
DRAFT STATUTORY INSTRUMENTS

2014 No.

The Single Source Contract Regulations 2014

PART 3

Pricing of contracts

Rates agreed on a group basis

13.—(1) This regulation applies where the Secretary of State proposes to enter into two or more qualifying defence contracts with the same primary contractor (“the prospective contractor”) within the period of one year (“the relevant year”).

(2) The prospective contractor and the Secretary of State may agree an amount which may be used as the cost risk adjustment (regulation 11(3)) for any qualifying defence contract entered into between the prospective contractor and the Secretary of State within the relevant year, so as to reflect the risk of the primary contractor’s actual allowable costs under any qualifying defence contract differing from its estimated allowable costs.

(3) An amount agreed under paragraph (2) must be within a range of plus or minus 25% of the baseline profit rate.

(4) The prospective contractor and the Secretary of State may agree an amount which may be used as the POCO adjustment (regulation 12(3)) for any qualifying defence contract entered into between the prospective contractor and the Secretary of State within the relevant year, so as to ensure that profit arises only once in relation to those allowable costs under any qualifying defence contract that relate to the price payable under any group-sub-contract (including any further group sub-contract).

(5) The prospective contractor and the Secretary of State may agree an amount which may be used as the capital servicing adjustment (regulation 11(7)) for any qualifying defence contract entered into between the prospective contractor and the Secretary of State within the relevant year, 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 any qualifying defence contract.

(6) In agreeing a capital servicing adjustment under paragraph (5), the prospective contractor and the Secretary of State must—

- (a) have regard to the capital servicing rates in force at the date that the amount is agreed;
- (b) not apply any adjustment in respect of any costs of fixed and working capital which are expected to be included as allowable costs under any qualifying defence contracts to which the amounts agreed under this regulation will apply; and
- (c) use an average fixed and working capital for any business unit which is likely to be performing the primary contractor’s obligations under any such qualifying defence contracts.