

Baseline Profit Rate assessment: Proposed methodology updates

Consultation responses

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1. Anonymous respondent 1

Classification: OFFICIAL

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Question 1: Given the need to adopt NACE Rev. 2.1, do you have any comments on the SSRO's proposed amendments as set out in the Appendix and the SSRO's proposed timing of implementation of this change into the methodology?

Please add comments to support your answer:

There is just one observation relating to revised NACE code 252. Will this still exclude the manufacture of central heating hot water boilers? This narrative has now been removed.

There are no objections to the proposed amendments.

Consultation response form

Question 2: Do you support updating the company size thresholds used in the BPR assessment to continue to align with the revised company size thresholds as proposed, or should the thresholds stay as they are?

Please add comments to support your answer:

Yes, we support updating the company size thresholds.

These thresholds do not mean that such companies can perform QDCs for true comparison purposes. Consideration should be given to increasing the thresholds further. It is noted that such companies may engage in Single Source work below the Regulatory thresholds.

Classification:OFFICIAL

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Question 3: Should the DM&S activity characterisation be expanded to include technical support services as a comparable activity? Please provide an explanation with evidence where possible to support your comments.

Please add comments to support your answer:

No, we do not support DM&S activity characterisation being expanded to include technical support services as a comparable activity. Aside from QinetiQ, the companies listed in table are not known to provide 'technical support services', for example we note the inclusion of Axio AS, as an investment vehicle which seems inappropriate for this list.

Consultation response form

Question 4: Should the Ancillary Services activity characterisation be expanded to include labour outsourcing as a comparable activity? Please provide an explanation with evidence where possible to support your comments.

Please add comments to support your answer:

Labour resourcing companies should not be included as part of the Ancillary services group.

We concur with the SSRO logic about this group of companies not being appropriate.

The graphic in Chart 2 suggests that labour resourcing is highly competitive with companies struggling to make good returns for investors. Labour outsourcing would have a negative impact on the profit rate for the Ancillary services group.

Classification:OFFICIAL

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In addition, do you have any other feedback on our proposals including as to how the SSRO should implement these proposed changes to the methodology that are taken forward?

Please add comments to support your answer:

No additional comment.

██████ supports the response made by DSAG to this consultation.

2. Anonymous respondent 2

██████████

Baseline Profit Rate assessment: Proposed methodology updates

Consultation response form

Question 1: Given the need to adopt NACE Rev. 2.1, do you have any comments on the SSRO's proposed amendments as set out in the Appendix and the SSRO's proposed timing of implementation of this change into the methodology?

Please add comments to support your answer:

We broadly support the required update to NACE codes as outlined (with the exceptions highlighted through the DSAG response) and agree that these updates should be made as soon as they have been fully implemented by the relevant statistical domains.

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Question 2: Do you support updating the company size thresholds used in the BPR assessment to continue to align with the revised company size thresholds as proposed, or should the thresholds stay as they are?

Please add comments to support your answer:

Yes, we agree that threshold values need as a minimum to be updated in line with The Companies (Accounts and Reports) (Amendment and Transitional Provision) Regulations 2024 definitions. We believe it is highly unlikely that companies with a turnover of less than £15m and assets worth less than £7.5m or 50 employees would be in a position to deliver the highly complex requirements you would typically expect MOD to contract for on a non-competitive basis.

We would additionally welcome an analysis of and a follow-on consultation on the inclusion of privately owned businesses in the comparator list companies, as we believe these to be fundamentally different in terms of requirements to deliver returns to owners / shareholders.

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Question 3: Should the DM&S activity characterisation be expanded to include technical support services as a comparable activity? Please provide an explanation with evidence where possible to support your comments.

Please add comments to support your answer:

The additional analysis provided by the SSRO in this consultation document demonstrates that average profit rates of the BPR comparator group and these potential technical support services companies differ typically by c. -2%, supporting our view that these companies deliver results that are economically distinct from the existing comparator group, and should only be included if there is evidence that MOD are regularly letting single source defence contracts purely for technical support services scope. We do not believe this to be the case and therefore do not support the inclusion of technical support services in DM&S.

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Question 4: Should the Ancillary Services activity characterisation be expanded to include labour outsourcing as a comparable activity? Please provide an explanation with evidence where possible to support your comments.

Please add comments to support your answer:

We do not support the inclusion of labour outsourcing. Your analysis outlines that only 7 contracts have been identified that include labour outsourcing activities, and we assume this is as a subset of requirements, rather than the contracts being let single source purely for the provision of labour. We therefore consider this activity incidental to the wider scope of activities delivered under qualifying defence contracts. The types of contracts we typically deliver to the MOD under single source contracting regulations bear a significant output risk, far outweighing the risks, and therefore rewards, we would expect a labour provision arrangement to carry.

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In addition, do you have any other feedback on our proposals including as to how the SSRO should implement these proposed changes to the methodology that are taken forward?

Please add comments to support your answer:

The SSRO chose to focus this consultation very narrowly, and we have correspondingly focussed our answers above on the questions posed.

However, we would like to add that we are extremely concerned about the fidelity of the comparability principle which the entire BPR methodology is based on. The profits reported by the comparator group companies are outturn profits from contract delivery, after all risks have impacted and, importantly, after all production and overhead costs have been recovered or absorbed. These profits are then used to set the Baseline Profit Rate that through adjustment for predicted risk, incentive and rewards for capital employed becomes a contract profit rate used to price qualifying defence contracts at the outset. What we have seen over recent years is an ever growing level of challenge from MOD on all the costs we incur in delivering Programmes and running our business, to a level that calls into question the principles of proportionality in approach when it comes to evidential standards. With all onus on the contractor to prove our costs are appropriate, attributable and reasonable it has become a burdensome and costly effort to justify all spend, and yet we still find ourselves in a position where significant uncertainty over cost recoverability remains for years after costs are incurred. When we are threatened with disallowance of what we maintain are reasonable costs of the scale currently under discussion, the viability of single source contracting is called into question.

The output from SDR has hinted at the intent to amend SSCRs with a view to introducing more flexible incentivisation of industry, ways to encourage private investment in defence and more strategic, long term partnering between industry and the MOD to reform defence procurement in the face of a threat environment not seen in this country for several decades. In order for industry to seriously engage in conversations about these aims, existing concerns relating to appropriate returns and recoverability of costs will need to be addressed so as not to become a blocker. We see the SSRO needing to play a more proactive role in this process, to ensure their Section 13 function of ensuring contractors are able to make fair and reasonable returns is fulfilled.

Thank you for taking the time to provide feedback on the SSRO's proposals.

3. BT

Please see below commentary on the consultation. Whilst I have no specific comments on the four discrete questions that have been asked, I have wider commentary that I would like the SSRO to consider.

A fair system of food rationing on the Savannah(?)

In 2011, over-grazing on the Savannah was unsustainable, every year there seemed to be less and less food to go round. Something needed to be done. Thus, Saba, the Lion King made a royal decree to introduce a fair system of food rationing.

He would assess the how much food each animal ate to determine the size of the total basket of food required to feed all the animals. Then he would divide that food basket by the total number of animals such that each animal would receive the same-sized food ration. This was of course by far the fairest system – everyone gets an equal share. And, since all animals were considered in determining the overall size of the food basket no single animal group could object. Some of the animals grumbled at this approach, but others thought it was a great idea.

And so it was passed into Jungle Law in 2014.

Every year the lion pack, who oversaw the food rationing system, would produce an annual report showing how well the fair distribution was working. This was against its own objective measures which provided all the necessary evidence to prove that this fair and just law was working very well indeed, and they were doing a jolly good job at administering it. These measures were internally focussed on the process rather than looking at the wider environment to see the effect on the eco system in general. Yes, some slight adjustments to the law were introduced to provide the illusion of progress, but these were just tinkering around the edges. What was the most important was that the single-sized food ration for everyone must be maintained at all costs!

Over time the shape of the Savannah changed! The meerkats seemed to be getting quite obese and lethargic, and the place was overrun with them, whereas the larger animals, the elephants, giraffes, rhinos, became rather thin, gaunt and their numbers reduced year by year, in fact some species disappeared altogether, by finding new pastures or just dying off. However, Saba the Lion King did not care, his system of distribution is faultless and by far the fairest and he has the annual reports that that can be shown to prove it! If some animals didn't like it they can just go elsewhere, the Savannah can get along without them just fine.

We can all see that the methodology above is deeply flawed, but this is akin to the Baseline Profit Rate methodology employed within the Single Source Contract Regulations. The application of a Single Baseline Profit Rate across all market sectors simply fails to deliver a Fair Return to all contractors. The current methodology used to calculate the BPR provides the illusion of fairness, but is just that - an illusion. Some contractors operating in certain market sectors will be seriously disadvantaged, whereas others will see a benefit.

It is not the purpose of this response to lecture the SSRO on how the financial markets operates, suffice it to say that the markets expect businesses to achieve levels of return consistent with their market sector. The application of a single BPR across all market sectors means that for some single source contractors they will achieve higher returns, whereas others will receive markedly lower returns. How is this fair? And, why the SSRO in its 24/25 Annual Report and Accounts can claim to have achieved “Objective 1 - Maintain a pricing system that supports value for money and fair

prices”, when quite clearly the application of a single BPR might constitute VfM for MOD but fails to achieve Fair Prices for many Single Source Contractors.

The only way the SSCR can provide a Fair Return to all Contractors is to establish additional comparator groups and set specific profit rates which better reflect the market sectors in which the individual Contractors operates. It is only when this has been introduced into the SSCR that the SSRO can truly claim to have achieved Objective No.1.

4. DSAG

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Question 1: Given the need to adopt NACE Rev. 2.1, do you have any comments on the SSRO's proposed amendments as set out in the Appendix and the SSRO's proposed timing of implementation of this change into the methodology?

Please add comments to support your answer:

Yes, our comments are:

We recognise the requirement to use NACE codes in the BPR process, as an initial filter to select companies towards the attainment of comparable companies.

Furthermore we see it essential to keep NACE codes under review, to ensure they are representative of the range of contract types conducted as qualifying contracts, which are priced using the default pricing method, under each of the contract activity types defined by the SSRO.

Your comparator table of NACE codes Rev 2.1 compared to Rev 2 show they are similar to each other but we have some recommendations towards improved comparability with qualifying contracts:

NACE v2.1 code - SSRO PROPOSAL		NACE v2.1 code - our proposal - to replace it with	
252	Manufacture of tanks, reservoirs and containers of metal (includes manufacture of nuclear reactors)	2521	Which includes: manufacture of radiators for central heating, non-electrically heated manufacture of steam or other vapour generating boilers manufacture of auxiliary plant for use with steam or other vapour generating boilers (e.g. economisers, super heaters, steam collectors and accumulators) manufacture of condensers for steam or other vapour power units manufacture of nuclear reactors, except isotope separators manufacture of marine or power boilers

We recommend inclusion of only 2521 and not 2522, as the latter is too broad and bringing in something previously seen as not comparable, whereas 2521 does include some complex manufacturing processes which better reflects the Defence sector. However, the NACE code 2521 includes some simple, incomparable activities (e.g.. manufacture of radiators for central heating) that the manual review will have to remove companies conducting such incomparable activities.

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NACE v2.1 code - SSRO PROPOSAL		NACE v2.1 code - our proposal	
33	Repair and installation of machinery and equipment	33.11	Repair and maintenance of fabricated metal products
		33.13	Repair and maintenance of electronic and optical equipment
		33.14	Repair and maintenance of electrical equipment
		33.15	Repair and maintenance of civilian ships and boats
		33.16	Repair and maintenance of civilian air and spacecraft
		33.18	Repair and maintenance of military fighting vehicles, ships, boats, air and spacecraft

The current and proposed NACE code selection remains the same in terms of numbering, with some categories which formed part of 33 in NACE v2.0, now being separated into civilian and military codes within NACE v2.1.

However, whilst both versions include code 33, we note that this includes for example 33.20, being installation of industrial machinery and equipment, which we do not agree as being comparable to contracts which the MOD would award under the default pricing method. We recommend removal of 33 and replacing with 33.11, 33.13, 33.14, 33.15, 33.16 and 33.18.

Regards the timing of reflecting the change, we agree with that proposed.

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Question 2: Do you support updating the company size thresholds used in the BPR assessment to continue to align with the revised company size thresholds as proposed, or should the thresholds stay as they are?

Please add comments to support your answer:

Yes, the thresholds should ensure independent audit, as a minimum.

We support the principle of using companies with independent audited accounts are used in the comparator groups.

However, towards improving comparability, we would welcome a full review of this threshold, as we believe it is not representative of the GUOs who currently hold QDCs/QSCs and is in fact too low.

- We believe companies who conduct QDCs and QSCs will be much larger and be involved in much more complex contracts than companies who are just above the audit thresholds.
- We would welcome an understanding of the sizes of the 165 ultimate parent companies (Global Ultimate Owners (GUOs)) who hold the actual 707 qualifying contracts (as stated in the recent Annual qualifying defence contract statistics 2024/25), to improve comparability when defining comparator group parameters.

We also propose comparable companies should not include privately owned businesses for similar reasons to not including partnerships and other ownership structures that may result in their profits not being representative.

We would also welcome an understanding of the SSROs impact assessment of the exclusion of 16 companies from the 25/26 BPR comparator group. DSAGs assessment of the impact is 3 companies.

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Question 3: Should the DM&S activity characterisation be expanded to include technical support services as a comparable activity? Please provide an explanation with evidence where possible to support your comments.

Please add comments to support your answer:

No, DM&S should not be expanded to include technical support services.

The reasoning behind our response:

The BPR is the starting point (and represents the majority of the available profit) for setting the profit rate when pricing a qualifying contract and as such, comparability should be seeking companies who significantly earn their profits from contracts which are comparable to qualifying contracts that use the default pricing method.

If there is evidence of qualifying contracts purely for technical support services, as per our previous response, we would agree technical support service NACE codes should be included.

However, this consultation (para 3.7) explains technical support services “*enabled the performance of a meaningful proportion of those contracts. This review identified that contracts for technical support services comprise 10% by total contract price of the overall portfolio of contracts*”, which is consistent with that provided in the previous consultation. Such a small sample would likely dilute the overall comparator exercise unfairly, require little or no investment and represent low to zero risk for the contractor, which is not representative of the DM&S category.

This suggests there are no or very few purely technical support servicing qualifying contracts let by the MOD within the regime, and in fact technical support service activities form part of the execution of larger qualifying contracts.

Therefore, in line with our previous response, we do not agree that technical support services NACE codes should be included within the DM&S comparator group.

It is worth noting that contracting for purely technical support services is by its nature and scope of obligations not the same as contracting to design, develop, manufacture and support whole system capabilities (which may include the provision of technical support).

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Question 4: Should the Ancillary Services activity characterisation be expanded to include labour outsourcing as a comparable activity? Please provide an explanation with evidence where possible to support your comments.

Please add comments to support your answer:

No, Ancillary Services activity characterisation should not include labour outsourcing.

The reasoning behind our response:

This consultation paper does not provide fresh evidence to persuade us that labour outsourcing should be included in ancillary.

It remains that there are very few (seven) qualifying contracts which undertake labour outsourcing activities, as with technical support services, which suggests the activities form part of larger qualifying contracts. Such a small sample would likely dilute the overall comparator exercise unfairly. Additionally, the consultation explains labour outsourcing activities “mainly relate to the provision of a labour pool to undertake tasks as directed by the MOD.”

Our reasoning remains unchanged from our previous response, being:

- labour sourcing contracts were immaterial;
- Government policy is to reduce the number of outsourcing arrangements, further reducing the number involved
- we are uncertain whether these are qualifying contracts in their own right, but formed part of the execution of larger qualifying contracts;
- these activities are not output based or self-directed (as per the current ancillary services definition), but “relate to provision of a labour pool to undertake tasks as directed by the MOD”, more akin to labour substitution with little or no value add, requires no investment and undertaken at zero risk to the contractor; and
- many labour outsourcing contracts would likely be competitive.

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In addition, do you have any other feedback on our proposals including as to how the SSRO should implement these proposed changes to the methodology that are taken forward?

Please add comments to support your answer:

The SSRO's Annual qualifying defence contract statistics 2024/25 demonstrates the BPR (step 1) along with CSA (step 4) form almost 100% of the contracted CPRs.

Furthermore, since April 2024, the regime has permitted Alternative Pricing methods, which in the main, are not priced using a default pricing method.

It is therefore imperative the BPR methodology, which is based on comparability, identifies companies who significantly earn their profits from conducting contracts which are comparable to qualifying defence contracts priced using the default pricing method. Furthermore, the CPR continues to be eroded due to challenges to allowable costs, costs which are necessary for a business to incur to be a going concern and successfully deliver defence contracts.

We would therefore welcome the opportunity to discuss further our thoughts relating to the comparability principle used within the current methodology, for example:

- Using an alternative investment approach;
- Consistency of allowable costs used in default pricing and costs used in companies EBITs within the BPR comparator group;
- Recognition of broader business costs as appropriate.

Additionally, the BPR methodology is likely to require review to address the objectives mentioned in the SDR and likely to be further detailed in the forthcoming DIS/DIP. DSAG would welcome a genuine opportunity to work with the SSRO in this review process early in order to contribute during the informative stage rather than be presented with a "final version" leading to further challenges, especially as the SDR stated that MOD wanted to make Defence attractive, encourage private investment and reward productivity.

Thank you for taking the time to provide feedback on the SSRO's proposals.

5. Leonardo UK

Baseline Profit Rate assessment: Proposed methodology updates

Consultation response form

Question 1: Given the need to adopt NACE Rev. 2.1, do you have any comments on the SSRO's proposed amendments as set out in the Appendix and the SSRO's proposed timing of implementation of this change into the methodology?

Please add comments to support your answer:

We support the DSAG submission.

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Question 2: Do you support updating the company size thresholds used in the BPR assessment to continue to align with the revised company size thresholds as proposed, or should the thresholds stay as they are?

Please add comments to support your answer:

We support the DSAG submission.

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Question 3: Should the DM&S activity characterisation be expanded to include technical support services as a comparable activity? Please provide an explanation with evidence where possible to support your comments.

Please add comments to support your answer:

We support the DSAG submission.

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Question 4: Should the Ancillary Services activity characterisation be expanded to include labour outsourcing as a comparable activity? Please provide an explanation with evidence where possible to support your comments.

Please add comments to support your answer:

We support the DSAG submission.

Baseline Profit Rate assessment: Proposed methodology updates

Consultation response form

In addition, do you have any other feedback on our proposals including as to how the SSRO should implement these proposed changes to the methodology that are taken forward?

Please add comments to support your answer:

We support the DSAG submission.

Thank you for taking the time to provide feedback on the SSRO's proposals.

6. Ministry of Defence (MOD)

Proposal	MOD Response
1. Update to NACE 2.1 from 2.0 from 26/27.	We are supportive of adopting the NACE Revision 2.1 with the timelines suggested.
2. Revision of the threshold for the definition of 'small' companies from £10m annual turnover / £5m balance sheet to £15m annual turnover and £7.5m balance sheet.	We agree with the proposal.
3. Inclusion of technical support services in the BPR comparator group.	We continue to support this proposal.
4. Inclusion of labour outsourcing in the ancillary services comparator group	We agree the SSRO should consider whether these are appropriate for inclusion.

7. QinetiQ

Question 1: Given the need to adopt NACE Rev. 2.1, do you have any comments on the SSRO's proposed amendments as set out in the Appendix and the SSRO's proposed timing of implementation of this change into the methodology?

Please add comments to support your answer:

Whilst the BPR methodology makes use of NACE codes we agree that it is appropriate to use the most recent version of such codes. As and when they are updated in Orbis. There is no reason of which we are aware as to why the SSRO's proposed amendments would not be appropriate.

However, the consultation is somewhat confusing as to the question. The proposals are set out in para 1.6 and focuses on the use of the most recent version of the database. Which we support. But Appendix 1 details which NACE codes should be used i.e. how you use whichever database you have chosen to use. This appears to be a separate question, incremental to proposal 1 in para 1.6. i.e. having adopted proposal 1 and moved to using the revised database version NACE Rev. 2.1 should we include new NACE codes 252 and 253 and exclude NACE codes 2529 and 254 (assuming such codes still exist)? I wouldn't necessarily agree that new code 252 should be included. Though if the logic is that DM&S includes the entirety of the three sub-categories (for Manufacturing; Scientific R&D; Repair & Servicing) as defined within the database then it may be appropriate. In which case would be helpful to state that DM&S is defined as such.

Question 2: Do you support updating the company size thresholds used in the BPR assessment to continue to align with the revised company size thresholds as proposed, or should the thresholds stay as they are?

Please add comments to support your answer:

Yes, we support, as a minimum, updating the company size thresholds. This avoids complications of SSRO having its own, separate definitions/thresholds which differ from the EU regulations.

However, it would be helpful to have the data to assess how many companies are deemed medium and large and whether excluding medium could also be appropriate. I suspect that wouldn't be appropriate, but the thresholds for small still seem very low and potentially we are still including many companies not representative of those companies that service QDCs. Hence, we recommend an assessment of the pros and cons of a larger threshold. Potentially one for the next review of BPR methodology.

Question 3: Should the DM&S activity characterisation be expanded to include technical support services as a comparable activity? Please provide an explanation with evidence where possible to support your comments.

Please add comments to support your answer:

Technical Support services (which in para 3.7 of the consultation document is noted as “relating to the provision of technical support on safety, engineering, training and information services”) are a significant proportion of the services that QinetiQ provide to MOD under single-source contracts. Which would suggest a “Yes” answer to this question. However, as noted in para 3.8 of the consultation document this would only be appropriate if specific companies providing such technical support can be clearly identified. NACE codes 712, 749, 7112 would seem to be appropriate (though we believe 712 and 749 are already included in DM&S anyway). We don’t agree it would be appropriate to include 3820 and 8020 (under the Rev 2 database).

The consultation document didn’t seem clear as to how the list of companies in Table 2 had been identified (i.e. using which NACE codes). If it isn’t clear which companies fall under the definition, and the process of collating the list is somewhat subjective and inefficient, it may be more appropriate to continue to exclude additional Technical Support companies (particularly as some of them are included anyway through other identifiers, e.g. Technical Support NACE codes 712 and 749 already being picked up within DM&S).

On balance, we would tend to a “No” response to this question.

Question 4: Should the Ancillary Services activity characterisation be expanded to include labour outsourcing as a comparable activity? Please provide an explanation with evidence where possible to support your comments.

Please add comments to support your answer:

No, we do not support this.

The evidence suggests this is a negligible proportion of qualifying contract activity and such activities do not represent activities provided by ADS companies. The consultation document quantifies this as only 7 QDCs providing such services. Fully or partially? Either way, a tiny proportion of the QDC population.

Additionally, the provision of office administration service activities is very different to the provision of skilled resources provided under DM&S services (particularly from a value-added perspective and level of risk) and isn't a relevant benchmark for DM&S activities.

In addition, do you have any other feedback on our proposals including as to how the SSRO should implement these proposed changes to the methodology that are taken forward?

Please add comments to support your answer:

The consultation does not consider the activities of Information Technology Services companies. IT Services, along with Ancillary Services and Construction, are excluded from the BPR comparator groups.

One of QinetiQ's two UK business sectors (UK Intelligence) provides expertise in cyber security and secure communication networks. This covers (as quoted in Appendix A of the 2023, Phase 1, consultation) the "design, integration or operation of networks and computer systems or services used for military or defence purposes". As such, consideration should be given to including [some] IT Services companies in the comparator group. However, we note that whilst these companies may be comparable to QDCs delivered by our company, SSRO's analysis suggests they represent only a small minority of single-source contracts placed by MOD.

Thank you for taking the time to provide feedback on the SSRO's proposals.

8. TechUK

Question 1: Given the need to adopt NACE Rev. 2.1, do you have any comments on the SSRO's proposed amendments as set out in the Appendix and the SSRO's proposed timing of implementation of this change into the methodology?

Please add comments to support your answer:

techUK believes that the current range of NACE codes used fall predominantly in the Design & Build and Support & Maintain Activity Groups, which typically achieve a lower profit rate and are not reflective of the DefTech market which the techUK membership represents.

There are a range of NACE codes which could be utilised which better reflect the make up of the IT Services Activity Group, including:

- NACE Rev. 2 Codes: 5829, 6130, 6201, 6202, and 6399
- NACE Rev. 2.1 Codes: 5829, 6110, 6201, 6202, and 6392

As techUK has previously argued in previous SSRO submissions, a key concern for our member companies is the lack of transparency regarding the process undertaken by the SSRO to determine the companies included in the index used to calculate the profit rate for the IT Services Activity Group. In addition, techUK is concerned that there are relatively few technology companies included in the main Baseline Profit Rate index.

This is an issue for techUK as our members' companies often operate at higher margins given the level of investment and innovation required to survive in the technology sector. Furthermore, some techUK members cite that telecommunications margins are not fairly recognised given the vast infrastructure rollout costs they incur.

The overall position on single source margins for information technology related work makes Defence a less attractive market for IT and communications companies which is ultimately unhelpful to the MoD.

Question 2: Do you support updating the company size thresholds used in the BPR assessment to continue to align with the revised company size thresholds as proposed, or should the thresholds stay as they are?

Please add comments to support your answer:

techUK would support updating the company size thresholds used in the Baseline Profit Rate assessments to align with the revised company size thresholds. techUK would also argue that the SSRO should avoid selecting loss-making companies when compiling the various indices used to calculate the Baseline Profit Rate and the Activity Group rates as it is clear that no companies set out to lose money and therefore this biases the calculations away from 'expected' margins for the sector.

Question 3: Should the DM&S activity characterisation be expanded to include technical support services as a comparable activity? Please provide an explanation with evidence where possible to support your comments.

Please add comments to support your answer:

techUK would argue that the expansion of DM&S activity to include technical support services should not encompass information technology related services, which should sit exclusively within the IT Services Activity Group.

Question 4: Should the Ancillary Services activity characterisation be expanded to include labour outsourcing as a comparable activity? Please provide an explanation with evidence where possible to support your comments.

Please add comments to support your answer:

Not for techUK to comment on.

In addition, do you have any other feedback on our proposals including as to how the SSRO should implement these proposed changes to the methodology that are taken forward?

Please add comments to support your answer:

As techUK has argued in previous SSRO consultations, our members believe that the IT Services Activity Group BPR should be used as a basis to calculate the profit rate for appropriate and relevant work.

Thank you for taking the time to provide feedback on the SSRO's proposals.