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STATUTORY INSTRUMENTS

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**2014 No. 3337**

**The Single Source Contract Regulations 2014**

**PART 6**

**Reports on overheads and forward planning etc**

**Application of this Part**

**31.**—(1) This Part applies where—

- (a) a person (“P”) is party to a qualifying defence contract; and
- (b) the ongoing contract condition is met in relation to a financial year (“the relevant financial year”).

(2) Paragraph (1) is subject to section 25(4) (minimum value of qualifying defence contract for reporting requirement to be imposed), and the amount specified for the purposes of that subsection is—

- (a) for the financial years ending on 31 March 2016 and 31 March 2017, £20,000,000;
- (b) for subsequent financial years, £50,000,000.

(3) The reference in paragraph (1) to the ongoing contract condition being met in relation to a financial year has the meaning given by section 25(5).

(4) The reference in paragraph (1) to a financial year does not include the financial year ending on 31 March 2015.

**Interpretation**

**32.**—(1) In this Part, “QBU” (qualifying business unit) means—

- (a) a unit to which paragraph (3) applies in respect of a relevant period;
- (b) an undertaking to which paragraph (4) applies in respect of a relevant period; or
- (c) a group of undertakings to which paragraph (5) applies in respect of a relevant period.

(2) A period is relevant if it ends on a day falling within the relevant financial year.

(3) This paragraph applies to a unit in respect of any period if—

- (a) the unit carries on any activities for the purposes of an undertaking which is, or is associated with, the designated person;
- (b) separate financial accounting statements are produced in respect of it for that period;
- (c) in that period it provides anything for the purposes of any qualifying defence contract or qualifying sub-contract to which the designated person, or any person associated with the designated person, is party; and
- (d) the total value of what it provides for those purposes in that period is at least £10,000,000.

(4) This paragraph applies to an undertaking in respect of any period if—

- (a) no unit is a QBU in respect of that period by virtue of carrying on activities for the purposes of that undertaking;
  - (b) the undertaking is, or is associated with, the designated person;
  - (c) financial accounting statements are produced in respect of it for that period;
  - (d) in that period it provides anything for the purposes of any qualifying defence contract or qualifying sub-contract to which the designated person, or any person associated with the designated person, is party; and
  - (e) the total value of what it provides for those purposes in that period is at least £10,000,000.
- (5) This paragraph applies to a group of undertakings in respect of any period if—
- (a) no unit is a QBU in respect of that period by virtue of carrying on activities for the purposes of any of those undertakings;
  - (b) none of those undertakings is a QBU in respect of that period;
  - (c) each of those undertakings either is, or is associated with, the designated person;
  - (d) a single set of financial accounting statements is produced in respect of the group for that period, separate from those of the parent undertakings of any of those undertakings;
  - (e) in that period the group provides anything for the purposes of any qualifying defence contract or qualifying sub-contract to which the designated person, or any person associated with the designated person, is party; and
  - (f) the total value of what the group provides for those purposes in that period is at least £10,000,000.
- (6) In this Part—
- (a) “defence contract” means—
    - (i) any contract to which the Secretary of State for Defence is party; or
    - (ii) any contract entered into for the purpose of enabling a contract within paragraph (i), or this paragraph, to be fulfilled;
  - (b) “the designated person” means—
    - (i) where the person mentioned in regulation 31(1) (“P”) is associated with one or more other persons, the ultimate parent undertaking in relation to P and those other persons,
    - (ii) otherwise, P,
 and section 25(9) (definition of “ultimate parent undertaking”) applies for the purposes of this sub-paragraph as it applies for the purposes of section 25(3);
  - (c) “direct costs” means costs which have not been calculated using a cost recovery rate;
  - (d) “pricing QBU” means a QBU in relation to which a cost recovery rate has been used for determining the price payable under any contract mentioned in paragraph (3)(c), (4)(d) or (5)(e), as the case may be;
  - (e) “the relevant accounting period”, in relation to a QBU, means the period in respect of which paragraph (3), (4) or (5) applies to the QBU.

### General requirements

- 33.**—(1) Every report provided under this Part must contain the following information—
- (a) the name, position and contact details of—
    - (i) the individual submitting the report; and

- (ii) an individual to be notified if any compliance notice or penalty notice is given in relation to the report;
  - (b) the date the report is due;
  - (c) the date the report is submitted; and
  - (d) the relevant financial year to which the report relates.
- (2) A report provided under any of regulations 34 to 39 must contain the following information—
- (a) the name of the QBU to which it relates;
  - (b) the relevant accounting period to which the report relates; and
  - (c) an address to which correspondence relating to the report may be sent.
- (3) Where a report requires an analysis of staffing costs, that must include—
- (a) the total number of employees;
  - (b) the proportion of the cost of employing those employees recovered through cost recovery rates, and the proportion recovered through direct costs;
  - (c) the total number of contractors; and
  - (d) the proportion of the cost of engaging those contractors recovered through cost recovery rates, and the proportion recovered through direct costs.
- (4) In this regulation, “contractor” means any individual who provides services under contract for the purposes of activities undertaken by a QBU, but who is not employed by the designated person or any person associated with the designated person.
- (5) All reports provided under this Part must be provided to the Secretary of State and to the SSRO.
- (6) All reports under this Part, except a strategic industry capacity report (regulation 40), must be provided in electronic form.
- (7) A strategic industry capacity report must be provided either in electronic form or in hard copy.
- (8) In preparing reports, the designated person must have regard to any relevant guidance issued by the SSRO.

### **Actual rates claim report**

- 34.**—(1) The designated person must provide, for each relevant financial year, an actual rates claim report for each pricing QBU in that relevant financial year.
- (2) The actual rates claim report must be provided either—
- (a) three months after either—
    - (i) the end of the relevant accounting period, or
    - (ii) the date on which the ongoing contract condition was first met in relation to the relevant financial year,whichever is the later; or
  - (b) if the designated person and the Secretary of State agree a date which is within three months after the end of the period described in paragraph (a), by that date.
- (3) The report must contain the following information—
- (a) a list of all cost recovery rates which have been calculated for that QBU and for which a claim relating to the relevant accounting period has been or will be made;
  - (b) a list of all the cost recovery bases that have been used to calculate the cost recovery rates described in sub-paragraph (a);

- (c) a description of any deviation from the relevant statutory guidance in calculating those cost recovery rates;
- (d) the QBU's financial accounting statements and supporting accounting schedules for the relevant accounting period;
- (e) a quantified analysis of the adjustments made between those financial accounting statements and costs claimed for recovery through cost recovery rates;
- (f) a quantified analysis of any adjustments for costs—
  - (i) incurred in the relevant accounting period that have been or will be included in a claim relating to a period other than the relevant accounting period;
  - (ii) incurred in a period other than the relevant accounting period that have been or will be included in a claim relating to the relevant accounting period;
- (g) a quantified analysis of QBU costs recovered as direct costs under any qualifying defence contract, qualifying sub-contract or other defence contract;
- (h) a quantified analysis of QBU costs allocated to each cost recovery base listed under sub-paragraph (b);
- (i) a calculation of the amount of each such cost recovery base; and
- (j) a calculation of each cost recovery rate, including, for each such rate—
  - (i) the total cost claimed and the cost recovery base which has been used to calculate it; and
  - (ii) the amount of each such cost recovery base.

### **QBU actual cost analysis report**

**35.**—(1) The designated person must provide, for each relevant financial year, a QBU actual cost analysis report for each QBU in that relevant financial year.

(2) In the case of a pricing QBU, the report must be provided with the actual rates claim report for that pricing QBU for that relevant financial year.

(3) In any other case, the report must be provided either—

(a) three months after either—

(i) the end of the relevant accounting period, or

(ii) the date on which the ongoing contract condition was first met in relation to the relevant financial year,

whichever is the later; or

(b) if the designated person and the Secretary of State agree a date which is within three months after the end of the period described in paragraph (a), by that date.

(4) The Secretary of State may by written notice require the designated person to provide a further QBU actual cost analysis report for any one or more QBU for the relevant financial year.

(5) The designated person must provide a further QBU actual cost analysis report within a month of receiving a notice under paragraph (4).

(6) The Secretary of State may only require one further QBU actual cost analysis report for any one QBU in a relevant financial year.

(7) The report must contain the following information (“costs analysis information”) for the relevant accounting period —

- (a) a quantified analysis of the total actual operating costs incurred by the QBU, showing the amount of each type of cost (including activity costs) and, for each type of cost, the amount attributable to each business function;
  - (b) an analysis of staffing costs relative to business function;
  - (c) a quantified analysis of the total actual revenue for the QBU, presented in the following categories—
    - (i) revenue from any qualifying defence contract or qualifying sub-contract;
    - (ii) revenue from any other defence contract;
    - (iii) any other revenue;
  - (d) actual values for all cost recovery bases that have been used to calculate the cost recovery rates which have been calculated for that QBU and for which a claim relating to the relevant accounting period has been or will be made; and
  - (e) actual values for the cost recovery rates.
- (8) If a QBU estimated cost analysis report (regulation 37) was required for the QBU in relation to the financial year immediately preceding the relevant financial year, the report must contain—
- (a) the costs analysis information as estimated in the previous report; and
  - (b) an explanation of any difference between the costs analysis information as estimated in the previous report and the costs analysis information in this report.

### **Estimated rates claim report**

**36.**—(1) The designated person must provide, for each relevant financial year, an estimated rates claim report for each pricing QBU that was a pricing QBU of the designated person in relation to the financial year immediately preceding the relevant financial year.

- (2) The estimated rates claim report must be provided either—
- (a) three months after either—
    - (i) the end of the relevant accounting period, or
    - (ii) the date on which the ongoing contract condition was first met in relation to the relevant financial year,whichever is the later; or
  - (b) if the designated person and the Secretary of State agree a date which is within three months after the end of the period described in paragraph (a), by that date.
- (3) The report must contain the following information for the accounting period immediately following the relevant accounting period—
- (a) a list of all cost recovery rates which will be calculated for that QBU and for which it is anticipated that a claim will be made during a future relevant accounting period;
  - (b) a list of all the cost recovery bases that have been used to calculate the cost recovery rates described in sub-paragraph (a);
  - (c) a description of any deviation from the relevant statutory guidance in calculating those cost recovery rates;
  - (d) the budget for the QBU, approved in accordance with the QBU's internal budgetary procedures, including a quantified analysis by the categories used in the QBU's financial statements and supporting accounting schedules;
  - (e) a quantified analysis of the adjustments made between the budget and costs claimed for recovery through cost recovery rates;

- (f) a quantified analysis of any adjustments for costs incurred in or forecast for one relevant accounting period but recovered in other relevant accounting periods;
- (g) a quantified analysis of QBU costs estimated to be recovered as direct costs under any qualifying defence contract, qualifying sub-contract, or other defence contract;
- (h) a quantified analysis of QBU estimated costs allocated to each cost recovery base listed under sub-paragraph (b);
- (i) a calculation of the estimated amount of each such cost recovery base; and
- (j) a calculation of each estimated cost recovery rate, including, for each such rate—
  - (i) the total estimated cost claimed and the cost recovery base which has been used to calculate it; and
  - (ii) the estimated amount of each such cost recovery base.

### **QBU estimated cost analysis report**

**37.**—(1) The designated person must provide, for each relevant financial year, a QBU estimated cost analysis report for each QBU that was a QBU of the designated person in the relation to the financial year immediately preceding the relevant financial year.

(2) In the case of a pricing QBU, the report must be provided with the estimated rates claim report for that pricing QBU for that relevant financial year.

(3) In any other case, the report must be provided either—

- (a) three months after either—
  - (i) the end of the relevant accounting period, or
  - (ii) the date on which the ongoing contract condition was first met in relation to the relevant financial year,
 whichever is the later; or
- (b) by agreement with the Secretary of State, a date within three months after the end of the period described in paragraph (a).

(4) The Secretary of State may by written notice require the designated person to provide a further QBU estimated cost analysis report for any one or more QBU for the relevant financial year.

(5) The designated person must provide a further QBU estimated cost analysis report within a month of receiving a notice under paragraph (4).

(6) The Secretary of State may only require one further QBU estimated cost analysis report for any one QBU in a relevant financial year.

(7) The report must contain the following information (“costs analysis information”) for the relevant accounting period—

- (a) a quantified analysis of the total estimated operating costs for the QBU, showing the amount of each type of cost (including activity costs) and, for each type of cost, the amount attributable to each business function;
- (b) an analysis of estimated staffing costs relative to business function;
- (c) a quantified analysis of the total estimated revenue for the QBU, presented in the following categories—
  - (i) revenue from any qualifying defence contract or qualifying sub-contract;
  - (ii) revenue from any other defence contract;
  - (iii) any other revenue;

- (d) estimated values for all cost recovery bases that have been used to calculate the cost recovery rates which will be calculated for that QBU and for which it is anticipated that a claim will be made during a future relevant accounting period; and
  - (e) estimated values for the cost recovery rates.
- (8) The report must contain—
- (a) an explanation of any differences between the actual costs analysis information in relation to the financial year immediately preceding the relevant financial year and the estimated costs analysis information for the relevant financial year; and
  - (b) a description of material future initiatives that may be included in any future actual rates claim report or estimated rates claim report, and for each initiative an explanation of the estimated impact on the costs analysis information over the next five periods in respect of which financial accounting statements are expected to be produced for the QBU.

### **Estimated rates agreement pricing statement**

**38.**—(1) The designated person must, for each relevant financial year, provide an estimated rates agreement pricing statement for each pricing QBU that was a pricing QBU of the designated person in relation to the financial year immediately preceding the relevant financial year.

(2) The designated person must provide the estimated rates agreement pricing statement for each pricing QBU with the estimated rates claim report for that pricing QBU for the same relevant financial year.

(3) The Secretary of State may by written notice require the designated person to provide a further estimated rates agreement pricing statement for any one or more pricing QBU for the relevant financial year.

(4) The designated person must provide an estimated rates agreement pricing statement within three months of receiving a notice under paragraph (3).

(5) The Secretary of State may only require one further estimated rates agreement pricing statement for any one pricing QBU in a relevant financial year.

- (6) The report must contain the following information—
- (a) a description of the facts and assumptions used in calculating each cost recovery base listed in the estimated rates claim report (regulation 36(3)(b));
  - (b) whether the amount of each cost recovery base (regulation 36(3)(j)(ii)) has been estimated in a manner consistent with equivalent estimates in previous years and, if not, a description of any changes;
  - (c) a description of the facts and assumptions used in calculating the matters described in regulation 36(3)(d) to (h);
  - (d) a description of indices and rates used in calculating the estimated costs included in the estimated rates claim report, including for each—
    - (i) its source (including that source's version or date); and
    - (ii) an explanation of why its use was considered to be appropriate; and
  - (e) a description of all material assumptions—
    - (i) regarding changes to costs relating to employment;
    - (ii) used to derive any estimated staff head count upon which estimated costs in the estimated rates claim report are based;
    - (iii) used in calculating any costs relating to decreasing over-capacity that have been included in the cost recovery rates (regulation 36(3)(a)); and

- (iv) regarding significant costs that have been included in the cost recovery rates and that are novel or unusual.

### **Rates comparison report**

**39.**—(1) The Secretary of State may, for any relevant financial year, by written notice require the designated person to provide a rates comparison report for any one or more pricing QBU for that relevant financial year.

(2) The designated person must provide a rates comparison report within two months after receiving a notice under paragraph (1).

(3) The Secretary of State may only require one rates comparison report for any one QBU in a relevant financial year.

(4) The report must contain the following information—

- (a) a list of all qualifying defence contracts and qualifying sub-contracts—
  - (i) that have a contract completion date on or after the first day of the relevant accounting period;
  - (ii) to which the designated person or any person associated with it is party; and
  - (iii) the price of which have been or will be calculated using a cost recovery rate which relates to the costs of the QBU;
- (b) for each of those contracts—
  - (i) any unique identifying number allocated to the contract by the contractor;
  - (ii) any unique identifying number allocated to the contract by the Secretary of State;
  - (iii) any title given in the contract;
  - (iv) the date on which the contract was entered into;
  - (v) the regulated pricing method or methods used in determining the price payable under the contract; and
  - (vi) whether the contract is a qualifying defence contract or a qualifying sub-contract;
- (c) a list of all the cost recovery rates used in any of those contracts, and the actual value of each of those rates as provided in the QBU actual cost analysis report; and
- (d) for each cost recovery rate used in determining the contract price under regulation 10 (or, if the price has been re-determined under regulation 14, used in the most recent determination)—
  - (i) the actual amount of the cost recovery base attributable to the contract;
  - (ii) the amount of the cost recovery base used in determining the contract price; and
  - (iii) the cost recovery rate used in determining the contract price.

### **Strategic industry capacity report: general requirements**

**40.**—(1) The designated person must provide, for each relevant financial year, a strategic industry capacity report either—

- (a) 12 months after either—
  - (i) the end of the time period in relation to which financial accounting statements are prepared for the designated person and which ends on any day falling within the relevant financial year (“designated person’s accounting period”), or



- (ii) the date on which the ongoing contract condition was first met in relation to the relevant financial year,
  - whichever is the later; or
  - (b) if the designated person and the Secretary of State agree a date which is within six months after the end of the period described in paragraph (a), by that date.
- (2) The report must contain the information specified in regulations 41 to 44 and (unless otherwise specified) that information must relate to the designated person's accounting period.
- (3) For the purposes of regulations 41 and 42(1), a person is a qualifying supplier if—
- (a) it is associated with the designated person;
  - (b) during the designated person's accounting period to which the report relates, the person provides anything for the purposes of a qualifying defence contract or qualifying sub-contract—
    - (i) to which the designated person, or any person associated with it, is party; and
    - (ii) which has its contract completion date on or after the first day of the designated person's accounting period.

#### **Strategic industry capacity report: corporate structure**

- 41.** The strategic industry capacity report must contain—
- (a) a list of any undertakings associated with the designated person;
  - (b) for each such undertaking—
    - (i) if it is a registered company, its registered name and company number, and the address of its registered office;
    - (ii) any trading name (if that is different to its registered name);
    - (iii) its accounting period; and
    - (iv) whether it is a qualifying supplier of the designated person;
  - (c) a list of all the QBUs of the designated person;
  - (d) in the case of a QBU which is a QBU by virtue of regulation 32(1)(a) or (c)—
    - (i) the undertaking, or a list of the undertakings, that are listed in that QBU; and
    - (ii) for each of those undertakings, the approximate proportion of its costs that are included in the QBU's financial accounting statements;
  - (e) for each QBU and qualifying supplier of the designated person, a description of its revenue, showing the proportion derived from—
    - (i) any qualifying defence contract or qualifying sub-contract;
    - (ii) any other defence contract;
    - (iii) all other sources; and
  - (f) a description of any anticipated change to the corporate structure of the designated person and any undertakings associated with it, including mergers or acquisitions, that may affect the performance of any qualifying defence contract, any qualifying sub-contract or any other defence contract.

#### **Strategic industry capacity report: activities, people and infrastructure**

- 42.**—(1) The strategic industry capacity report must contain—

- (a) a description of the activities undertaken by the designated person, and all QBUs and qualifying suppliers, which relate to any qualifying defence contract, any qualifying sub-contract or any other defence contract; and
  - (b) a description of any physical site in relation to which at least £1,000,000 of costs has been attributed to those activities in the financial accounting statements for the designated person's accounting period, including—
    - (i) the name and location of the site;
    - (ii) the registered names of any companies which are associated with the designated person and carry out any activity on the site;
    - (iii) a description of any QBU that carries out any activity on the site;
    - (iv) a description of any qualifying defence contract or qualifying sub-contract which has a value of or above £50,000,000 and in relation to which any activity was carried out on the site;
    - (v) the capabilities or activities provided on the site for defence contracts;
    - (vi) the capacity which is on the site to deliver those capabilities or activities;
    - (vii) a description of the key infrastructure on the site used in the delivery of defence contracts;
    - (viii) the extent to which the capacity available on the site has been used;
    - (ix) an estimate of the number of employees (on a full-time equivalent basis) engaged in work on the site which relates to any qualifying defence contract, qualifying sub-contract or other defence contract; and
    - (x) a description of the key skills provided by those employees.
- (2) The information required by sub-paragraphs (1)(b)(vii) and (viii) must be presented in the following categories—
- (a) qualifying defence contracts or qualifying sub-contracts;
  - (b) other defence contracts;
  - (c) all other contracts.

### **Strategic industry capacity report: forecast costs of maintaining industrial capacity**

**43.**—(1) The information described in each paragraph of this regulation may be expressed either—

- (a) for each of the sites described under regulation 42(1)(b), or
- (b) for each QBU,

and is only required for those sites or QBUs (as the case may be).

(2) The strategic industry capacity report must contain—

- (a) a description of forecast costs for the five years following the last day of the designated person's accounting period, and a description of any anticipated changes in accounting policies or business practices that could have a significant effect on those costs;
- (b) a description of forecast labour requirements for those five years;
- (c) if cost recovery rates are used for any QBUs, an estimate of what those rates are likely to be for each such QBU over those five years;
- (d) a description of any policy—
  - (i) to employ apprentices or recent graduates,
  - (ii) to provide staff bonuses,

- (iii) for training and development of personnel,  
and the approximate cost of that policy;
  - (e) an explanation of the reasons for any material changes in the cost of maintaining industrial capacity; and
  - (f) a description of any likely event or change in circumstances relating to qualifying defence contracts, qualifying sub-contracts or other defence contracts which could have a material effect on the ability of the designated person to maintain its industrial capacity.
- (3) The information required by paragraph (2) must be presented in the following categories—
- (a) qualifying defence contracts or qualifying sub-contracts;
  - (b) other defence contracts;
  - (c) all other contracts.

#### **Strategic industry capacity report: capacity and supply chain**

44. The strategic industry capacity report must contain a description of—
- (a) the key delivery milestones for all work currently being undertaken by the designated person (or any person associated with the designated person) for qualifying defence contracts, qualifying sub-contracts or other defence contracts (“current committed work”);
  - (b) the key planning assumptions for any possible future qualifying defence contract, qualifying sub-contract or other defence contract to which the designated person (or any person associated with the designated person) will be party and which is expected to have a value of or over £50,000,000 (“planned future contract”), including the date on which the designated person anticipates that any planned future contract will be entered into;
  - (c) any current under-capacity or over-capacity of personnel or infrastructure relative to current committed work and planned future contracts, and any plans to rectify that;
  - (d) any current or planned measures to improve efficiency or productivity relative to current committed work and planned future contracts;
  - (e) any plans for material investment in people, skills or infrastructure in order to deliver current committed work and planned future contracts, including the approximate costs of those plans;
  - (f) all persons that are party to a contract with the designated person, or any person associated with the designated person, which has a value of at least £25,000,000 and which—
    - (i) supports the delivery of current committed work; or
    - (ii) is expected to support the delivery of planned future contracts; and
  - (g) any likely event or change in circumstances relating to the supply chain that could have a material effect on the performance of current committed work and planned future contracts.

#### **Small or medium enterprises (“SME”) report**

- 45.—(1) The designated person must provide an SME report for each relevant financial year.
- (2) The designated person must provide an SME report within 12 months after either—
- (a) the end of the designated person’s accounting period, or
  - (b) the date on which the ongoing contract condition was first met in relation to the relevant financial year,
- whichever is the later.

- (3) The information in the SME report must relate to the designated person's accounting period.
- (4) The report must contain the following information—
  - (a) a description of the designated person's policies and procedures for engaging with SMEs, including—
    - (i) any standard contract or payment terms used in relation to SMEs;
    - (ii) any special assistance provided to SMEs;
  - (b) a description of any initiatives intended to—
    - (i) increase opportunities for SMEs to support the delivery of defence contracts; or
    - (ii) encourage technical innovation by SMEs relevant to such contracts;
  - (c) an estimate of—
    - (i) the total revenue which the designated person or any person associated with it received from defence contracts;
    - (ii) the amount of that total revenue which related to purchasing goods and services for the purpose of defence contracts from persons which are not associated with the designated person; and
    - (iii) the amount of that total revenue which related to purchasing goods and services from SMEs; and
  - (d) a description of the extent to which the goods, works or services provided by SMEs have contributed to defence contracts to which the designated person or any person associated with the designated person is party.