

# DEFENCE REFORM ACT 2014

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## EXPLANATORY NOTES

### COMMENTARY ON SECTIONS

#### **Part 2: Single Source Contracts**

##### ***Section 24: Reports on qualifying defence contracts***

85. This section enables standard reporting on QDCs. The SSCRs will contain provision as to the matters that must be covered in the reports, the times at which reports must be made, and the form of the reports (*subsection (2)*). The wide variety of QDCs means that reports will need to vary in some circumstances, and this is allowed for in *subsection (4)*. It is intended that subsection (4)(a) will be used to vary the level of reporting such that only contracts of a significant value will be subject to the full reporting requirements specified under *subsection (2)*. Some reports will not be required at fixed intervals or for all contracts, so will only be required upon request by the Secretary of State or authorised person – this is provided for in *subsection (3)*.
86. The reporting requirements are likely to change over time as the SSRO recommends refinements to them. However, it is intended that the first SSCRs will provide for three reports which are designed to enable the MOD, over time, to compare the costs of comparable projects, allowing the Department to improve its independent estimates in both budgeting and in challenging contractor cost estimates. The reports, one due at the beginning of the contract, one at the end, and one either annually or at key contract events (such as material amendment or significant milestones), will split out costs (both actual and forecast at completion) in a standard set of cost categories which will vary by the type of equipment being procured or maintained. The final report at the end of the contract will also include a variance analysis against the initial forecasts which will be used to help improve estimating capability and improve understanding of the causes of cost growth.
87. Two other reports will also be required at the beginning of the contract. One, the contract reporting plan, will identify the reports due for that contract under the regulations, and when each report will be due – this information will be used to support the compliance process. The other (the contract pricing statement) will contain information supporting the pricing of the contract, such as key assumptions.
88. There will also be one report that will be required more frequently - a quarterly contract report will be required on the largest QDCs, which splits out costs in accordance with the contractor's own project reporting, and is designed to enable the MOD to improve their contract management and identify project issues, such as cost growth, in a timely manner.
89. One further report will be specified, the contract costs report. This information is required when the actual allowable costs under a contract need to be agreed, for example to determine payments under a TCIF contract or to enable calculation of any final price adjustment under section 21.

*These notes refer to the Defence Reform Act 2014  
(c.20) which received Royal Assent on 14 May 2014*

90. Failure to comply with reporting requirements imposed under this section, or making a misleading report, may lead to a financial penalty under sections 31(3)(a)(ii) and (b), and 32.