

SSRO

Single Source
Regulations Office

SAME CHALLENGES, DIFFERENT SOLUTIONS

A SURVEY OF INTERNATIONAL ARRANGEMENTS FOR SINGLE SOURCE CONTRACTING

September 2025



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1. Introduction

About this paper

- 1.1 Limited information has been published to date about public procurement authorities' arrangements for single source contracting – where goods and services are purchased from a supplier in the absence of competition. This paper brings together information on the approaches to single source contracting taken by eleven international public procurement authorities and provides an overview of key similarities and differences.
- 1.2 The paper draws on information supplied to the Single Source Regulations Office (SSRO) in spring and summer 2025 by fellow members of the International Industrial Cost Analysis and Verification Community of Practice (ICOP).¹ The SSRO is grateful to these organisations for their contributions which have been published in a separate compendium of responses.² Together, these publications aim to:
 - a. improve awareness of this increasingly important aspect of public procurement; and
 - b. provide a stimulus for further information exchange and discussion between ICOP members and others about:
 - i. how differences in approach to single source contracting impact on the achievement of policy objectives;
 - ii. how single source contracting can best support efficient, timely and affordable capability acquisition; and
 - iii. the roles that assurance and regulatory bodies can play in supporting improvement.
- 1.3 This summary paper and the more detailed information to which it refers will be of interest to policy makers, procurement professionals, cost auditors, academics, and others who are also considering these matters (in relation to defence or other industrial sectors).

¹ A list of the organisations who provided information is included at Appendix 1.

² SSRO (2025) *International Arrangements for Single Source Contracting: Responses to an SSRO Information Request* available at <https://ssro.gov.uk/a-survey-of-international-arrangements-for-single-source-contracting-same-challenges-different-solutions/>.

About the SSRO	About ICOP
The SSRO is responsible for overseeing the UK's statutory regulatory framework for single source defence procurement. ³ That framework controls the pricing of non-competitive contracts which meet specified criteria and requires transparency on the part of the suppliers under those contracts. The framework now covers over 700 contracts with a total estimated price of almost £125 billion. ⁴ Through our statutory functions , the SSRO helps to ensure that good value for money is obtained from regulated contracts and that suppliers under those contracts are paid a fair and reasonable price.	ICOP was established in 2017 as a vehicle for information sharing and closer working between public sector industrial cost analysis agencies working in the space and defence domains. Member organisations share information on approaches to public procurement, single source contracting, and cost verification in their jurisdictions through collaborative project work and through a database hosted by the European Space Agency. Members also meet annually to share knowledge and experience to support improvements in their respective approaches.

The context

- 1.4 Global threats and conflicts in recent years – and the impact of these on domestic security, economic stability, and growth – have brought a renewed focus by governments on national defence and international defence co-operation. In the UK, Europe and elsewhere, governments have been re-evaluating the threats to their national and regional security and the defence capabilities and alliances that will be needed to counter these. There have been consequential increases in defence spending and further increases are planned. There are also increasing expectations from national governments about the ability and willingness of defence suppliers to become strategic partners in the delivery of capability for their armed forces. Meeting the growing demand for defence equipment and support requires a diverse, resilient and, at times, multi-national ecosystem of suppliers. That, in turn, is contingent on suppliers earning risk-weighted returns from their government contracts that are sufficient to attract and reward investors whose capital might otherwise be employed in more profitable ways.

The challenge of single source procurement

- 1.5 Where governments are able to tender competitively for defence capability, market forces put downward pressure on prices as suppliers compete to win orders. This helps to support the achievement of good value for money in public procurement while also providing fair returns for suppliers.
- 1.6 However, where governments procure from a single supplier of goods or services, whether through choice (for example, to support the development or continuance of sovereign capability) or necessity (for example, when there is only one supplier of the desired goods and services), the economic and other benefits arising from competition are lost. In those circumstances value for money for the public purse needs to be protected through other mechanisms.

Responding to the challenge

- 1.7 Many public procurement authorities have established statutory or other regimes which seek to replicate the effects of competition by placing controls on the pricing of certain single source contracts. They may also require transparency from single source suppliers over their costs and employ cost analysis and audit specialists to scrutinise contract proposals and contract performance; ensuring suppliers are charging fair prices consistent with good value for money for the goods and services supplied.

³ Established by the Defence Reform Act 2014 and the Single Source Contract Regulations 2014.

⁴ SSRO (2025) *Annual Qualifying Defence Contract Statistics: 2024/25* available at <https://www.gov.uk/government/publications/annual-qualifying-defence-contract-statistics-2024-25>.

- 1.8 As the information provided to the SSRO by ICOP members and summarised in this paper shows, public procurement authorities take different approaches to single source contracting. But there are also commonalities between the different regimes; for example, in approaches to risk sharing between procurement authorities and suppliers, and in how allowable costs under single source contracts are determined.

Format of this paper

- 1.9 The following sections of this paper consider selected aspects of the approaches to single source contracting reported by ICOP members and identify key similarities and differences in approach. In the final section we highlight some of the strategic issues and challenges facing public procurement authorities in response to which development of the approaches to single source contracting might be beneficial. Such development might be facilitated through further discussion and collaboration between ICOP members.

2. Approaches to regulating single source contracts

- 2.1 ICOP members identified competition as the mechanism by which the best value for money would be obtained in public procurement. Where that is not possible, or where there is a satisfactory justification for single source procurement, specific arrangements for single source contracting will apply.
- 2.2 The approaches to regulating single source contracts differ by jurisdiction.⁵ In the UK, a statutory framework for single source defence contracting was established in 2014 to replace a voluntary arrangement between the Government and industry which had existed since 1968. In most other jurisdictions considered by this review, the rules governing single source procurement are also set out in statutory regulations such as the Public Governance, Performance and Accountability Act 2013 in Australia or the Code de la Commande Publique in France. Less commonly, as is the case in Denmark and The Netherlands, the relevant requirements are not statutory but are incorporated into the terms and conditions of single source contracts.
- 2.3 Typically, each jurisdiction has a designated authority responsible for implementing and updating the rules and a specific agency responsible for providing guidance and assuring compliance through, for example, cost audit or verification. In some cases, as in the UK, there are specific rules related to contracts for defence purposes. In others, the rules may apply to contracts for any purpose.

Exclusions

- 2.4 Not all single source contracts are subject to regulatory pricing controls. Exceptions identified by ICOP members include:
 - a. contracts below specified financial thresholds, for example;
 - in the UK – contracts between the Secretary of State and a supplier below £5 million and sub-contracts to regulated contracts that are below £25 million;
 - in The Netherlands – no contract audit is required for contracts below €2.5 million;
 - in Denmark – a general exemption for contracts below €1 million; and
 - in Australia – contracts below AUD \$80,000 (including Goods and Services Tax);
 - b. procurement of land;
 - c. government-to-government contracts or international co-operative programmes;
 - d. procurement related to national security and intelligence services;
 - e. construction contracts;
 - f. research and development;
 - g. procurement of products or services with market-based prices; and
 - h. where there is a specific direction by a senior public servant or government minister.

⁵ See sections 2 and 3 in SSRO (2025) *International Arrangements for Single Source Contracting: Responses to an SSRO Information Request*.

Objectives

- 2.5 The legislation underpinning the UK regulatory framework for single source contracts specifies no explicit aims that are to be achieved through the application of the rules for contract pricing, although the SSRO, in exercising its statutory functions must aim to ensure that good value for money is obtained in government expenditure on qualifying contracts and that suppliers under qualifying contracts are paid a fair and reasonable price. The UK framework also places transparency obligations on suppliers, requiring the provision of specified information about regulated contracts and, in some cases, a supplier's operations.
- 2.6 In most other jurisdictions, the primary objective of the approaches to single source contracting is the achievement of prices that are fair (i.e., not excessive) and which deliver value for money, ensuring that public funds are used efficiently and effectively. In some jurisdictions, the rules which govern single source contracting also aim to:
- a. promote the use of domestic rather than overseas suppliers – supporting the development of sovereign capability, jobs for local workers, and national economic growth;
 - b. encourage speed and efficiency in the process of contracting – through consistency in the approach to contract pricing – enabling capability to be acquired more quickly than it might otherwise be;
 - c. promote transparency about the pricing of contracts; or
 - d. deepen relationships between procurement authorities and suppliers.
- 2.7 However, as the Norwegian Defence Materiel Agency acknowledged, there may, at times, be inherent tensions between the pursuit of non-financial policy objectives and the achievement of value for money in single source contracting, requiring trade-offs to be made.

Key similarities and differences

- While the approaches to single source contracting reported by ICOP members are mostly specified in statutory regulations, this is not universally the case.
- The types of contracts which are excluded from pricing and transparency controls are similar in many jurisdictions, but some regimes exclude contracts which are regulated elsewhere.
- The achievement of fair prices and value for money are common objectives of international approaches to single source contracting but in some jurisdictions other strategic considerations also influence public procurement authorities' contracting decisions.

3. Approaches to risk sharing

- 3.1 While most activities are affected by risk and uncertainty, the development of defence equipment and technology can be inherently uncertain in relation to costs and outcomes. There may be particular risks when doing novel things and when there is a lack of clarity at the outset of a contract about what is to be delivered. When requirements are known and understood costs to the supplier and prices for buyers should be more predictable.
- 3.2 Effective risk allocation supports the successful delivery of public contracts. When a procurement authority purchases goods, works or services from a supplier, they must agree how risks are managed and who bears risk. A generally accepted principle of commercial contracting is that risk should be borne by the party best able to manage it.

The risk premium

- 3.3 Public procurement authorities should generally expect to pay lower prices when they retain risk than they would do if they transferred risk to a supplier. Suppliers will generally expect to earn higher profits where they take on risk and manage this well.
- 3.4 Quantifying the price premium necessary to transfer risk to a supplier requires a good understanding of the likelihood and impact of risks affecting contract delivery. It will also be influenced by the risk preferences and tolerances of the contracting parties. Assessing the benefit of transferring specific types of risk, in light of the price premium required, will be aided by good quality data on the outturn costs, profit and price of previous contracts.
- 3.5 The mechanisms for allocating and pricing risk are fundamental to the effective delivery of single source contracts.

Contract pricing methods


- 3.6 The choice of contract pricing method is an essential aspect of the approach to risk-sharing in any procurement, including in single source contracts. This choice is typically informed by the nature of the activity contracted for. Contracts related to activities in the early stages of the acquisition lifecycle of a product or service tend to have greater uncertainty and risk and will generally use a pricing method that allocates more risk to the buyer. In-service support or sustainment contracts tend to have more predictable costs and will generally use a pricing method that transfers risk to the supplier.

Methods based on allowable costs

- 3.7 Most commonly for single source contracts the pricing methods employed by public procurement authorities set out how the supplier's costs and profit come together to determine the price payable under the contract.
 - a. A price based on an estimate of costs at contract commencement transfers risk to the supplier. The price will not vary even if the costs of delivery do. Suppliers can earn extra profit if they deliver the contract at a lower cost than the price was based on.
 - b. Where a supplier's actual costs are reimbursed with a profit mark-up or a fixed fee, the buyer bears the risk that costs vary from expectations. This may be necessary where the contractual requirements, for example, development of advanced technologies, are such that a contractor is unwilling to bear risk at an affordable price. However, if the expected costs and price increase, value for money may reduce and procurement authorities may face budgetary pressures.
 - c. Where costs and price are adjusted during the contract with reference to specified rates or indices, or at contract completion with reference to any variance between estimated and actual allowable costs, risk is shared between the contracting parties.

d. Contracts might also use a combination of different pricing methods as a way of sharing risk between the contracting parties.

3.8 Most public procurement authorities in our survey use a range of costs-based pricing methods enabling risk to be allocated in different ways with single source suppliers. (See table.) However, the European Space Agency and Belgian Defence indicated they only use pricing methods which transfer more risk to suppliers. No ICOP members identified any other approaches to combining allowable costs and profit to arrive at a contract price.

		Public procurement authorities ⁶										
Contract pricing methods		AU	BE	CA	DE	DK	ESA	FR	NL	NO	UK	US
 Transferred to supplier RISK Retained by buyer	Firm pricing – based on estimated allowable costs plus a percentage profit mark-up	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Fixed pricing – based on estimated allowable costs that may be adjusted through indexation plus a percentage profit mark-up	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Volume-based pricing – based on firm or fixed unit prices applied to an actual amount of units	✓	✓	✓	✓	✓		✓	✓		✓	✓
	Target pricing – based on a firm or fixed price that is adjusted at contract completion with reference to the actual allowable costs incurred	✓		✓	✓	✓		✓	✓	✓	✓	✓
	Fixed-fee pricing – based on actual allowable costs incurred plus a fixed amount of profit	✓		✓				✓	✓	✓	✓	✓
	Cost-plus pricing – based on actual allowable costs plus a percentage profit mark-up	✓		✓	✓	✓		✓			✓	✓

3.9 In the UK, firm pricing is the most frequently used pricing method (sometimes in combination with other methods).⁷ Firm or fixed pricing was reported to be the most common pricing method for Germany, the European Space Agency, The Netherlands, and Norway. The largest proportion of single source contracts in Denmark use volume-based pricing. Public Services and Procurement Canada reported that it is most likely to agree single source contracts which use multiple pricing methods, with decisions driven by a range of factors including the supplier's utilisation of assets and the types of costs under the contract.⁸

⁶ See Appendix 1 for details of the organisations referred to.

⁷ See SSRO (2025) *Annual Qualifying Defence Contract Statistics: 2024-25* available at <https://www.gov.uk/government/publications/annual-qualifying-defence-contract-statistics-2024-25>.

⁸ See question 4.2 in SSRO (2025) *International Arrangements for Single Source Contracting: Responses to an SSRO Information Request*.

Alternative pricing methods

3.10 Since 1 April 2024, the UK regulatory framework allows for seven ‘alternative’ pricing methods to be used in particular circumstances. These may be considered where it is not possible to determine a price based on allowable costs and profit or because a fair price can be satisfactorily established by other means. This includes, for example, where prices are already regulated or where there is a market price which can act as a reference.

3.11 Australia, Norway and the USA also indicated that other pricing methods might be used.

Other aspects of contract pricing

3.12 Contract prices may be amended by the agreement of the parties during the life of a contract. This might occur where requirements change or where the parties agree to re-price the contract for other reasons, such as to reflect a change in costs.

3.13 The UK regulatory framework specifies the methods that may be used to re-determine the price of a single source contract during its life. It also provide for adjustments to the price of certain qualifying contracts upon completion:

- a. in a target price contract – through a contractual pain- or gain-share mechanism related to variance between the estimated and actual allowable costs; and
- b. in a contract using firm, fixed or volume-based pricing methods – using a mechanism (the ‘final price adjustment’) intended to counter excess profits or losses.

3.14 Most other ICOP members identified mechanisms by which the price of a single source contract based on a cost estimate could be adjusted after contract completion, including:

- a. standard clauses for material changes in scope (Australia);
- b. provisions for sharing cost underruns in incentive contracts (Denmark);
- c. contractual agreement to provide compensation to a supplier based on any audited variance between estimated and actual costs (The Netherlands); and
- d. the ability for a supplier to apply for an adjustment of the contract after it has concluded (Germany) or to submit a Request for Equitable Adjustment (USA).⁹

Key similarities and differences

- Most jurisdictions use a similar range of contract pricing methods based on estimated, indexed or actual costs with a profit mark-up or fee.
- There appears to be a preference for pricing methods that tend to transfer more risk to suppliers.
- The provision to use ‘alternative’ pricing methods (not based on allowable costs and profit) is relatively new in the UK and very few ICOP members indicated any use of such non-costs-based pricing methods.
- Most jurisdictions provide mechanisms by which agreed prices of single source contracts might be amended to account for changes in scope or cost variance arising from the materialisation of risk.

⁹ See question 4.5 in SSRO (2025) *International Arrangements for Single Source Contracting: Responses to an SSRO Information Request*.

4. Approaches to profit

- 4.1 All the public procurement authorities in our review have mechanisms in place to agree the profit mark-up they expect to pay on allowable costs under single source contracts.¹⁰ The actual profit earned may, however, be higher or lower than agreed depending on the contract pricing method and the supplier's success in mitigating and managing risk.
- 4.2 In the UK, the profit mark-up on allowable costs under a regulated contract is to be agreed using a statutory four-step process and having regard to guidance issued by the SSRO. The first step is the Baseline Profit Rate, determined annually by the Secretary of State following a recommendation from the SSRO. (The SSRO's recommendation is based on an assessment of actual profits earned by suppliers undertaking activities that are comparable to those in regulated contracts.¹¹) This may then be adjusted to:
- reflect the financial risk to the supplier of entering into the contract, taking account of the type of activities to be carried out;
 - give the supplier a financial incentive related to contract performance; and
 - ensure the supplier receives an appropriate and reasonable return on the fixed and working capital employed in performing the contract.¹²
- 4.3 In other jurisdictions, the contract profit rate for a single source contact is also subject to negotiation between the public procurement authority and the supplier, informed by principles established in regulations or guidance (as noted by Australia, Canada, the European Space Agency, and the USA). In several cases contract profit is subject to specific limitations (see paragraph 4.7). In Germany, profit is generally determined by a formula. No other ICOP members reported that contract profit rates were informed by an assessment of actual profits earned by suppliers, as in the UK.

Factors informing contract profit

- 4.4 When agreeing contract profit rates, many jurisdictions take account of factors like:
- the contract pricing method – with higher profit paid on contracts where more risk is transferred to the supplier;
 - what is being undertaken or delivered – with, for example, higher profit paid for design and development contracts and lower profit paid on sustainment contracts; and
 - the utilisation of capital and the costs of borrowing.
- 4.5 But other factors, such as the types of costs being incurred (for example, whether labour, materials, or sub-contracts) and the complexity of the activity/deliverable, were also reported to inform the determination of profit under single source contracts in some jurisdictions. (See table below).

¹⁰ See section 4 in SSRO (2025) *International Arrangements for Single Source Contracting: Responses to an SSRO Information Request*.

¹¹ For further information on the SSRO's rates methodology see: https://assets.publishing.service.gov.uk/media/67c881a875d7505462fc65ec/Single_source_baseline_profit_rate_and_capital_servicing_rates_methodology_March_2025.pdf.

¹² The SSRO's current guidance on the BPR and its adjustment is available at https://assets.publishing.service.gov.uk/media/67c82b2aae2aa47d2f5ae2db/Baseline_profit_rate_guidance_Version_8.2_April_2025.pdf.

	Public procurement authorities ¹³										
Factor ¹⁴	AU	BE	CA	DE	DK	ESA	FR	NL	NO	UK	US
Contract pricing method	✓		✓		✓	✓		✓	✓	✓	✓
Activity/deliverable	✓			✓	✓			✓	✓	✓	✓
Capital employed			✓	✓	✓				✓	✓	✓
General business risk	✓		✓				✓	✓			
Cost types				✓			✓				✓
Complexity						✓	✓				✓
Financial risks										✓	
Financial incentives										✓	
Risk contingency in costs	✓									✓	
Contract duration									✓		
Socio-economic objectives											✓

4.6 The Federal Office of Bundeswehr Equipment, Information Technology and In-Service Support explained that in Germany a specific formula is used to assess factors that inform the contract profit rate for single source contracts. This derives a contract profit rate from inputs which relate to:

- the type of activity being performed;
- the proportion of the contract costs which relate to the supplier's own work (as opposed to external services, sub-contracts or material); and
- a measure of the capital intensity of the supplier's operations – relating fixed operating assets to total operating assets.

Minimum and maximum percentages

- 4.7 In some jurisdictions, the approaches to setting profit rates under single source contracts specify minimum or maximum percentages that may be agreed. In others, though not explicitly specified, upper and lower limits might arise as a natural outcome of applying a formula, as in Germany, or a process, as in the UK.¹⁵
- 4.8 As different factors are taken into account in different jurisdictions when determining contract profit rates, care is needed when comparing the range of profit rates available.
- 4.9 Norway was the only country to report a specified minimum profit rate greater than zero – at 2 per cent of the allowable costs of the contract.
- 4.10 A number of ICOP members reported that agreed profit rates for single source contracts could not exceed a specified level: Belgium (9 per cent); the European Space Agency (9 per cent); Canada (16 per cent); Denmark (ordinarily 12 per cent but in extraordinary circumstances 17 per cent); and Norway (17.5 per cent). In the USA, different limitations apply to contracts for different purposes. For example, profit under a cost-plus-a-fixed-fee contract will generally not exceed 10 per cent of the estimated contract costs, but in a contract for experimental, developmental or research work the fee may be up to 15 per cent of the estimated costs.
- 4.11 Australia, France and The Netherlands were the only members to report there was no upper limit for agreed contract profit rates.

¹³ See Appendix 1 for details of the organisations referred to.

¹⁴ It should be noted that factors which are not identified as informing the determination of contract profit rates may inform the price of a single source contract in other ways.

¹⁵ In 2024/25, the contract profit rates agreed for single source contracts under the UK regulatory framework ranged from 6.2 per cent to 15.1 per cent. See SSRO (2025) *Annual Qualifying Defence Contract Statistics: 2024/25* for further details.

Profit on sub-contract costs

- 4.12 In most jurisdictions, including the UK, profit is payable on any allowable costs incurred by a supplier which relate to sub-contracts entered into to perform a single source contract. However, the Australian Department of Defence reported that a lower rate of profit would be payable on sub-contract costs under single source contracts. The European Space Agency and The Netherlands both indicated that no profit would be payable on costs associated with sub-contracts.
- 4.13 Where profit is not paid on sub-contract costs (or paid at a lower rate than for other types of cost) the effective rate of profit under the contract may be significantly lower than the headline profit rate. This will particularly be the case where sub-contract costs account for a greater proportion of the total costs under the contract.

Adjustments for profit layering

- 4.14 All ICOP members reported that adjustments are made to contract prices to prevent profit layering which may occur if a supplier awards a sub-contract to another company in the same corporate group. Denmark additionally noted that profit would not be payable on a supplier's own license and royalty costs.

Key similarities and differences

- All jurisdictions adopt different approaches to determining profit under single source contracts. This may mean that the profits available to suppliers performing essentially the same activities are higher in some jurisdictions than in others – although it is difficult to draw direct comparisons.
- Agreed profit rates under single source contracts are generally informed by a range of factors which, in most jurisdictions, are directly or indirectly related to risk.
- In some jurisdictions, contract profit rates may be set to incentivise performance of the contract or the achievement of socio-economic objectives.
- There is little commonality in the use or specification of minimum and maximum contract profit rates.
- While many public procurement authorities pay profit on sub-contract costs, this is constrained or prohibited in a small minority.
- All jurisdictions make profit or price adjustments under single source contracts to avoid profit layering within corporate groups.

5. Approaches to cost

- 5.1 Most commonly, single source contracts are priced on the basis of an amount of costs incurred by the supplier to which a profit mark-up is applied. In many jurisdictions these are referred to as allowable costs.

Attributes of allowable costs

- 5.2 In the UK, when determining the amount of allowable costs under a single source contract, whether it is an estimated amount or the actual amount incurred, the contracting parties must be satisfied that the costs are:
- appropriate – of a type or arising from an activity that is suitable for public funding;
 - attributable to the contract – arising from or contributing directly or indirectly to the performance of the contract; and
 - reasonable in the circumstances – of an amount that reflects the circumstances of the contract and its requirements.
- 5.3 The SSRO provides principles-based guidance on determining whether costs are allowable, to which the parties to a qualifying contract must have regard. The burden of proof for demonstrating that costs are allowable lies with the supplier.
- 5.4 The factors that ICOP members reported must be taken into account (or attributes that must be demonstrated) when determining cost allowability do not appear, in most cases, to be fundamentally different to those which must be considered in the UK, although the terms used vary in some cases.¹⁶ Examples include:
- Australia – appropriate; attributable; reasonable;
 - Canada – attributable, appropriate, and reasonable in relation to the contract;
 - Germany – reasonableness; allocability; economic management;
 - Denmark – necessary; reasonable; consistent with cost allocation principles; in accordance with the contract; and
 - USA – reasonableness; allocability; consistent with cost accounting standards.

Costs which are not allowable

- 5.5 There is a shared view among ICOP members that only certain types of cost can be recovered under publicly funded single source contracts, although what is allowable and what is not does vary between jurisdictions. Unlike the UK's principles-based approach to determining allowability of costs, several ICOP members including Australia, Belgium, Canada, Denmark, the European Space Agency and the USA noted the existence of specific lists, regulations or standard contract clauses which identify costs which are not allowable (or 'unallowable') in their jurisdictions.
- 5.6 Some of the cost types identified by ICOP members as generally not allowable (unless otherwise expressly agreed) included:
- bad debts;
 - alcohol or entertainment;
 - sponsorship;

¹⁶ See question 4.3 in SSRO (2025) *International Arrangements for Single Source Contracting: Responses to an SSRO Information Request*.

- political donations;
- costs incurred in hedging foreign exchange risk;
- costs associated with mergers and acquisitions;
- tax on company earnings or profit;
- capital servicing costs;
- fines, compensation to third parties and related legal expenses;
- sales and marketing costs not related to the contract;
- depreciation on certain assets; and
- employee profit-sharing schemes.

Cost verification

- 5.7 The verification or audit of costs, either at contract proposal, during the contract, or at contract completion is a common function of public procurement authorities. In the UK this is undertaken by the Ministry of Defence and not the SSRO as the SSRO does not have access to the terms of each contract.
- 5.8 Suppliers will be expected to provide evidence in support of cost claims which will be scrutinised for compliance with pricing and cost accounting policies. In the case of larger suppliers, the process of cost validation may involve the assessment and agreement of cost recovery rates for specific business units undertaking single source contracts, requiring extensive cost audits.
- 5.9 The ultimate decision about cost allowability under a single source contract generally falls to commercial officers, based on advice provided by cost auditors.

Key similarities and differences

- The sets of characteristics identified in different jurisdictions for determining that a cost incurred by a supplier is allowable under a single source contract share many similarities.
- In several jurisdictions, certain types of cost incurred by suppliers are specifically identified as being unallowable under single source contracts (other than by exception).
- In all jurisdictions, public procurement authorities undertake cost verification and audit activities to determine whether costs claimed by suppliers are consistent with the relevant requirements for inclusion in the price of single source contracts.

6. Use of data on single source contract pricing

- 6.1 Data on single source contracting can enhance public procurement when it is relevant, comparable, reliable and used well. It can help public procurement authorities make better-informed choices about who to contract with, identify cost-saving opportunities through benchmarking historical data, and ensure public funds are spent effectively.

Data collection

- 6.2 In the UK, suppliers with qualifying contracts are required by law to provide reports containing specified information to the SSRO and the MOD. The reports fall into two broad categories:
- a. reports on each contract (when the contract is entered into, during delivery, and upon completion) – including data on contract requirements, payments, estimated and actual costs, profit, schedule delivery, and sub-contracts; and
 - b. reports about suppliers (when relevant conditions are met) – including data on overhead costs, strategic capacity, and opportunities for SMEs in the supply chain.
- 6.3 The SSRO provides guidance for suppliers on the submission of reports and a secure, online reporting system to enable submission.
- 6.4 Other ICOP members reported that the holders of single source contracts in their jurisdictions are also required to provide a range of cost and price data about their contracts, to support proposal assessment, price negotiations and, in some cases, cost-incurred audits.¹⁷ Some also expect to see information on the costs of sub-contracts. The Australian Department of Defence specifically noted the requirement for suppliers to provide open book access for the purpose of cost reviews, which is also a feature of the UK regulatory framework.
- 6.5 In most jurisdictions, contract data is being provided electronically by suppliers to the relevant cost audit agency in standardised formats, via email, file sharing system or direct submission within reporting systems. In some cases, information is provided in hard copy as part of on-site audits or reviews.

Data use

- 6.6 The SSRO uses reported data to monitor suppliers' compliance with reporting obligations, to provide management information and analysis of reported data in response to requests from the Ministry of Defence, and to monitor the operation of the regulatory framework. The Ministry of Defence is responsible for contract cost analysis and verification and for using cost and profit benchmarking data to inform its contract negotiations. It is also responsible for enforcing compliance with reporting requirements when needed.
- 6.7 The majority of ICOP members reported that collected data is being used for the purpose of contract cost audits and assessing compliance with pricing policies. It was not always clear, however, whether these were audits of pricing proposals or of actual costs incurred on current or completed contracts. The European Space Agency, exceptionally, reported that it only requires suppliers to provide information for price proposals but has no requirements for financial data after contract agreement.

¹⁷ See section 5 in SSRO (2025) *International Arrangements for Single Source Contracting: Responses to an SSRO Information Request*.

- 6.8 Exceptionally, ICOP members indicated they were using data about single source contracts collected from suppliers for the purposes of cost benchmarking (France) and price negotiation (Canada). The Australian Department of Defence and Public Services and Procurement Canada also made specific reference to the use of data to assess contract progress and manage contract performance.

Data publication

- 6.9 The SSRO publishes periodic statistics on single source contracts.¹⁸ This approach doesn't appear to be replicated in different jurisdictions. Some ICOP members expressly noted the need for contract pricing data to be handled confidentially. Others indicated that some information about single source contract awards is made publicly available on government procurement websites, as it is in the UK by the Ministry of Defence.

Key similarities and differences

- In all jurisdictions, suppliers are required to provide a range of cost and price data to support public procurement authorities' assessments of contract proposals, price negotiations and, in some cases, cost-incurred audits.
- Some public procurement authorities are also using data collected on single source contracts for the purposes of contract management or to inform future procurement.
- There is presently little data in the public domain about single source contracting in different jurisdictions.

¹⁸ Available at <https://www.gov.uk/government/collections/ssro-qualifying-defence-contract-statistics>.

7. Current and future challenges

- 7.1 We consider briefly below some of the strategic issues and challenges facing public procurement authorities in the UK and elsewhere. These are topics on which the SSRO welcomes further engagement with ICOP members and others.

Increasing pace and agility in procurement

- 7.2 Modern warfare is changing. Uncrewed and autonomous platforms are becoming more common. Cyber warfare is more prevalent. Armed forces need to keep pace with increasingly rapid technological advances. As a result, faster and more agile procurement of equipment and support is becoming ever more important to the achievement of battlefield advantage.
- 7.3 Many governments are exploring ways in which they can procure the goods, works and services their armed forces need at pace, while balancing the need to ensure procurement is lawful, transparent and delivers good value for money. Measures such as earlier supplier engagement, financial support for research and development, and new forms of capability acquisition, such as spiral development, need to be coupled with appropriate changes in procurement policies and processes to ensure these operate as efficiently and effectively as possible.
- 7.4 As ICOP members have reported, approaches to single source contracting tend to focus primarily on fair pricing and value for money. The effective application of structured approaches to contract pricing and established methods for cost verification may also support faster agreement of contracts; even where speed and agility in procurement are not explicit objectives.

Supply chain resilience and growth

- 7.5 In the UK, the Government's *Strategic Defence Review*¹⁹ has acknowledged both the role that varied and resilient industrial supply chains play in supporting national defence and security and the role that defence investment plays in supporting national economic growth. Approaches to defence procurement, including single source contracting, must encourage and support private sector investment in defence suppliers if these are to continue to thrive and innovate.
- 7.6 Our review found that encouraging and supporting private sector investment in the development of defence capability is not always an explicit objective of public procurement authorities' approaches to single source contracting. Although some consider that private sector investment will be encouraged by the payment of fair profits under single source contracts and equitable risk sharing between suppliers and public procurement authorities.
- 7.7 In some jurisdictions, such as in Australia and Norway, single source contracting is used as a way of prioritising domestic suppliers over others, to ensure that, in the longer term, public procurement authorities have a broader range of domestic suppliers to contract with. This also ensures public spending contributes to national economic growth, creating jobs and driving up living standards. In these jurisdictions, there appears to be an acceptance that the prioritisation of a domestic supplier over an overseas one may require either a trade-off to be made in terms of the achievement of value for money (for example, if a domestic supplier operates less efficiently than overseas counterparts); paying a premium to suppliers to encourage them to promote supply chain resilience; or being prescriptive with suppliers about the firms they may sub-contract with.

¹⁹ Ministry of Defence (2025) *Strategic Defence Review – Making Britain Safer: Secure at Home, Strong Abroad*.

Artificial intelligence

- 7.8 Artificial intelligence (AI) is changing the way governments deliver services and make decisions. Public procurement authorities collect or have access to large quantities of data from their suppliers about contract costs and performance. AI can automate the analysis of these complex datasets to identify patterns or anomalies that would be difficult or time-consuming to detect through traditional analytical methods. This may improve oversight and accountability and enhance the ability of procurement authorities to negotiate better contracts and ensure value for money.
- 7.9 ICOP members reported having limited experience to date of using AI to monitor compliance with the rules governing single source contract pricing or the analysis of contract costs. However, several indicated they were considering how it might be used to enhance evaluation and analysis of pricing proposals, detect anomalies in cost data, and identify contracts in greatest need of compliance review.
- 7.10 Realising the benefits of AI will require public procurement authorities to overcome a number of challenges.
- a. Data sensitivity and confidentiality – Defence contracts often involve highly sensitive and classified information. AI systems will need to comply with strict data protection and cybersecurity standards.
 - b. Digital maturity – AI systems require clean, structured, and high-quality data to function effectively. Some public procurement authorities may still rely on manual processes or legacy systems ill-suited to automated analysis.
 - c. Skills and capacity gaps – AI skills which may not yet be present in public procurement authorities. An inability to recruit or retain talent, or to upskill existing staff, may be a barrier for some.
 - d. Regulatory and ethical constraints – Some jurisdictions have legal or ethical restrictions on the use of AI, especially in public decision-making. Ensuring transparency, fairness, and accountability in AI-driven decisions is a key concern.
 - e. Cultural and organisational resistance – There may be resistance to the use of AI if this is perceived as a threat to jobs or traditional ways of working. It will be necessary to demonstrate the value of AI through pilot projects and clear use-cases.
- 7.11 Public procurement authorities may need to look to other parts of government or other sectors for inspiration and guidance on the application of AI in the context of single source contracting and cost verification.

International collaboration

- 7.12 As national governments look to enhance existing alliances, such as NATO, or form new ones, to support domestic and regional defence and security, there may be a need or a desire to achieve greater alignment of approaches to defence procurement; including single source contracting. This may be especially the case where public procurement authorities in different jurisdictions seek to enable the joint development and acquisition of defence capability. Greater alignment in single source contracting might be achieved through, for example, the adoption of common approaches to determining cost allowability or profit under single source contracts, or through increased collaboration between public procurement authorities on the development of contract pricing guidance and cost verification practices.
- 7.13 This review of international approaches to single source contracting has identified variation in the ways that public procurement authorities address the common challenges of procuring in the absence of competition. But ICOP members have also indicated a desire for ongoing collaboration, information exchange and sharing of experiences. These provide the basis for learning and could support greater alignment of approaches where needed.

Appendix 1: Organisations who provided information

The SSRO is grateful to the ICOP member organisations listed in the table below who responded to the SSRO's information request that informs this paper. The respective public procurement authorities whose approaches are discussed in this paper are represented in this paper using the references shown in this table.

Responding organisation	Procurement organisation	Ref
Australia Capability Acquisition and Sustainment Group, Department of Defence www.defence.gov.au/about/who-we-are/organisation-structure/capability-acquisition-sustainment-group	Capability Acquisition and Sustainment Group, Department of Defence	AU
Belgium Price Audit Department, Procurement Division, Ministry of Defence <i>The price audit service of the Belgian military procurement division is a part of the Belgian armed forces. It performs contract audits and provides price-related advice to internal stakeholders as well as to industry.</i>	Procurement Division, Ministry of Defence www.mil.be	BE
Canada Public Services and Procurement Canada (PSPC) www.canada.ca/en/public-services-procurement.html <i>PSPC is the Canadian Government's central service provider responsible for procurement, real property, payments, payroll/pension, and linguistic services. The Price Support Directorate provides expert advice and oversight on pricing strategies – through audit, negotiation, and reviews – to ensure fair, reasonable and supportable contract prices in federal procurement.</i>	Public Services and Procurement Canada	CA
Germany Federal Office of Bundeswehr Equipment, Information Technology and In-Service Support (BAAINBw) www.bundeswehr.de/de/organisation/ausruestung-baainbw/organisation/baainbw <i>BAAINBw's main task is to provide the Bundeswehr with efficient and safe defence equipment (including information technology). The focus of its work lies on the development, testing, procurement and in-service support management of materiel.</i>	Federal Office of Bundeswehr Equipment, Information Technology and In-Service Support (BAAINBw)	DE
Denmark Danish Ministry of Defence Acquisition and Logistics Organization (DALO) www.fmi.dk	Danish Ministry of Defence Acquisition and Logistics Organization (DALO)	DK

Responding organisation	Procurement organisation	Ref
European Space Agency Industrial Cost Audit Services Office, European Space Agency	European Space Agency https://doing-business.sso.esa.int	ESA
France DOMN/S2A	Direction Générale de l'Armement (DGA) www.defense.gouv.fr/dga	FR
The Netherlands Contract Auditing, Central Government Audit Service, Ministry of Finance www.auditdienstrijk.nl <i>The Contract Auditing team's work consists of conducting price analyses of supplier bids/quotations involving single source procurement. These reviews are primarily conducted at companies that supply the Ministry of Defence.</i>	Command Materiel and IT (COMMIT), Ministry of Defence	NL
Norway Contract Audit Section (CAS), Norwegian Defence Materiel Agency www.fma.no/en/defence-industry-partners/contract-audit <i>CAS's role is to ensure pricing compliance in accordance with the procurement regulations for the armed forces (ARF), preventing suppliers from unfairly benefiting from a sole-source situation while ensuring reasonable profit margins.</i>	Norwegian Defence Materiel Agency	NO
United Kingdom Single Source Regulations Office (SSRO) www.ssro.gov.uk <i>The SSRO oversees the regulatory framework for single source defence contracts, which places pricing controls on qualifying contracts and requires transparency on the part of defence contractors. It aims to support and improve the operation of the regulatory framework and to assist the organisations who must apply it to do so as effectively as possible.</i>	Ministry of Defence	UK
United States of America Defense Contract Audit Agency (DCAA) www.dcaa.mil <i>DCAA provides audit and financial advisory services to the Department of Defense (DOD) and other federal entities responsible for acquisition and contract administration. DCAA's role in the financial oversight of government contracts is critical to ensure DOD gets the best value for every dollar spent on defense contracting.</i>	Department of Defense	US

