

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

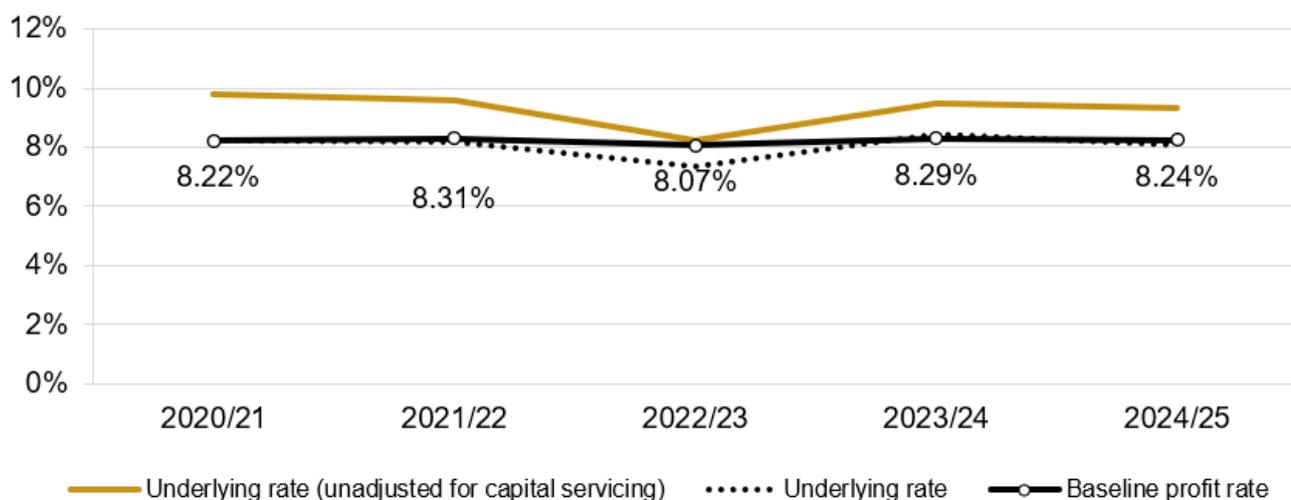
The baseline profit rate is step 1 of the four-step process for determining the contract profit rate for a qualifying defence contract.

From 01 April 2024, this replaces the previous six-step process.

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.

	2020/21	2021/22	2022/23**	2023/24	2024/25
Underlying rate (unadjusted for capital servicing) ¹	9.80%	9.59%	8.24%	9.50%	9.31%
Capital servicing adjustment	-1.57%	-1.40%	-0.89%	-1.06%	-1.22%
Underlying rate	8.23%	8.19%	7.35%	8.44%	8.09%
Baseline profit rate recommended by the SSRO; rolling average of the underlying rate*	8.22%	8.31%	8.07%	8.29%	8.24%

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 4 (previously 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 and 2024/25.

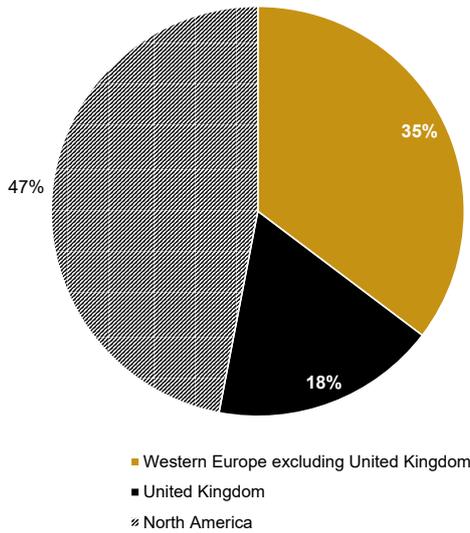
The pre-2020/21 underlying rates used for the three-year average were: 2018/19: 7.94%, 2019/20: 8.50%

** 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.

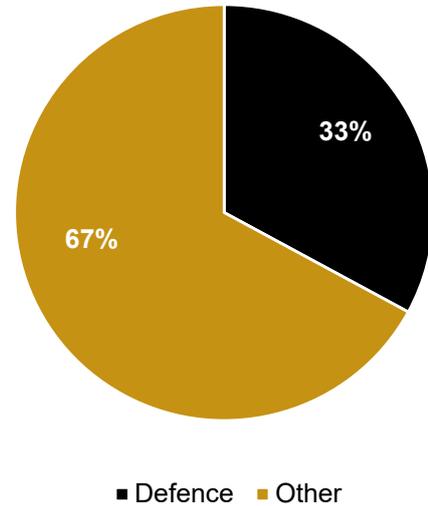
Data sources

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](#)² was carried out on 1 November 2023 on data update number 342001 using software version 342. 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	300
<i>of which profit making</i>	249
Aggregate turnover (£billions)	£1,221
Total capital employed (CE) (£billions)	£325
Average company CP:CE ratio	3.35

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

² <https://www.bvdinfo.com/en-gb/our-products/data/international/orbis>

Names of companies in the index

Aaon INC	Bruker Corporation	Finning International INC	Kesla OYJ *
AAR Corp	Brunvoll Holding AS	Fisher (James) & Sons PLC	Keysight Technologies, Inc.
AB Transio *	BWX Technologies Inc.	Flowserve Corp	Klingelberg AG
AB Volvo	Caci International INC	Fortress Transportation and Infrastructure Investors LLC *	Koenig UND Bauer AG
Accuracy International Limited	Cactus, Inc.	Forvia SE	Komax Holding AG
Advanced Mechanical and Optical Systems *	CAE INC	Frigoveneta S.P.A.	Konecranes OYJ
Aerovironment, Inc. *	Carver Group Limited	Frumecar SL	Kratos Defense and Security Solutions INC *
Aguirre Maquinaria Agrícola SL.	Castledon LTD	G M Treble Holdings Limited	L3harris Technologies, Inc.
AIR Industries Group *	Caterpillar INC	G.H.B. (Holding) Limited	LAM Research Corp
Airbus SE	Ceco Environmental Corp.	Gama Aviation PLC *	Leonardo S.P.A.
Airtanker Holdings Limited	CGG	Gatx Corp	Lillbacka Powerco Oy *
Airtanker Services Limited	Chart Industries INC	Genasys Inc. *	Linamar Corporation
Alamo Group INC	Chemring Group PLC	Gencor Industries, Inc.	Lockheed Martin Corp
Alimak Group AB	Circor International INC (J)	General de Alquiler de Maquinaria, S.A.	Lombardi Converting Machinery S.P.A. *
Allient INC	CMZ Machine Tool Manufacturer Sociedad Limitada.	General Dynamics Corp	Magna International INC
Allison Transmission Holdings, Inc.	CNH Industrial N.V	General Electric Company	Manitex International, Inc.
Alltruck PLC	Cognex Corp	Genlex Corp	Manitou BF
Alstom S.A *	Coherent Corp	Gesellschaft fuer Oeltechnik mit beschraenkter Haftung	Manitowoc Company, Inc. (The) *
American Axle & Manufacturing Holdings INC	Cohort PLC	Gorman-Rupp Company (The)	Marel HF
Ametek INC	Colosio S.R.L.	Graco INC	Mariani S.R.L.
Amtech Systems INC	Columbus Mckinnon Corp	Graham Corp	Maschinenfabrik Berthold Hermlé AG
Analog Devices INC	Commercial Vehicle Group, Inc.	Greenbrier Companies, Inc. (The)	MAX Automation SE
Andritz AG	Comtech Telecommunications Corp *	Guzzetti S.P.A. *	Mcgrath Rentcorp
Applus Services, S.A.	Construcciones Y Auxiliar de Ferrocarriles, S.A.	H&E Equipment Services, Inc.	Mecapack
Aptiv PLC	Continental AG	Heico Corp	Mercury Systems INC
Archrock, Inc.	Cowles Holdings Limited	Heidelberger Druckmaschinen AG	Mikron Holding AG
Ashtead Group PLC	CPI Aerostructures INC	Heroux-Devtek INC	Miller Industries INC
Astec Industries INC	CTA International SAS	Hexcel Corp	MKS Instruments INC
Astronics Corporation *	CTT Systems AB	Hidden Instruments Limited	Modine Manufacturing CO
Astronova, Inc.	Cummins Inc.	Honeywell International INC	Moog INC
Athader SL	Curtiss Wright Corp	Huntington Ingalls Industries, Inc.	Motorola Solutions, Inc.
Atlas Copco AB	Cuyper Vorkliften	IDEX Corp	Mpac Group PLC *
ATS Corporation	D.R.A. LTD	IMI PLC	MS International PLC
Aumann AG *	Data I/O Corp *	Indra Sistemas S.A.	MTU Aero Engines AG
Autoliv, Inc.	David Ritchie (Implements) Limited	Industrias Montanesas Electricas Mecanicas SL	Muehlhan AG
Avant Techno Oy	Dawsongroup PLC	Inficon Holding AG	N3 Engine Overhaul Services GmbH & Co. KG
Avon Protection PLC * (J)	de Lorenzo S.P.A.	Ingersoll Rand Inc.	Nammo AS
Axcelis Technologies INC	Deere & CO	Innovative Solutions & Support INC	Natural GAS Services Group, Inc. *
Axon Enterprise, Inc.	Deutz AG	Interroll Holding AG	NC Engineering (Hamiltonsbawn) Limited *
Azkoyen SA	Douglas Dynamics, Inc.	IPG Photonics Corporation	NFI Group Inc. *
Babcock & Wilcox Enterprises, Inc. *	Dril-Quip INC *	Istobal SA	NG Bailey Group Limited *
Babcock International Group PLC	Ducommun INC	Italcab S.P.A. *	Nordson Corp
BAE Systems PLC	Duerr AG	Jacobs Solutions Inc.	Northrop Grumman Corporation
Bailey Trailers Limited	Electromecanica Naval E Industrial SA *	John Bean Technologies Corp	NOV INC
Barco NV	Energy Recovery, Inc.	John Wood Group PLC * (J)	Novanta INC
Barnes Group INC	Enerpac Tool Group Corp	Johnson Controls International PLC (J)	Nuova Idropress - Societa' PER Azioni IN Forma Abbreviata NIP S.P.A.
Binder + Co AG	Espey MFG and Electronics Corp	Jost Werke AG	NVE Corporation
Bittium OYJ *	EVS Broadcast Equipment SA	Judges Scientific PLC	Officina Bocedi SRL
BK Technologies Corporation *	Fabricacion de Elevadores SL *	Kadant INC	Officina Meccanica F.Lli Tabarelli S.P.A.
Blue Bird Corporation *	Fabrications Mecaniques de l'Atlantique *	Kaman Corp *	Onto Innovation Inc.
BMI Trailers Limited	Faro Technologies INC *	Katsa Oy	Oshkosh Corporation
Boeing Company (The) *	Federal Signal Corp	Kbr, Inc.	
Broadwind, Inc. *	Filtronic PLC		

Oxford Instruments PLC	Speedy Hire PLC	Wilton Universal Group Limited *
Oy El-Ho Ab	Spirit Aerosystems Holdings, Inc. *	Woodward, Inc.
Paccar INC	Star Refrigeration Limited *	Xylem Inc.
Park Aerospace Corp.	Systemair AB	
Paul Mueller Company	TAI Milano S.P.A.	
Petards Group PLC	Taylor Devices INC	
Pietro Fiorentini S.P.A.	Teagle Holdings Limited *	
Ponsse OYJ	Technipfmc PLC	
Portsmouth Aviation Holdings Limited	Teledyne Technologies Incorporated	
Powell Industries INC	Tennant CO	
Presses et Cisailles Lefort *	Teradyne INC	
PSM Projekt System & Management Gmbh	Terex Corp	
PVA Tepla AG	Tesmec SPA	
Qinetiq Group PLC	Textron INC	
Raute OYJ *	Thales	
Redde Northgate PLC	THE Shyft Group, Inc.	
Renew Holdings PLC	Thwaites Limited	
Renishaw PLC	Thyssenkrupp AG	
REV Group, Inc.	Tiber Pack S.P.A.	
Rheinmetall AG	Tomra Systems ASA	
Ricardo PLC	Tornado Global Hydrovaccs Ltd.	
Robson Handling Technology Limited *	Toromont Industries LTD	
Rockwell Automation, Inc.	Trakm8 Holdings PLC *	
Rohde & Schwarz GmbH & Co. Kommanditgesellschaft	Transdigm Group Incorporated (J)	
Rolls-Royce Holdings PLC	Trinity Industries INC	
Ropsley Limited	Triumph Group INC	
RTX Corp	Tronrud Engineering AS	
RWG (Repair & Overhauls) Limited	TTM Technologies INC	
Ryder System INC	Twin Disc INC	
Saab AB	United Rentals, Inc.	
Saalasti Oy	Vaisala OYJ	
Safran	Veeco Instruments INC	
Salmoiraghi S.P.A.	Vegsund Slip Holding AS	
Saltire Energy Limited	Vicinity Motor Corp. *	
Sawo Holding A/S	VSE Corp	
SC Group-Global Limited	Wabash National Corp	
Schlatter Industries AG	Wacker Neuson SE	
Schmitt - Elevadores, LDA	Wartsila OYJ * (J)	
Servotronics INC *	Washtec AG	
Servo Valve S.P.A. *	Werent S.R.L.	
Siemens AG	Westinghouse AIR Brake Technologies Corp	
Skako A/S	Williams Shipping Holdings Limited	
Smiths Group PLC	Willis Lease Finance Corp	
Snc-Lavalin Group INC (J)	Willis Mitsui & CO Engine Support Limited *	

* 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 4 Capital Servicing Adjustment (CSA) of the four-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 4 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.

	2020/21	2021/22	2022/23*	2023/24	2024/25
Fixed capital servicing rate	3.66%	3.27%	2.87%	2.90%	3.26%
Positive working capital servicing rate	1.22%	1.33%	1.09%	1.67%	3.10%
Negative working capital servicing rate	0.61%	0.65%	0.51%	0.51%	1.61%

* 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. This fixed the capital servicing rates the same as for 2021/22.

Data sources

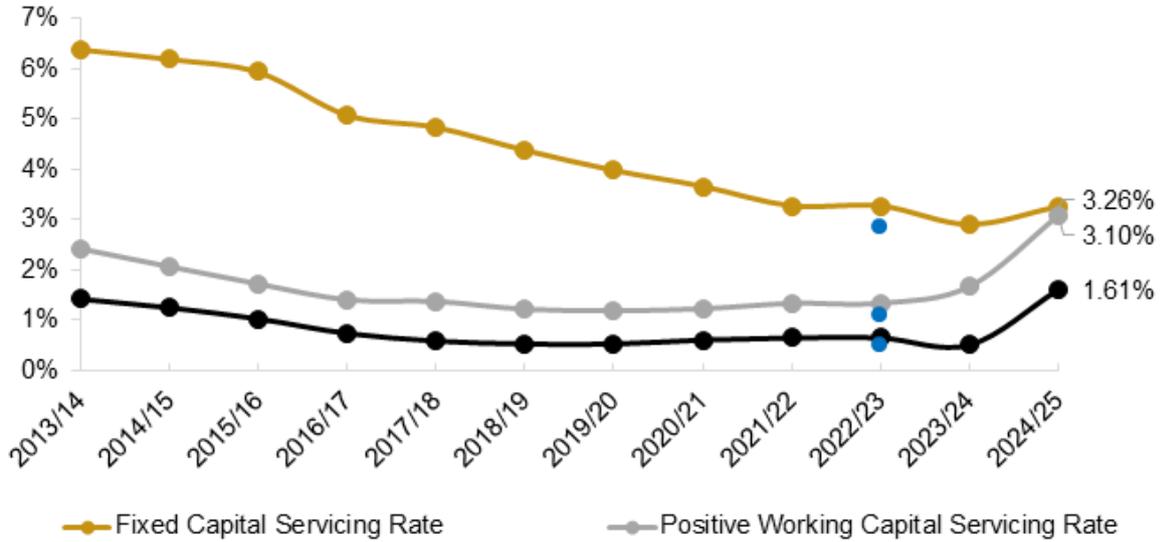
For further information on the data selection approach please see section 13 of the [Single Source baseline profit rate, capital servicing rates and funding adjustment methodology](#).

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



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 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 was set at a level that is opposite to the application of the SSRO funding adjustment. Prior to 2024/25 this approach delivers a contract profit rate of zero if steps 2, 5 and 6 are determined to be zero.

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

	2020/21	2021/22	2022/23	2023/24	2024/25
Government owned contractor rate		0.057%*	0.046%	0.038%	0.00%

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>