



Defence Reform Act 2014

2014 CHAPTER 20

PART 2

SINGLE SOURCE CONTRACTS

Single Source Regulations Office

13 Single Source Regulations Office (or “SSRO”)

- (1) A body corporate called the Single Source Regulations Office (“the SSRO”) is established.
- (2) In carrying out its functions under or by virtue of this Part, the SSRO must aim to ensure—
 - (a) that good value for money is obtained in government expenditure on qualifying defence contracts, and
 - (b) that persons (other than the Secretary of State) who are parties to qualifying defence contracts are paid a fair and reasonable price under those contracts.
- (3) Schedule 4 contains further provision about the SSRO.

Commencement Information

II [S. 13](#) in force at 14.7.2014 by [S.I. 2014/1751](#), [art. 3\(a\)](#)

Qualifying defence contracts

14 Regulations relating to qualifying defence contracts

- (1) The Secretary of State may by regulations under this Part (“single source contract regulations”) make provision in relation to qualifying defence contracts.
- (2) For the purposes of this Part, a contract is a “qualifying defence contract” if—

Changes to legislation: Defence Reform Act 2014, Part 2 is up to date with all changes known to be in force on or before 01 March 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details) View outstanding changes

- (a) it is a contract under which the Secretary of State procures goods, works or services [^{F1}wholly or substantially] for defence purposes from another person (a “primary contractor”),
 - (b) the value of the contract is of or above the amount specified in single source contract regulations,
 - (c) the contract does not fall within a description specified in the regulations, and
 - (d) subsection (3), (4) or (5) applies to the contract.
- (3) This subsection applies to a contract if—
 - (a) the contract is entered into on or after the relevant date, and
 - (b) the award of the contract is not the result of a competitive process.
- (4) This subsection applies to a contract if—
 - (a) the contract was entered into before the relevant date,
 - (b) the award of the contract was not the result of a competitive process,
 - (c) the contract is amended on or after that date, and
 - (d) in amending the contract, the Secretary of State and the primary contractor agree that it is to be a qualifying defence contract.
- (5) This subsection applies to a contract, whether entered into before or after the relevant date, if—
 - (a) the award of the contract is the result of a competitive process,
 - (b) the contract is amended on or after the relevant date,
 - (c) the amendment is not the result of a competitive process, and
 - (d) in amending the contract, the Secretary of State and the primary contractor agree that it is to be a qualifying defence contract.
- [^{F2}(5A) Single source contract regulations may specify circumstances in which a contract entered into by the Secretary of State with a primary contractor is or is not to be treated as amending an existing contract between those parties for the purposes of this section.]
- (6) Single source contract regulations must make provision for determining whether the award, or amendment, of a contract is the result of a competitive process.
- (7) The Secretary of State may direct that a particular contract to which subsection (3) applies is not a qualifying defence contract even though the contract otherwise meets the requirements of subsection (2).
- (8) In this section, “defence purposes” has the meaning given by the regulations.
- [^{F3}(8A) The regulations may also specify when a contract is to be treated as substantially for defence purposes.]
- (9) In this Part—
 - (a) “relevant date” means the date on which the first single source contract regulations come into force;
 - (b) references to “single source contract regulations” are to be read in accordance with subsection (1);
 - (c) references to a “primary contractor” are to be read in accordance with subsection (2)(a).

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Textual Amendments

- F1** Words in s. 14(2)(a) inserted (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), s. 127(2), [Sch. 10 para. 2\(2\)](#); S.I. 2024/61, reg. 2(1)(b)(ii) (with reg. 3)
- F2** S. 14(5A) inserted (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), s. 127(2), [Sch. 10 para. 2\(3\)](#); S.I. 2024/61, reg. 2(1)(b)(ii) (with reg. 3)
- F3** S. 14(8A) inserted (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), s. 127(2), [Sch. 10 para. 2\(4\)](#); S.I. 2024/61, reg. 2(1)(b)(ii) (with reg. 3)

Commencement Information

- I2** S. 14 in force at 14.7.2014 for specified purposes by [S.I. 2014/1751](#), [art. 4\(a\)](#)
- I3** S. 14 in force at 5.12.2014 in so far as not already in force by [S.I. 2014/3162](#), [art. 3\(a\)](#)

Pricing of contracts

15 Pricing of contracts

- (1) Single source contract regulations must make provision about determining the price payable under a qualifying defence contract [^{F4}and, where the contract is divided into components, each component of that contract,] to the primary contractor.
- [^{F5}(2) The regulations must provide for the price payable under the contract, or any component, to be determined—
- (a) in accordance with the formula in subsection (4), or
 - (b) in such circumstances as may be specified in the regulations, in accordance with another method.
- (2A) The regulations must only specify circumstances for the purposes of subsection (2)(b) if the Secretary of State is satisfied that the factors referred to in section 13(2) may be ensured in those circumstances if another method is used.
- (2B) The regulations may also make provision requiring a particular method specified in the regulations to be used in certain of the circumstances specified for the purposes of subsection (2)(b).]
- (3) The regulations must provide that where the Secretary of State and the primary contractor propose to amend the contract [^{F6}or each amended component of that contract,] in a way that would affect the price determined by virtue of subsection (2) or this subsection—
- (a) the price payable under the amended contract must be re-determined in accordance with [^{F7}the method applicable by virtue of subsection (2)], or
 - (b) the price payable in respect of the amendment must be determined in accordance with that [^{F8}method].
- (4) The formula is—

$$(CPR \times AC) + AC$$

where—

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- a “CPR” is the contract profit rate for the contract [^{F9}or component] (see section 17), and
 - b “AC” means the primary contractor's allowable costs under the contract [^{F10}or component] (see section 20).
- (5) The regulations may provide for a determination by virtue of subsection (2) or (3) to be made at such times as may be specified in the regulations (and different times may be specified for different kinds of contract [^{F11}or component]).
- [^{F12}(6) In this Part, “component”, in relation to a contract, means a part of the contract that is to be treated distinctly from other such parts in determining the price payable under the contract.
- (7) For the purposes of subsection (6), a part of a contract is to be treated distinctly if—
- (a) single source contract regulations contain provision to that effect, or
 - (b) the parties to the contract agree that it should.
- (8) Single source contract regulations may make provision about when parts of a qualifying defence contract are or are not to be treated distinctly from other parts of the same contract.]

Textual Amendments

- F4** Words in s. 15(1) inserted (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), s. 127(2), **Sch. 10 para. 3(2)**; [S.I. 2024/61](#), reg. 2(1)(b)(iii) (with reg. 3)
- F5** [S. 15\(2\)-\(2B\)](#) substituted for s. 15(2) (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), s. 127(2), **Sch. 10 para. 3(3)**; [S.I. 2024/61](#), reg. 2(1)(b)(iii) (with reg. 3)
- F6** Words in s. 15(3)(a) inserted (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), s. 127(2), **Sch. 10 para. 3(4)(a)**; [S.I. 2024/61](#), reg. 2(1)(b)(iii) (with reg. 3)
- F7** Words in s. 15(3)(a) substituted (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), s. 127(2), **Sch. 10 para. 3(4)(b)**; [S.I. 2024/61](#), reg. 2(1)(b)(iii) (with reg. 3)
- F8** Word in s. 15(3)(b) substituted (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), s. 127(2), **Sch. 10 para. 3(5)**; [S.I. 2024/61](#), reg. 2(1)(b)(iii) (with reg. 3)
- F9** Words in s. 15(4) inserted (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), s. 127(2), **Sch. 10 para. 3(6)(a)**; [S.I. 2024/61](#), reg. 2(1)(b)(iii) (with reg. 3)
- F10** Words in s. 15(4) inserted (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), s. 127(2), **Sch. 10 para. 3(6)(b)**; [S.I. 2024/61](#), reg. 2(1)(b)(iii) (with reg. 3)
- F11** Words in s. 15(5) inserted (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), s. 127(2), **Sch. 10 para. 3(7)**; [S.I. 2024/61](#), reg. 2(1)(b)(iii) (with reg. 3)
- F12** [S. 15\(6\)-\(8\)](#) inserted (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), s. 127(2), **Sch. 10 para. 3(8)**; [S.I. 2024/61](#), reg. 2(1)(b)(iii) (with reg. 3)

Commencement Information

- I4** [S. 15](#) in force at 14.7.2014 for specified purposes by [S.I. 2014/1751](#), **art. 4(b)**
- I5** [S. 15](#) in force at 5.12.2014 in so far as not already in force by [S.I. 2014/3162](#), **art. 3(a)**

16 Pricing of contracts: supplementary

- (1) Single source contract regulations may specify circumstances in which, if the Secretary of State and the primary contractor so agree—
 - (a) the price determined in accordance with section 15 is to be taken as a target price, and

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- (b) the total price payable under the contract is subject to adjustment by reference to any difference between—
 - (i) the amount of the primary contractor's actual allowable costs under the contract [^{F13}or, where relevant, a component of that contract], and
 - (ii) the amount of the estimated allowable costs used for the purpose of determining the target price.
- (2) The amount of any adjustment by virtue of subsection (1)(b) must be determined—
 - (a) by agreement between the Secretary of State, or an authorised person, and the primary contractor, or
 - (b) by the SSRO, where the matter is referred to it by the Secretary of State, an authorised person or the primary contractor.
- (3) Section 21 (final price adjustment) does not apply to a contract in a case where an agreement of a kind mentioned in subsection (1) has effect.
- [^{F14}(4) Single source contract regulations may provide that the SSRO—
 - (a) must, on an application by a person within subsection (5), determine whether the method used to determine the price payable under a qualifying defence contract or a component of that contract was appropriate;
 - (b) may, in consequence of a determination under paragraph (a), determine that the price payable under the contract is to be adjusted by an amount specified by the SSRO.
- (5) The following persons are within this subsection—
 - (a) the Secretary of State,
 - (b) an authorised person, and
 - (c) the primary contractor.]

Textual Amendments

- F13** Words in s. 16(1)(b)(i) inserted (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), s. 127(2), [Sch. 10 para. 4\(2\)](#); [S.I. 2024/61](#), reg. 2(1)(b)(iii) (with reg. 3)
- F14** S. 16(4)(5) inserted (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), s. 127(2), [Sch. 10 para. 4\(3\)](#); [S.I. 2024/61](#), reg. 2(1)(b)(iii) (with reg. 3)

Commencement Information

- I6** S. 16 in force at 14.7.2014 for specified purposes by [S.I. 2014/1751](#), [art. 4\(c\)](#)
- I7** S. 16 in force at 5.12.2014 in so far as not already in force by [S.I. 2014/3162](#), [art. 3\(a\)](#)

17 Contract profit rate

- (1) Single source contract regulations must make provision for determining the contract profit rate for a qualifying defence contract [^{F15}, or, where the contract is divided into components, any component of that contract].
- (2) The regulations must provide for the determination to be made by taking the following sequence of steps, subject to section 18(2)—
 - Step 1* Take the baseline profit rate (see section 19) which is in force at the relevant time. “The relevant time” means—
 - (a) in a case within section 15(2)—

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- (i) when the contract is entered into, if the contract is a qualifying defence contract by virtue of section 14(3), or
- (ii) when the contract is amended, if the contract is a qualifying defence contract by virtue of section 14(4) or (5);

(b) in a case within section 15(3), when the contract is amended.

Step 2 Adjust that rate by an agreed amount, being an amount falling within specified parameters above or below the baseline profit rate, so as to reflect ^{F16}the financial risks to the primary contractor of entering into the contract or component, taking into account the particular type of activities to be carried out by the primary contractor under that contract or component]. “Specified” means specified in the regulations.

^{F17} ...
^{F17} ...

Step ^{F18}3] Where the Secretary of State determines that the amount resulting from step ^{F19}2] should be increased so as to give the primary contractor a particular financial incentive as regards the performance of provisions of the contract ^{F20}or component] specified by the Secretary of State, increase that amount by an amount specified by the Secretary of State. ^{F21}In specifying provisions of the contract or component, the Secretary of State must comply with any requirements imposed by the regulations, and] any increase must not exceed the maximum increase permitted by the regulations.

Step ^{F18}4] Take the amount resulting from step ^{F22}3] and add to or subtract from it an agreed amount, so as to ensure that the primary contractor receives an appropriate and reasonable return on the fixed and working capital employed by the primary contractor for the purposes of enabling the primary contractor to perform the contract ^{F23}or component]. This adjustment—

- (a) is to be made having regard to the capital servicing rates determined under section 19, but
- (b) does not apply to the extent that the costs of the fixed and working capital employed by the primary contractor are allowable costs under the contract ^{F23}or component].

(3) The contract profit rate is—

- (a) the amount found at the end of step ^{F24}4] in subsection (2), or
- (b) in a case where step ^{F24}4] is disapplied under section 18(2)(a), the amount found at the end of the last of the steps in subsection (2) that apply in that case.

(4) For the purposes of subsection (2)—

- (a) “agreed” means agreed by the Secretary of State, or an authorised person, and the primary contractor;
- (b) the adjustment agreed under step 2, 3 or ^{F25}4] may be zero.

Textual Amendments

- F15** Words in s. 17(1) inserted (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), s. 127(2), [Sch. 10 para. 9\(2\)](#); [S.I. 2024/61](#), reg. 2(1)(b)(iv) (with [reg. 3](#))
- F16** Words in s. 17(2) substituted (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), s. 127(2), [Sch. 10 para. 9\(3\)\(a\)](#); [S.I. 2024/61](#), reg. 2(1)(b)(iv) (with [reg. 3](#))
- F17** Words in s. 17(2) omitted (19.1.2024) by virtue of [Procurement Act 2023 \(c. 54\)](#), s. 127(2), [Sch. 10 para. 9\(3\)\(b\)](#); [S.I. 2024/61](#), reg. 2(1)(b)(iv) (with [reg. 3](#))

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- F18** Words in s. 17(2) renumbered (19.1.2024) by Procurement Act 2023 (c. 54), s. 127(2), **Sch. 10 para. 9(3)(b)**; S.I. 2024/61, reg. 2(1)(b)(iv) (with reg. 3)
- F19** Word in s. 17(2) substituted (19.1.2024) by Procurement Act 2023 (c. 54), s. 127(2), **Sch. 10 para. 9(3)(c)**; S.I. 2024/61, reg. 2(1)(b)(iv) (with reg. 3)
- F20** Words in s. 17(2) inserted (19.1.2024) by Procurement Act 2023 (c. 54), s. 127(2), **Sch. 10 para. 9(3)(d)**; S.I. 2024/61, reg. 2(1)(b)(iv) (with reg. 3)
- F21** Words in s. 17(2) inserted (19.1.2024) by Procurement Act 2023 (c. 54), s. 127(2), **Sch. 10 para. 9(3)(e)**; S.I. 2024/61, reg. 2(1)(b)(iv) (with reg. 3)
- F22** Word in s. 17(2) substituted (19.1.2024) by Procurement Act 2023 (c. 54), s. 127(2), **Sch. 10 para. 9(3)(f)**; S.I. 2024/61, reg. 2(1)(b)(iv) (with reg. 3)
- F23** Words in s. 17(2) inserted (19.1.2024) by Procurement Act 2023 (c. 54), s. 127(2), **Sch. 10 para. 9(3)(g)**; S.I. 2024/61, reg. 2(1)(b)(iv) (with reg. 3)
- F24** Word in s. 17(3) substituted (19.1.2024) by Procurement Act 2023 (c. 54), s. 127(2), **Sch. 10 para. 9(4)**; S.I. 2024/61, reg. 2(1)(b)(iv) (with reg. 3)
- F25** Word in s. 17(4)(b) substituted (19.1.2024) by Procurement Act 2023 (c. 54), s. 127(2), **Sch. 10 para. 9(5)**; S.I. 2024/61, reg. 2(1)(b)(iv) (with reg. 3)

Commencement Information

- I8** S. 17 in force at 14.7.2014 for specified purposes by S.I. 2014/1751, **art. 4(d)**
- I9** S. 17 in force at 5.12.2014 in so far as not already in force by S.I. 2014/3162, **art. 3(a)**

18 Contract profit rate: supplementary

- (1) The Secretary of State or an authorised person, and the primary contractor, must have regard to guidance issued by the SSRO in relation to any of the steps set out in section 17(2).
- (2) Single source contract regulations may—
 - (a) disapply the requirement to take any or all of steps 2 to [F264] in section 17(2) in relation to a qualifying defence contract the value of which is less than the amount specified for the purposes of this paragraph [F27], or a component of such a contract;
 - (b) provide for any or all of those steps to apply in relation to such a contract [F28 or component] with modifications set out in the regulations;
 - (c) where the Secretary of State is a party to a group of qualifying defence contracts with the same primary contractor, provide for section 17(2) to apply in relation to those contracts [F29 or components of those contracts]—
 - (i) taken together or individually, and
 - (ii) with such modifications as may be set out in the regulations.
- (3) Single source contract regulations may provide that the SSRO—
 - [F30(a)] may, on an application by a person within subsection (4), determine whether—
 - (i) the baseline profit rate identified under step 1 in section 17(2) is correct in relation to a qualifying defence contract or a component of such a contract;
 - (ii) an adjustment agreed under any of steps 2 to 4 in section 17(2) is appropriate;
 - (iii) an adjustment agreed under step 3 in section 17(2) is in accordance with the regulations;
 - (b) may, in consequence of a determination by virtue of paragraph (a) that the amount of such an adjustment is not appropriate, determine that the price

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payable under the contract is to be adjusted by an amount specified by the SSRO.

(4) The following persons are within this subsection—

- (a) the Secretary of State,
- (b) an authorised person, and
- (c) the primary contractor.

Textual Amendments

- F26** Word in s. 18(2)(a) substituted (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), s. 127(2), [Sch. 10 para. 10\(2\)\(a\)](#); [S.I. 2024/61](#), reg. 2(1)(b)(iv) (with reg. 3)
- F27** Words in s. 18(2)(a) inserted (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), s. 127(2), [Sch. 10 para. 10\(2\)\(b\)](#); [S.I. 2024/61](#), reg. 2(1)(b)(iv) (with reg. 3)
- F28** Words in s. 18(2)(b) inserted (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), s. 127(2), [Sch. 10 para. 10\(3\)](#); [S.I. 2024/61](#), reg. 2(1)(b)(iv) (with reg. 3)
- F29** Words in s. 18(2)(c) inserted (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), s. 127(2), [Sch. 10 para. 10\(4\)](#); [S.I. 2024/61](#), reg. 2(1)(b)(iv) (with reg. 3)
- F30** S. 18(3)(a) substituted (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), s. 127(2), [Sch. 10 para. 10\(5\)](#); [S.I. 2024/61](#), reg. 2(1)(b)(iv) (with reg. 3)

Commencement Information

- I10** S. 18 in force at 14.7.2014 for specified purposes by [S.I. 2014/1751](#), [art. 4\(e\)](#)
- I11** S. 18 in force at 5.12.2014 in so far as not already in force by [S.I. 2014/3162](#), [art. 3\(a\)](#)

19 Rates etc relevant to determining contract profit rate

(1) The Secretary of State must, for each financial year, determine—

the baseline profit rate,

^{F31} ...

the capital servicing rate for fixed capital, and
 the capital servicing rate for working capital.

(2) For the purpose of assisting the Secretary of State in determining for a financial year each of the rates mentioned in subsection (1) ^{F32}..., the SSRO must provide the Secretary of State with its assessment of what is the appropriate rate ^{F33}... for that year.

(3) The SSRO—

- (a) must provide its assessment to the Secretary of State no later than 31 January in the preceding financial year, and
- (b) must, in preparing its assessment, have regard to such matters as may be specified in guidance issued by the Secretary of State (as well as other matters that appear to the SSRO to be relevant).

(4) The Secretary of State must publish each of the rates mentioned in subsection (1) for a financial year ^{F34}... in the London Gazette no later than 15 March in the preceding financial year.

(5) Subsection (6) applies if, in the case of a particular rate ^{F35}..., there is a difference between the rate ^{F36}... determined under subsection (1) and the SSRO's assessment of the appropriate rate ^{F36}... for the financial year in question.

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- (6) The Secretary of State must, when publishing the relevant rate ^{F37}..., also publish reasons for the difference.

Textual Amendments

- F31** Words in s. 19(1) omitted (19.1.2024) by virtue of [Procurement Act 2023 \(c. 54\)](#), s. 127(2), [Sch. 10 para. 11\(2\)](#); S.I. 2024/61, [reg. 2\(1\)\(b\)\(iv\)](#) (with [reg. 3](#))
- F32** Words in s. 19(2) omitted (19.1.2024) by virtue of [Procurement Act 2023 \(c. 54\)](#), s. 127(2), [Sch. 10 para. 11\(3\)\(a\)](#); S.I. 2024/61, [reg. 2\(1\)\(b\)\(iv\)](#) (with [reg. 3](#))
- F33** Words in s. 19(2) omitted (19.1.2024) by virtue of [Procurement Act 2023 \(c. 54\)](#), s. 127(2), [Sch. 10 para. 11\(3\)\(b\)](#); S.I. 2024/61, [reg. 2\(1\)\(b\)\(iv\)](#) (with [reg. 3](#))
- F34** Words in s. 19(4) omitted (19.1.2024) by virtue of [Procurement Act 2023 \(c. 54\)](#), s. 127(2), [Sch. 10 para. 11\(4\)](#); S.I. 2024/61, [reg. 2\(1\)\(b\)\(iv\)](#) (with [reg. 3](#))
- F35** Words in s. 19(5) omitted (19.1.2024) by virtue of [Procurement Act 2023 \(c. 54\)](#), s. 127(2), [Sch. 10 para. 11\(5\)\(a\)](#); S.I. 2024/61, [reg. 2\(1\)\(b\)\(iv\)](#) (with [reg. 3](#))
- F36** Words in s. 19(5) omitted (19.1.2024) by virtue of [Procurement Act 2023 \(c. 54\)](#), s. 127(2), [Sch. 10 para. 11\(5\)\(b\)](#); S.I. 2024/61, [reg. 2\(1\)\(b\)\(iv\)](#) (with [reg. 3](#))
- F37** Words in s. 19(6) omitted (19.1.2024) by virtue of [Procurement Act 2023 \(c. 54\)](#), s. 127(2), [Sch. 10 para. 11\(6\)](#); S.I. 2024/61, [reg. 2\(1\)\(b\)\(iv\)](#) (with [reg. 3](#))

Commencement Information

- I12** [S. 19\(1\)\(4\)](#) in force at 14.7.2014 by [S.I. 2014/1751](#), [art. 3\(b\)](#)
- I13** [S. 19\(2\)\(3\)\(5\)\(6\)](#) in force at 5.12.2014 by [S.I. 2014/3162](#), [art. 3\(b\)](#)

20 Allowable costs

- (1) The SSRO must issue guidance about determining whether costs are allowable costs under qualifying defence contracts.
- (2) In determining whether a particular cost is an allowable cost under a qualifying defence contract [^{F38}, or, where the contract is divided into components, a component of that contract], the Secretary of State or an authorised person, and the primary contractor, must be satisfied that the cost is—
- (a) appropriate,
 - (b) attributable to the contract [^{F39}or component], and
 - (c) reasonable in the circumstances.
- [^{F40}(2A) Single source contract regulations may provide that the requirements set out in subsection (2)(a) to (c) are not met in relation to a cost where the cost arises from profits made by a person connected with the primary contractor.
- (2B) The regulations may specify the circumstances in which a person is connected with the primary contractor.]
- (3) In determining whether the requirements set out in subsection (2)(a) to (c) are met in relation to a particular cost, the Secretary of State or an authorised person, and the primary contractor, must have regard to guidance issued under subsection (1).
- (4) The Secretary of State or an authorised person may at any time require a primary contractor to show (whether by reference to guidance issued under subsection (1) or otherwise) that the requirements set out in subsection (2)(a) to (c) are met in relation to a particular cost claimed by the primary contractor as an allowable cost under a

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qualifying defence contract [^{F41}, or where the contract is divided into components, a component of that contract.]

[^{F42}(5) Where a person within subsection (5A) applies to the SSRO for such a determination, the SSRO must determine—

- (a) the extent to which a cost is or would be an allowable cost under a qualifying defence contract or a component of such a contract, or
- (b) the extent to which a method which is used or may be used to determine a cost under a qualifying defence contract or a component of such a contract would result in that cost being an allowable cost under such a contract or component.

(5A) The following persons are within this subsection—

- (a) the Secretary of State;
- (b) an authorised person;
- (c) a primary contractor under a qualifying defence contract;
- (d) a potential primary contractor.]

(6) The SSRO may determine that the price payable under [^{F43}a qualifying defence contract] is to be adjusted by an amount specified by the SSRO in consequence of a determination under subsection (5), having regard to the extent to which the cost in question was treated as an allowable cost when the price payable under the contract was determined (or last determined) in accordance with section 15.

Textual Amendments

- F38** Words in s. 20(2) inserted (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), s. 127(2), **Sch. 10 para. 12(2)(a)**; S.I. 2024/61, reg. 2(1)(b)(v) (with reg. 3)
- F39** Words in s. 20(2)(b) inserted (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), s. 127(2), **Sch. 10 para. 12(2)(b)**; S.I. 2024/61, reg. 2(1)(b)(v) (with reg. 3)
- F40** S. 20(2A)(2B) inserted (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), s. 127(2), **Sch. 10 para. 12(3)**; S.I. 2024/61, reg. 2(1)(b)(v) (with reg. 3)
- F41** Words in s. 20(4) inserted (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), s. 127(2), **Sch. 10 para. 12(4)**; S.I. 2024/61, reg. 2(1)(b)(v) (with reg. 3)
- F42** S. 20(5)(5A) substituted for s. 20(5) (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), s. 127(2), **Sch. 10 para. 12(5)**; S.I. 2024/61, reg. 2(1)(b)(v) (with reg. 3)
- F43** Words in s. 20(6) substituted (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), s. 127(2), **Sch. 10 para. 12(6)**; S.I. 2024/61, reg. 2(1)(b)(v) (with reg. 3)

Commencement Information

- I14** S. 20 in force at 14.7.2014 for specified purposes by S.I. 2014/1751, **art. 4(f)**
- I15** S. 20 in force at 5.12.2014 in so far as not already in force by S.I. 2014/3162, **art. 3(c)**

21 Final price adjustment

- (1) Single source contract regulations may provide for adjustments to be made to the total price payable by the Secretary of State under a qualifying defence contract.
- (2) The regulations must specify the procedure to be followed in determining the amount of any adjustment.

[^{F44}(2A) Provision made under subsection (2) may include provision dealing with how, in the case of a qualifying defence contract divided into components, the components are to

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be taken into account in determining the amount of any adjustments to the total price payable under such a contract.]

- (3) Provision made under subsection (2) must include provision for the amount of any adjustment to be determined—
- (a) by agreement between the Secretary of State, or an authorised person, and the primary contractor, or
 - (b) by the SSRO, where the matter is referred to it by the Secretary of State, an authorised person or the primary contractor.
- (4) Provision under this section may be expressed so as to apply—
- (a) to particular kinds of qualifying defence contracts;
 - (b) to qualifying defence contracts the value of which is of or above the amount specified for the purposes of this paragraph.
- (5) The Secretary of State may direct that provision under this section does not apply in relation to a qualifying defence contract the value of which is—
- (a) of or above the amount specified for the purposes of subsection (4)(b), but
 - (b) less than the amount specified for the purposes of this paragraph in the regulations.
- (6) The regulations may specify matters to which the Secretary of State must have regard in deciding whether to make a direction under subsection (5).

Textual Amendments

F44 [S. 21\(2A\)](#) inserted (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), s. 127(2), [Sch. 10 para. 5](#); [S.I. 2024/61](#), [reg. 2\(1\)\(b\)\(iii\)](#) (with [reg. 3](#))

Commencement Information

I16 [S. 21](#) in force at 14.7.2014 for specified purposes by [S.I. 2014/1751](#), [art. 4\(g\)](#)

I17 [S. 21](#) in force at 5.12.2014 in so far as not already in force by [S.I. 2014/3162](#), [art. 3\(c\)](#)

22 Recovery of unpaid amounts

- (1) This section applies where—
- (a) the SSRO determines by virtue of section [^{F45}16(4),] 18(3)(b), 20(6) or 21(3) (b) that the price payable under a qualifying defence contract is to be adjusted, and
 - (b) as a result of the adjustment—
 - (i) the Secretary of State is required to pay an amount to the primary contractor, or
 - (ii) the primary contractor is required to repay an amount to the Secretary of State.
- (2) If all or part of the amount mentioned in subsection (1)(b)(i) or (ii) is not paid or repaid before the payment date, the unpaid balance carries interest from that date at the rate for the time being specified in section 17 of the Judgments Act 1838.
- (3) The “payment date” is the date determined by the SSRO, in making the determination in question, as the date by which the amount must be paid or repaid.

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- (4) The person to whom the amount is required to be paid or repaid (“the creditor”) may recover from the other person as a debt due to the creditor the unpaid balance and any unpaid interest.

Textual Amendments

F45 Word in [s. 22\(1\)\(a\)](#) inserted (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), [s. 127\(2\)](#), [Sch. 10 para. 6](#); [S.I. 2024/61](#), [reg. 2\(1\)\(b\)\(iii\)](#) (with [reg. 3](#))

Commencement Information

I18 [S. 22](#) in force at 5.12.2014 by [S.I. 2014/3162](#), [art. 3\(c\)](#)

Transparency

23 Records

- (1) Single source contract regulations must contain provision requiring a person (“P”) to keep relevant records.
- (2) “Relevant records” means accounting and other records (whether in hard or electronic form)—
 - (a) which P may reasonably be expected to keep, and
 - (b) which are sufficiently up-to-date and accurate for use by the Secretary of State or an authorised person for any of the purposes listed in subsection (3).
- (3) Those purposes are—
 - (a) auditing reports provided by P under section 24 or 25;
 - (b) where P is a primary contractor, verifying—
 - (i) whether a cost of P is an allowable cost,
 - (ii) the reason for any difference between an estimated and actual allowable cost of P, or
 - (iii) any other matter relating to the price payable to P under a qualifying defence contract;
 - (c) where P is a primary contractor, monitoring P's performance of the obligations to which it is subject under a qualifying defence contract;
 - (d) where P is a primary contractor, determining whether a contract between P and another person is a qualifying sub-contract.
- (4) The regulations may provide for the requirement to keep relevant records—
 - (a) to begin at a time specified by or determined in accordance with the regulations (which may be before a qualifying defence contract is entered into), and
 - (b) to end at a time so specified or determined.
- (5) The regulations may provide—
 - (a) for the Secretary of State or an authorised person to be entitled to examine relevant records where reasonably required for a purpose listed in subsection (3);

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- (b) for the Secretary of State or an authorised person to require P to make copies available (in hard or electronic form) for the purpose of enabling relevant records to be examined;
 - (c) for any entitlement to examine relevant records to be exercisable subject to provision in the regulations—
 - (i) about the times at which relevant records may be examined, and
 - (ii) about notice to be given before they may be examined;
 - (d) for P to be required to comply with any reasonable request by the Secretary of State or an authorised person for further information or explanation relating to relevant records (whether after examination of the records by virtue of paragraph (a) or otherwise).
- (6) The SSRO may, on an application by P, review the way in which the Secretary of State or an authorised person has acted in exercising any function by virtue of subsection (5).
- (7) If, on a review under subsection (6), the SSRO considers that the Secretary of State or an authorised person has acted unreasonably in exercising the function, the SSRO may make a declaration to that effect.

Commencement Information

I19 S. 23 in force at 14.7.2014 for specified purposes by S.I. 2014/1751, art. 4(h)

I20 S. 23 in force at 5.12.2014 in so far as not already in force by S.I. 2014/3162, art. 3(c)

24 Reports on qualifying defence contracts

- (1) Single source contract regulations must require a primary contractor to provide reports relating to qualifying defence contracts to which the primary contractor is a party—
- (a) to the Secretary of State or an authorised person, and
 - (b) to the SSRO.
- (2) The regulations—
- (a) must specify the matters to be covered in reports;
 - (b) must make provision about when reports are to be provided (which may include provision for the Secretary of State or authorised person and the primary contractor to agree when particular reports are to be provided);
 - (c) may make provision about the form of reports (which may or may not be electronic);
 - (d) may require a primary contractor to have regard to guidance issued by the SSRO in preparing reports.
- (3) The regulations may provide for a requirement to provide a specified kind of report to apply, in the case of contracts of a specified kind, only at the request of the Secretary of State or an authorised person.
- “Specified” means specified in the regulations.
- (4) The provision under this section that may, by virtue of section 42(2), be made by the regulations includes different provision—
- (a) in relation to contracts of different values;
 - (b) in relation to different kinds of contract;

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(c) about the matters to be covered in reports provided at different times.

(5) Provision under this section does not apply in cases specified in the regulations.

Commencement Information

I21 S. 24 in force at 14.7.2014 for specified purposes by S.I. 2014/1751, art. 4(i)

I22 S. 24 in force at 5.12.2014 in so far as not already in force by S.I. 2014/3162, art. 3(c)

25 Reports on overheads and forward planning etc

(1) Single source contract regulations must require a designated person, for a financial year in relation to which the ongoing contract condition is met, to provide the reports mentioned in subsection (2)—

- (a) to the Secretary of State or an authorised person, and
- (b) to the SSRO.

(2) The reports referred to in subsection (1) are—

- (a) reports relating to the overhead costs and forward planning of—
 - (i) a person (“P”) who is a party to one or more qualifying defence contracts, and
 - (ii) any person with whom P is associated, where that person provides anything for the purposes of any qualifying defence contract to which P is a party, and
- (b) other reports of a specified description.

(3) In this section, “designated person” means—

- ^{F46}(a) where P is associated with one or more other persons—
 - (i) the ultimate parent undertaking in relation to P and those other persons, or
 - (ii) where permitted under the regulations in relation to a report mentioned in subsection (2), another person associated with P which that undertaking and the Secretary of State have agreed is to be a designated person in relation to that report, and]
- (b) otherwise, P.

(4) A requirement imposed by virtue of subsection (1) does not apply unless—

- (a) in a case where P is associated with other persons, P or any of those other persons is a party to at least one qualifying defence contract the value of which is of or above the amount specified in the regulations, or
- (b) in a case where P is not associated with other persons, P is a party to at least one qualifying defence contract the value of which is of or above that amount.

(5) The “ongoing contract condition” is met in relation to a financial year if, at any time in that year, obligations relating to the supply of goods, works or services under one or more of the qualifying defence contracts referred to in subsection (4)(a) or (b) (as the case may be) are outstanding.

(6) The regulations—

- (a) must specify the matters to be covered in reports;

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- (b) must make provision about when reports are to be provided (which may include provision for the Secretary of State or authorised person and the designated person to agree when particular reports are to be provided);
 - (c) may make provision about the form of reports (which may or may not be electronic);
 - (d) may require designated persons to have regard to guidance issued by the SSRO in preparing the reports.
- (7) The requirement to provide a report does not apply in cases specified in the regulations.
- (8) The Secretary of State may direct that a particular contract is not to be taken into account in determining whether the ongoing contract condition is met in relation to a financial year.
- (9) An undertaking is the “ultimate parent undertaking” for the purposes of subsection (3) in relation to two or more persons who are associated with each other, or in relation to itself and one or more persons who are associated with it, if the undertaking—
- (a) is a parent undertaking of those other persons, and
 - (b) is not a subsidiary undertaking in relation to another undertaking.

“Parent undertaking” and “subsidiary undertaking” have the meanings given by section 1162 of the Companies Act 2006.

Textual Amendments

F46 S. 25(3)(a) substituted (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), s. 127(2), [Sch. 10 para. 13\(2\)](#); [S.I. 2024/61](#), [reg. 2\(1\)\(b\)\(vi\)](#) (with [reg. 3](#))

Commencement Information

I23 S. 25 in force at 14.7.2014 for specified purposes by [S.I. 2014/1751](#), [art. 4\(j\)](#)

I24 S. 25 in force at 5.12.2014 in so far as not already in force by [S.I. 2014/3162](#), [art. 3\(c\)](#)

26 Duty to report relevant events, circumstances and information

- (1) A primary contractor must notify the Secretary of State on becoming aware of—
- (a) the occurrence, or likely occurrence, of an event that is likely to have a material effect in relation to a qualifying defence contract to which the primary contractor is a party,
 - (b) circumstances that are likely to have a material effect in relation to such a contract, or
 - (c) information that is likely to be materially relevant to such a contract.
- (2) For the purposes of this section—
- (a) an event has a material effect in relation to a contract if it has a material effect in relation to any of the matters mentioned in subsection (3),
 - (b) circumstances have a material effect in relation to a contract if they have a material effect in relation to any of those matters, and
 - (c) information is materially relevant to a contract if it is materially relevant to any of those matters.
- (3) The matters referred to in subsection (2) are—
- (a) the costs of the primary contractor under the contract,

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- (b) the total price payable to the primary contractor under the contract, and
- (c) the primary contractor's ability to perform a material obligation of the contract.

Commencement Information

I25 S. 26 in force at 5.12.2014 by S.I. 2014/3162, art. 3(c)

27 Records and reports: restrictions

- (1) Single source contract regulations may disapply a requirement imposed by virtue of section 23(5), 24, 25 or 26 to the extent that compliance with the requirement would require a person (“P”) to contravene a relevant restriction.
- (2) A “relevant restriction” is—
 - (a) a prohibition or restriction imposed by an enactment, or
 - (b) an obligation of confidentiality owed by P to another person, unless that other person—
 - (i) is associated with P, or
 - (ii) gives consent to P's complying with the requirement in question.
- (3) The regulations may provide, in relation to a case where the Secretary of State or an authorised person reasonably suspects that an obligation of confidentiality has been entered into otherwise than for genuine commercial reasons—
 - (a) for the SSRO to investigate the matter on a reference by the Secretary of State or authorised person, and
 - (b) for a requirement mentioned in subsection (1) to continue to apply (despite provision under that subsection) where the SSRO finds that the obligation was entered into otherwise than for genuine commercial reasons.
- (4) An obligation of confidentiality entered into wholly or partly for the purpose of avoiding any requirement imposed by virtue of section 23(5), 24, 25 or 26 is to be treated for the purposes of provision under subsection (3) as entered into otherwise than for genuine commercial reasons.

Commencement Information

I26 S. 27 in force at 14.7.2014 for specified purposes by S.I. 2014/1751, art. 4(k)

I27 S. 27 in force at 5.12.2014 in so far as not already in force by S.I. 2014/3162, art. 3(c)

Sub-contracts

28 Qualifying sub-contracts

- (1) Single source contract regulations may make provision in relation to qualifying sub-contracts.
- (2) For the purposes of this Part—
 - (a) “qualifying sub-contract” means a contract to which subsection (3) or (4) applies;

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- (b) references to a “sub-contractor” are to a person who provides anything under such a contract.
- (3) This subsection applies to a contract between a primary contractor and another person if—
 - (a) the contract involves the provision by the other person of anything for the purposes of a qualifying defence contract to which the primary contractor is a party,
 - (b) the award of the contract is not the result of a competitive process,
 - (c) the value of the contract is of or above the amount specified in the regulations, and
 - (d) the contract meets such other requirements as may be specified in the regulations.
- (4) This subsection applies to a contract (“contract B”) if—
 - (a) contract B involves the provision of anything for the purposes of another contract (“contract A”) where contract A is—
 - (i) a contract to which subsection (3) applies, or
 - (ii) another contract to which this subsection applies,
 - (b) the award of contract B is not the result of a competitive process,
 - (c) the value of contract B is of or above the amount specified in the regulations, and
 - (d) contract B meets such other requirements as may be specified in the regulations.
- (5) The regulations must make provision for determining for the purposes of this section whether the award of a contract is the result of a competitive process.
- (6) The Secretary of State may direct that a particular contract is not a contract to which subsection (3) or (4) applies even though the requirements of that subsection are met in relation to it.

Commencement Information

I28 S. 28 in force at 14.7.2014 for specified purposes by S.I. 2014/1751, art. 4(l)

I29 S. 28 in force at 5.12.2014 in so far as not already in force by S.I. 2014/3162, art. 3(c)

29 Determining whether a contract is a qualifying sub-contract

- (1) Single source contract regulations may provide that where—
 - (a) a primary contractor proposes to enter into a contract with another person (the “prospective sub-contractor”), and
 - (b) the proposed contract involves the provision by the prospective sub-contractor of anything for the purposes of a qualifying defence contract to which the primary contractor is a party,the primary contractor must assess whether the proposed contract would be a qualifying sub-contract if it were entered into.
- (2) The regulations may require the primary contractor—
 - (a) to keep a record of an assessment made by virtue of subsection (1), for the purpose of its inclusion in the records which the primary contractor would be

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required to keep in relation to the proposed contract, by virtue of section 23(3)(d) (records relating to whether a contract is a qualifying sub-contract), if the contract were entered into;

(b) where the assessment is that the proposed contract would be a qualifying sub-contract if it were entered into, to give notice in writing of that fact to the Secretary of State, an authorised person and the prospective sub-contractor;

[^{F47}(c) where the assessment is that the proposed contract would not be a qualifying sub-contract if it were entered into, to give notice in writing of that fact, and of reasons for the assessment, to the Secretary of State, an authorised person and the prospective sub-contractor.]

(3) Single source contract regulations may provide that where—

(a) a person (“the prospective primary contractor”) proposes to enter into a qualifying defence contract with the Secretary of State (“the proposed qualifying defence contract”),

(b) the prospective primary contractor also proposes to enter into a contract (“the proposed sub-contract”) with another person (“the prospective sub-contractor”), and

(c) the proposed sub-contract involves the provision by the prospective sub-contractor of anything for the purposes of the proposed qualifying defence contract,

the prospective primary contractor must assess whether the proposed sub-contract would be a qualifying sub-contract if it and the proposed qualifying defence contract were entered into.

(4) The regulations may require the prospective primary contractor—

(a) to keep a record of an assessment made by virtue of subsection (3), for the purpose of its inclusion in the records which the prospective primary contractor would be required to keep, by virtue of section 23(3)(d), if the proposed contracts were entered into;

(b) where the assessment is that the proposed sub-contract would be a qualifying sub-contract if it and the proposed qualifying defence contract were entered into, to give notice in writing of that fact to the Secretary of State, an authorised person and the prospective sub-contractor;

[^{F48}(c) where the assessment is that the proposed sub-contract would not be a qualifying sub-contract if it were entered into, to give notice in writing of that fact, and of reasons for the assessment, to the Secretary of State, an authorised person and the prospective sub-contractor.]

(5) Single source contract regulations may contain provision—

(a) in relation to a case where an assessment is made by virtue of subsection (1), entitling the prospective sub-contractor to appeal to the SSRO against an assessment that a proposed contract would [^{F49}or would not] be a qualifying sub-contract if it were entered into;

(b) in relation to a case where an assessment is made by virtue of subsection (3), entitling the prospective sub-contractor to appeal to the SSRO against an assessment that the proposed sub-contract would [^{F50}or would not] be a qualifying sub-contract if it and the proposed qualifying defence contract were entered into.

(6) The regulations must contain provision about the procedure to be followed by the SSRO in determining an appeal by virtue of subsection (5).

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Textual Amendments

- F47** S. 29(2)(c) inserted (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), s. 127(2), [Sch. 10 para. 15\(2\)](#); S.I. 2024/61, reg. 2(1)(b)(vii) (with [reg. 3](#))
- F48** S. 29(4)(c) inserted (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), s. 127(2), [Sch. 10 para. 15\(3\)](#); S.I. 2024/61, reg. 2(1)(b)(vii) (with [reg. 3](#))
- F49** Words in s. 29(5)(a) inserted (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), s. 127(2), [Sch. 10 para. 15\(4\)](#); S.I. 2024/61, reg. 2(1)(b)(vii) (with [reg. 3](#))
- F50** Words in s. 29(5)(b) inserted (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), s. 127(2), [Sch. 10 para. 15\(4\)](#); S.I. 2024/61, reg. 2(1)(b)(vii) (with [reg. 3](#))

Commencement Information

- I30** S. 29 in force at 14.7.2014 for specified purposes by [S.I. 2014/1751](#), [art. 4\(m\)](#)
- I31** S. 29 in force at 5.12.2014 in so far as not already in force by [S.I. 2014/3162](#), [art. 3\(c\)](#)

30 Application of Part to qualifying sub-contracts

- (1) This Part and single source contract regulations apply to qualifying sub-contracts (and to sub-contractors) as they apply to qualifying defence contracts (and to primary contractors).
- (2) In their application by virtue of subsection (1), this Part and single source contract regulations are subject to—
 - (a) such modifications as may be set out in those regulations, and
 - (b) subsection (5).
- (3) The regulations—
 - (a) may provide for the application of this Part and the regulations, by virtue of subsection (1), to end at a time specified by or determined in accordance with the regulations;
 - (b) may, in making such provision, provide for determining when this Part and the regulations cease to apply to a qualifying sub-contract which is—
 - (i) partly for the purposes of a qualifying defence contract or another qualifying sub-contract, and
 - (ii) partly for other purposes.
- (4) The provision that may be made under subsection (3)(b) includes provision—
 - (a) for the [^{F51}primary contractor or] sub-contractor to give notice to the SSRO that, in [^{F52}their opinion], this Part and the regulations should cease to apply to the qualifying sub-contract, and
 - (b) for the SSRO to be able to overrule such a notice (and accordingly for this Part and the regulations to continue to apply).
- (5) The regulations may contain provision excluding the application of this Part and the regulations, by virtue of subsection (1), to a qualifying sub-contract in respect of which no notice is given under section 29(2)(b) or (4)(b).

Textual Amendments

- F51** Words in s. 30(4)(a) inserted (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), s. 127(2), [Sch. 10 para. 16\(a\)](#); S.I. 2024/61, reg. 2(1)(b)(vii) (with [reg. 3](#))

Changes to legislation: Defence Reform Act 2014, Part 2 is up to date with all changes known to be in force on or before 01 March 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details) View outstanding changes

F52 Words in s. 30(4)(a) substituted (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), s. 127(2), [Sch. 10 para. 16\(b\)](#); S.I. 2024/61, reg. 2(1)(b)(vii) (with [reg. 3](#))

Commencement Information

I32 S. 30 in force at 14.7.2014 for specified purposes by [S.I. 2014/1751](#), [art. 4\(n\)](#)

I33 S. 30 in force at 5.12.2014 in so far as not already in force by [S.I. 2014/3162](#), [art. 3\(c\)](#)

Compliance

31 Compliance notice

- (1) The Secretary of State may give a person a compliance notice if the Secretary of State thinks—
 - (a) that the person has contravened this section, and
 - (b) that there are steps that can be taken by the person to remedy the contravention.
- (2) A compliance notice is a notice which—
 - (a) specifies those steps, and
 - (b) directs the person to take them.
- (3) A person (“P”) contravenes this section if—
 - (a) P fails to comply with one or more specified requirements imposed by virtue of—
 - (i) section 23 (duty to keep accounting and other records), or
 - (ii) section 24 or 25 (reports),
 - (b) P provides a specified report under section 24 that is misleading in a material respect and P—
 - (i) knows that the report is misleading, or
 - (ii) is reckless as to whether the report is misleading,
 - (c) P fails to comply with the duty under section 26 (duty to notify Secretary of State of occurrence etc of a relevant event),
 - (d) in circumstances where P is required to make an assessment under section 29(1) or (3) in respect of a proposed contract, P fails to make such an assessment,
 - (e) P makes a negative assessment under section 29(1) or (3) in respect of a proposed contract and the Secretary of State believes that that assessment is incorrect^{F53}...
 - (f) in circumstances where P is required to give the notice mentioned in section 29(2)(b) or (4)(b) in respect of a proposed contract, P fails to give such a notice^{F54}, or
 - (g) in circumstances where P is required to give the notice mentioned in section 29(2)(c) or (4)(c) in respect of a proposed contract, P fails to give such a notice.]
- (4) In subsection (3)—
 - (a) “specified” means specified in single source contract regulations;
 - (b) “negative assessment” means an assessment that the proposed contract would not be a qualifying sub-contract if it (and, in a case within section 29(3), the proposed qualifying defence contract) were entered into.

Changes to legislation: Defence Reform Act 2014, Part 2 is up to date with all changes known to be in force on or before 01 March 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details) View outstanding changes

- (5) A compliance notice must be given before the end of the period specified in single source contract regulations.
- (6) A compliance notice must—
 - (a) give details of the contravention,
 - (b) specify the period within which the steps specified in the notice must be taken, and
 - (c) state that, if P fails to take those steps, the Secretary of State may give P a penalty notice under section 32.

Textual Amendments

F53 Word in [s. 31\(3\)\(e\)](#) omitted (19.1.2024) by virtue of [Procurement Act 2023 \(c. 54\)](#), s. 127(2), [Sch. 10 para. 17\(a\)](#); [S.I. 2024/61](#), reg. 2(1)(b)(vii) (with reg. 3)

F54 [S. 31\(3\)\(g\)](#) and word inserted (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), s. 127(2), [Sch. 10 para. 17\(b\)](#); [S.I. 2024/61](#), reg. 2(1)(b)(vii) (with reg. 3)

Commencement Information

I34 [S. 31](#) in force at 14.7.2014 for specified purposes by [S.I. 2014/1751](#), [art. 4\(o\)](#)

I35 [S. 31](#) in force at 5.12.2014 in so far as not already in force by [S.I. 2014/3162](#), [art. 3\(c\)](#)

32 Penalty notice

- (1) The Secretary of State may give a person a penalty notice in the cases set out in subsections (2) and (3).
- (2) The first case is where the Secretary of State thinks that the person—
 - (a) has failed to take the steps specified in a compliance notice, and
 - (b) does not have a reasonable excuse for the failure.
- (3) The second case is where—
 - (a) the person has contravened section 31, and
 - (b) the Secretary of State does not think that there are steps that can be taken by the person to remedy the contravention.
- (4) A penalty notice is a notice requiring the person to pay a penalty to the Secretary of State before the end of the period of six months beginning with the date on which the notice is given.
- (5) A penalty notice must be given before the end of the period specified in single source contract regulations.
- (6) A penalty notice must—
 - (a) specify the contravention to which the notice relates,
 - (b) state the amount of the penalty (as to which, see section 33),
 - (c) specify the date by which the penalty must be paid (subject to subsection (8)),
 - (d) specify how the penalty may be paid,
 - (e) give details of the interest that would be payable by virtue of section 34(2) in relation to any part of the penalty that is unpaid after the date specified under paragraph (c), and

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- (f) explain how the person may apply to the SSRO, before the end of the period mentioned in subsection (4), for a determination of any of the matters mentioned in subsection (7).
- (7) Those matters are—
 - (a) whether the person has contravened section 31 or failed to take the steps specified in a compliance notice (or both);
 - (b) whether the person had a reasonable excuse for contravening section 31 or failing to take the steps specified in a compliance notice (or both);
 - (c) the amount of the penalty.
- (8) Where a person applies to the SSRO for a determination of a matter mentioned in subsection (7)—
 - (a) the SSRO must determine the matter and the penalty is not payable until it has done so,
 - (b) in determining the matter, the SSRO may—
 - (i) substitute its own decision for any decision of the Secretary of State (and may vary the amount of the penalty or cancel the penalty notice), and
 - (ii) state the date by which the penalty must be paid (except where the SSRO cancels the penalty notice), and
 - (c) the SSRO's determination is final.
- (9) A penalty notice may specify circumstances in which a penalty of a reduced amount specified in the notice is payable.
- (10) Single source contract regulations may replace the time limit for the time being specified in subsection (4).

Commencement Information

I36 S. 32 in force at 14.7.2014 for specified purposes by S.I. 2014/1751, art. 4(p)

I37 S. 32 in force at 5.12.2014 in so far as not already in force by S.I. 2014/3162, art. 3(c)

33 Amount of penalty

- (1) Where the Secretary of State gives a person a penalty notice in relation to a contravention of section 31, the amount of the penalty must not exceed the amount for the time being specified in relation to the contravention in single source contract regulations.
- (2) Subsection (1) does not apply where the Secretary of State gives a person a penalty notice in relation to a contravention within section 31(3)(b) or (c); and in such a case the amount of the penalty is to be calculated as if the contravention were a breach of contract (and is to be calculated in accordance with the general law of contract having effect in England and Wales).
- (3) In determining the amount of a penalty under section 32, the Secretary of State must have regard to guidance issued by the SSRO.
- (4) The SSRO must publish guidance issued under subsection (3) in such manner as it thinks appropriate.

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- (5) Subsections (1) to (3) apply in relation to any determination by the SSRO by virtue of section 32(8)(b) as to the amount of a penalty as they apply to the Secretary of State.
- (6) The provision that may be made under subsection (1) by virtue of section 42(2) includes power to specify penalties of different amounts according to the value of the contract to which the contravention relates.

Commencement Information

- I38** [S. 33](#) in force at 14.7.2014 for specified purposes by [S.I. 2014/1751](#), [art. 4\(q\)](#)
I39 [S. 33](#) in force at 5.12.2014 in so far as not already in force by [S.I. 2014/3162](#), [art. 3\(c\)](#)

34 Enforcement

- (1) This section applies where the Secretary of State has given a penalty notice to a person.
- (2) If all or part of the penalty is not paid before the payment date, the unpaid balance carries interest from that date at the rate for the time being specified in section 17 of the Judgments Act 1838.
- (3) The “payment date” is the date by which the penalty must be paid, as stated in the penalty notice.
- (4) But where the SSRO, in determining a matter mentioned in section 32(7), states a new date by which the penalty must be paid, the “payment date” is that new date.
- (5) The Secretary of State may recover from the person as a debt due to the Secretary of State the unpaid balance and any unpaid interest.

Commencement Information

- I40** [S. 34](#) in force at 5.12.2014 by [S.I. 2014/3162](#), [art. 3\(c\)](#)

SSRO: other functions

35 Opinions and determinations

- (1) The SSRO must, on a reference made to it by a person mentioned in subsection (2)—
 - (a) give an opinion on a matter relating to a qualifying defence contract or a proposed qualifying defence contract, where the matter is specified for the purposes of this paragraph, or
 - (b) make a determination in relation to such a matter, where the matter is specified for the purposes of this paragraph.

“Specified” means specified in single source contract regulations.

- (2) The persons referred to in subsection (1) are—
 - (a) the Secretary of State;
 - (b) an authorised person;
 - (c) the primary contractor (in the case of a qualifying defence contract);

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- (d) the person who proposes to enter into the contract with the Secretary of State (in the case of a proposed contract).
- (3) The SSRO may give an opinion on any matter relating to—
 - (a) a qualifying defence contract, on a reference made to it by the Secretary of State and the primary contractor;
 - (b) a proposed qualifying defence contract, on a reference made to it by the Secretary of State and the other proposed party to the contract.
- (4) When giving an opinion or making a determination in relation to any matter under or by virtue of this Part, the SSRO may require the payment of such costs as the SSRO considers appropriate—
 - (a) in the case of a qualifying defence contract, by one party to the contract to the other, or
 - (b) in the case of a proposed contract, by one proposed party to the contract to the other.
- (5) The costs that the Secretary of State may be required to pay under subsection (4) include, in particular, costs incurred by a primary contractor in taking a step specified in a compliance notice under section 31, where the SSRO determines that it was unreasonable for the primary contractor to be required to take that step.
- (6) Subsection (7) applies where, in the case of a contract entered into before the relevant date, the contract requires the Review Board for Government Contracts to make a determination or give an opinion in relation to any matter referred to it.
- (7) If a party to the contract refers the matter after the relevant date, the determination or opinion is to be made or given instead by the SSRO.

Commencement Information

I41 [S. 35](#) in force at 14.7.2014 for specified purposes by [S.I. 2014/1751](#), [art. 4\(r\)](#)

I42 [S. 35](#) in force at 5.12.2014 in so far as not already in force by [S.I. 2014/3162](#), [art. 3\(c\)](#)

36 Recording, review and analysis functions

- (1) The SSRO must keep an up-to-date record of—
 - (a) qualifying defence contracts and qualifying sub-contracts, and
 - (b) the duration of those contracts.
- (2) The SSRO must keep under review the extent to which persons subject to requirements under section 24 or 25 (reports) are complying with them.
- (3) The SSRO must, where requested to do so by the Secretary of State—
 - (a) analyse reports provided to it under section 24 or 25, and
 - (b) provide the results of such analysis to the Secretary of State or an authorised person.
- (4) In analysing reports provided to it under section 24 or 25, the SSRO may have regard to such matters (other than matters contained in the reports) as it considers appropriate.

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Commencement Information

I43 [S. 36](#) in force at 5.12.2014 by [S.I. 2014/3162](#), [art. 3\(c\)](#)

37 Provision of other services to Secretary of State

- (1) The SSRO and the Secretary of State may make arrangements for the SSRO to provide assistance or other services to the Secretary of State or an authorised person.
- (2) Arrangements made under subsection (1)—
 - (a) may in particular include arrangements for the SSRO to provide information relating to the results of analysis carried out by the SSRO under section 36(3), and
 - (b) may provide for the making of payments by the Secretary of State to the SSRO.

Commencement Information

I44 [S. 37](#) in force at 14.7.2014 by [S.I. 2014/1751](#), [art. 3\(c\)](#)

Disclosure of information

38 Disclosure of information

Schedule 5 contains provision about disclosure of information obtained under this Part.

Commencement Information

I45 [S. 38](#) in force at 14.7.2014 for specified purposes by [S.I. 2014/1751](#), [art. 4\(s\)](#)

I46 [S. 38](#) in force at 5.12.2014 in so far as not already in force by [S.I. 2014/3162](#), [art. 3\(d\)](#)

Review

39 Review of Part and regulations under it

- (1) The SSRO must keep under review the provision made by—
 - (a) this Part, and
 - (b) single source contract regulations which are for the time being in force.
- (2) The SSRO may recommend to the Secretary of State such changes to the provision mentioned in subsection (1) as it considers appropriate.
- (3) Before the end of each review period, the Secretary of State must—
 - (a) carry out a review of the provision mentioned in subsection (1), and
 - (b) in doing so, have regard to any recommendations made under subsection (2) at least 6 months before the end of the review period.
- (4) In subsection (3), “review period” means—

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- (a) the period of 3 years beginning with the relevant date;
- (b) each subsequent 5-year period.

Commencement Information

I47 [S. 39](#) in force at 5.12.2014 by [S.I. 2014/3162](#), [art. 3\(d\)](#)

40 Power to repeal Part

- (1) The Secretary of State may by order repeal this Part (apart from this section).
- (2) An order under subsection (1) may transfer the SSRO's property, rights and liabilities.
- (3) An order under subsection (1) may make consequential, supplementary, incidental or transitional provision.
- (4) An order under subsection (1) is to be made by statutory instrument.
- (5) An order under subsection (1) may not be made unless a draft of the instrument containing it has been laid before, and approved by a resolution of, each House of Parliament.

Commencement Information

I48 [S. 40](#) in force at 14.7.2014 by [S.I. 2014/1751](#), [art. 3\(d\)](#)

General

41 Single source contract regulations: time limits and determinations

- (1) Single source contract regulations may make provision imposing limits in relation to the time within which an application, reference or appeal to the SSRO under this Part or the regulations may be made.
- (2) Single source contract regulations may specify matters to which the SSRO must have regard in making a determination under this Part or the regulations.

Commencement Information

I49 [S. 41](#) in force at 14.7.2014 by [S.I. 2014/1751](#), [art. 3\(e\)](#)

42 Single source contract regulations: general

- (1) Single source contract regulations may make consequential, supplementary incidental or transitional provision.
- (2) Single source contract regulations may make different provision for different purposes.
- (3) Single source contract regulations are to be made by statutory instrument.
- (4) A statutory instrument containing—

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- (a) the first single source contract regulations,
 - (b) provision made by virtue of section 14(2), (6) or (8) (contracts to which single source contract regulations apply), whether alone or with other provision,^{F55}...
 - [^{F56}(ba) provision made by virtue of section 15(2)(b) (pricing of contracts), whether alone or with other provision, or]
 - (c) provision made by virtue of section 33 (amount of penalty), whether alone or with other provision,
- may not be made unless a draft of the instrument has been laid before, and approved by a resolution of, each House of Parliament.
- (5) Any other statutory instrument containing single source contract regulations is subject to annulment in pursuance of a resolution of either House of Parliament.

Textual Amendments

- F55** Word in [s. 42\(4\)\(b\)](#) omitted (19.1.2024) by virtue of [Procurement Act 2023 \(c. 54\)](#), [s. 127\(2\)](#), [Sch. 10 para. 7\(2\)](#); [S.I. 2024/61](#), [reg. 2\(1\)\(b\)\(iii\)](#) (with [reg. 3](#))
- F56** [S. 42\(4\)\(ba\)](#) inserted (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), [s. 127\(2\)](#), [Sch. 10 para. 7\(3\)](#); [S.I. 2024/61](#), [reg. 2\(1\)\(b\)\(iii\)](#) (with [reg. 3](#))

Commencement Information

- I50** [S. 42](#) in force at 14.7.2014 by [S.I. 2014/1751](#), [art. 3\(f\)](#)

43 Interpretation etc

(1) In this Part—

- “authorised person” means a person authorised by the Secretary of State;
- [^{F57}“component” has the meaning given by section 15(6)];
- “financial year” means a year beginning with 1 April;
- “primary contractor” has the meaning given by section 14(9);
- “qualifying defence contract” has the meaning given by section 14(2);
- “qualifying sub-contract” has the meaning given by section 28(2);
- “relevant date” has the meaning given by section 14(9);
- “single source contract regulations” has the meaning given by section 14(9);
- “SSRO” means the Single Source Regulations Office;
- “sub-contractor” has the meaning given by section 28(2).

(2) In this Part—

- (a) references to the value of a contract—
 - (i) are to its value as determined in accordance with single source contract regulations, and
 - (ii) include references to its value as estimated in accordance with such regulations;
- (b) references to costs include references to—
 - (i) costs as estimated in accordance with single source contract regulations;
 - (ii) a combination of actual costs and costs as so estimated.

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- (3) For the purposes of this Part, one person is “associated” with another if they are group undertakings in relation to each other.
- (4) In subsection (3), “group undertaking” has the meaning given by section 1161 of the Companies Act 2006.
- (5) So far as there is any inconsistency between a provision of this Part or regulations made under it (provision A) and a provision of a qualifying defence contract (provision B), provision A prevails.

Textual Amendments

F57 Words in [s. 43\(1\)](#) inserted (19.1.2024) by [Procurement Act 2023 \(c. 54\)](#), s. 127(2), [Sch. 10 para. 8](#); [S.I. 2024/61](#), [reg. 2\(1\)\(b\)\(iii\)](#) (with [reg. 3](#))

Commencement Information

I51 [S. 43](#) in force at 14.7.2014 for specified purposes by [S.I. 2014/1751](#), [art. 4\(t\)](#)

I52 [S. 43](#) in force at 5.12.2014 in so far as not already in force by [S.I. 2014/3162](#), [art. 3\(e\)](#)

Changes to legislation:

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Changes and effects yet to be applied to the whole Act associated Parts and Chapters:

Whole provisions yet to be inserted into this Act (including any effects on those provisions):

- s. 25(8A) inserted by [2023 c. 54 Sch. 10 para. 13\(3\)](#)
- s. 35A inserted by [2023 c. 54 Sch. 10 para. 19](#)