

QSC Teach-in

4 February 2026

Welcome and introduction

Topic	Timing
Intro and housekeeping	14.30 – 14.35
Teach-in	14.35 – 15.25
Knowledge check	15.25 – 15.35
Q&A	15.35 – 15.55
Sum up and close	15.55 – 16.00

- QSCs account for around 1 in 6 of all qualifying contracts with a total value of around £8.2 billion
- Teach-in to share insight into SSRO guidance on qualifying sub-contracts (QSCs)
- Part of a programme of teach-ins that we are running this year
- Keen to hear stakeholder feedback: one of the sources that informs our guidance updates and improvements
- Welcome to those joining today who are not subject to the regulatory framework, but who have an interest in it

Housekeeping and logistics



- 'OFFICIAL' ONLY
- Teach-in is being transcribed and recorded
- Please keep cameras and microphones off unless you are asking a question
- Questions can be posted in the chat and will be addressed at intervals as we progress
- There will be opportunities for Q&A during the session and at the end
- We will share the slides and a summary note of questions raised and responses, as well as addressing any unanswered questions

Overview of today's teach-in



- Terminology
- Assessing if a contract is a QSC
- QSC notifications and appeals
- Agreeing the price of a QSC
- Record-keeping and reporting by sub-contractors
- Notifying the SSRO of changes
- Enforcement action by the MOD
- How the SSRO can help



Terminology

It may be helpful to clarify some terms which are used in the legislation and SSRO guidance

Defence Reform Act 2014 (the Act)

Single Source Contract Regulations 2014 (the Regulations)

Contracting authority (Liable to pay the contract price to the contractor)

Contract

Contractor (Provides goods, works, or services to the contracting authority)

Secretary of State
(MOD, SDA, Defence Digital, etc)

Qualifying defence contract (QDC)

Primary contractor

A primary contractor under a QDC or a sub-contractor under another QSC

Qualifying sub-contract (QSC)

Sub-contractor
(or further sub-contractor)



Assessing if a contract is a QSC

QSC assessment – Responsibility and timing

See QSC guidance
Paragraphs 3.1 and 3.7
to 3.12

Failure to undertake a
QSC assessment may
result in enforcement
action by the MOD

- A primary contractor under a QDC (or proposed QDC) and a sub-contractor under a QSC (or proposed QSC) must assess whether any proposed sub-contract to that contract would be a QSC if entered into
- The assessment must be undertaken when it is proposed to enter into a new sub-contract
- We recommend the assessment be undertaken at the earliest opportunity
- No need to undertake a QSC assessment when amending an existing sub-contract unless the proposed amendment would create a new contract
- Regulation 7A specifies circumstances in which an amendment to an existing non-QSC sub-contract is to be treated as a new contract

What is a QSC?

See QSC guidance
Paragraph 3.3

A contracting authority making a negative assessment that the MOD believes is incorrect may be subject to enforcement action by the MOD

- A QSC is a sub-contract for the provision of anything in support of a QDC or QSC to which the contracting authority is a party
- It is not awarded as the result of a competitive process
- It has an expected value of £25 million or more
- At least 50% of its value is required to enable the performance of one or more QDCs or QSCs
- It is not of a type excluded by the Regulations, eg, land purchase
- It has been correctly assessed as being a QSC. However, until the required notifications of positive assessment have been provided by the contracting authority, Part 2 of the Act and the Regulations do not apply to it.
- It has not been exempted by the Secretary of State

The competitive process test

See QSC guidance
Paragraph 3.4

- A contract is not a QSC if it was awarded as the result of a competitive procurement process. This includes:
 - a single contract awarded following a competitive process
 - a contract awarded under a framework agreement where the contract price is determined by the framework which was competitively let or by a competition between framework suppliers
- Multiple bidders, transparent and arm's-length process, fair evaluation
- If the sub-contractor could reasonably foresee that its bid would be the only viable offer, the process may not count as competitive

An arm's-length procurement process is one in which the contracting authority and potential suppliers act independently, without undue favour or influence, and in their own commercial interests.

Determining the value of a QSC

See QSC guidance
Paragraph 3.5

- The higher of two amounts which are the consideration (excluding VAT) which the contracting authority expects will be payable under the contract at either:
 - the date of the QSC assessment
 - the date on which it is proposed to enter into the contract
- Specified matters are to be taken into account or disregarded
- The value of the proposed sub-contract must be aggregated with the values of other non-competitive contracts fulfilling the same requirement entered into with the prospective sub-contractor or associated persons

Contracts fulfil **the same requirement** where the goods, works or services to be provided:

- collectively fulfil the same specific need for the contracting authority
- could be supplied under a single contract in a commercially rational manner

Aggregation

See QSC guidance
Paragraph 3.6

See Contract reporting
guidance
Paragraphs 3.59 to 3.63

In determining whether the QSC threshold (£25 million) is met for a proposed sub-contract (X), its value is to be aggregated with the value of other contracts in groups A , B and C (unless the conditions for these to be disregarded are met)

Value = price (exc. VAT)

Fulfil the
same
requirement
as the
proposed
sub-
contract

Fulfil other
requirements

Proposed sub-contract whose value is being assessed (X)			
Other contracts which the contracting authority has entered into or proposes to enter into with the prospective sub-contractor or associated persons			
<div>A. Contracts with a value of £1 million or more Contract values are to be included when determining the value of the proposed sub-contract under assessment</div> <div>B. Contracts with a value of more than £250,000 but less than £1 million May disregard if the aggregate value of the contracts in this group is less than 20% of the aggregate value of all contracts in the dark blue-shaded area. Otherwise, to be included.</div> <div>C. Contracts with a value of £250,000 or less Must disregard if the contracting authority is reasonably satisfied the procurement has not been subdivided to avoid the Act and Regulations</div>		Not relevant	
Not relevant			Not relevant
Non-competitive			Competitive

Any questions on QSC assessment?





QSC notifications and appeals

Contracting authorities must provide specified notifications on QSC assessments

See QSC guidance
Section 4

Failure to give notice of a positive QSC assessment may result in enforcement action by the MOD

- A contracting authority must keep a written record of QSC assessments
- In all cases, give written notice to the MOD and the SSRO that an assessment has been undertaken
- Where the assessment is positive, give written notice to the MOD and the prospective sub-contractor before the proposed contract is entered into
- Until notice of a positive QSC assessment is provided the requirements of the regulatory framework will not apply
- The format of these notices is not prescribed but must be in writing
- The SSRO provides templates that may be used for this purpose
- Notifications can be sent to the SSRO by email (helpdesk@ssro.gov.uk), post, or via DefCARS (as attachments to submitted reports).

Reporting about QSC assessments in statutory reports

See QSC guidance
Paragraph 4.13

See Contract reporting
guidance
Paragraphs 4.78 to 4.80
Table 24

- Primary contractors under QDCs and sub-contractors under QSCs must also provide information in statutory contract reports about QSC assessments
- For each agreed or proposed sub-contract with a value of £1 million or more, confirmation of whether a QSC assessment has been undertaken and, if so, the outcome of the assessment;
- For each agreed or proposed sub-contract with a value of £15 million or more which has been assessed as not being a QSC:
 - the outcome of the negative assessment;
 - confirmation of whether the award of the contract is not, or would not be, the result of a competitive process; and
 - confirmation of whether the contract enables the performance of contracts other than a QDC or QSC.

Appeal against a QSC assessment

See QSC guidance
Paragraphs 4.15 to 4.20

The SSRO has published separate guidance on its procedures for appeals:

https://ssro.gov.uk/wp-content/uploads/2025/06/SSRO_appeals_guidance_2024.pdf

- A prospective sub-contractor may appeal against a positive QSC assessment:
 - within six months of receiving the notice of positive assessment OR
 - if sooner, before the contract is entered into
- No appeal may be brought after the contract is entered into
- Appeal made in writing, containing specified information
- Must be copied to the MOD and the contracting authority
- MOD and contracting authority may make written submissions to the SSRO within 20 working days of receipt of the appeal
- The SSRO must determine the appeal within 40 working days
- To discuss an appeal against a QSC assessment email referrals@ssro.gov.uk

Any questions on QSC notifications and appeals?





Agreeing the price of a QSC

The SSRO provides guidance on the pricing of qualifying contracts, including QSCs



Allowable costs



Baseline profit rate
and its adjustment



Final price
adjustment



Alternative pricing
methods



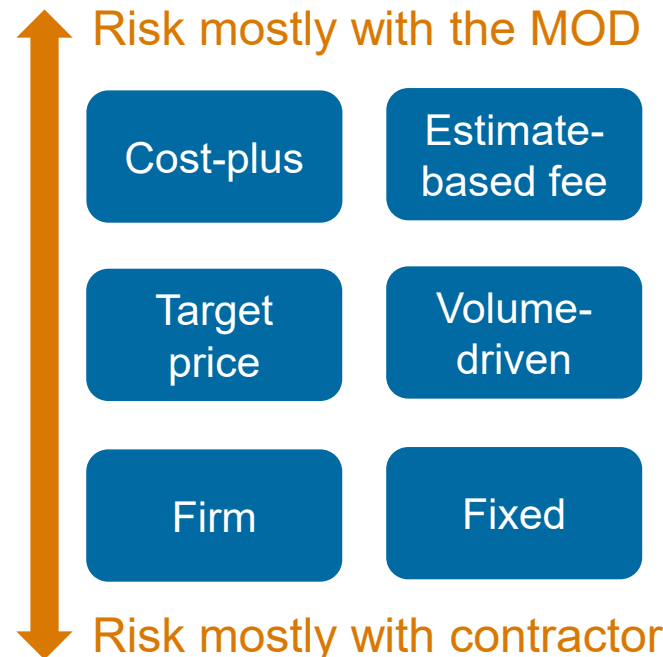
Contract
amendments
(due April 2026)

Permissible pricing methods for QSCs

Default pricing methods

- $\text{Price} = \text{AC} + (\text{AC} \times \text{CPR})$
- AC – Allowable Costs
 - Appropriate
 - Attributable to the contract
 - Reasonable in the circumstances
- CPR – Contract profit rate
 1. Baseline profit rate*
 2. Cost risk adjustment ($\pm 25\%$ of BPR)
 3. Incentive adjustment (up to +2pp)
 4. Capital servicing adjustment*

* Rates set annually by the Secretary of State



Alternative pricing methods

- Commercial pricing
- Prices determined in accordance with law
- Previously agreed price [Not applicable]
- Novated contract price
- Competed rates applied to uncompleted volumes
- Agreed changes to the contract profit rate
- Aggregation of components

Parts ('components') of a QSC may be priced distinctly from other parts using different pricing methods or contract profit rates

Default pricing: Contract profit rate

See QSC guidance
Paragraphs 5.13 to 5.20

- The four-step process to determine the contract profit rate for a QSC is the same as for a QDC
- The adjustments at steps 2 (cost risk adjustment) and 4 (capital servicing adjustment) are to be agreed by the contracting authority and the sub-contractor
- There is no provision for a contracting authority who proposes to enter into two or more QSCs with the same sub-contractor in one year to pre-agree the step 2 and step 4 adjustments on a group basis
- An adjustment at step 3 (incentive adjustment) may be made where the contracting authority determines an additional financial incentive is required regarding the performance of the provisions of the contract

Default pricing: Allowable costs

See QSC guidance
Paragraphs 5.21 to 5.26

- The relevant parties who must be satisfied that the sub-contractor's costs meet the requirements of allowable costs are the MOD and the sub-contractor
- The MOD may require the sub-contractor under a QSC to demonstrate that its costs meet the requirements of allowable costs

In practice, under a QSC, the contracting authority should ensure that the sub-contractor's costs meet the requirements of allowable costs, as the price of the QSC will be a cost under a superior QDC or QSC

- An adjustment should be made to the allowable costs of the QSC to ensure profit arises only once in allowable costs that relate to the price of group sub-contracts, but this must be agreed on a case-by-case basis

Alternative pricing


See QSC guidance
Paragraphs 5.27 to 5.30

- The **Previously agreed price** pricing method is disappplied
- The conditions for use of the **Commercial pricing method** are modified to include references to the contracting authority, for example:
 - The sub-contractor has supplied goods, works or services... to the Secretary of State *or the contracting authority*...
 - The commercial pricing method may not be used... if the Secretary of State *or the contracting authority* has made any direct payment...
- Under the **Aggregation of components** pricing method, it is the contracting authority who may:
 - determine that a sub-contractor should be given an additional financial incentive to perform the provisions of the contract
 - specify the amount of that adjustment (within the permissible limits)

Target pricing



See QSC guidance
Paragraphs 5.31 to 5.33

- The total price payable under a QSC using the target pricing method may be adjusted based on cost underruns or overruns
 - The amount of any adjustment to the total price payable is to be determined by agreement between the contracting authority (rather than the Secretary of State) and the sub-contractor
 - A reference on the amount of an adjustment under a target price contract may be made by the Secretary of State, the contracting authority or the SSRO
- 

Final price adjustment (FPA)



See QSC guidance
Paragraphs 5.34 to 5.38

- An FPA may apply to QSCs using the firm, fixed or volume-driven pricing methods, at contract or component completion, to provide protection against excess profit or loss
- FPA only applicable to a QSC with a value of £50 million or more
- Any adjustment is to be agreed between the MOD and the sub-contractor
- FPA may result in a payment to the MOD by the sub-contractor or to the sub-contractor by the MOD
- Secretary of State cannot disapply the FPA provision for a QSC as they can for a QDC

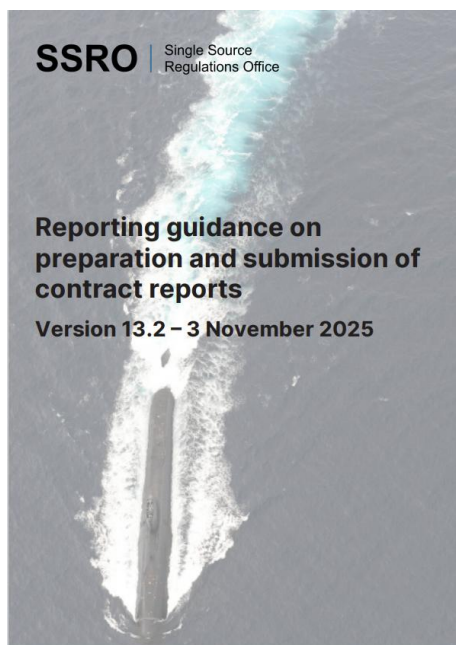
Any questions on QSC pricing?





Record-keeping and reporting by sub-contractors

The SSRO provides guidance on the reporting requirements and monitors compliance



Contract reports



Supplier reports



DefCARS
functionality



Compliance and
review methodology
(due shortly)

Responsibility
for enforcement
of the record-
keeping and
reporting
obligations rests
with the MOD.

<https://www.ssro.gov.uk/reporting-guidance-and-defcars/>

Duty to keep relevant records

See QSC guidance
Paragraphs 6.4 to 6.12

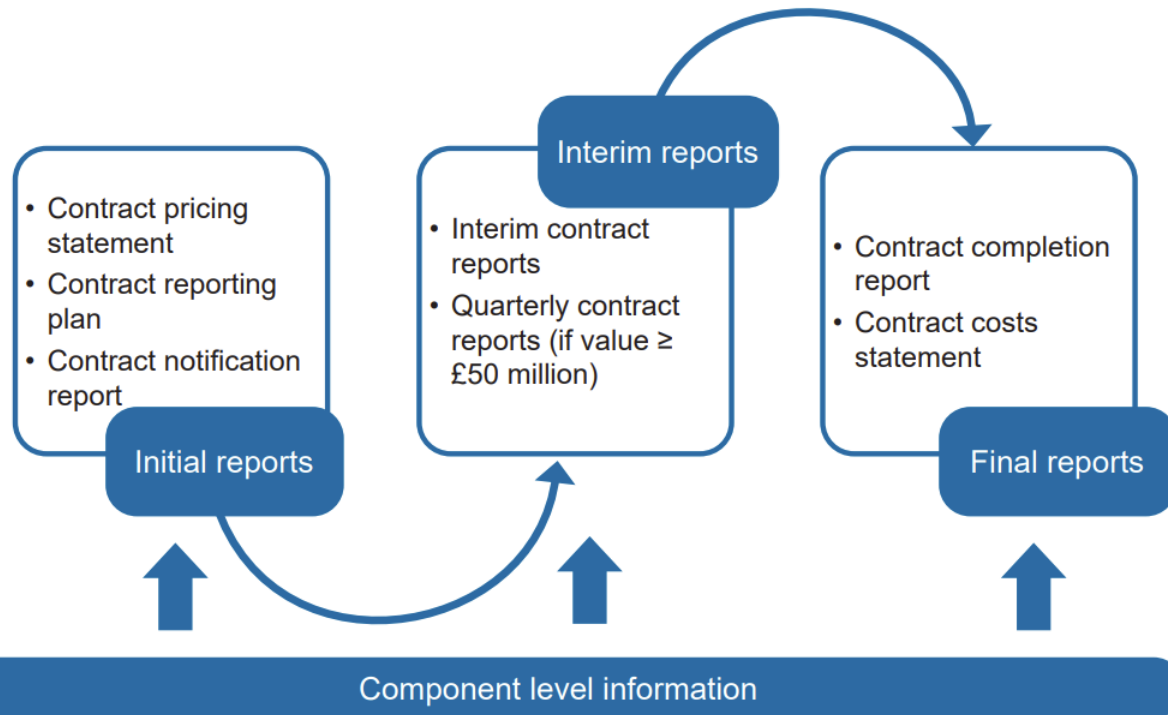
A person required to keep relevant records may ask the SSRO to review the way the MOD has acted in examining those records.

- A sub-contractor under a QSC has a duty to keep relevant records related to that contract
- Generally, records related to a QSC must be kept from the 'recording date' until two years after the contract completion date or after the contract is no longer a QSC
- The period in which records related to supplier reports must be kept is determined with reference to when the duty to provide the reports arose
- The MOD may examine the records for specified purposes:
 - auditing contract reports and supplier reports
 - verifying matters related to contract pricing
 - monitoring the contractor's performance of obligations under a QSC
 - determining whether a contract is a QSC

Contract reports

See QSC guidance
Paragraphs 6.13 to 6.30

See Contract reporting
guidance



- All sub-contractors are required to provide initial and final reports
- Submission and frequency of interim reports is dependent on the value assessment and duration
- Where contract components exist specified information about those components is required
- Differences between the reporting requirements for QDCs and QSCs are minor, for example, some administrative or payment-related data is not required for QSCs

Duty to report relevant events, circumstances and information

See QSC guidance
Paragraphs 6.31 to 6.34

Failure to notify the MOD of events and circumstances which are materially relevant to the contract may result in enforcement action by the MOD

- A sub-contractor under a QSC has a duty to notify the MOD of:
 - Events or likely events, or circumstances, that are likely to have a material effect in relation to that contract
 - Information that is likely to be materially relevant to that contract
- Events and circumstances have a material effect in relation to a QSC if they have a material effect on:
 - The sub-contractor's costs under the contract
 - The total price payable under the contract
 - The sub-contractor's ability to perform a material obligation of the contract
- Information is materially relevant if it is materially relevant to any of those matters
- There is no prescribed method for notifying the MOD of such events, circumstances or information

Supplier reports

See QSC guidance
Paragraphs 6.35 to 6.36

See Supplier reporting
guidance

- Sub-contractors or their ultimate parent undertakings must provide reports on their operations when specified conditions relating to the value of their qualifying contracts are met
- Section 2 of the SSRO's Supplier reporting guidance identifies
 - Which supplier reports are to be submitted
 - Who needs to submit them
 - When they are due
- The requirements and timelines for submission are the same for sub-contractors as they are for primary contractors

Overhead reports

- Actual rates claim report
- Estimated rates claim report
- Actual cost analysis report
- Estimated cost analysis report
- Estimated rates agreement pricing statement

Other reports

- SME report
- Strategic industry capacity report

Any questions on record-keeping and reporting by sub-contractors?





Notifying the SSRO of changes

If a contract ceases to meet QSC conditions

See QSC guidance
Paragraphs 7.1 to 7.6

The SSRO has published guidance on the procedures it will follow when considering a notice of cessation:

https://ssro.gov.uk/wp-content/uploads/2025/06/SSRO_cessation_guidance_2024.pdf

- Among other factors, to be a QSC at least 50 per cent by value of the obligations under the contract must enable the performance of:
 - the QDC or QSC to which the contract is a sub-contract, or
 - the QDC or QSC to which the contract is a sub-contract and any other QDCs or QSCs to which the contracting authority (or an associated person) is or might become a party
- If a sub-contractor believes this test is no longer met it can notify the SSRO that the regulatory framework should no longer apply to that contract:
 - In writing to the SSRO, the MOD and the contracting authority
 - No later than the contract completion date
- The MOD and contracting authority may make written submissions
- The SSRO aims to reach a decision within 40 working days of a notice being received

Any questions on notifying the SSRO of changes?





Enforcement action by the MOD

Enforcement overview

See QSC guidance
Section 8

The SSRO provides guidance for the MOD on determining the amount of a penalty and on procedures for determinations (including those related to penalty notices)

- The MOD may take enforcement action against a primary contractor under a QDC or a sub-contractor under a QSC if that person fails to meet specified obligations under the regulatory framework (set out in section 31 of the Act)
- Each party to a QSC is independently responsible for its own compliance
- A **compliance notice** may be issued where:
 - A person has contravened section 31 AND
 - The MOD believes the person can remedy the contravention
- A **penalty notice** may be issued where:
 - A person has failed to take the steps specified in a compliance notice without a reasonable excuse OR
 - A person has contravened section 31 of the Act but the MOD does not think there are steps that can be taken to remedy the contravention
- The SSRO can be asked to make a determination on penalty notice matters

Contraventions which may give rise to enforcement action

Contraventions by primary contractors and sub-contractors in relation to record-keeping and reporting

- Failing to comply with specified record-keeping and reporting requirements
- Knowingly and recklessly providing a report on a qualifying contract that is misleading in a material respect
- Failing to comply with the duty to notify the MOD of events and circumstances which are materially relevant to either:
 - the costs or price payable under a qualifying contract; or
 - their ability to perform a material obligation of a qualifying contract

Contraventions by contracting authorities in relation to QSC assessment and notification

- Failing to undertake a QSC assessment in respect of a proposed sub-contract when required to do so
- Incorrectly assessing (in the MOD's opinion) that a proposed sub-contract would not be a QSC if entered into
- Failing to give the required notice of a positive QSC assessment in respect of a proposed sub-contract

Any questions on enforcement action by the MOD?





How the SSRO can help

We provide a range of support to help the MOD and industry apply the regulatory framework

See QSC guidance
Section 9
Appendix 1

Further information on
SSRO support services
can be found on our
website:
[https://www.ssro.gov.uk/
about-us/ssro-support/](https://www.ssro.gov.uk/about-us/ssro-support/)

Support for
existing and
new
contractors

Training

Help with queries and issues

Helpdesk

General
enquiries

Non-Referral
Advice
Service

More complex queries
on applying the
regulatory framework

Referrals

Formal opinion or legally
binding determination on
specific matters

helpdesk@ssro.gov.uk

020 3771 4785



Knowledge check

A short quiz to test your understanding of the content we have covered today

- Completely anonymous
- No prizes
- Just to check what you know and where you might need to do some further learning



Q&A session

Thank you

www.ssro.gov.uk

helpdesk@ssro.gov.uk

020 3771 4785

Links to SSRO publications

- QSC guidance – <https://ssro.gov.uk/guidance-on-how-the-single-source-regulatory-framework-applies-to-qualifying-sub-contracts/>
- Allowable Costs guidance – <https://ssro.gov.uk/pricing-guidance/ssro-allowable-costs/>
- Profit rate guidance – <https://ssro.gov.uk/price-costs-and-profit/contract-profit-rate/>
- Alternative pricing guidance – <https://ssro.gov.uk/pricing-guidance/alternative-pricing/>
- Contract and supplier reporting guidance – <https://ssro.gov.uk/reporting-guidance-and-defcars/>
- QDC statistics – <https://ssro.gov.uk/qdc-statistics/>