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Regulations Office

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# Defined pricing structures in qualifying defence contracts

30 March 2017

The Single Source Contract Regulations 2014 (the Regulations) require contractors to provide to the SSRO a cost breakdown of the contract price for a qualifying defence contract (QDC) or qualifying sub-contract (QSC) by a defined pricing structure (DPS).

The objective of the DPS is to establish a single, centrally available, comprehensive data set that, in conjunction with other contract data, can be used to determine relationships between costs and outputs, and record the estimated and outturn costs, for every QDC and QSC. This will enable future analysis such as parametric and benchmarking analysis, while assisting effective contract monitoring without being burdensome. Once sufficient data has been collected, and a robust methodology produced, the DPS will, in conjunction with the suite of other report data, enable:

- analysis of costs over time within each QDC/QSC;
- analysis of costs within similar equipment types; and
- analysis of costs across all QDCs/QSCs, for common DPS lines.

The SSRO has published standard DPS templates for 16 equipment types each of which is tailored to a specific type of equipment or work. These are published on the [SSRO website](#), and are also integrated into the Defence Contract Analysis & Reporting System (DefCARS). The standard templates consist of a hierarchical structure of goods and services typically related to defence contracts that require contractors to assign costs against each of these components so the contract price is allocated to consistent cost categories. In addition, the contractor can agree to use a different, 'non-standard' DPS structure if agreed with the Ministry of Defence (the MOD).

This bulletin presents analysis of the DPS structures reported in 72 QDCs/QSCs that became a QDC/QSC on or before 31 December 2016, and where reports have been received as of 1 February 2017. Analysis includes the usage of the standard DPS templates, the coverage of DPS cost breakdown categories (or DPS 'lines'), and the most frequently reported categories, which provide indicators of data quality. Some initial cost benchmarking analysis is also included, to indicate the feasibility of using this data for cost comparisons in the future.

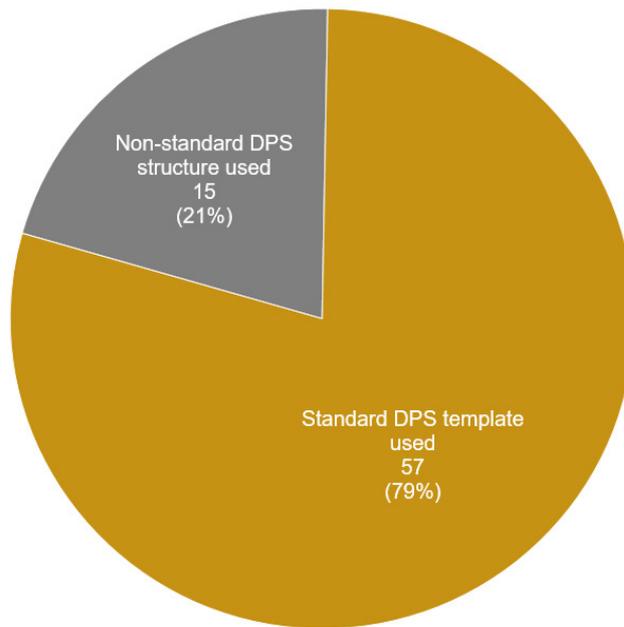
## Key points

- Contract cost data was reported using a standard DPS structure in 57 of the 72 QDCs/QSCs analysed (79 per cent), while 15 QDCs/QSCs used a non-standard structure (21 per cent).
- Of the 16 standard DPS templates provided by the SSRO, nine of these have been used by at least one QDC/QSC.
- The majority of QDCs/QSCs (72 per cent) used fewer number of DPS lines than the SSRO's DPS guidance suggests in relation to the contract price.
- The most commonly reported DPS cost category across all DPS types is Programme Management, which has been used by 26 QDCs/QSCs.
- Initial benchmarking of Allowable Costs assigned to common cost categories within the DPS, such as Programme Management, shows a wide variation in costs across contracts. Further categorisation and standardisation of this data is needed before any meaningful conclusions can be inferred, and to ensure valid comparators are used.

### Adoption of standard templates

Figure 1 shows the proportion of the 72 QDCs/QSCs that have used one of these templates. Where one or more DPS lines could not be fully reconciled to one of the 16 standard templates, it was categorised as a ‘non-standard’ DPS. These range from structures where only one DPS line does not align with a published DPS template, to entirely new cost structures specific to a QDC. Of the 72 QDCs/QSCs analysed, 15 used a non-standard cost reporting structure. The use of a non-standard DPS type could mean the contractor has agreed a different structure with the MOD. If the MOD and the contractor are not in agreement regarding the proposed DPS, then either the Secretary of State or the contractor may refer to the SSRO to determine the DPS that should be used in the reports. To date, no such determinations have been requested.

**Figure 1: Proportion of QDCs/QSCs that use one of the standard DPS templates**



*Note: The cost categories in non-standard structures could not be fully reconciled to the SSRO’s DPS templates and reduces their utility for the purpose of analysis and benchmarking, due to a lack of consistency in reporting.*

### Disclosure of cost information by number of line items completed

Each of the published DPS templates includes cost categories relating to a range of work and services, and suppliers are not required to enter cost data against all of these lines. Across the 72 QDCs/QSCs, contractors have reported a total of 1,216 DPS lines to break down their contract costs, with an average of 17 DPS lines reported per QDC.

The number of DPS lines, which suppliers use to report cost data against, varies substantially across QDCs/QSCs. The [SSRO’s Defined Pricing Structure Guidance](#) which contractors must have regard to, states that the number of cost categories reported should increase as the size of the contract increases (in terms of contract value), and sets out a guideline for the number of lines to report against for a given contract value, although this is not mandatory. These guidelines are shown in Table 1 below.

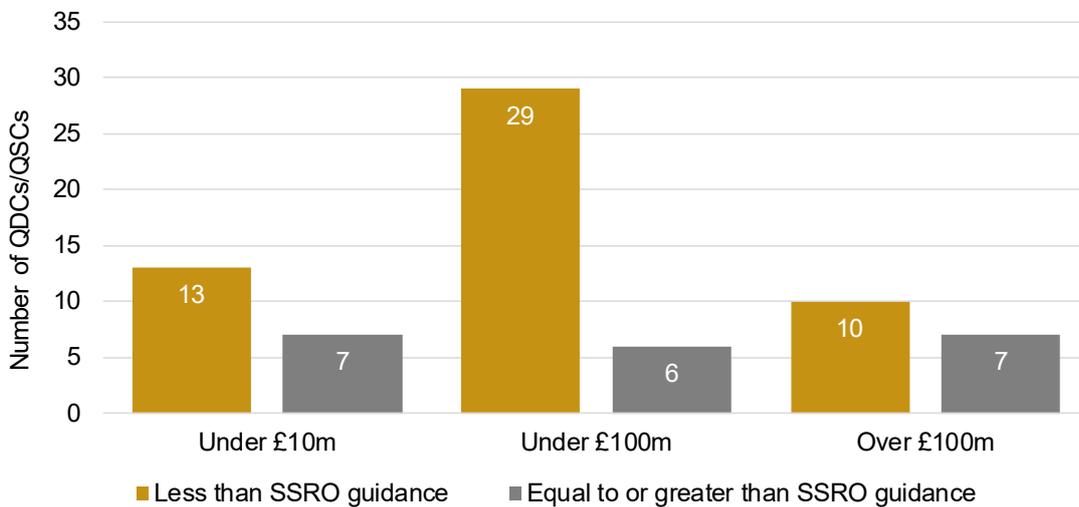
**Table 1: SSRO guidance on the number of DPS lines to use, depending on contract value**

Contract Value	Length of DPS
Under £10m	10 – 20 rows
Under £100m	30 – 60 rows
Over £100m	60 – 100 rows

Source: SSRO DPS Guidance

Figure 2 shows the number of QDCs/QSCs that have reported their cost breakdown using a number of DPS categories in line with or above, and below these guidelines. The majority (72 per cent) of the 72 QDCs/QSCs reported fewer DPS lines than the SSRO’s guidance, whilst 28 per cent of QDCs/QSCs reported in line with, or above, the number of lines recommended.

**Figure 2: Number of QDCs/QSCs that have reported in line with the DPS guidance, by value band**



### Equipment types reported

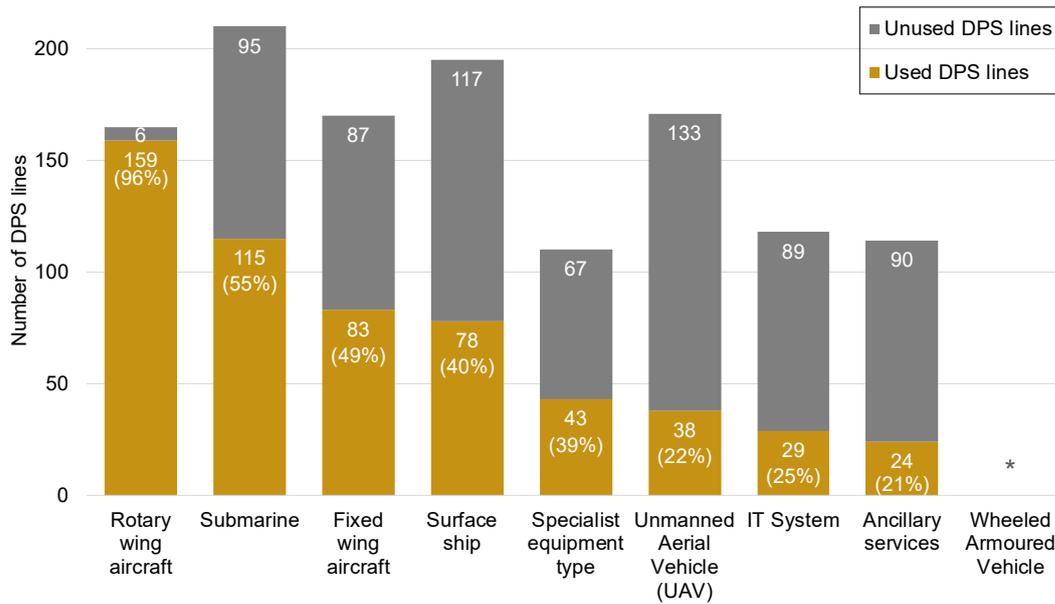
Of the standard structures used, the Specialist Equipment and Fixed Wing Aircraft DPS types were most frequently used to report cost breakdown data.

Of the 16 standard templates published by the SSRO, seven of these had not been used by any of the QDCs analysed (Missile System, Surface Vehicle System, Track Vehicle, Unmanned Maritime Systems, Weapon System, Ordnance System, and Radar and Communications System). The types of DPS templates used will reflect the type of work undertaken in each QDC/QSC.

Figure 3 shows the number of DPS lines used to report contract cost data against, in each of the standard DPS templates used by 57 QDCs/QSCs. It compares the number of DPS lines reported by one or more QDCs, against the total number of DPS lines available in each template. The number of cost categories utilised by suppliers will reflect the number of QDCs/QSCs using each DPS type, and the type of work undertaken in each of the QDCs/QSCs, rather than being a reflection of the relevance of the unused lines. Note that the analysis could not be carried out on non-standard DPS types.

The DPS type with the highest coverage (highest proportion of DPS lines used) was rotary wing aircraft, followed by submarines.

**Figure 3: Coverage of reported DPS cost categories or ‘lines’ by type of DPS used**



*Note: Figures denote the number of DPS lines. Percentages in brackets denote the proportion of lines used against the total number of DPS lines available to report cost data against. DPS categories marked with an \* indicate the data has been suppressed to protect anonymity due to low numbers of QDCs.*

**Common cost categories**

Table 2 shows the most frequently reported lines across all the DPS cost categories in the standard DPS templates, used by 57 QDCs/QSCs. The most utilised lines are for programme management costs, used by 25 QDCs/QSCs, and system engineering costs, used by 16 QDCs/QSCs. This reflects the common types of work that are applicable to many different contracts.

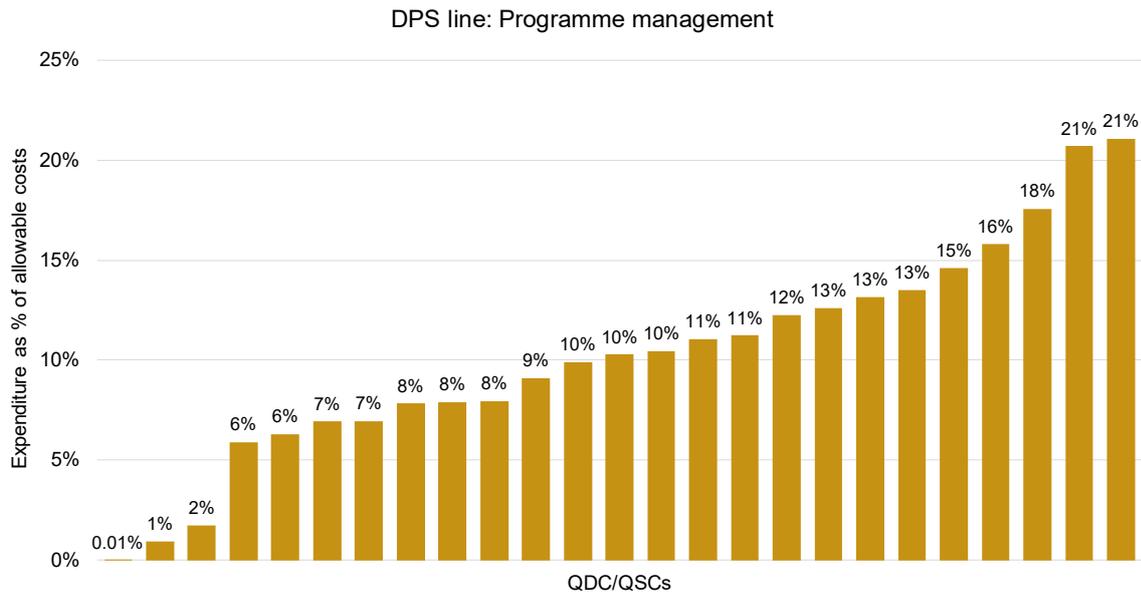
Table 2 also shows the range of costs attributed to each DPS line, as a proportion of the total Allowable Costs in the contract.

**Table 2: Use of common cost categories in standard templates**

DPS line description	Number of QDCs/ QSCs reporting cost data against this category	Range of costs attributed to each DPS line, as a proportion of Allowable Costs (%)	
		Min	Max
Programme Management	26	0.01%	21%
System Engineering	17	0.04%	100%
Consumables / Fungibles (Contract Specific)	12	0.01%	99%

Figure 4 shows the wide range of costs attributed to the Programme Management DPS category. This DPS line has been used to allocate between 0.01 per cent and 21 per cent of Allowable Costs per contract.

**Figure 4: Expenditure on the ‘Programme Management’ DPS category as a proportion of Allowable Costs**



*Note: This presents analysis reported by 25 QDCs/QSCs. One QDC/QSC has been excluded due to data quality issues with the reporting of costs attributed to this category. This data indicates a wide range of costs attributed to these DPS lines and suggests that the nature of these contracts is varied. Using this data alone for benchmarking, without further contextual information, is not recommended at this stage. There are many factors that will need to be considered when benchmarking these cost categories across contracts. Further categorisation and standardisation of this data is required before any meaningful conclusions can be inferred. This is even more evident in the System Engineering and Consumables/Fungibles DPS lines which exhibits an extremely wide range of costs across a small sample of data available at this time.*

### Data sources and methodology

The types of contract reports and the data to be provided in each are prescribed in Part 5 of the Regulations. The DPS data in this report is sourced from the contract notification report, which contractors are required to submit to the SSRO within one month of the initial reporting date for a contract (usually the date the contract is entered into, unless it becomes a QDC/QSC by amendment). The Allowable Costs data in this report are sourced from the latest of the Contract Pricing Statement, Quarterly Contract Report, Interim Contract Report or Contract Completion Report submitted to the SSRO for each QDC/QSC. The templates and user guides for this report is available on the [SSRO's website](#). Data from this report is collated in the Defence Contract Analysis and Reporting System (DefCARS).

Data remains subject to validation by the SSRO. All DPS lines have been used as reported, with some minor adjustments made where DPS codes or descriptions closely resembled an existing DPS line, but did not match exactly, commonly due to typos. Where the contractor did not state which DPS template was used, analysis was carried out to establish which DPS type the lines matched with. Where the DPS lines matched with multiple DPS templates, the SSRO has assigned it a DPS type based on a judgement of the nature of the contract. Where there was at least one line that did not match with any DPS template at all, it was categorised as a non-standard DPS type. In many cases, these non-standard structures used many lines from the existing DPS templates, but included some additional, non-standard lines.

The analysis includes any lines that the contractor has reported, including higher-level DPS lines that are simply summations of the lower-level lines that sit below it. The data has not been altered for any errors in the structure of each QDCs/QSCs DPS, or where suppliers have reported using a line, but no costs are recorded against.

Analysis of the most used DPS lines excludes QDCs/QSCs defined as non-standard, even where the DPS line and code matches with one of the existing templates.

This bulletin analyses all contracts that became a QDC/QSC on or before 31 December 2016. Only the most recent report for each QDCs/QSC which was submitted on or before 1 February 2017 have been included in the analysis for this bulletin.

All references to 'contractor' in this bulletin refers to the primary contractor involved in the contract with the MOD.

Due to the commercial sensitivity of this data, the SSRO does not release any information that will enable identification of individual contracts or contractors included within the analysis. For more information on the SSRO's handling of commercially sensitive information, see the SSRO's website.

### Further information

The SSRO welcomes any queries or feedback you may have on this statistical release. You can contact us by emailing [helpdesk@ssro.gov.uk](mailto:helpdesk@ssro.gov.uk).

## Appendix: Further Information

### DPS guidance



The Defined Pricing Structure (DPS) guidance sets out the principles to be followed by the contractor when completing the DPS for a qualifying defence contract (QDC) or qualifying sub-contract (QSC). The DPS should be agreed between the MOD and contractor during the contract negotiations and the structure included in the Contract Reporting Plan.

Source: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/438030/DPS\\_principles\\_guidance.PDF](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/438030/DPS_principles_guidance.PDF)

### DPS glossary

Equipment type	Description
Submarine	The complete working boat includes the design, development, and production of complete units (i.e. the prototype or operationally configured units, which satisfy the requirements of their applicable functional, regulatory, and other) - includes, for example, hull & structure fitting, primary & secondary power systems, control & communications, ship services, hull & hulling, armament & propulsion, fixed ballast and all other installed equipment.
Sea System (surface ship)	The complete working ship includes the design, development, and production of complete units (i.e. the prototype or operationally configured units, which satisfy the requirements of their applicable functional, regulatory, and other) - includes, for example, hull & superstructure, propulsion, electrical, control & communications, armament, ancillary systems and all other installed equipment.
Unmanned maritime system	The complete of equipment (hardware/software), data, services, and facilities required to design, develop, produce, test, operate and support unmanned maritime systems. Includes all classes of surface and subsurface unmanned vehicles (USVs) - Unmanned Undersea Vehicles (UUVs).
Surface vehicle	The complete of equipment (hardware/software), data, services, and facilities required to design and produce a vehicle system with the capability to operate on the surface. Surface vehicle categories include vehicles primarily intended for general purpose operations and those intended for more specialised tasks (e.g. mine countermeasures). The Surface Vehicle sub-system DPS should be used for a vehicle used to regulate the surface which does not have track. Excludes track vehicles and wheeled armoured vehicles.
Wheeled Armoured vehicle	The complete of equipment (hardware/software), data, services, and facilities required to design and produce an armoured vehicle system with the capability to operate on the surface. Vehicle categories include vehicles primarily intended for general purpose operations and those intended for more specialised tasks (e.g. mine countermeasures). The Surface Vehicle sub-system DPS should be used for a vehicle which regulates the surface with applied armour (track or otherwise). Excludes non-applied armoured surface vehicles and track vehicles (armoured or non-armoured).

Descriptions of the 16 equipment types for which standard DPS templates are available in DefCARS.

- Submarine
- Surface ship
- Unmanned maritime system
- Surface vehicle system
- Wheeled armoured vehicle
- Track vehicle
- Fixed wing aircraft
- Rotary wing aircraft
- Unmanned aerial vehicle (UAV)
- Ordnance system
- Missile system
- Weapon system
- IT system
- Radar and communications
- Ancillary services
- Specialist equipment type

Source: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/485049/DPS\\_Glossary.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/485049/DPS_Glossary.pdf)

### DefCARS guidance

**SSRO**  
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Assessing your buying options

**Defence Contract Analysis and Reporting System (DefCARS)**

User guidance – a guide for defence contractors (web version)

Version 1 – Initial Draft  
1 March 2017

The DefCARS user guidance document provides contractors with guidance on how to complete their DPS cost breakdown as part of their report submission.

Source: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/599356/20170313\\_DefCARS\\_user\\_guidance\\_for\\_defence\\_contractors\\_web\\_version.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/599356/20170313_DefCARS_user_guidance_for_defence_contractors_web_version.pdf)

## **Single Source Contract Regulations 2014**

The Single Source Contract Regulations 2014 require contractors to provide cost breakdown information by the DPS in a number of reports. The following Regulations are where there are references to the DPS for reporting purposes:

- Regulation 22(7)
- Regulation 24(2(d))
- Regulation 25(2(d))
- Regulation 25(2(e))
- Regulation 27(4(d))
- Regulation 27(4(e))
- Regulation 27(4(h))
- Regulation 28(2(d))
- Regulation 28(2(e))
- Regulation 28(2(g))