

SSRO

Single Source
Regulations Office

October 2025

Baseline Profit Rate (BPR) assessment

Response to consultation on BPR
assessment: Proposed methodology
updates



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1. Introduction

Background

- 1.1 Section 19 of the Defence Reform Act 2014 requires the SSRO to provide the Secretary of State each year with its assessment of the appropriate baseline profit rate (BPR). The BPR is the first of the four steps in the contract profit rate process that applies in determining the price of Ministry of Defence (MOD) contracts let without competition, known as Qualifying Defence Contracts (QDCs) and Qualifying Sub-Contracts (QSCs). The SSRO's assessment of the BPR is set with reference to the returns of companies whose economic activities are comparable to those that enable the performance of QDCs and QSCs. The SSRO is committed to the ongoing continuous improvement of the BPR methodology.
- 1.2 This document sets out the SSRO's response to the 'BPR: proposed methodology updates' consultation. The consultation set out proposals to update the methodology applied by the SSRO to inform its assessment of the appropriate BPR each year ('the BPR methodology'), in response to external changes to both the UK legislation relating to company size classification, and to the European classification of economic activities. It also sought to conclude the SSRO's position on two outstanding matters arising from the previous review of the types of activities which are included in our profit benchmarks ('the activities review'), which took place in 2023/24 and resulted in methodological changes for the 2025/26 BPR assessment.
- 1.3 This consultation contributes to the SSRO's ongoing commitment to keep the methodology under review, up-to-date and relevant. The updates we propose to implement ensure that this commitment is achieved, and that the methodology remains a stable and predictable starting point for the determination of contract profit rates under the regime. Maintaining an up-to-date BPR methodology also ensures suppliers are paid a fair and reasonable contract price. The BPR is a vital building block to delivering fast-paced defence procurement of some of the most strategically significant capabilities for the nation whilst ensuring value for money.

Key terms and definitions

Term name	Definition
Activity characterisation	A written description of the group of economic activities and the relevant boundaries which define an activity type.
Activity type	A group of economic activities, defined by the SSRO, which correspond to types of activity that contribute to the delivery of QDCs and QSCs. These are 'Develop, Make and Support', 'Ancillary Services', 'Construction' and 'IT Services'.
Comparability principle	The aim of the baseline profit rate is to provide the starting point in the determination of the contract profit rate (totalling steps 1 to 4). It is set with reference to the returns of companies whose economic activities are included in whole or in part in the activity types that contribute to the delivery of QDCs and QSCs.
Comparable company	A company whose economic activities are included, in whole or in part, within an activity type.
Comparator group	A group of comparable companies undertaking one or more of the economic activities which make up an activity type.
Economic activity	An activity that involves the production, distribution and consumption of goods and services.
NACE code	The European Union system of classifying economic activities for the purpose of statistical and other analysis. The SSRO uses NACE codes in conjunction with text search terms to identify comparable companies within the Orbis database.

Consultation proposals

- 1.4 Two external developments were identified which have given rise to a need for the SSRO to consider updates to the methodology.
- NACE codes are used in the methodology as part of the search criteria to help identify companies that undertake comparable economic activities. The codes are used as a broad filter which is applied prior to more refined assessment against the detailed comparability criteria. The latest NACE code database version is now revision 2 update 1 ('NACE Rev. 2.1') instead of revision 2 ('NACE Rev. 2') that is currently used in the methodology.
 - Changes to the UK legislation relating to company size classification with effect from financial periods beginning on or after 6 April 2025. These classifications are used as a reference point to set the minimum size criteria that a company must meet to be selected as a potential comparable company for inclusion in the BPR calculation.

- 1.5 The table below summarises the proposed updates to the methodology that were published for consultation in response to these developments. The proposed change relating to the European classification of economic activities was anticipated to be effective from the 2026/27 BPR assessment onwards. However, the timeline for the adoption of NACE Rev. 2.1 in the Orbis database which is used as the source for the company data used in the BPR assessment has changed since the publication of the consultation and is now delayed.
- 1.6 Therefore, the adoption of NACE Rev. 2.1 will not be incorporated in the 2026/27 BPR assessment. The company size classification threshold changes and the adoption of NACE Rev. 2.1 are now anticipated to be effective in the 2027/28 BPR assessment and onwards.

Proposed change	Proposed implementation
1. Using the latest applicable NACE codes database version NACE Rev. 2.1 for the BPR assessment when this becomes fully available for use.	The timing of implementation is contingent on the adoption process of NACE Rev. 2.1. in the Orbis database which is used as the source for company data. Since publication of the consultation, it has been established that Orbis has not yet fully adopted NACE Rev. 2.1 in time for the 2026/27 BPR assessment. Therefore, transitioning to Rev. 2.1 in the BPR methodology is now expected to be effective from the 2027/28 BPR assessment onwards.
2. Implementing the latest company size thresholds for identifying comparable companies for the BPR assessment.	The new company size thresholds are effective for financial periods beginning on or after 6 April 2025 which means this proposal is expected to be effective for the 2027/28 BPR assessment onwards as 2025/26 financial reports will be used in this assessment.

- 1.7 The consultation also sought views on retiring changes proposed in 2024 to the activity types defined in the methodology to include:
- technical support services in the Develop, Make and Support (DM&S) activity type used in the BPR assessment; and
 - labour outsourcing in the Ancillary Services activity type.
- Thereby leaving the activity types used in the BPR assessment unchanged from those in current use.
- 1.8 The consultation sought feedback on the following questions:
- 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 Appendix A and the SSRO's proposed timing of implementation of this change into the methodology?
 - 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 threshold stay as it is?

- 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.
- 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.
- In addition, we asked for feedback as to how the SSRO would implement these proposed changes to the methodology.

1.9 We received nine written responses to the consultation¹ (see Table 1).

Table 1: Breakdown of respondents

	Government (MOD)	Industry	Industry trade association
Number of responses	1	6	2

1.10 Respondents welcomed the opportunity to engage with the SSRO on continuing the refinement of the methodology and the implementation of the BPR methodology change proposals. Some respondents also suggested additional changes and future methodology changes they could jointly pursue with the SSRO. We thank those who responded to the consultation for sharing their views and for their continued engagement. We look forward to working with stakeholders to further improve the methodology going forward. Eight respondents provided permission for their responses to be published on the [SSRO website](#).

¹ It is common, as we saw in two of the industry responses, for individual company responses to reference their agreement with DSAG's response before adding additional comments.

2. Consultation feedback

Overview

- 2.1 Most respondents were supportive of the proposals to update the methodology to NACE Rev. 2.1 and revise the company size thresholds according to the SSRO's proposed implementation timings. Nearly all respondents were also supportive of retiring the remaining proposals that were deferred from the previous activities review in 2024 to further alter the activity types i.e. no changes to the current activity types used for BPR assessment. Not all industry respondents chose to comment on the activities review proposals.
- 2.2 Industry respondents accepted the need to transition from NACE Rev. 2 to Rev. 2.1 but as part of this also suggested changes beyond the like-for-like update of codes based on the official correspondence tables that the SSRO had proposed. Industry respondents accepted the need to update the company size thresholds but also made representations calling for a full review of how the thresholds are set. Most industry respondents agreed that the Develop, Make and Support (DM&S) activity type should not be expanded to include technical support services and that the Ancillary Services group should not be expanded to include labour outsourcing activities, although not all industry respondents chose to comment on these proposals.
- 2.3 The MOD were supportive of the NACE code update and the company size threshold updates whilst agreeing with the SSRO's proposed timings for implementation of these changes. The MOD agreed that the SSRO should consider whether the inclusion of labour outsourcing type companies in the Ancillary Services activity group is appropriate but continued to favour the inclusion of technical support services in the DM&S activity group.
- 2.4 Industry respondents also commented on matters which were outside of the scope of the consultation. Representations were made for amending the Single Source Contract Regulations in line with recommendations in the Strategic Defence Review (SDR). The feedback included points about the methodology raised in previous consultations to which the SSRO has responded, as well as broader points concerning allowable costs and ensuring appropriate returns for contractors who are subject to the regime. We have responded to this feedback separately in Appendix B.
- 2.5 The remainder of this section sets out in more detail stakeholder feedback received to the questions posed in the consultation and the SSRO's responses to these. Section 3 sets out the conclusions and next steps for implementation.

Responses to consultation questions

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 Appendix A and the SSRO's proposed timing of implementation of this change into the methodology?

Based on the evidence and the stakeholder feedback received, we will incorporate this proposal into the BPR methodology. This is expected to be effective from the 2027/28 BPR assessment onwards as the implementation is contingent on the complete and correct adoption of NACE Rev. 2.1 in the Orbis database used as the source for company data, which has been delayed.

Stakeholder feedback

- 2.6 The SSRO's proposed amendments to adopt NACE Rev. 2.1 and the proposed timing of implementing the changes to the methodology were supported by both industry and the MOD. Two industry respondents provided no comments on this proposal. One industry respondent, whilst supportive of adopting NACE Rev. 2.1, requested more context to help them understand the detailed changes proposed to the NACE codes and descriptions.
- 2.7 Four industry respondents requested further changes to NACE codes which they saw as helping to improve comparability. The requested changes are summarised below:
- replacing NACE code 252 with NACE code 2521 only so that it excludes NACE code 2522 which represents activities that industry considered as not comparable relating to the manufacture of metal vessels.
 - inclusion of NACE codes 5829, 6110, 6130, 6201, 6202, 6392 and 6399 in the DM&S group which are currently only included in the IT Services activity group. These codes span NACE Rev. 2 and NACE Rev. 2.1. However, one industry respondent asked the SSRO to keep the IT Services group separate to the DM&S group.
 - replacing NACE code 33 with NACE codes 33.11, 33.13, 33.14, 33.15, 33.16 and 33.18 and excluding 33.20, to exclude activities such as installation of industrial machinery and equipment which industry viewed as not comparable.

SSRO response

- 2.8 The NACE codes used in the methodology are deliberately broad, to ensure the largest number of potential comparator companies can be identified, which are then filtered down through more detailed acceptance criteria. Each of the NACE codes we use in the methodology will therefore be associated with a range of both comparable and non-comparable activities. Further analysis is undertaken to identify companies undertaking non-comparable activities and exclude them irrespective of their NACE code. We are generally cautious about removing NACE codes completely, as even when they may first appear to be only loosely related to comparable economic activities, we have found them to be used by comparable companies, including major single source defence contractors who we would not wish to exclude from the analysis.

- 2.9 The adoption of NACE Rev. 2.1 proposed in the consultation document has been done in accordance with the official correspondence tables published by the European Commission.² These show how the NACE codes in Rev. 2 have been adopted in Rev. 2.1. We have not sought to make further refinement to the NACE codes, which were recently undertaken as part of the activities review in 2023 and 2024, where NACE Rev. 2 codes used in the methodology were selected to represent the activities that enable the performance of actual QDCs and QSCs. Once Rev. 2.1 has been adopted, we will be able to further examine its practical consequences and determine based on the evidence if further refinement of the codes is required. If in the meantime the codes suggested for removal give rise to non-comparable companies, then these companies will be excluded, and in due course may indicate the NACE code itself should be removed. However, their removal now would be premature as we are yet to establish that doing so would not exclude legitimate comparators.
- 2.10 On the point of clarification, our proposals maintain as far as possible the existing structure of the activity types, which have themselves recently been subject to a full review. For example, the DM&S group continues to cover manufacturing, scientific R&D and repair & servicing. Given the need to adopt NACE Rev. 2.1, the purpose of the revisions is to map the current NACE codes and descriptions in NACE Rev. 2 to the revised NACE codes and descriptions in NACE Rev. 2.1 to keep this aspect of methodology relevant and up to date with the changes being made by the European Commission.
- 2.11 The IT Services group was introduced as a separate, distinct activity type from more traditional defence manufacturing and support activities.³ This reflects the differing underlying economics and associated profit of these companies. As such we have not considered to date if it would be appropriate to subsume IT services into the DM&S group, which would have the effect of diluting any distinction between these two groups. This is something the SSRO may further reflect on should a more fundamental review take place of how IT services are priced within the regime.

² <https://ec.europa.eu/eurostat/web/nace/correspondence-tables>

³ <https://ssro.gov.uk/developing-an-information-technology-services-activity-group/>

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 it is?

Based on the evidence and the stakeholder feedback received, we will incorporate this proposal into the BPR methodology from the 2027/28 BPR assessment onwards following the new company size thresholds coming into effect for companies with financial periods beginning on or after 6 April 2025.

Stakeholder feedback

- 2.12 The updates to the company size thresholds in line with The Companies (Accounts and Reports) (Amendment and Transitional Provision) Regulations 2024 to keep the BPR methodology up to date were supported by both industry and the MOD. One industry respondent provided no comments on this proposal. An industry respondent noted that companies below the proposed thresholds of an annual turnover of £15m and either a maximum balance sheet total of £7.5m or an average number of employees of 50 would not be able to perform comparable QDC activity, although provided no evidence in support of this statement. Another industry respondent also noted that updating the company size thresholds would avoid any complications due to the SSRO having separate definitions and thresholds to The Companies (Accounts and Reports) (Amendment and Transitional Provision) Regulations 2024.
- 2.13 Three industry respondents requested the SSRO to undertake a further review of the threshold based on their view that it is not representative of the Global Ultimate Owners (GUO) that currently hold QDCs and QSCs. Citing the 165 GUO that own 707 QDCs from the Annual QDC Statistics 2024/2025, they requested that the SSRO publish details about the GUO and suggested increasing the threshold to be more representative of larger companies and complex contracts. One industry respondent requested the SSRO to undertake an assessment of the pros and cons of a larger threshold based on their view that it may be appropriate to exclude medium-sized companies in addition to small companies.

SSRO response

- 2.14 The SSRO previously responded to feedback on changing the company size threshold to align with larger single source defence contractors during a consultation on the 2020/21 BPR assessment.⁴ However, company size comparability is not an objective of this methodology. Our main criteria for selecting a company for inclusion into a comparator group is whether it undertakes activities which can be likened to those that contribute to the delivery of qualifying contracts. Company size thresholds are then applied to ensure that the financial data is of sufficient quality. Company size has not been shown to be a reliable indicator of the activities we specify, and we do not seek to judge comparability on the basis that companies in the benchmark are of similar size to only the larger companies with QDCs. Based on SSRO analysis, some GUO companies with QDCs do fall below the new size threshold. This is contrary to the claim made that a company of this size could not perform a QDC.

⁴ <https://ssro.gov.uk/ssro-single-source-baseline-profit-rate-methodology-consultation/>

- 2.15 Following the consultation on the 2020/21 BPR assessment, the SSRO's approach has been to replace the annual turnover threshold with the size thresholds set out in the EU regulations. This means that we have considered medium or large companies as potential comparator companies and excluded small companies in line with the audit requirements. We have not seen evidence to date which supports the exclusion of medium-sized companies. Should we receive broader feedback related to the company size criteria it will be held to inform any future review of this aspect of the methodology, if a more fundamental review of the approach is undertaken.

Concluding the 'activities review'

- 2.16 In 2023 the SSRO reviewed the activities in current QDCs and QSCs and analysed how the single source contracts the MOD is entering into align with the existing activity types used to select comparator companies used in the SSRO's profit benchmarking ('the activities review'). Two proposals from that review remained outstanding that received mixed stakeholder feedback from the previous review consultation and so were not taken forward at the time. These proposals were to:
- add technical support services to the DM&S activity type; and
 - add labour outsourcing to the Ancillary Services activity type.
- 2.17 We are now seeking to conclude a position on these two outstanding proposals, and the consultation sought stakeholder feedback to inform a final decision.

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.

The SSRO had envisaged explicitly capturing the provision of technical support services in the methodology based on the evidence from examining the portfolio of QDCs and QSCs that these services enabled the performance of a meaningful proportion of those contracts. However, further evidence published in the consultation suggested that it would be inappropriate to proceed with the original proposal.

Based on the evidence and stakeholder feedback received, we are not incorporating this change into the BPR methodology.

Stakeholder feedback

- 2.18 Most industry respondents were in agreement that the DM&S activity characterisation should not be expanded to include technical support services as a comparable activity. Two industry respondents did not provide comments on this proposal. However, the MOD was supportive of including technical support services in the DM&S group but did not provide evidence in support of this statement or any further explanation.
- 2.19 Industry respondents felt that the evidence provided by the SSRO in the consultation supported their views provided in previous consultation responses that technical support services are of a different nature to DM&S activities i.e. they deliver economically distinct results, require lower investment and represent a much lower risk to contractors.

SSRO response

- 2.20 Industry feedback lends further weight to the argument that we should not proceed with including technical support services in the DM&S group. We acknowledge the MOD's position but feel that there is insufficient evidence to include technical support services in the DM&S activity characterisation at this time. The SSRO continually keeps activity characterisations under review. We may consider this issue further as part of our continuous improvement of the BPR.

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.

Whilst the Ancillary Services activity type forms a minority of single source contracts and so is not included in the BPR assessment, it represents an economically distinct activity for benchmarking. The SSRO had envisaged capturing the provision of labour outsourcing activities within the Ancillary Services activity group to support the BPR assessment. However, further evidence published in the consultation suggested it would be inappropriate to proceed with the original proposal.

Based on the evidence and stakeholder feedback received, we are not incorporating this change into the BPR methodology.

Stakeholder Feedback

- 2.21 With similar reasoning to their responses to question 3, most respondents agreed that the Ancillary Services activity characterisation should not be expanded to include labour outsourcing as a comparable activity. Two industry respondents provided no comments on this proposal.
- 2.22 Industry respondents felt that the evidence provided by the SSRO in the consultation supported their views provided in previous consultation responses that labour outsourcing activities are of a different nature to Ancillary Services activities i.e. they deliver economically distinct results, require lower investment and represent a much lower risk to contractors. Five industry respondents noted that labour outsourcing services typically form a part of larger contracts. Three industry respondents added that labour outsourcing contracts are likely to be competitive, not single source and that government policy is to reduce the number of outsourcing arrangements which means that the number of labour outsourcing contracts is likely to decrease further over time.

SSRO response

- 2.23 Based on the feedback received and the evidence, the SSRO will not include labour outsourcing in the Ancillary Services activity characterisation at this time. The SSRO continually keeps activity characterisations under review. We may consider this issue further as part of continuous improvement of the BPR methodology.

Additional feedback on implementation proposals to the proposed changes to the BPR methodology

- 2.24 No respondents provided specific additional feedback on the proposals. However, some industry respondents provided feedback on other aspects of the SSRO's BPR methodology outside of the scope of the consultation. A summary of the feedback and the SSRO's response is provided in Appendix B.

3. Conclusion and next steps

- 3.1 The SSRO will implement proposals 1 and 2 from the 2027/28 BPR assessment onwards. This means incorporating the latest applicable NACE codes database version NACE Rev. 2.1 for the BPR assessment when this becomes fully available for use. The timeline for the adoption of NACE Rev. 2.1 in the BPR assessment has changed since the consultation publication as NACE Rev. 2.1 has not yet been fully implemented in the Orbis database which is used as the source for company data during the BPR assessment. This is now expected to be effective from the 2027/28 BPR assessment onwards. The SSRO will implement the latest company size thresholds for identifying comparable companies for the BPR assessment. This is anticipated to be effective from the 2027/28 BPR assessment onwards.
- 3.2 The SSRO will not take proposals 3 and 4 forward owing to the lack of support for these proposals. We will continue to monitor the BPR methodology as part of the continuous improvement approach that the SSRO adopts to ensure that it remains appropriate and relevant. As part of this, we continually welcome stakeholder feedback and engagement with stakeholders.

Appendix A: NACE code changes to the methodology from replacing NACE Rev. 2 with NACE Rev. 2.1

The NACE Rev. 2 codes as per the published methodology are shown in black. Where an existing NACE Rev. 2 code and/or description currently used in the published methodology has been modified in NACE Rev. 2.1, the corresponding updated code and/or description is shown in green.

The green codes and descriptions show the updates we propose to make to the methodology to reflect the adoption of NACE Rev. 2.1.

Develop, Make and Support (DM&S)

Sub-activity	NACE Rev. 2 code	NACE Rev. 2 code description	NACE Rev. 2.1 code	NACE Rev. 2.1 code description
Manufacturing	2511	Manufacture of metal structures and parts of structures	2511	Manufacture of metal structures and parts of structures
	2529	Manufacture of other tanks, reservoirs and containers of metal	252	Manufacture of tanks, reservoirs and containers of metal (includes manufacture of nuclear reactors)
	253	Manufacture of steam generators, except central heating hot water boilers		
	254	Manufacture of weapons and ammunition	253	Manufacture of weapons and ammunition
	2599	Manufacture of other fabricated metal products n.e.c.*	2599	Manufacture of other fabricated metal products n.e.c.*
	2630	Manufacture of communication equipment	2630	Manufacture of communication equipment
	2651	Manufacture of instruments and appliances for measuring, testing and navigation	2651	Manufacture of instruments and appliances for measuring, testing and navigation
	28	Manufacture of machinery and equipment n.e.c.*	28	Manufacture of machinery and equipment n.e.c.*

Sub-activity	NACE Rev. 2 code	NACE Rev. 2 code description	NACE Rev. 2.1 code	NACE Rev. 2.1 code description
Manufacturing	29	Manufacture of motor vehicles, trailers and semi-trailers	29	Manufacture of motor vehicles, trailers and semi-trailers
	301	Building of ships and boats	301	Building of ships and boats
	302	Manufacture of railway locomotives and rolling stock	302	Manufacture of railway locomotives and rolling stock
	303	Manufacture of air and spacecraft and related machinery	303	Manufacture of air and spacecraft and related machinery
	304	Manufacture of military fighting vehicles	304	Manufacture of military fighting vehicles
	3099	Manufacture of other transport equipment n.e.c.*	3099	Manufacture of other transport equipment n.e.c.*
Research and development (R&D)	749	Other professional, scientific and technical activities n.e.c.*	749	Other professional, scientific and technical activities n.e.c.*
	721	Research and experimental development on natural sciences and engineering	721	Research and experimental development on natural sciences and engineering
	741	Specialised design activities	741	Specialised design activities
	712	Technical testing and analysis	712	Technical testing and analysis
Repair and servicing	33	Repair and installation of machinery and equipment	33	Repair, maintenance and installation of machinery and equipment
	749	Other professional, scientific and technical activities n.e.c.*	749	Other professional, scientific and technical activities n.e.c.*

* not elsewhere classified

Ancillary Services

NACE Rev. 2 code	NACE Rev. 2 code description	NACE Rev. 2.1 code	NACE Rev. 2.1 code description
6311	Data processing, hosting and related activities	631	Computing infrastructure, data processing, hosting and related activities
811	Combined facilities support activities	811	Combined facilities support activities
8121	General cleaning of buildings	8121	General cleaning of buildings
8122	Other building and industrial cleaning activities	8122	Other building and industrial cleaning activities
8129	Other cleaning activities	8123	Other cleaning activities
821	Office administrative and support activities	821	Office administrative and support activities
8299	Other business support service activities n.e.c.*	8299	Other business support service activities n.e.c.*
802	Security systems service activities	80	Investigation and security activities

* not elsewhere classified

Construction

NACE Rev. 2 code	NACE Rev. 2 code description	NACE Rev. 2.1 code	NACE Rev. 2.1 code description
41	Construction of buildings	41	Construction of residential and non-residential buildings
42	Civil engineering	42	Civil engineering
43	Specialised construction activity	43	Specialised construction activity

Information Technology Services

NACE Rev. 2 code	NACE Rev. 2 code description	NACE Rev. 2.1 code	NACE Rev. 2.1 code description
5829	Other software publishing	5829	Other software publishing
6130	Satellite telecommunications activities	6110	Wired, wireless, and satellite telecommunication activities
6201	Computer programming activities	6210 ⁵	Computer programming activities
6202	Computer consultancy activities	6220 ⁵	Computer consultancy and computer facilities management activities
6209	Other information technology and computer service activities	6290	Other information technology and computer service activities
6399	Other information service activities n.e.c.*	6392	Other information service activities

*not elsewhere classified

⁵ There was a typographical error in the consultation document which stated the new NACE Rev. 2.1 code to be 6201 and 6202. This should have been 6210 and 6220 and the NACE Rev. 2 class is fully covered in the corresponding NACE Rev. 2.1 class.

4. Appendix B: Wider feedback

Respondents provided feedback on topics which were not in scope of the consultation which we have addressed below.

Several respondents requested the SSRO to take a proactive role to amend the Single Source Contract Regulations in line with the Strategic Defence Review (SDR) outcomes and involve industry early in the process. The SSRO welcomes engagement with the MOD and industry stakeholders to deliver against the SDR. We have strived to ensure that the SSRO's annual assessment of the BPR supports globally comparable returns that are in line with that which the market delivers under competition. While we are not undertaking a wider review of the BPR methodology at this time, we will consider if updates to the methodology are required the outcome of a broader review of single source contracting legislation signposted in the SDR and in the Defence Industrial Strategy (DIS).

Some of the feedback we received on the BPR methodology has been raised previously and responded to by the SSRO.⁶ The SSRO is committed to ongoing continuous improvement, including on the BPR methodology. We have seen the merits of maintaining stability in the BPR and believe that after 10 years of application the methodology has demonstrated its effectiveness as a sound basis upon which to make our annual assessment. We recognise it is important to ensure contractors receive a fair profit for the work they do. The BPR is the first of the four steps of the contract profit rate process. Whilst it may make up the largest part of the average contract profit rate, it is the application of the remaining contract profit rate steps, as well as contract performance and managed risk taking which offers the greatest flexibility to tailor profit rates to suit circumstances or inform wider policy aims. For the best performing contractors, it is these later factors, not the BPR, which largely determine the profit they make. We will hold the feedback we have received relating to our use of methodology to potentially inform any future review.

The table below summarises our responses to key detailed aspects of the feedback we received on the BPR methodology as well as concerns around allowable costs and ensuring appropriate returns for contractors who are subject to the regime.

Theme	SSRO Comment
Putting the onus on the contractor to prove that costs are appropriate, attributable and reasonable is not proportionate as it creates administrative burden and is time and resource intensive. There is often long-term uncertainty around cost recovery. The SSRO has a duty to ensure fair and reasonable prices for contractors.	The SSRO's statutory aims on fair and reasonable prices and value for money applies to the way it carries out its functions and does not extend to overruling the legislation which puts the onus on suppliers to demonstrate costs are allowable. We support the current arrangements but recognise there is a key role for the MOD in that process to ensure it runs well. The SSRO is keen to ensure that the process of agreeing allowable costs runs efficiently, whilst recognising the importance that costs claimed as allowable are appropriate, attributable to the contract and reasonable. Our allowable costs guidance emphasises the need for a proportionate approach. ⁷ We welcome further stakeholder engagement in the meantime to explore the issues faced by industry in more depth.

⁶ <https://ssro.gov.uk/the-baseline-profit-rate-and-its-adjustment/>

⁷ <https://ssro.gov.uk/allowable-costs-guidance-version-7-2/>

Theme	SSRO Comment
Costs which industry claim are allowable are not being accepted by the MOD and broader business costs are not being recognised in the BPR methodology. This erodes profit rates and has a detrimental effect on the defence industry.	The SSRO's guidance is clear on the treatment of overhead costs which are required to ensure the efficient and proper operation of the business of delivering defence contracts and sub-contracts, and these may be allowable. However, these must be shown to be appropriate, attributable to the contract and reasonable in the circumstances. If suppliers are experiencing difficulties in this area, they can approach the SSRO via the helpdesk or seek non referral advice or a referral for an opinion or determination as appropriate. However, it is not appropriate to use the BPR as a remedy to fix another part of the system which is perceived to not be functioning correctly or effectively.
Changing the comparability principle used in the methodology, for example, by using an alternative investment approach	We have not considered changing the principle of comparability in this consultation, which would amount to an entire revision of the existing methodology and potentially require a change in legislation. For example, moving to a return on capital model to set base profits based on "alternative investment". We have previously published a more detailed response to this feedback in the consultation response from August 2021 at B.13 to B.15. ⁸
Introducing market sector comparator groups including multiple sector specific BPRs as a replacement for the current comparator groups and current single BPR.	The SSRO previously proposed multiple sector specific BPRs to the MOD to better represent market sectors but this was not accepted at the time. The MOD felt that this could introduce complexity and opted instead to incorporate the principle in step 2 (cost risk adjustment) of the four-step process to calculate contract profit rate. ⁹ The activity characterisations are kept under review by the SSRO as part of its continuous improvement approach to the methodology. There may be an opportunity following the outcome of a broader review of single source contracting legislation signposted in the SDR and DIS for industry and the SSRO to have further discussions with the MOD on this topic.

⁸ https://ssro.gov.uk/wp-content/uploads/2025/09/Response_to_consultation_on_the_baseline_profit_rate_and_its_adjustment_August_2021A_.pdf

⁹ <https://www.gov.uk/government/publications/defence-and-security-industrial-strategy-reform-of-the-single-source-contract-regulations>

Theme	SSRO Comment
IT Services, along with Ancillary Services and Construction companies are being excluded from the BPR comparator group and should be included.	An IT Services comparator group was introduced in 2023/24 following a public consultation. ¹⁰ Given contracts for IT Services account for a small minority of single source contract spend they are not included in the BPR but used as separate benchmarks to support BPR assessment. Ancillary Services and Construction are also excluded from the BPR for the same reason. The BPR is calculated using the DM&S activity group. Further information can be found in the BPR methodology. ¹¹ These are kept separate to recognise the differing economics of each group.
Exclusion of loss-making companies for BPR and comparator group profit assessment to avoid bias away from 'expected' margins for the sector.	The methodology is carefully calibrated to ensure that it represents a reasonable starting point for the application of the four-step contract profit rate setting process. As such, the SSRO does not select loss-making companies for the BPR assessment. Further information on how the SSRO implements this approach can be found in paragraphs 4.9 and 14.1 of the current methodology. ¹¹
Publishing data on medium-sized and large companies and undertake an assessment of a larger threshold to exclude medium-sized companies in addition to small companies.	The methodology is aligned with company size thresholds in accordance with financial audit requirements to maintain the integrity of the financial information of comparator companies used in the BPR assessment. We did not consult at this time on moving away from that principle, or introduce a size comparability objective, so removing medium-sized companies is not something that has been considered. In addition, many medium-sized companies are considered as legitimate comparators (including many that hold qualifying defence contracts) and to exclude these would inappropriately distort the comparator group.
Excluding privately owned businesses and partnerships from comparator companies.	The SSRO includes public and private companies within its profit benchmark to capture the widest range of comparable companies. We already exclude partnerships as comparator companies as has been suggested. Whilst private companies may have different incentives, the fact that their shares are not traded on public market, does not relieve them of the need to provide returns to their owners, and more so than for listed companies in some cases. Given that there are several major privately owned defence suppliers e.g. General Atomics, Ultra Electronics, Cobham etc and that there is an increasing trend towards private ownership, we remain of the view that the inclusion of public and private companies remains appropriate.

¹⁰ <https://ssro.gov.uk/developing-an-information-technology-services-activity-group/>

¹¹ <https://ssro.gov.uk/2025-contract-profit-rate-assessment/>