

News story: Better value for money and fairer profits

This represents a 16% reduction in the rate applied to single source contracts and will ensure better value for money for taxpayers and give a fair return to industry. All savings will be reinvested into the defence budget, including delivering the equipment our Armed Forces need to keep the UK safe.

The unique nature of much of the MOD's work means the department often has to award contracts without competition, either because there is one specialised supplier or because the procurement must not risk national security. This lower profit rate will ensure the UK taxpayer gets the very best deal, regardless of the way contracts are delivered. The MOD is making sure big business does its part to support an efficient and economical defence budget.

Defence Secretary Michael Fallon said:

Taxpayers can be confident that this reduced profit rate will deliver better value for money on contracts as our defence budget rises and we deliver our £178bn equipment programme.

The defence sector is important for our prosperity, supporting high skilled jobs, and this rate provides a fair return comparable with that in other international markets.

A strong supplier base is essential to the security and prosperity of the UK. However, big businesses must do their part to deliver savings and balance the UK's budget. The new lower profit rate ensures that these businesses receive a fair return for the work they do, while freeing money for reinvestment in vital defence equipment, supporting jobs and innovation.

The figure of 7.46% is the starting point for calculating the profit on each contract before taking into account factors such as risk and the amount of their own money suppliers invest. The new rate is similar to profits earned by government defence suppliers in Western Europe and North America. It will come into effect from 1st April 2017.

The Single Source Contract Regulations were brought into force in 2014, following the Currie Review into single source procurement, to ensure that such contracts were charged at the best possible rate both for taxpayers and suppliers.

The Written Ministerial Statement on the new rate is available [here](#)