efficiency in currency conversion. The current published guidance already requires contractors to use the contracting authority's exchange rate, consistent with its accounting policies, or a just and reasonable rate if none exists. Contractors may include conversions in commentary on reports, but official data must be in sterling as per Regulation 22(8).
2)	**The SSRO proposes to enhance its guidance to further support clarity and transparency,** to balance the need for consistency, comparability and data integrity with the practical realities faced by some contractors by: • Encouraging contractors to disclose the original currency values in a note to statutory reports, where this aids understanding and transparency. • Clarifying expectations for documentation and audit trails relating to currency conversion, to ensure consistency and reduce the risk of error. • Reviewing whether additional detail is needed on the preferred source and timing of exchange rates (for example the MOD's official monthly rate at contract signature), in consultation with stakeholders.

Conclusion

These recommendations and our wider thinking provide a practical package of reforms to the single source regulatory framework that responds to the direction set by the SDR and the DIS, while remaining anchored in the SSRO's statutory aims. The recommendations in this document support the DIS priority outcomes of:

- "Making defence an engine for growth" by strengthening the framework's ability to incentivise efficient delivery and appropriate risk sharing, while maintaining clear protections against excessive returns in non-competitive settings. It recommends reforms to how profit can be used to encourage desired behaviours and outcomes, and proposes a simpler approach to managing profit layering in supply chains, including the introduction of a pass through method where paying profit is not appropriate. It also recognises that, as the MOD explores public-private partnerships and other alternative financing structures, the framework will need appropriate guardrails to ensure value for money and effective oversight.

- "Backing UK based businesses" by improving proportionality and focusing compliance effort where it adds the most value. The recommendations on reporting and thresholds are designed to reduce obligations that can fall disproportionately on smaller or less frequent participants, while ensuring that significant non-competitive contracts remain within an effective pricing and transparency framework. The move towards more targeted, on demand supplier reporting is intended to ensure information is requested and provided when it is genuinely needed, improving utilisation and reducing avoidable cost for both MOD and suppliers.

- "Positioning the UK at the leading edge of defence innovation" by making the framework more accommodating of different contract types and delivery approaches, and by strengthening the conditions that enable innovative suppliers to participate. In particular, the recommendations to enhance protections for sub-contractors and improve clarity and fairness around qualifying sub-contracts are intended to reduce uncertainty, support timely notification and provide a clearer route to challenge decisions that materially affect suppliers.

- "Developing a resilient UK industrial base" by improving how the framework operates across supply chains and throughout contract delivery. The recommendations aim to reduce friction in agreeing and amending prices, improve the usefulness of reported data and strengthen consistency in how requirements are applied. Simplifying the rules for pricing amendments and componentisation is intended to reduce negotiation time, avoid anomalies and limit the proliferation of unnecessary reporting. Refocusing cost reporting so it aligns more closely with contractors' internal cost structures is intended to reduce duplication and improve clarity, while allowing structured data to be requested where it will be used for analysis and benchmarking.

- "Transforming procurement and acquisition systems" by accelerating delivery through stronger use of existing levers: more systematic use of DefCARS data for benchmarking and performance insight, and more regular use of SSRO opinions and determinations to resolve disputes at pace. Our recommendations set out a deregulatory package that removes avoidable process and reduces the administrative cost of compliance, while preserving the framework's core safeguards. The recommendations simplify rules that stakeholders routinely find difficult to interpret and apply, and rebalance reporting requirements towards proportionate, purposeful information collection - including a move to on-demand supplier reporting and a reduction in routine duplication in cost reporting.

- "Forging new and enduring partnerships" by promoting greater consistency, predictability and trust in how the framework is interpreted and applied. Extending the statutory duty to have regard to all SSRO guidance would strengthen consistency and reduce avoidable disputes. Closing gaps in the ability to obtain binding determinations on whether a contract is a qualifying contract would help ensure the framework is operated as intended and reduce the scope for protracted disagreement. To keep the framework agile and aligned with evidence and policy over time, we also see a case for a limited enabling mechanism to update key parameters periodically (for example alongside the statutory five-year review), informed by published analysis and consultation with MOD and industry.

Appendix - Recommended regulatory framework changes

Recommendation 1: Review and revise QDC thresholds

- **Amendment to Regulation 6:** If, following assessment, the MOD decides to change the QDC threshold, Regulation 6(1)(b) and (2) should be amended to substitute the new threshold amount in place of "£5,000,000."

- **The amending SI should include a saving provision** so that the new value threshold applies only to contracts entered into after it takes effect. Contracts that were QDCs immediately before the change takes effect should continue to be QDCs for their duration.

Recommendation 2: Review the permitted range for the contract profit rate

- **Widening the CRA and IA must be evidence based.** The limits should be set with reference to evidence from competitive markets and other comparable regimes. To the extent this evidence points to profit rates being earned above or below the current range, these rates and additional incentives tend to apply only in a narrow set of circumstances.

- **Legislative safeguards should be put in place to direct the navigation of the CRA.** It should be clear in which part of the CRA range different types of contracts fall into. The extremities should be reserved for specifically defined cases. This would reflect a similar approach to that taken by the US.

- **Robust legislative control and on-the-ground implementation plans should be put in place to support an IA change.** Offering large performance-based incentive requires careful application to ensure only the outcomes the MOD is seeking are rewarded and to limit the risk of unforeseen consequences. Additional training should be given to MOD staff who negotiate and manage these contracts, with graduated IA approval limits linked to staff seniority and experience, and consideration given to retaining the default position of a more modest maximum IA limit unless there is compelling case for exceeding it.

- **Additional controls should apply to maximum rates of profit.** The combination of a higher maximum CRA and IA could result in excess profits and should be subject to additional controls, such as an overall cap. There should also be a review of the FPA mechanism of protections against excess profits and losses.

Recommendation 3: Reduce inappropriate profit layering/introduce pass-through

- **Create a new "Pass Through" Alternative Pricing Method.** Introduce in Chapter 3 of the SSCRs an option to price contracts (or components), either in prescribed circumstances or by agreement of the parties, based on the Allowable Costs with no profit added.
- **Simplify Regulation 13A for adjusting for "POCO".** Remove the current requirement to adjust Allowable Costs to remove profit on group subcontract costs and replace it with a new rule that additional profit cannot be added to prices of group subcontracts and further group subcontracts, through mandatory use of the new "pass through" alternative pricing method.
- **Extend the scope of anti-profit layering measures.** Specify that the revised "POCO" arrangements apply where the contractor's corporate group has "significant influence" over the undertaking with which the contractor is contracting.

Recommendation 4: Simplify contract components rules to reduce complexity

- **Amend Part 2 of the Schedule to the SSCRs.** Permit, by agreement of the parties, the use of the "original" Contract Profit Rate (CPR) i.e. the rate agreed when the contract was entered into or last amended, when pricing an amendment, rather than requiring a calculation of a new CPR for each pricing amendment.
- **Rationalise component reporting.** The reporting requirements associated with components should be limited to only the costs, profits and pricing method associated with that component at an overall level.
- **Clarify componentisation for QSCs**. Amend the SSCRs to ensure clear alignment with the MOD's policy intent on the application of componentisation to QSCs.

Recommendation 5: Transform supplier reporting to an on-demand model

- **Enable on-demand reporting only.** Amend section 25 of the Act and Part 6 of the SSCRs (e.g. Regulations 32 and 33) to require supplier reports to be submitted only upon written direction of the Secretary of State. Clarify the definitions in Regulation 2, including "separate financial accounting statements" and "total value provided by a QBU".
- **Mandate consistent report structures.** Amend Regulation 33 to require ARCRs and ERCRs to align with QBUCAR formats. Include a requirement for reconciliation between reported costs across these reports.
- **Update ERAPS requirements.** Amend Regulation 38 (ERAPS) to include a requirement to report all material assumptions affecting rate estimates, with structured reporting and a clear definition of "material assumption".
- **Revise headcount reporting.** Amend Regulations 33(3) and 33(4) to require average FTEs and clarify the definitions of "employee" and "contractor" to ensure consistent categorisation of staffing costs.
- **Capture agreed rates.** Amend Regulation 35 to rename "actual values" as "cost recovery rate claims" and require alignment with ARCR/ERCR data. Introduce a provision allowing the Secretary of State to request a formal submission of final agreed rates, ensuring these are recorded in DefCARS.

Recommendation 6: Refocus Defined Pricing Structure (DPS) reporting

- **Existing references to DPS in Regulations 24 to 28 should be revised.** DPS breakdowns should no longer be required as a matter of routine in CIRs, ICRs, or CCRs. Instead DPS breakdowns should be required only following a written direction from the Secretary of State and by way of separate periodic DPS reports. Requirements to "split by defined pricing structure" should be removed or replaced with "split by the contractor's cost structure".
- **A new regulation should be introduced to define the Initial, Interim, and Final DPS reports.** These reports should be required only when specified in the CRP (following the written direction from the Secretary of State). Each report should replicate the extant DPS requirements but be submitted in a separate suite of reports. DPS reports should supplement, not replace, standard reporting.
- **Regulation 22(7), which defines the structure of DPS breakdowns, should be retained** to ensure consistency when DPS reports are required.

Recommendation 7: Strengthen protections for sub-contractors

- **Regulation 61(3) and (6):** Amend to require the contracting authority to give written notice of the outcome of a QSC assessment before entering into the sub-contract, and to provide that such notice must be given in all cases, whether the assessment is that the sub-contract would be a QSC if entered into or not.
- **Regulation 62:** Amend to provide sub-contractors with a right of appeal against negative QSC assessments, as now enabled by section 29(5)(a) and (b) of the Act.
- **Regulation 62(3):** Amend to include a time limit for bringing an appeal so that it runs six months from the date on which the sub-contractor is given written notice under regulation 61.
- **Regulation 58(6):** Amend to make clear that the application of Part 2 of the Act and the SSCRs to a QSC is not affected by late written notice by the contracting authority, but in those circumstances application is from the time such notice is given.

Recommendation 8: Extend the statutory "have regard" duty to all SSRO guidance

- **Amend section 35A of the Act** (which contains the SSRO's broad guidance-issuing power) to introduce a corresponding obligation on contracting parties to have regard to any guidance issued by the SSRO.

Recommendation 9: Enable unilateral SSRO determinations on QDC/QSC status

- **Amend Regulation 52(1)** to include, as a matter on which the SSRO must give a determination on referral by any of the parties listed in section 35(2) of the Act, determinations as to whether a contract (or proposed contract) satisfies or would satisfy the conditions to be a qualifying contract.

Recommendation 10: Retain the requirement to report in pounds sterling

- No changes to primary or secondary legislation are required, as this recommendation endorses the existing rule. Regulation 22(8), which requires all monetary references in reports to be in sterling, should remain in force unamended.