

STATISTICAL NOTICE TO TABLE 1.16, UKDS 2012

SUBJECT: IMPROVEMENTS TO THE CALCULATION OF DEBITS AND CREDITS RELATING TO MOD'S ESTIMATED BALANCE OF PAYMENTS FOR TRADE IN SERVICES

The 2011 figures presented in Table 1.16 UK Defence Statistics have been produced using a revised methodology that uses new, more detailed, data sources that have allowed a more accurate identification of expenditure by country. This notice will explain the impact of the changes that we have made to the 2011 trade balance.

Details of Changes Affecting Debits

It is useful to start by explaining the basic principles behind how MOD calculates its debits with foreign countries. MOD firstly attempt to identify foreign currency expenditure at overseas locations and remove from that figure the elements of expenditure that are considered to be goods, leaving the balance to be expenditure on services. MOD holds this information by country and the currency in which the transaction took place. The recent move to a new IT system has allowed for a greater level of detail to be obtained and for access to some data sources that were not previously available. The overall result of these changes is that 2011 total debits are **£155m** greater than they would have been if they had been calculated under the previous methodology.

The first improvement has been to increase the coverage of expenditure overseas. MOD has been able to identify two new data sources that were previously unavailable and which relate to foreign currency expenditure abroad. The inclusion of the new data at the start of the process increases the starting amount of currency expenditure and this consequently leaves a higher figure for debits once the expenditure relating to goods have been removed from the process. This amounts to around **£106m** across the year.

Secondly, in the last year MOD has moved to a new IT system, which amongst other things reports expenditure on goods and services overseas. During the course of work to validate results from the new system against those produced from the old system it was identified that there were some differences between the two systems and further work identified an element of duplication in the totals where an invoice for payment had been cancelled. For example an invoice issued for £250 and subsequently cancelled and then reissued appeared in our data as £750 (250+250+250) rather than £250 (250-250+250). This inflated the value of goods bought overseas and therefore increased the amount removed from our original currency expenditure total. Unravelling this error increased total debits by **£100m** in 2011.

The third area to affect the totals relates to refinements to the methodology that MOD has been able to implement as we have incorporated these new data sources into our processes. The previously used process was very complex and based on very complicated data sources. Recent improvements to the data received have allowed MOD to streamline its processes and make them easier to understand and follow through. As MOD undertook this process the increased detail offered by the new data enabled MOD to identify that some assumptions and calculations that we had previously been made to the data were no longer valid. We have incorporated these changes into the revised process and the balance of these changes equates to a fall in total debits of **£54m** over 2011.

The final change that we have been able to make relates to the country split shown in Table 1.16 but which makes no difference to the totals. One of the previously received data sources showed expenditure in Euros and US\$ with the destination country unknown. In the absence of any further information MOD previously added this data to countries with the largest populations of MOD personnel - Germany (for Euros) and USA (for US\$). The new data source now shows this expenditure attributed to the correct destination country so although a lot of the unknown expenditure did fall to Germany and the USA, MOD has now been able to attribute the correct spend to the destination country and this has affected the mix between countries.

Details of Changes Affecting Credits

Only one change has been made to the calculation of MOD's total credits. This year MOD has implemented a new methodology to calculate the receipts from US forces in the UK. This figure had previously been calculated by the Office of National Statistics on behalf of MOD however over the years the methodology used to calculate this figure had become increasingly reliant on assumptions that had not been updated for some time and the data needed to update these assumptions was difficult to obtain. This year MOD has calculated receipts from visiting forces using a new method based on internal Resource Accounting Codes (RAC's). RAC's are used to compile MOD's departmental resource accounts and are validated on a regular basis to ensure that the receipts recorded against these codes are accurate. The new method is a better reflection of the actual amount received by MOD. The effect of change to a new methodology has been to reduce receipts from US Forces by half; this represents a reduction of **£75m** in total credits.

The changes set out in this note explain 98% of the variation between the two methods.