

SSRO

Single Source
Regulations Office

Recommendation factsheet

Under the Defence Reform Act 2014, the SSRO must provide the Secretary of State with its assessment of the appropriate rates used to determine the contract profit rate for pricing qualifying defence contracts and qualifying sub-contracts. For further information on the methodology used to calculate these rates please see the [Single Source baseline profit rate, capital servicing rates and funding adjustment methodology](#).

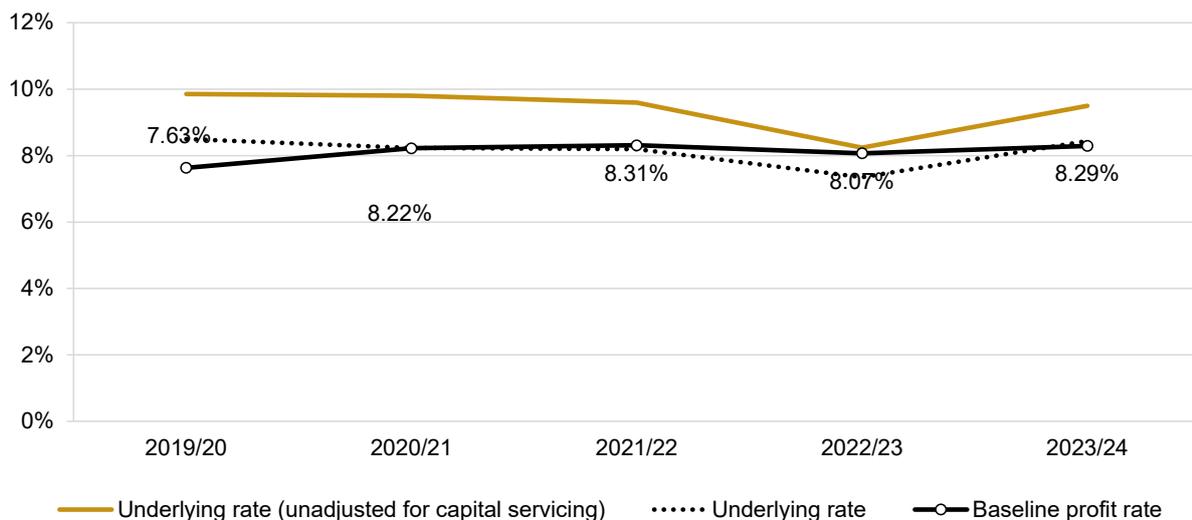
Baseline profit rate

The baseline profit rate is step 1 of the six-step process for determining the contract profit rate for a qualifying defence contract.

The baseline profit rate is calculated from an index of public and private companies. The rate is a composite that combines search results from the “Develop and Make” and “Provide and Maintain” activity groups. The underlying rate is the average of the median capital servicing adjusted profit on cost of production of each group. The baseline profit rate is the rolling average of the underlying rate.

	2019/20	2020/21	2021/22	2022/23**	2023/24
¹ Underlying rate (unadjusted for capital servicing)	9.85%	9.80%	9.59%	8.24%	9.50%
Capital servicing adjustment	-1.35%	-1.57%	-1.40%	-0.89%	-1.06%
Underlying rate	8.50%	8.23%	8.19%	7.35%	8.44%
Baseline profit rate recommended by the SSRO; rolling average of the underlying rate*	7.63%	8.22%	8.31%	8.07%	8.29%

Median capital servicing adjusted return on cost of production



¹ Note: The capital servicing adjustment accounts, at an aggregate level, for different levels of capital employed across the companies in the index and so sets a baseline upon which step 6 of the contract profit rate applies.

* A four-year average was used for 2022/23; a three-year average for pre-2022/23 and a three year average (excluding the 2022/23 underlying rate) for 2023/24.

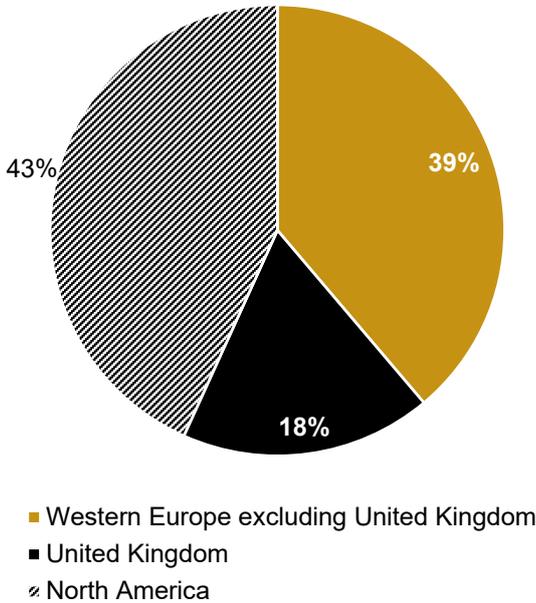
The pre-2019/20 underlying rates used for the three-year average were: 2018/19: 7.94, 2017/18: 6.44%

** Shown are the 2022/23 rates recommended by the SSRO. The Secretary of State determined the BPR for 2022/23 as an average of the composite underlying rates calculated by the SSRO for the three years prior to 2021 (8.50%, 8.23%, and 8.19%), keeping the BPR at 8.31 per cent.

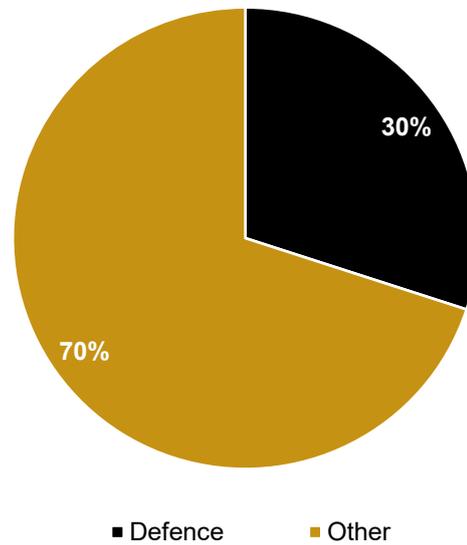
Data sources

For further information on the data selection approach please see section 7 of the [Single Source baseline profit rate, capital servicing rates and funding adjustment methodology](#). A company update search of the [Orbis database](#) was carried out on 1 November 2022 on data update number 329001 using software version 329. The financial data for the calculation was extracted from Orbis at the same time.

Proportion of companies by country



Proportion of companies with defence keyword



Supplementary statistics

Number of companies	354
<i>of which profit making</i>	296
Aggregate turnover (£billions)	£1,045
Total capital employed (CE) (£billions)	£310
Average company CP:CE ratio	3.02

Source: Orbis (Cash figures shown in rounded GBP Billions)

Names of companies in the index

600 Group (The) PLC (J)	BAS Maskinutleie AS * (J)	David Ritchie (Implements) Limited * (J)	Heico Corp
Aaon INC	Binder + Co AG (J)	Dawsongroup PLC	Heidelberger Druckmaschinen AG
AAR Corp	Bittium OYJ	de Lorenzo S.P.A. * (J)	Heroux-Devtek INC
AB Transito *	BK Technologies Corporation * (J)	Deere & CO	Hexcel Corp (J)
AB Volvo	Blonder Tongue Laboratories INC * (J)	Deutz AG	Hidden Instruments Limited
Accuracy International Limited * (J)	Blue Bird Corporation (J)	Douglas Dynamics, Inc.	Honeywell International INC
Advanced Energy Industries INC	BMI Trailers Limited (J)	Dril-Quip INC *	HSS Hire Group PLC (J)
Advanced Mechanical and Optical Systems * (J)	Boeing Company (The) *	Ducommun INC	Huntington Ingalls Industries, Inc.
Aerojet Rocketdyne Holdings, Inc.	Broadwind, Inc. *	Duerr AG	Idex Corp
Aerovironment, Inc.	Bruker Corporation	Electromecanica Naval E Industrial SA (J)	IMI PLC (J)
Affinity Flying Training Services Limited (J)	Brunvoll Holding AS	Elettronica - Societa PER Azioni (J)	Indra Sistemas S.A. (J)
Aguirre Maquinaria Agricola SL. (J)	BWX Technologies Inc.	Elno (J)	Industrias Montanasas Electricas Mecanicas SL (J)
AIR Industries Group (J)	C.M.A. - Costruzioni Montacarichi ED Ascensori - Societa' A Responsabilita' Limitata (J)	Energy Recovery, Inc.	Inficon Holding AG
Airbus SE	Caci International INC	Enerpac Tool Group Corp	Ingersoll Rand Inc. (J)
Airtanker Holdings Limited	Cactus, Inc. (J)	Esautomotion S.P.A. (J)	Innovative Solutions & Support INC
Airtanker Services Limited	CAE INC	Espey Manufacturing & Electronics Corp. *	Interroll Holding AG
Alamo Group INC	Carlisle Refrigeration (Holdings) Limited (J)	Eurogruas Holding Corporativo Sociedad Limitada (J)	IPG Photonics Corporation (J)
Alimak Group AB	Carver Group Limited (J)	EVS Broadcast Equipment SA	Istobal SA (J)
Allied Motion Technologies, Inc.	Castledon LTD *	F. Zimmermann GmbH (J)	Italcab S.P.A. (J)
Allison Transmission Holdings, Inc.	Caterpillar INC	Fabricacion de Elevadores SL (J)	Jacobs Engineering Group INC
Alltruck PLC (J)	Ceco Environmental Corp.	Fabrications Mecaniques de l'Atlantique * (J)	John Bean Technologies Corp
Alstom S.A *	Cela S.R.L. (J)	Faro Technologies INC * (J)	Johnson Controls International PLC (J)
Altra Industrial Motion Corp.	CGG * (J)	Faurecia (J)	Jost Werke AG (J)
American Axle & Manufacturing Holdings, Inc.	Chart Industries INC	Federal Signal Corp	Judges Scientific PLC
Ametek INC	Chemring Group PLC	Filtronic PLC	Kadant INC
Amtech Systems INC	CMZ Machine Tool Manufacturer Sociedad Limitada. (J)	Finning International INC	Kaman Corp
Analog Devices INC (J)	CNH Industrial N.V	Fisher (James) & Sons PLC * (J)	Katsa Oy
Andritz AG (J)	Coda Octopus Group, Inc. (J)	Flowserve Corp (J)	Kbr, Inc.
Antonio Carraro S.P.A. (J)	Cognex Corp	FMT SRL (J)	Keestrack (J)
Applus Services, S.A.	Coherent Corp	Fortress Transportation and Infrastructure Investors LLC * (J)	Kesla OYJ
Aptiv PLC	Cohort PLC	Frigoveneta S.P.A.	Keysight Technologies, Inc.
Archrock, Inc.	Cohu INC	Frumecar SL (J)	Klingelberg AG * (J)
Ashtead Group PLC	Colosio S.R.L.	G M Treble Holdings Limited (J)	KMG Systems Limited
Astec Industries INC	Columbus Mckinnon Corp	G.H.B. (Holding) Limited	Koenig UND Bauer AG
Astronics Corporation * (J)	Commercial Vehicle Group, Inc. (J)	Gama Aviation PLC *	Komax Holding AG
Astronova, Inc.	Comrod Communication AS (J)	Gatx Corp	Konecranes OYJ
Athader SL (J)	Comtech Telecommunications Corp	Geismar Italia S.P.A. * (J)	Kratos Defense & Security Solutions, Inc.
Atlas AIR Worldwide Holdings, Inc.	Construcciones Y Auxiliar de Ferrocarriles, S.A.	Genasys Inc.	L3harris Technologies, Inc.
Atlas Copco AB	Continental AG	Gencor Industries, Inc. *	LAM Research Corp
ATS Automation Tooling Systems INC	Cowles Holdings Limited	General de Alquiler de Maquinaria, S.A. (J)	Leidos Holdings, Inc.
Aumann AG * (J)	CPI Aerostructures INC (J)	General Dynamics Corp	Leonardo S.P.A.
Autoliv, Inc.	Crestchic PLC * (J)	General Electric Company	Lillbacka Powerco Oy
Avant Tecno Oy	CTA International SAS	Gentex Corp	Linamar Corporation
Axcelis Technologies INC	CTT Systems AB (J)	Gesellschaft fuer Oeltechnik mit beschaenkter Haftung (J)	Lockheed Martin Corp
Axon Enterprise, Inc. *	Cummins Inc.	Gorman-Rupp Company (The)	Logset Oy
Azkoyen SA	Curtiss Wright Corp	Graco INC	Lombardi Converting Machinery S.P.A. (J)
Babcock & Wilcox Enterprises, Inc.	Cuypers Vorkliften	Graham Corp *	Magna International INC
Babcock International Group PLC	CVD Equipment Corporation * (J)	Granada Material Handling Limited * (J)	Manitex International, Inc. *
BAE Systems PLC	Cyberoptics Corp	Greenbrier Companies, Inc. (The)	Manitou BF
Bailey Trailers Limited	D.R.A. LTD * (J)	Guzzetti S.P.A. (J)	Manitowoc Company, Inc. (The)
Barco NV	Data I/O Corp *	H&E Equipment Services, Inc.	Marel HF
Barnes Group INC			Mariani S.R.L.
			Maschinenfabrik Berthold Hermle AG

MAX Automation SE	Ponsse OYJ	SPX Technologies INC	Wartsila OYJ (J)
Maxar Technologies Inc.	Portsmouth Aviation Holdings Limited	Star Refrigeration Limited	Washtec AG
Mcgrath Rentcorp	Powell Industries INC *	Stoneridge INC * (J)	Weber Maschinenbau GmbH Breidenbach
Mecapack (J)	Presses et Cisailles Lefort (J)	Sureserve Group PLC	Werent S.R.L. (J)
Mercury Systems INC	Prima Industrie SPA	Swede Ship Marine Aktiebolag *	Westinghouse AIR Brake Technologies Corp
Mikron Holding AG	PSM Projekt System & Management GmbH (J)	Systemair AB	William Cook Holdings Limited
Miller Industries INC	PVA Tepla AG (J)	TAI Milano S.P.A. (J)	Williams Shipping Holdings Limited
Milltex S.P.A. (J)	Qinetiq Group PLC	Talgo,S.A. (J)	Willis Lease Finance Corp
MKS Instruments INC	Raute OYJ *	Talleres Mecanicos DEL SUR SA * (J)	Willis Mitsui & CO Engine Support Limited *
Modine Manufacturing CO	Raytheon Technologies Corporation	Taylor Devices INC *	Wilton Universal Group Limited *
Moog INC	Redde Northgate PLC (J)	Teagle Holdings Limited	Wireless Telecom Group INC
Motorola Solutions, Inc.	Renew Holdings PLC	Technipmc PLC * (J)	Witt & SON UK Holdings Limited
Mpac Group PLC	Renishaw PLC	Teledyne Technologies Incorporated	Woodward, Inc.
MS International PLC	REV Group, Inc. (J)	Tennant CO	Xylem Inc.
MTU Aero Engines AG	Rheinmetall AG	Tenneco Inc. (J)	Zebra Technologies Corp
Muehlhan AG	Ricardo PLC (J)	Teradyne INC	
MULTIVAC Sepp Haggenmueller SE & Co. KG	Robson Handling Technology Limited * (J)	Terex Corp	
N3 Engine Overhaul Services GmbH & Co. KG (J)	Rockwell Automation, Inc.	Tesmec SPA	
Nammo AS (J)	Rohde & Schwarz GmbH & Co. Kommanditgesellschaft	Tevo Oy (J)	
Natural GAS Services Group, Inc. *	Rolls-Royce Holdings PLC (J)	Textron INC	
NC Engineering (Hamiltonsbawn) Limited	Ropsley Limited * (J)	Thales	
NFI Group Inc. (J)	RWG (Repair & Overhauls) Limited	THE Shyft Group, Inc.	
NG Bailey Group Limited * (J)	Ryder System INC	Thwaites Limited	
Nordson Corp	Saab AB	Thyssenkrupp AG	
Northrop Grumman Corporation	Saalasti Oy	Tiber Pack S.P.A. (J)	
NOV INC *	Sacim SPA * (J)	Tomra Systems ASA	
Novanta INC	Safran (J)	Tong Engineering Limited (J)	
Nuova Idropress - Societa' PER Azioni IN Forma Abbreviata NIP S.P.A.	Salmoiraghi S.P.A. (J)	Tornado Global Hydrovacs Ltd. * (J)	
NVE Corporation (J)	Saltire Energy Limited	Toromont Industries LTD (J)	
Officina Bocedi SRL	Samp S.P.A.	Total Aircraft Product Support (Holdings) Limited *	
Officina Meccanica F.Lli Tabarelli S.P.A. (J)	Sawo Holding A/S (J)	Trakm8 Holdings PLC (J)	
Onto Innovation Inc.	SC Group-Global Limited * (J)	Trinity Industries INC	
Oshkosh Corporation *	Schlatter Industries AG	Triumph Group INC	
Oxford Instruments PLC	Schmitt - Elevadores, LDA	Tronrud Engineering AS	
Oy El-Ho Ab (J)	Science Applications International Corp	TTM Technologies INC (J)	
P B Donoghue (Waste Management) Limited (J)	Search Group Holdings Limited (J)	Twin Disc INC *	
Paccar INC	Servotronics INC *	United Rentals, Inc.	
Pama S.P.A. (J)	Servovalve S.P.A. * (J)	Vaisala OYJ	
Paragon Technologies INC (J)	Siemens AG	Veeco Instruments INC (J)	
Park Aerospace Corp.	Skako A/S	Vegsund Slip Holding AS (J)	
Paul Mueller Company	Smiths Group PLC	Vicinity Motor Corp. * (J)	
Petards Group PLC (J)	Sonardyne Holdings Limited * (J)	VMS (Holdings) Limited	
Pietro Fiorentini S.P.A.	Speedy Hire PLC	VSE Corp	
	Spirit Aerosystems Holdings, Inc. *	Wabash National Corp	
		Wacker Neuson SE	

* Indicates that the company is a loss-maker in the year.

(J) indicates a company that was not in either the D&M or the P&M activity group last year, but has been added this year.

Capital servicing rates

The capital servicing rates are used as part of the Step 6 Capital Servicing Adjustment (CSA) of the six-step process for determining the contract profit rate for a qualifying defence contract. A corresponding adjustment accounts, at an aggregate level, for different levels of capital employed across the companies in the index and so sets a baseline upon which Step 6 of the contract profit rate applies.

The capital servicing rates are calculated from indices of sterling denominated corporate bonds or fixed maturity deposits. The rates are rolling averages of the underlying rates.

	2019/20	2020/21	2021/22	2022/23	2023/24
Fixed capital servicing rate	3.98%	3.66%	3.27%	2.87%	2.90%
Positive working capital servicing rate	1.18%	1.22%	1.33%	1.09%	1.67%
Negative working capital servicing rate	0.53%	0.61%	0.65%	0.51%	0.51%

* Shown are the 2022/23 rates recommended by the SSRO. The Secretary of State determined the BPR for 2022/23 as an average of the composite underlying rates calculated by the SSRO for the three years prior to 2021 (8.50%, 8.23%, and 8.19%), keeping the BPR at 8.31 per cent.

Data sources

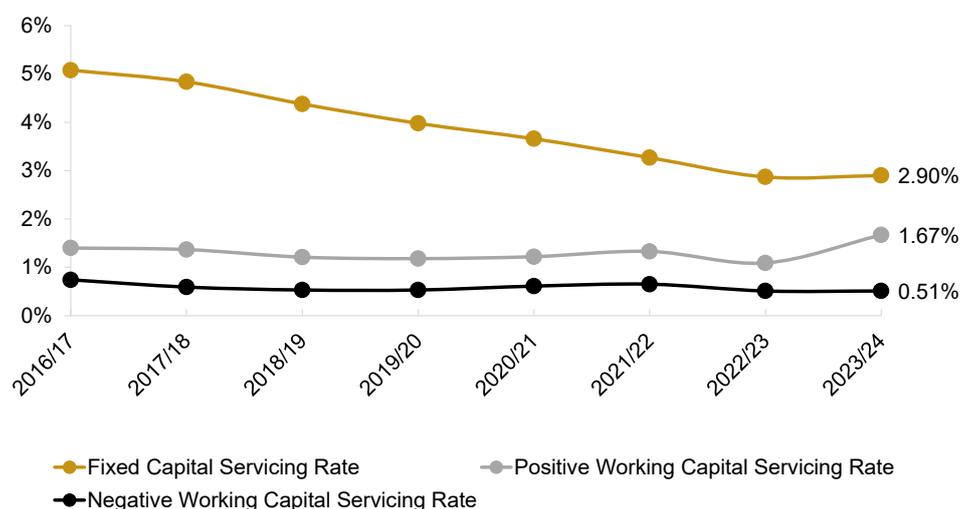
For further information on the data selection approach please see section 13 of the [Single Source baseline profit rate, capital servicing rates and funding adjustment methodology](#).

Rate	Description	
Fixed capital servicing rate	Seven-year average of '15-year BBB GBP' bonds*	C40515Y INDEX
Positive working capital servicing rate	Three-year average of '1-year BBB GBP' bonds	C4051Y INDEX
Negative working capital servicing rate	Three-year average of Monthly average of UK resident monetary financial institutions' (excl. Central Bank) sterling weighted average interest rate - time deposits with fixed original maturity <=1 year from private non-financial corporations (in percent) not seasonally adjusted	CFMBI32

Sources: Bloomberg and Bank of England

*Note: Prior to 31 December 2014 the underlying rate is calculated using the Review Board's methodology, adding 0.5pp to estimate a BBB- yield.

Trends in capital servicing rates



The SSRO funding adjustment

The SSRO funding adjustment is Step 4 of the six-step process for determining the contract profit rate for a qualifying defence contract. This requires that the SSRO be funded equally by the Secretary of State and industry. Industry funding is intended to be equitably shared across contractors based upon the value of their QDCs.

$$\text{SSRO funding adjustment} = \frac{\text{SSRO costs} - \text{Cost of additional tasks requested by SofS}}{\text{Average annual total Allowable Costs of contracts entered into}} \times \frac{1}{2}$$

Calculation of SSRO funding adjustment

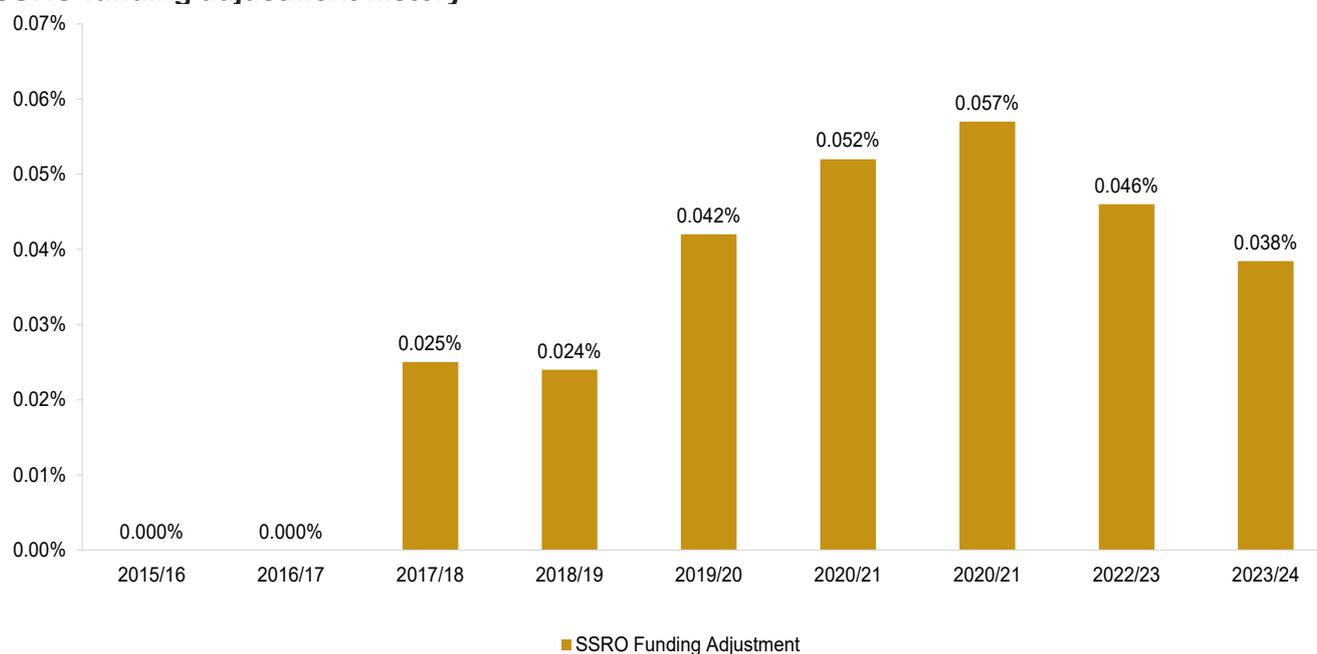
Financial year	2019/20	2020/21	2021/22
SSRO running costs (£ thousand)	6,336	6,412	6,342
Cost of additional tasks requested by SofS (£ thousand)	-	-	-
Total Allowable Costs of QDCs and QSCs (£ thousand)	10,074,000	5,559,000	9,188,000

Recommendation		2023/24
SSRO running costs (£ thousand)	a	6,363
3-year average		
Cost of additional tasks requested by SofS (£ thousand) – 3-year average	b	-
Total Allowable Costs of QDCs and QSCs (£ thousand) – 3-year average	c	8,273,667
SSRO funding adjustment = ((a-b)/c) × 50%		0.038%

Data sources:

For further information on the data selection approach please see section 1 of part 2 of the [Single Source baseline profit rate, capital servicing rates and funding adjustment methodology](#). The SSRO costs and the costs of additional tasks requested by the Secretary of State are from the [SSRO Annual Report and Accounts](#). The total value of contracts is as reported in the latest [SSRO Qualifying defence contract statistics](#).

SSRO funding adjustment history



Government owned contractor rate

The Government owned contractor rate is a baseline profit rate that may be applied to qualifying contracts in place of the baseline profit rate set out on page 1.

The government owned contractor rate must only apply to qualifying defence contracts where:

- a) the contract is between the Secretary of State and a company incorporated under the Companies Act that is wholly owned by the UK Government; and
- b) both parties to the contract agree that it should apply.

Calculation of Government owned contractor rate

The government owned contractor rate is set at a level that is opposite to the application of the SSRO funding adjustment. This approach delivers a contract profit rate of zero if steps 2, 5 and 6 are determined to be zero.

	2019/20	2020/21	2021/22	2022/23	2023/24
Government owned contractor rate			0.057%*	0.046%	0.038%

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

* The SSRO did not recommend a government owned contractor rate for 2021/22 and the rate was assessed by the Secretary of State. The reason for doing so is set out in the London Gazette: <https://www.thegazette.co.uk/notice/3760612>