STATUTORY INSTRUMENTS

2014 No. 3337

The Single Source Contract Regulations 2014

PART 3

Pricing of contracts

Steps in determining contract profit rate

11.—(1) The contract profit rate for any qualifying defence contract must be calculated by taking the following six steps.

Step 1 – baseline profit rate

(2) Take the baseline profit rate in force at the time of agreement, which is—

(a) until 31 March 2015, 10.70%;

(b) on or after 1 April 2015, the rate published in the London Gazette in accordance with section 19(4).

Step 2 – cost risk adjustment

(3) Adjust the baseline profit rate by an agreed amount which is within a range of plus or minus 25% of the baseline profit rate, so as to reflect the risk of the primary contractor's actual allowable costs under the contract differing from its estimated allowable costs.

Step 3 – profit on cost once

(4) Deduct from the amount resulting from step 2 the adjustment determined in accordance with regulation 12 ("the POCO adjustment"), so as to ensure that profit arises only once in relation to those allowable costs under the contract that relate to the price payable under any group sub-contract (including any further group sub-contract).

Step 4 – SSRO funding adjustment

(5) Deduct from the amount resulting from step 3 the SSRO funding adjustment in force at the time of agreement, which is—

(a) until 31 March 2017, zero;

(b) on or after 1 April 2017, the rate published in the London Gazette in accordance with section 19(4).

Step 5 – incentive adjustment

(6) Where the Secretary of State determines that the amount resulting from step 4 should be increased so as to give the primary contractor a particular financial incentive as regards the performance of provisions of the contract specified by the Secretary of State, increase that amount by an amount ("the incentive adjustment") specified by the Secretary of State, that amount not to exceed two percentage points.

Step 6 – capital servicing adjustment

(7) Take the amount resulting from step 5 and add to or subtract from it an agreed amount ("the capital servicing adjustment"), 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.

(8) In agreeing the capital servicing adjustment, the primary contractor and the Secretary of State—

(a) must have regard to the capital servicing rates in force at the time of agreement;

(b) must not apply any adjustment in respect of any costs of the fixed and working capital employed by the primary contractor which are allowable costs under the contract; and

(c) may use an average fixed and working capital for any business unit which is likely to be performing the primary contractor's obligations under the contract.

(9) The capital servicing rates are—

(a) until 31 March 2015—

(i) for fixed capital, 6.20%;

(ii) for positive working capital, 2.07%;

(iii) for negative working capital, 1.25%;

(b) on or after 1 April 2015, the rate published in the London Gazette in accordance with section 19(4).