

# Understanding the single source regulatory framework

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30 April 2026

# The regulatory framework

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- Established by the Defence Reform Act 2014 and the Single Source Contract Regulations 2014.
- Applies to most uncompleted MOD contracts which are >£5 million and uncompleted sub-contracts which are >£25 million.
  - Excludes foreign military sales, govt to govt sales, national security risk contracts, land acquisition, and contracts exempted by the Secretary of State.
- Places pricing controls on qualifying contracts and requires transparency via reporting on the part of defence contractors.
- Since 2015, c.700 contracts totalling £124.6 billion.

# In carrying out its functions the SSRO must aim to ensure that:

Good value for money for the taxpayer is obtained in government expenditure on qualifying defence contracts

Persons who are parties to qualifying defence contracts are paid a fair and reasonable price under those contracts

# Carried out through our 7 statutory functions:



**Contract Profit Rate**  
We recommend to the Secretary of State the baseline profit rate (the first step in determining the contract profit rate) and other rates that can be applied.




**Referrals**  
We help to speed up procurement by settling disputes and resolving contract-specific queries between the MOD and industry. We also provide informal advice.




**Records**  
We collect and hold data from industry about their contracts. This helps the MOD negotiate and manage contracts, and manage suppliers at a portfolio level.




**Review**  
We keep the regulatory framework under review and consider how it can support the achievement of better outcomes in defence procurement.



**Guidance**  
We publish guidance on what Allowable Costs can be claimed in contracts, what profit rates can be applied, and on the application or interpretation of the framework.

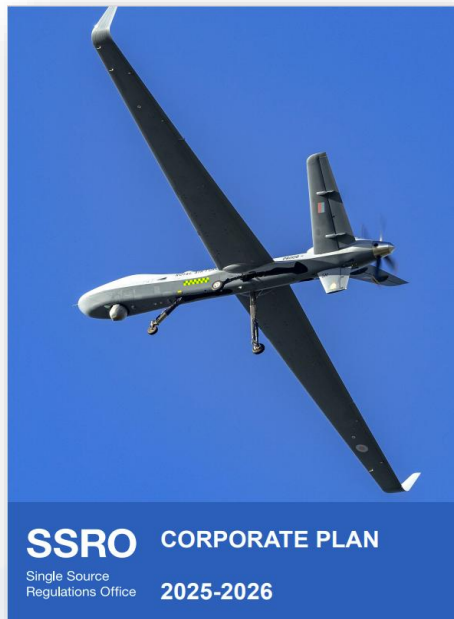


**Compliance**  
We review how transparency requirements are being complied with by the defence industry.



**Analysis**  
We analyse data and provide insights to support the MOD. We provide a suite of Management Information that allows MOD users to interrogate our data.

# Corporate Plan: four areas of strategic focus



- **Relevant:** new guidance; contributing insights around SDR and DIS outcomes (pace, productivity, investment incentives)
- **Visible:** targeted comms and purposeful engagement
- **Accessible:** helpdesk and training offer; guidance optimisation and Non-Referral Advice Service, enabling faster acquisition
- **Trusted:** skills and experience; profit rate methodology; supporting the MOD's review of the Single Source Contract Regulations which is in progress, building on the DIS and SDR

[www.ssro.gov.uk/corporate-plan-2025-2026](http://www.ssro.gov.uk/corporate-plan-2025-2026)

# Approach to pricing and profit

2026/27 Baseline Profit Rate

9.1%

announced mid March and  
in force 1 April '26

## Default pricing methods

- Price formula:  $AC + (AC \times CPR)$
- AC – Allowable Costs
  - Appropriate
  - Attributable to the contract
  - Reasonable in the circumstances
- CPR – Contract profit rate
  - Step 1 Baseline profit rate
  - Step 2 Cost risk adjustment ( $\pm 25\%$ )
  - Step 3 Incentive adjustment (up to +2pp)
  - Step 4 Capital servicing adjustment

Risk mostly with the MOD

Cost-plus

Estimate-based fee

Target price

Volume-driven

Firm

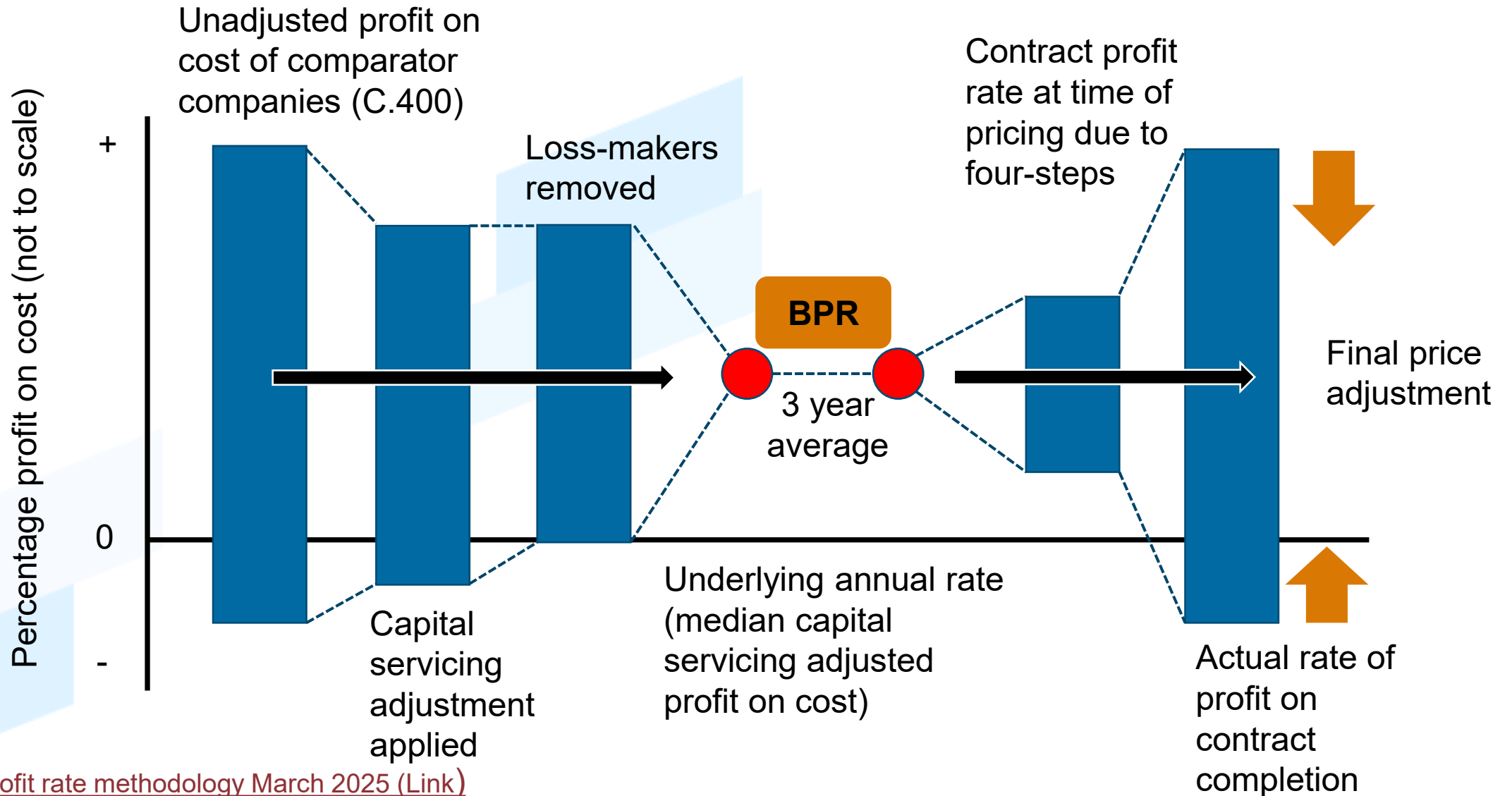
Fixed

Risk mostly with contractor

## Alternative pricing methods

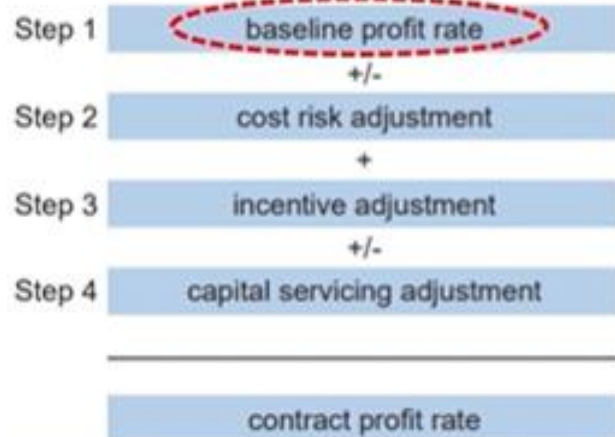
- Commercial pricing;
- Prices determined in accordance with law;
- Previously agreed price;
- Novated contract price;
- Competed rates applied to uncompleted volumes
- Agreed changes to the contract profit rate; and
- Aggregation of components.

# Overall approach to contract profit



[Baseline profit rate methodology March 2025 \(Link\)](#)

# Baseline profit rate (BPR): introduction



The baseline profit rate is step 1 of the 4-step process to calculate the contract profit rate of a contract that falls under the Single Source Contract Regulations and is priced using the default pricing method.

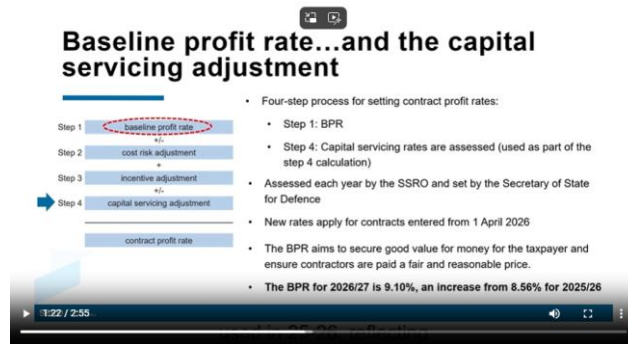
The Procurement Act 2023 introduced the 4-step process and, as of 1 April 2024, replaced the previous 6-step process in place since the start of the current regime in 2015.<sup>1</sup>

The BPR based on the financial performance of a group of companies whose activities are comparable to those that contractors might be expected to perform for single source contracts.

Full details on the approach are set out in: [www.ssro.gov.uk/baseline-profit-rate-methodology-march-2026](https://www.ssro.gov.uk/baseline-profit-rate-methodology-march-2026)

<sup>1</sup>The 6-step process continues to apply to existing contracts, with the 4-step process applying to any amendments made to those contracts after that date.


# Updated Baseline Profit Rate (BPR) for 2026/27



- Confirmation of the **2026/27 baseline profit rate (9.10%)** and associated capital servicing rates.
- Overview of the **four-step profit rate framework** now applying to new contracts and amendments.
- Key messages from the supporting analysis and explainer materials.
- Those involved in contract pricing, negotiation, or amendment need to understand **how the rate is derived**, how it compares with recent years, and **what has changed in practice**.
- The updated materials and explainer content support **more informed internal discussions with MOD and prime contractors**, reducing friction and re-work.

[www.ssro.gov.uk/2026-contract-profit-rate-assessment/](http://www.ssro.gov.uk/2026-contract-profit-rate-assessment/)

# Updated Baseline Profit Rate (BPR) for 2026/27 – supporting material



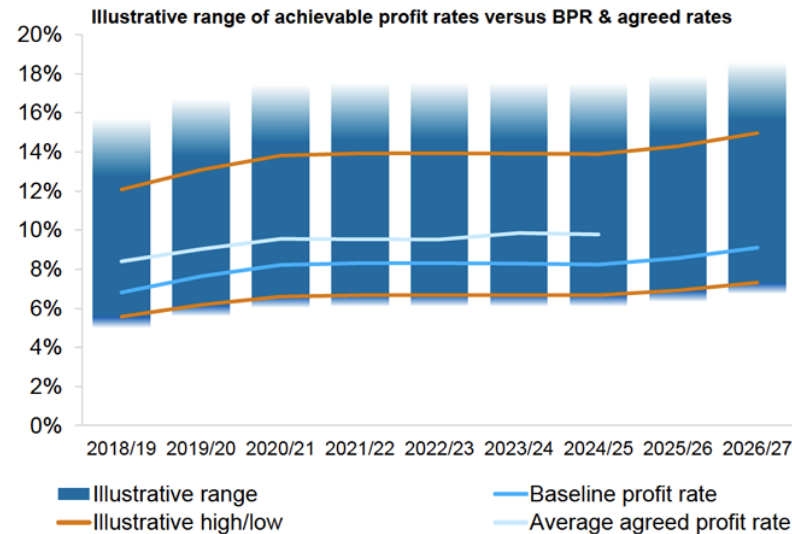
**SSRO** | Single Source Regulations Office

SSRO's baseline profit rate, capital servicing rates, and government owned contractor rate recommendation: 2026/27

**Supporting analysis**  
March 2026

This slide pack is provided for information only in support of the SSRO's assessment provided under Section 19 of the Defence Reform Act 2014.

## Illustrative high and low contract profit rate



The baseline profit rate is combined with the other profit rate steps to arrive at the contract profit rate (CPR). There is a range available, depending on the application of these steps. Full details on the calculation are set out in the SSRO publication *Guidance on the baseline profit rate and its adjustment*. Details of the calculation for 2026/27 are presented on the next slide.

**Notes:** The solid area is an illustrative low/high for a standard contract, applying assumptions about the typical values of certain components of profit. The gradient areas end at a theoretical minimum and maximum, applying reasonable limits where a profit component is unbounded.

The capital servicing adjustment (step 4) is dependent on the characteristics of the contract in question therefore, for illustrative purposes, we have applied to all the periods presented, the average of capital servicing adjustments agreed for contracts entered into for 2018/19 to 2024/25. The latest published data available is up to 2024/25.

Source: SSRO

[www.ssro.gov.uk/wp-content/uploads/2026/03/Supporting\\_Analysis\\_Pack\\_1\\_2026.pdf](http://www.ssro.gov.uk/wp-content/uploads/2026/03/Supporting_Analysis_Pack_1_2026.pdf)

# An enabling regulator: scaling the Non-Referral Advice Service (NRAS)

## How we developed:

The SSRO has expanded and formalised its Non-Referral Advice Service, positioning it as a tool for speedier issue resolution

- NRAS: a confidential route to get advice on applying the framework
- Has been well received with increasing enquiries
- NRAS enables speedier issue resolution and supports agile acquisition by reducing friction and delay
- The benefit for users is time saved, issues resolved, and more consistent interpretation of the rules across similar situations

Details on how to seek non-referral advice:  
[www.ssro.gov.uk/ssro-referrals/non-referral-advice-service/](http://www.ssro.gov.uk/ssro-referrals/non-referral-advice-service/)

# Continuous improvement of SSRO Support

**How we developed:**  
Strengthened the SSRO Support offer (helpdesk, onboarding new entrants to the framework, training) using performance measures and resourcing to meet demand

- Knowledgeable and friendly helpdesk, with queries responded to at the latest within five working days
- A substantial programme of onboarding and training sessions
- Teach-in sessions on aspects of SSRO guidance: attendance open to those interested in the framework, as well as those subject to it
- For MOD teams and suppliers, that translates into quicker answers, fewer avoidable errors in reporting and pricing steps, and a smoother experience for people who are new to the regime

[www.ssro.gov.uk/about-us/ssro-support/](http://www.ssro.gov.uk/about-us/ssro-support/)

# Turning transparency into practical value: stronger DefCARS insight and MI tools

**How we developed:**  
Shifted from collecting transparency data to helping MOD staff use it, including DefCARS management information tools, demos, and targeted briefings.

- Released DefCARS MI tools to help MOD negotiate with contractors
- Supported by demonstrations, brochures, training roadshows and videos
- Using data reported to us, we have created practical management information tools and briefings that help MOD users apply data in negotiations and contract management
- If you have any questions about how to access DefCARS or the guidance please contact the SSRO at [helpdesk@ssro.gov.uk](mailto:helpdesk@ssro.gov.uk).

[www.ssro.gov.uk/reporting-guidance-and-defcars/](http://www.ssro.gov.uk/reporting-guidance-and-defcars/)

# Improving digital accessibility: making it easier to find, navigate and apply guidance

**How we developed:** Independent website, offering improved and tailored content for the end user. Increased use of video explainers.

- Independent SSRO website with improved accessibility and navigation
- Helps people find the right guidance quickly and understand what they need to do next
- New SSRO guidance contains 'quick start' sections: aids user understanding
- Website continues to evolve, and we will widen the availability of video content, to complement written guidance

[www.ssro.gov.uk](http://www.ssro.gov.uk)

# Making the best use of our expanded guidance powers

**How we developed:**  
We built a stronger “guidance pipeline” that is responsive to user feedback

- The Procurement Act expanded our ability to issue guidance on the application or interpretation of the framework
- We consulted on and developed guidance where stakeholders told us they needed it: Final Price Adjustment, contract amendments
- We publish annual statistical bulletins, bringing transparency
- Learning shared among stakeholders based on queries we receive: regular updates to “Responses to Commonly Asked Questions”
- The practical outcome is fewer grey areas and more predictable application of the guidance

<https://www.ssro.gov.uk/guidance-on-the-application-of-the-final-price-adjustment-fpa-version-1-1/>

# Contract amendments: guidance on redetermining the price of a QDC or QSC



- Contract amendments (e.g. adding / removing goods, works or services) can significantly affect the price of contracts
- Amending the price of a contract is common – this guidance is relevant and requested by those who use the framework
- We regularly provide support and advice to the MOD and industry on the Regulations relating to contract amendments
- The new guidance assists parties to understand and apply the regulatory requirements: **enabling swifter and easier resolution of issues for contracting parties to help improve the delivery of vital defence capabilities**
- The new guidance will be published 11 May, with a teach-in planned 10 June

[www.ssro.gov.uk/ssro-seeks-views-on-new-guidance-to-support-amending-defence-contracts-successfully](http://www.ssro.gov.uk/ssro-seeks-views-on-new-guidance-to-support-amending-defence-contracts-successfully)

# Busting some myths about the regulatory framework

## Myth Buster 1

*“The regulatory framework means that contracting takes longer”.*

The regulations require that contractors demonstrate costs charged to a contract are reasonable and the profit fair. The MOD would usually require this information in any case. The framework requires transparency on the part of defence contractors regarding prices. Larger suppliers may provide details about their strategic operations – again likely requirement in competitive bidding.

## Myth Buster 2

*“There is a large reporting burden associated with being subject to the regulatory framework”.*

Many contractors will not have to provide any supplier reports at all. Those that do will often have to provide information through the MOD’s rate setting process.

## Myth Buster 3

*“The regime mostly applies to the prime defence companies...few SMEs are subject to the regulatory framework”*

29 QDCs/QSCs are with contracting companies that identified as a small or medium enterprise (SME).

## Myth Buster 4

*“The guidance only applies to the contractor and not the MOD”.*

The MOD is bound by the guidance as much as the contractor.

## Myth Buster 5

*“The SSRO is there to catch you out”.*

We are here to help you comply with the regulatory framework.

# The regulatory framework is periodically reviewed by the MOD

- The review is intended to support the implementation of the recommendations in the SDR and DIS – which says:
  - “Amend the Single Source Contract Regulations”
  - “Incentivise industry investment”
  - “Reduce regulatory burden”
- The SSRO is supporting the MOD in its review of the framework and both MOD and industry in the implementation of any changes to the framework that arise from the review





# Q&A

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- What are your perceptions & experiences of using the regulatory framework?
- Are there areas of our work where you would like to learn more?

If you have any follow up questions or comments, please contact either [colin.sharples@ssro.gov.uk](mailto:colin.sharples@ssro.gov.uk) (Head of Policy, Referrals and Support) or [helpdesk@ssro.gov.uk](mailto:helpdesk@ssro.gov.uk)