



Defence Reform Act 2014

2014 CHAPTER 20

PART 2

SINGLE SOURCE CONTRACTS

Pricing of contracts

17 Contract profit rate

- (1) Single source contract regulations must make provision for determining the contract profit rate for a qualifying defence contract [^{F1}, 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)—
 - (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 [^{F2}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.

^{F3}
...
^{F3}
...

Changes to legislation: Defence Reform Act 2014, Section 17 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

Step [F43] Where the Secretary of State determines that the amount resulting from step [F52] should be increased so as to give the primary contractor a particular financial incentive as regards the performance of provisions of the contract [F6 or component] specified by the Secretary of State, increase that amount by an amount specified by the Secretary of State. [F7 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 [F44] Take the amount resulting from step [F83] 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 [F9 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 [F9 or component].
- (3) The contract profit rate is—
- (a) the amount found at the end of step [F104] in subsection (2), or
 - (b) in a case where step [F104] 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 [F114] may be zero.

Textual Amendments

- F1** 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)
- F2** 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)
- F3** 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)
- F4** 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)
- F5** 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)
- F6** 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)
- F7** 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)
- F8** 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)
- F9** 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)
- F10** 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)

Changes to legislation: Defence Reform Act 2014, Section 17 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](#)

F11 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

I1 S. 17 in force at 14.7.2014 for specified purposes by S.I. 2014/1751, **art. 4(d)**

I2 S. 17 in force at 5.12.2014 in so far as not already in force by S.I. 2014/3162, **art. 3(a)**

Changes to legislation:

Defence Reform Act 2014, Section 17 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.

[View outstanding changes](#)

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](#)