



The [Finance & Economics Statistical Bulletin series](#) provides figures on the composition and scope of the Department's expenditure, information on the impact of defence spending on the wider economy, and compares the MOD's spending to that of other departments and countries.

Trade, Industry & Contracts presents information on MOD spending with industry and commerce, and sets out the numbers, types and values of contracts placed by MOD, major equipment projects and payments made by MOD to its suppliers during 2015/16. Also included is a focus on the top ten companies that received the highest expenditure from MOD, and the number and value of contracts placed with Small and Medium-sized Enterprises (SMEs). Industry tables provide details of existing Private Finance Initiative (PFI) contracts, and analysis of MOD spending on equipment and services in the UK. Trade data presents information on defence export orders, and payments made for services consumed by MOD establishments overseas.

### Key Points and Trends

- ▼ £18.7Bn MOD Spend with UK industry in 2015/16.  
A small decrease over 2014/15, under half of which was on manufacturing.
- ◀ 42% Total MOD procurement expenditure with top 10 suppliers.  
Similar to previous years, the largest supplier was BAE Systems.
- ▼ £9.9Bn MOD competitive expenditure in 2015/16.  
Down £0.4Bn from 2014/15.
- ▼ £7.7Bn Estimate of identified UK export orders of defence equipment and services in 2015.  
A decrease of £0.8Bn from 2014.
- ▼ 1,746 New contracts placed by MOD Core Department during 2015/16.  
A decrease of 382 (18 per cent) compared with 2014/15.
- ▲ £15.0Bn Value of new contracts placed during 2015/16.  
An increase of £3.3Bn (29 per cent) compared with 2014/15.
- ▼ 45% Proportion of new contracts placed competitively during 2015/16.  
A decrease of 2 percentage points from 2014/15, but still 6 percentage points higher than in 2013/14.
- ▼ £912m<sup>f</sup> MOD direct spend with Small and Medium-sized Enterprises (SMEs) in 2015/16.  
Represents 4.7<sup>f</sup> per cent of total MOD expenditure.

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## Introduction

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This Bulletin provides data on MOD's spending on equipment and services in the UK. It is produced as part of the transparency and accountability of the Ministry of Defence to Parliament and the public. Detailed statistics and historic time series can be found in the related [Excel tables](#).

**Major Equipment Projects** presents financial information on the MOD's largest projects for which the main investment decision has been taken.

**MOD Expenditure by Competition** presents the amount of direct MOD expenditure that is paid through competitive contracts.

**Organisations paid by MOD** provides an analysis of organisations paid £5 million or more during 2015/16 by the MOD and its Trading Funds.

**Holding Companies paid by MOD** presents the data in **Organisations paid by MOD** with the individual subsidiary organisations 'rolled up' into their holding companies.

**Focus on Key Suppliers** focusses on the top 10 suppliers to the MOD in 2015/16. It examines the relative importance of MOD sales to each company's revenue and how much of their MOD business is done through competitive contracting.

**Contracting with SMEs** covers MOD expenditure with Small and Medium-sized Enterprises and the number of new contracts placed.

**New Contracts Placed** shows the number and value of new contracts placed by Financial Year, and whether those contracts are competitive or non-competitive.

**MOD payments on Private Finance Initiative (PFI) Projects** details MOD payments on PFI projects during 2015/16.

**Estimated Defence Expenditure in the UK** details the estimated amount of money that MOD spent with UK industry and the types of goods and services bought.

**Estimates of Identified Export Orders** presents the estimated value of export orders of defence equipment and services.

**Balance of Payments for 'Trade in Services'** shows payments made for services consumed by MOD establishments overseas (imports). It also shows receipts for services from foreign governments, overseas establishments and US Forces based in the UK (exports).

## Context

The Information in this Bulletin has a wide range of uses including the media, politicians, academic researchers and the general public who use the information to:

- Understand the size and organisation of the United Kingdom's Armed Forces;
- Set the context for other information on Defence;
- Assist in understanding the impact of changes in Defence policy, for instance changes to Single Source procurement practice.

## A National Statistics publication

The United Kingdom Statistics Authority has designated these statistics as National Statistics, in accordance with the Statistics and Registration Service Act 2007 and signifying compliance with the Code of Practice for Official Statistics.

Designation can be broadly interpreted to mean that the statistics:

- meet identified user needs;
- are well explained and readily accessible;
- are produced according to sound methods; and
- are managed impartially and objectively in the public interest.

Once statistics have been designated as National Statistics it is a statutory requirement that the Code of Practice shall continue to be observed.

# Major Equipment Projects

This analysis looks at MOD's 12 largest equipment projects on which the main investment decision has been taken ('post-Main Gate'). The Type 26 Global Combat Ship was excluded from the analysis because, at the time of publication of the [Major Projects Report](#), a business case for full investment in the manufacture phase had not been formally considered. For this reason forecast costs remained commercially sensitive.

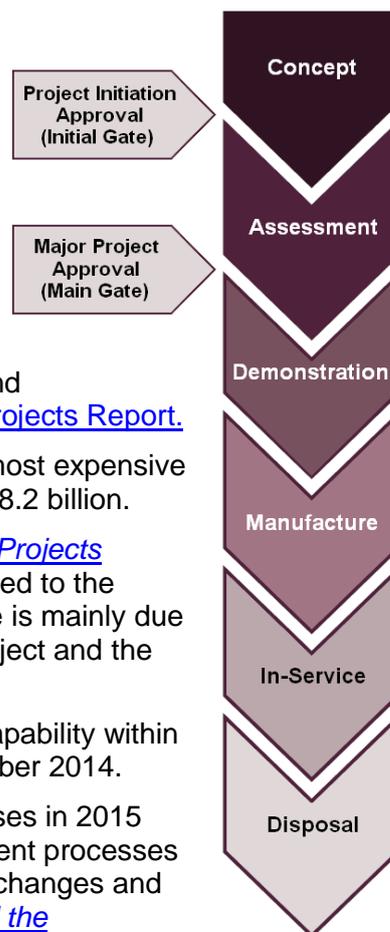
The diagram to the right shows the CADMID cycle, which is the basis for MOD Smart Acquisition. The main investment decision is taken at Main Gate, i.e. the post assessment phase with the aim of ensuring there is a high level of confidence in achieving time, cost and performance targets. Further information is contained in the [Major Projects Report](#).

The 'Typhoon and Typhoon Future Capability programme' was the most expensive post-Main Gate equipment project in 2015, with a forecast cost of £18.2 billion.

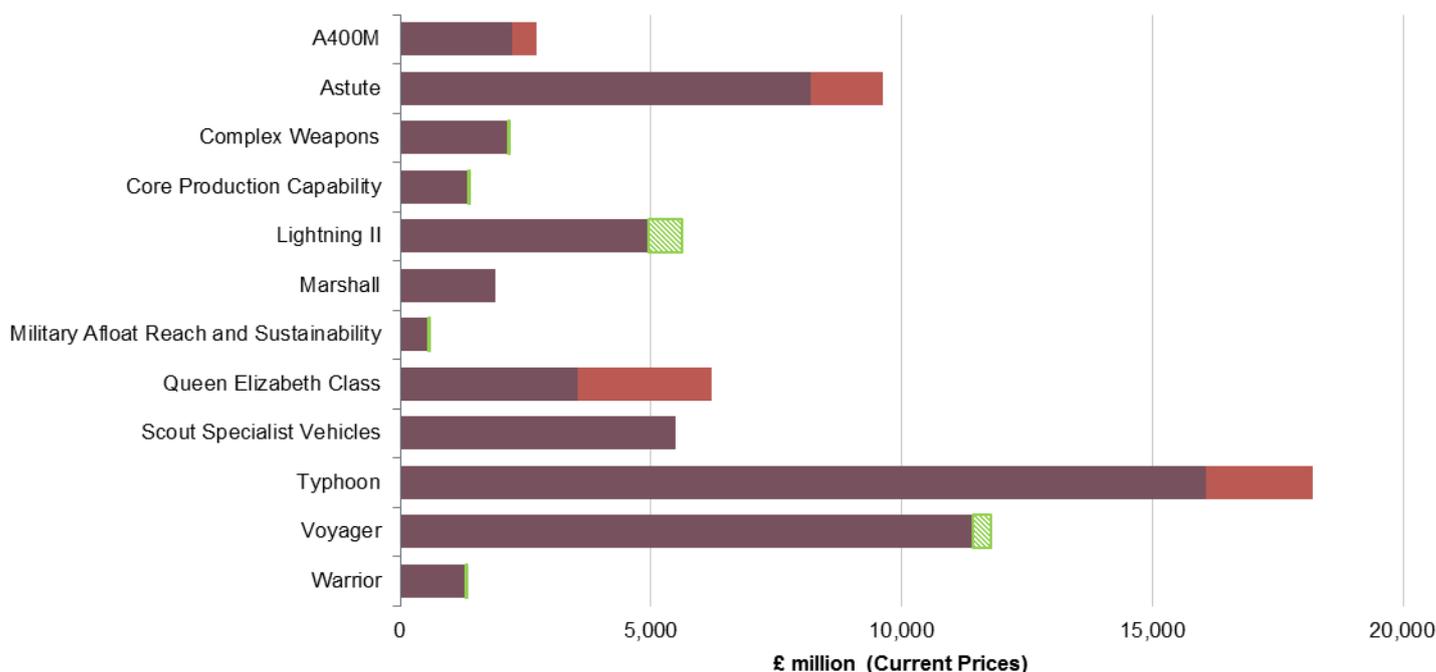
The total current forecast cost of the 12 projects in the [NAO's Major Projects Report and the Equipment Plan 2015 to 2025](#) is £65.8 billion compared to the £59.2 billion for the 11 post-Main gate projects last year. The change is mainly due to an increase in the scope of the Scout Specialist Vehicle (Ajax) project and the addition of the Marshall project.

The Marshall project will provide Terminal Air Traffic Management capability within UK areas of responsibility. The Marshall contract was signed in October 2014.

Forecast costs for several projects have changed this year. The causes in 2015 were mainly exchange rates, technical factors, changes in procurement processes and accounting adjustments and definitions. For full details of these changes and full project titles see [Appendix Four of the Major Projects Report and the Equipment Plan 2015 to 2025](#).



**Forecast costs of 12 Major Equipment Projects**



- Shows the current forecast cost when associated with an underspend and the approved cost when associated with an overspend
- Shows the increase between cost at approval and cost now (overspend)
- Shows the decrease between cost at approval and cost now (underspend)

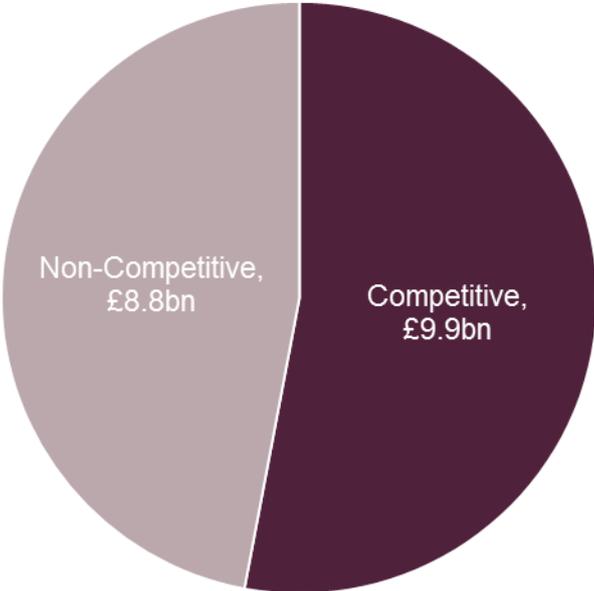
# MOD Expenditure by Competition

In the following pages we will analyse in more detail the level of payments made to organisations and holding companies by MOD and its Trading Funds. This section looks at the expenditure made to these organisations and holding companies under the terms of competitive and non-competitive contracts.

**In 2015/16, a total of £23.7 billion was paid by MOD Core Department to UK and foreign owned organisations**, including defence suppliers and intermediate bodies, through DBS Finance systems. MOD Core Department excludes MOD Trading Funds.

A competitive contract is a contract awarded to a company following a bidding process, or competition, where the winning company is awarded the contract. **In 2015/16 payments against competitive contracts totalled £9.9 billion.** Non-competitive procurement occurs where there is either only a single provider or where there are very strong reasons for maintaining a national capability. **Payments against non-competitive contracts, in 2015/16, totalled £8.8 billion.** Not included in the chart below is expenditure totalling £5.1 billion in 2015/16, where a competition marker is not recorded. This other expenditure consists of payments made by means of miscellaneous transactions. These are agreements for goods and services that have been set up locally between the MOD Branch and the supplier, and are legally binding, but do not have a competition marker recorded. Also included in this category are payments made to international projects, such as NATO Eurofighter Tornado Management Agency (NETMA) and Organisation for Joint Armament Co-operation Executive Administration (OCCAR), as well as payments made to overseas governments and UK Government departments.

**Direct MOD payments paid through competitive and non-competitive contracts in 2015/16 (VAT Exclusive)<sup>1</sup>**



Source: Defence Economics analysis using DBS Finance data source

A recently set up Single Source Regulation Office regulates the procurement by the UK Government of 'single source', or non-competitive, military goods, works and services. It is the independent statutory regulator of single source defence procurement, issuing statutory guidance, assessing compliance and determining how the regime applies to individual contracts.

More detailed information about the level of competitive contracting with organisations paid more than £5 million in 2015/16 can be found here in the [Table 3a Annex](#).

1. Excluded from this chart are payments classed as 'other expenditure' where the competition marker is not recorded.

## Organisations Paid over £5 million by MOD

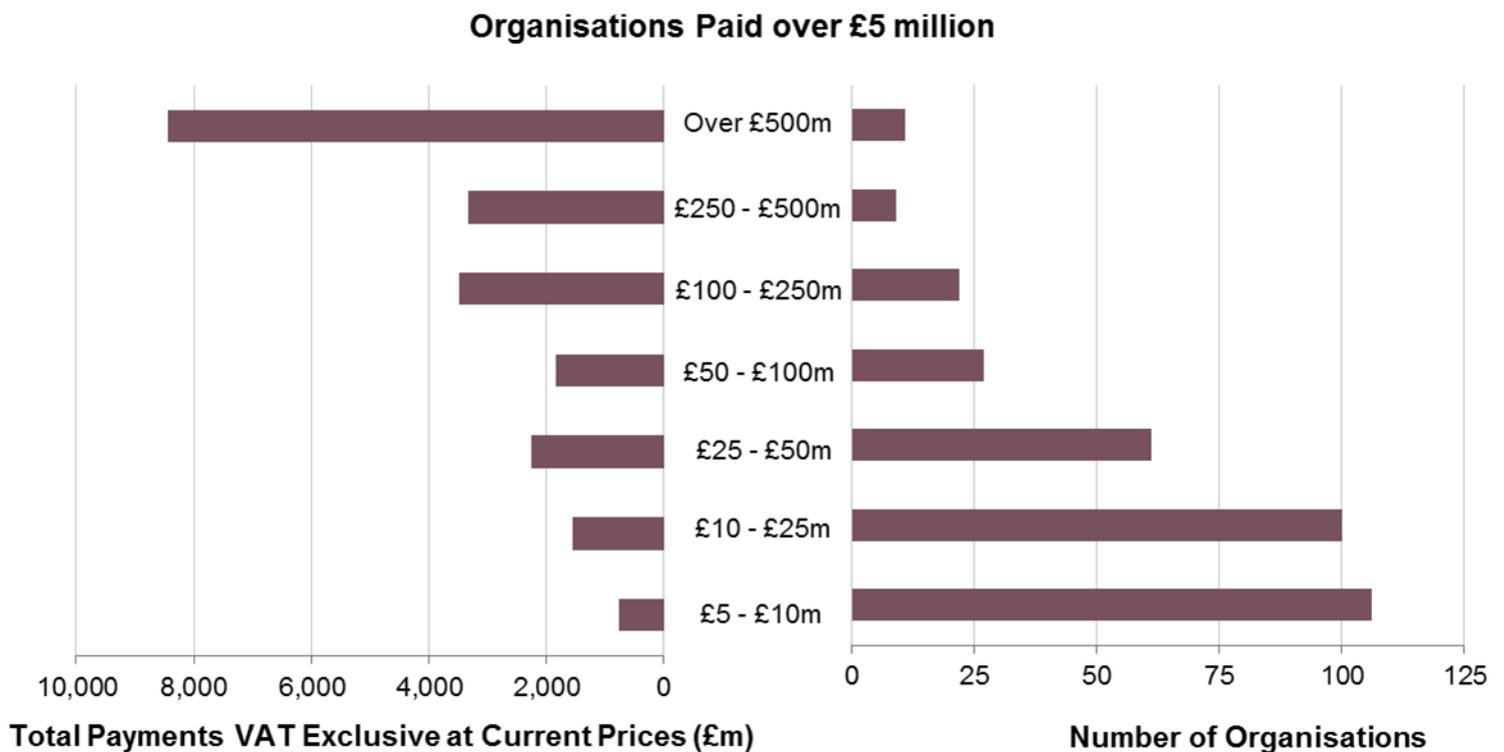
This analysis presents payments made through MOD's DBS finance systems (the MOD's primary bill paying authority) and by the MOD Trading Funds to UK and foreign owned organisations, including defence suppliers and intermediate bodies. These organisations include UK and overseas defence contractors, overseas governments and other UK Government departments. DBS Finance is responsible for the majority of payments made by the MOD, around 95 per cent by value, whilst the Trading Funds make their own payments. Some organisations have been excluded from the analysis because their information has been redacted in line with [Transparency](#) rules.

There were **335 organisations paid more than £5 million by MOD and the Trading Funds** during 2015/16. This is a drop from 365 in the previous year.

The organisations that received more than £5 million represent less than 2 per cent of the 18,000 organisations paid in 2015/16, however they received 92 per cent of the direct expenditure. Of the 335 organisations paid more than £5 million, the top 20 received over half of the total procurement expenditure.

Only 9 suppliers received payments of over £5 million from one of the Trading Funds.

Payments which are not in the figures include those from British Defence Staff (United States) and through local cash offices.



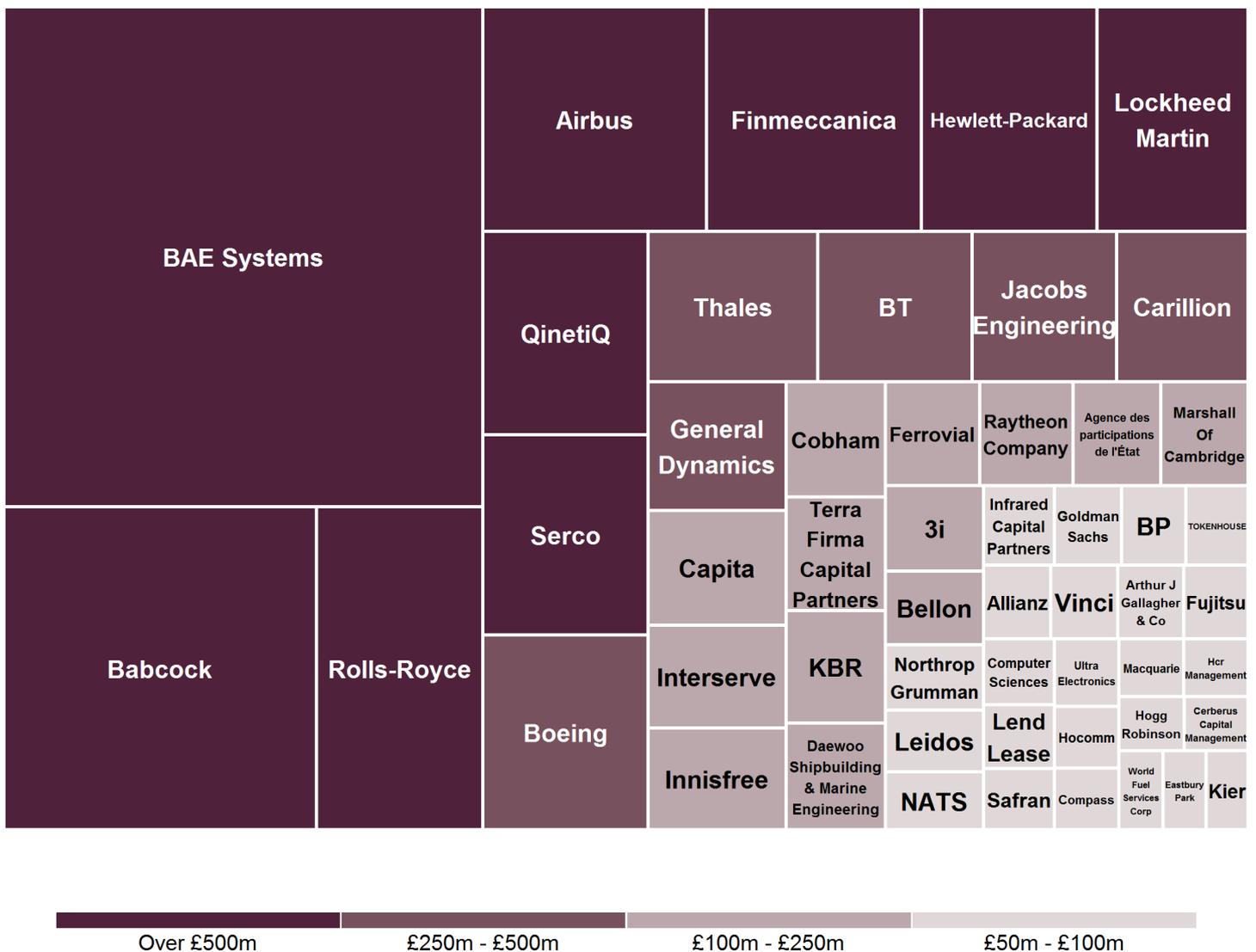
Source: Defence Economics analysis using DBS Finance and Trading Funds data sources

## Holding Companies Paid over £50 million by MOD

Many of the suppliers paid by the MOD and its Trading Funds are subsidiaries of larger holding companies. The term 'holding company' refers to companies which are full or part owners of other companies (subsidiaries and joint ventures). Payments to joint ventures have been allocated to their parent holding companies in proportion to their equity holdings. This analysis excludes payments made to public sector bodies, government departments and agencies, local authorities, MOD Trading Funds, multi-nation project management agencies, charities and associations. All holding companies paid more than £50 million by the MOD in 2015/16 are presented below.

In 2015/16 there were **52 holding companies paid more than £50 million** by MOD and its Trading Funds, the same number as in 2014/15. There were **nine companies paid more than £500 million**, unchanged from the previous year.

### Amount Spent with Holding Company in 2015/16



Source: Defence Economics analysis using DBS Finance and Trading Funds data sources

## Focus on Key Suppliers

This section explores the nature and scope of MOD business with its key suppliers within industry and commerce. It focusses on the 10 who received the most expenditure from the MOD during 2015/16. It examines the relative importance of MOD sales to company revenues, and how this has changed over time, and the amount of MOD business that comes from competitively let contracts.

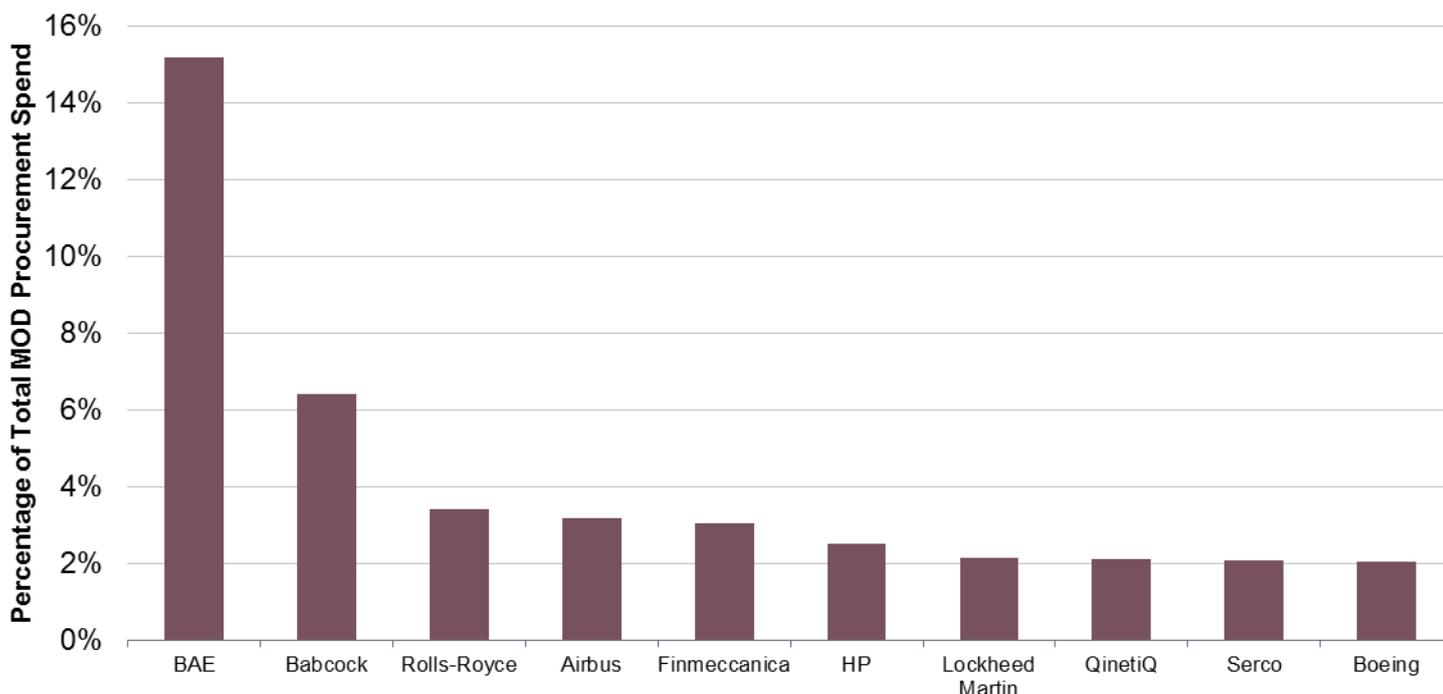
### Focus on Key Suppliers - Expenditure with Top 10 Suppliers

In 2015/16 over **42 per cent of total MOD procurement expenditure was with 10 suppliers**. The top 10 suppliers were the same as reported in 2014/15. The current top 10 have consistently been large suppliers to the MOD, with the same suppliers receiving a 36 per cent share of payments in 2006/07.



**BAE Systems PLC was by far the largest defence supplier in terms of annual spend** made by MOD, a position which hasn't changed in the past decade. BAE Systems received 15 per cent of all MOD procurement expenditure in 2015/16. The remaining nine suppliers in the top 10 achieved individual shares between 2.0 and 6.4 per cent.

#### Proportion of MOD Spend with Top 10 Suppliers



Source: Defence Economics analysis using DBS Finance and Trading Funds data sources

## Focus on Key Suppliers – Dependency on MOD Business

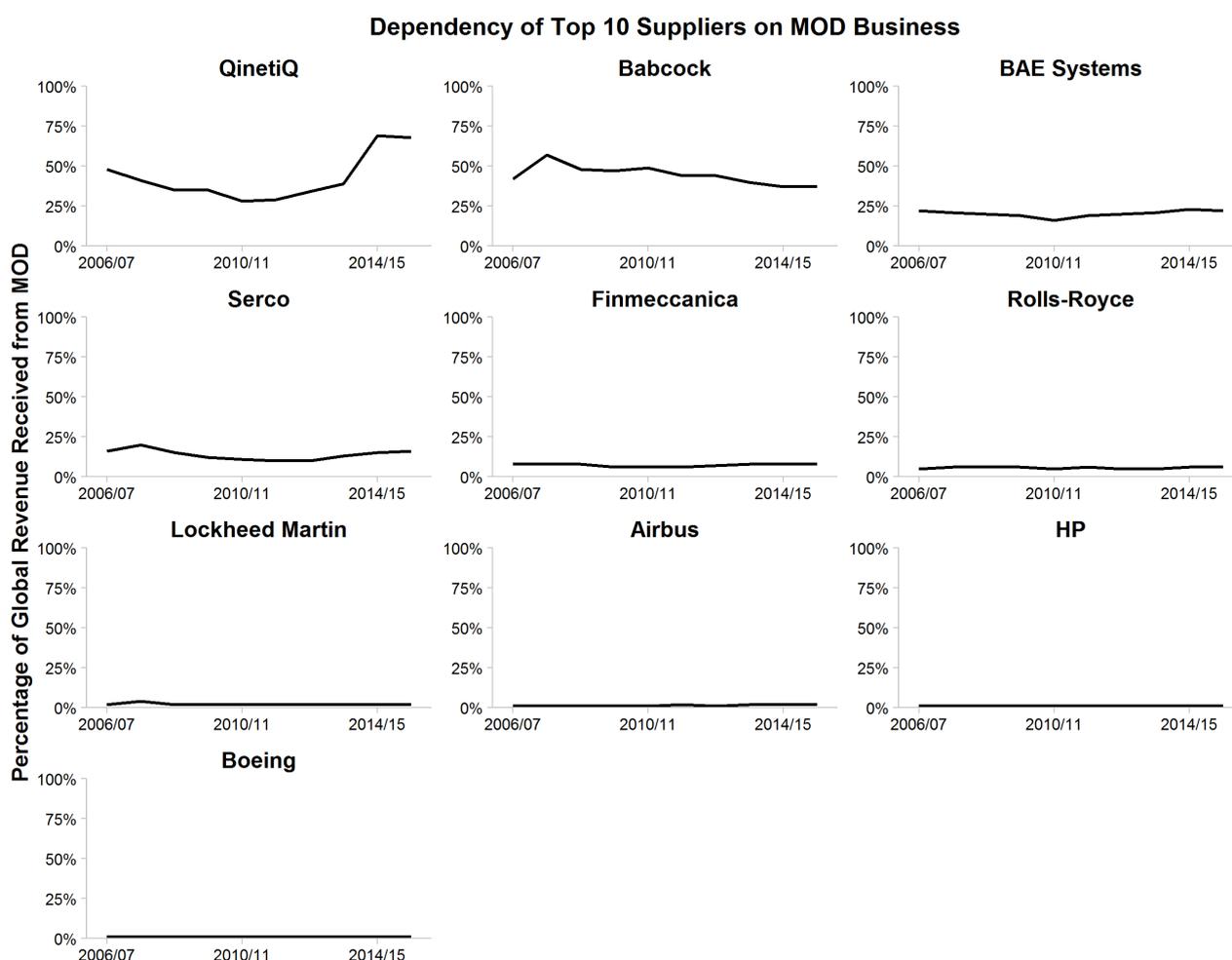
The charts below illustrates the dependency of key suppliers on MOD business by presenting total payments received from MOD as a percentage of global company revenues.

QinetiQ is the most dependent of the top 10 MOD suppliers on MOD business. It sold its US Services business in 2014, which caused a large increase in dependence on MOD business. The US Service had been responsible for £410 million of the global revenue of the company. Following an increase in revenue from MOD, QinetiQ's dependence rose to 69 per cent in 2014/15, although in 2015/16 it fell back slightly to 68 per cent.

BAE Systems, MOD's biggest supplier, has received payments from MOD worth between 15 and 25 per cent of its global revenue over the last ten years. Its dependence seemed to be slowly decreasing until 2011/12, where it began to rise again. In 2015/16 both receipts from MOD and global revenues increased.

Babcock and Serco received 37 per cent and 16 per cent of their revenue from the MOD respectively. **However for the remaining 6 suppliers, MOD sales accounted for less than 10 per cent of their global revenue.**

The general trend in 2015/16 was for a decrease in dependency on the MOD for the major suppliers. Only one of the top ten, Rolls-Royce, had MOD sales take up a greater share of revenue than in the previous year. This reflects the consolidation and internationalisation of the global defence industry, and relative decline in MOD spending compared to global defence spending.



Source: Defence Economics analysis using DBS Finance and Trading Funds data sources

## Focus on Key Suppliers – Levels of Competitive Contracting

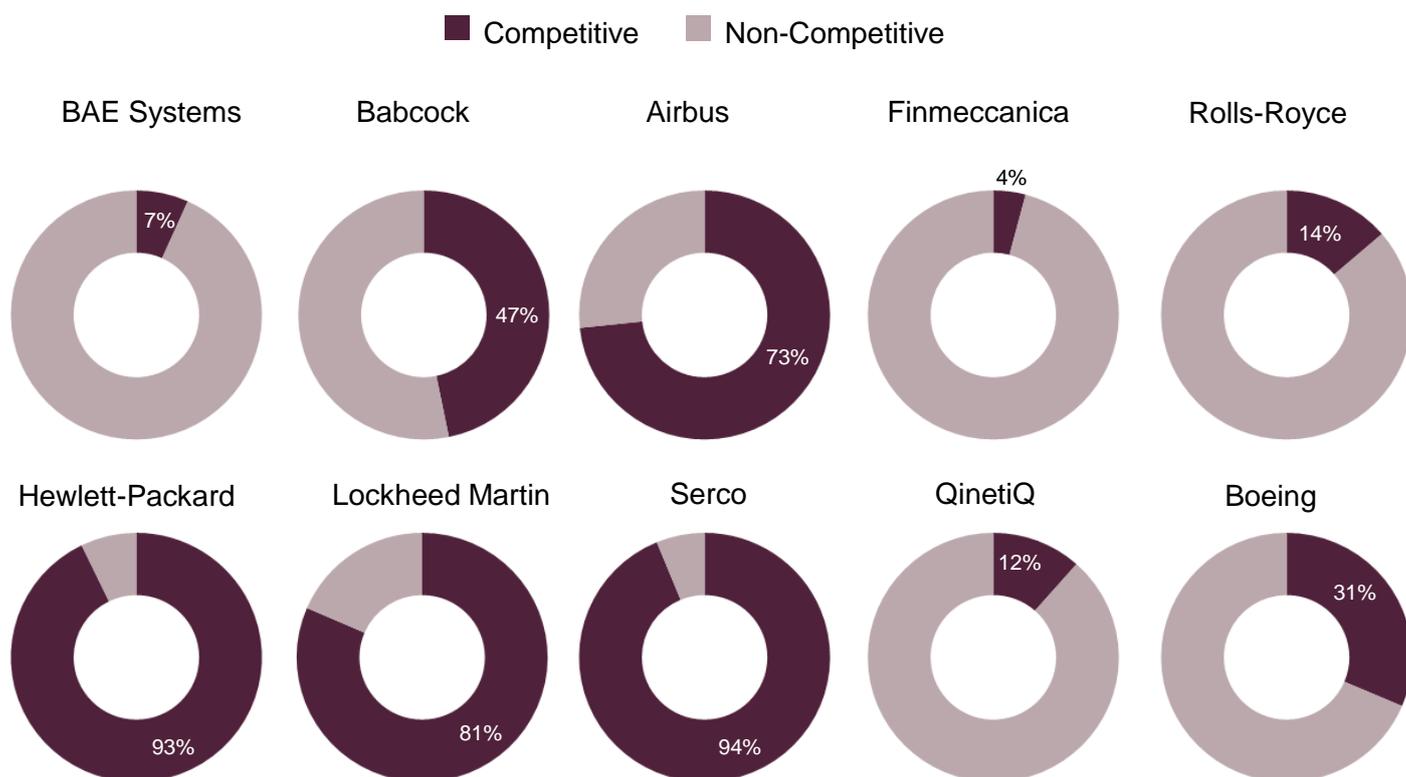
The charts below show the revenue received by the MOD’s top 10 suppliers from competitive contracts as a proportion of their overall sales to MOD during 2015/16. See the “MOD Expenditure by Competition” (Page 5) section for more detail on what a competitive contract is.

The amount of competitive contracting depends on the type of company involved. The service based companies, Serco and Hewlett-Packard, receive almost all their work through competitive contracts. The more recognisable defence focussed companies hold a lower proportion of competitive contracts by value. Some of these defence companies receive payments almost exclusively through non-competitive contracts.

The proportions have changed very little since 2014/15. The largest change was Lockheed Martin who previously received 75 per cent of payments through competitive contracts.

The proportion of payments that MOD’s top 10 suppliers receive from competitive contracts has fluctuated over time depending on the particular set of contracts held by a supplier in a particular year. Over the last 10 years, only BAE Systems has seen a significant change with the percentage share of payments received from competitive contracts, dropping from 44 per cent in 2006/07 to 7 per cent in 2015/16.

### Levels of Competitive Contracting with Top 10 Suppliers<sup>1</sup>



Source: Defence Economics analysis using DBS Finance data sources

1. A small level of miscellaneous expenditure has been excluded from these calculations as the competition status of the payments is not recorded.

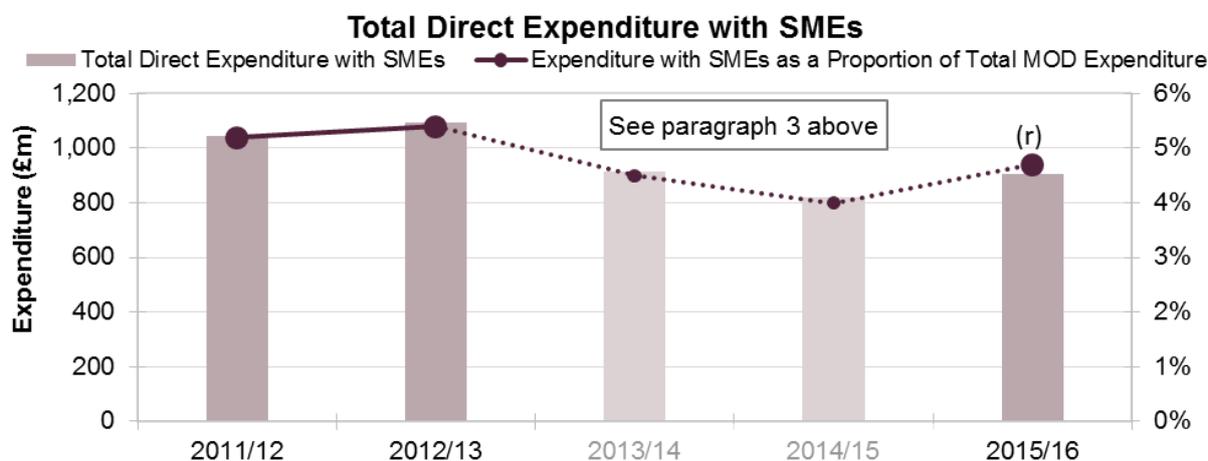
## MOD Contracting with Small and Medium-sized Enterprises (SMEs)

This section presents details of MOD expenditure and contracting with Small and Medium-sized Enterprises (SMEs). The Government's aspiration is that 33 per cent of public expenditure with third parties be placed with SMEs by the end of this parliament. To support this aspiration the MOD target is 25 per cent by 2020. MOD's expenditure is particularly important to the achievement of the overall Government position, as it accounted for some 44 per cent of the Government's overall £45 billion procurement expenditure in 2014/15. More information about the aspiration can be found [here](#).

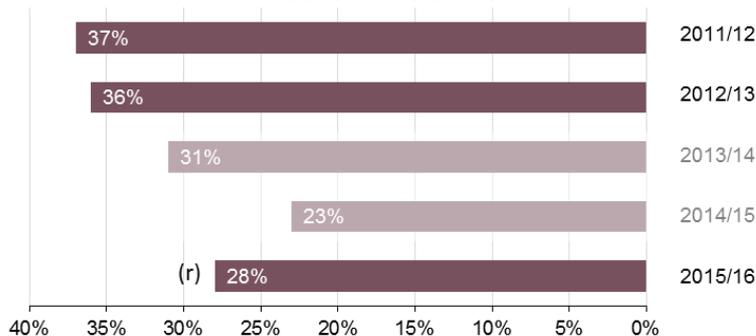
In 2015/16 MOD direct spend with SMEs amounted to around £912 million<sup>r</sup> with just under 7,540<sup>r</sup> different suppliers. MOD Core Department placed around 440 new contracts<sup>r</sup> with SMEs having a collective value of around £520 million<sup>r</sup>.

Until 2013, Dun and Bradstreet (D&B) provided assessments of the SME status<sup>1</sup> for MOD suppliers. However, in 2013/14 and 2014/15 the SME status of new suppliers was not assessed, resulting in an apparent fall in the number and value of new SME contracts and spend with SMEs in these years. **This apparent fall is primarily caused by the lack of SME assessment during this period**, and therefore should not be used to draw conclusions about true SME spending trends in 2013/14 and 2014/15.

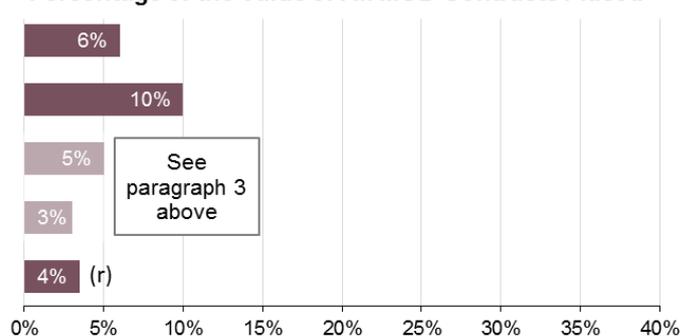
In January 2017 D&B resumed SME assessments, providing additional assessments of 11,650 suppliers to MOD. Following a review of these against specific matching criteria around 4,690 assessments were accepted against suppliers not previously assessed. Of the new assessments around 3,350 suppliers were identified as SMEs. The additional supplier assessments reflect an additional value of £150 million of direct spend with SMEs in 2015/16. However, even with the resumption of D&B assessment in 2015/16, 290 contracts remain unassessed.



**MOD Contracts Placed with SMEs as a Percentage of Total MOD Contracts Placed**



**Value of MOD Contracts Placed with SMEs as a Percentage of the Value of All MOD Contracts Placed**



Source: Defence Commercial Strategic Supplier Management

1. Dun & Bradstreet is a global source of business information and insight. The nine-digit DUNS number, assigned to each business location in their global database, is widely used as a tool for identifying, organising and consolidating information about businesses.

## New Contracts Placed

MOD Core Department, which excludes MOD Trading Funds, places numerous contracts each year for a range of goods and services, including major equipment projects, infrastructure and service support.

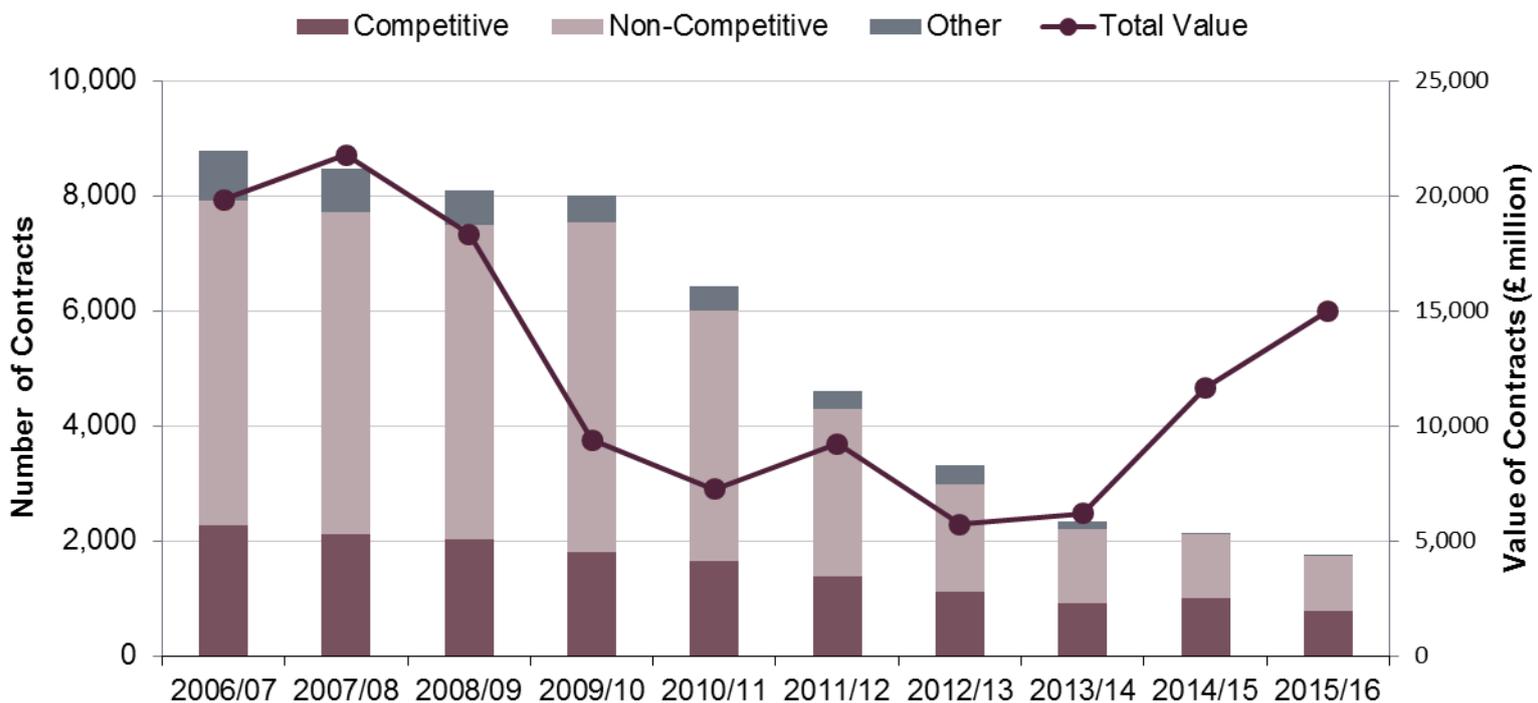
This section provides an analysis of all **new** contracts MOD Core Department placed during 2015/16 broken down by whether they were placed competitively or non-competitively. In 2015/16 **MOD Core Department placed nearly 1,750 new contracts with a collective value of £15.0 billion.**

Over time the number of contracts has fallen considerably. In 2015/16 the total number of new contracts let was only a fifth of the number of new contracts let in 2006/07. The drop in the number of new contracts let by MOD is due to a number of factors including the increased use of Pan Government Enabling contracts and the privatisation of functions such as the military logistics capability and the Defence Support Group.

In 2015/16, 45 per cent of new contracts were let competitively, compared to 47 per cent in 2014/15. The percentage had been increasing slowly since 2006/07, when it was 26 per cent.

The value of new contracts placed can be quite volatile and fluctuate from year to year, affected by particularly high value contracts. In 2015/16 a £6.3 billion **competitively let** contract, with Leidos Europe, accounted for around 40 per cent of the total value of contracts placed in that year. The contract was for the transformation, delivery and operation of MOD logistics.

**New MOD Core Department Contracts**



Source: Defence Economics (Defence Expenditure Analysis)

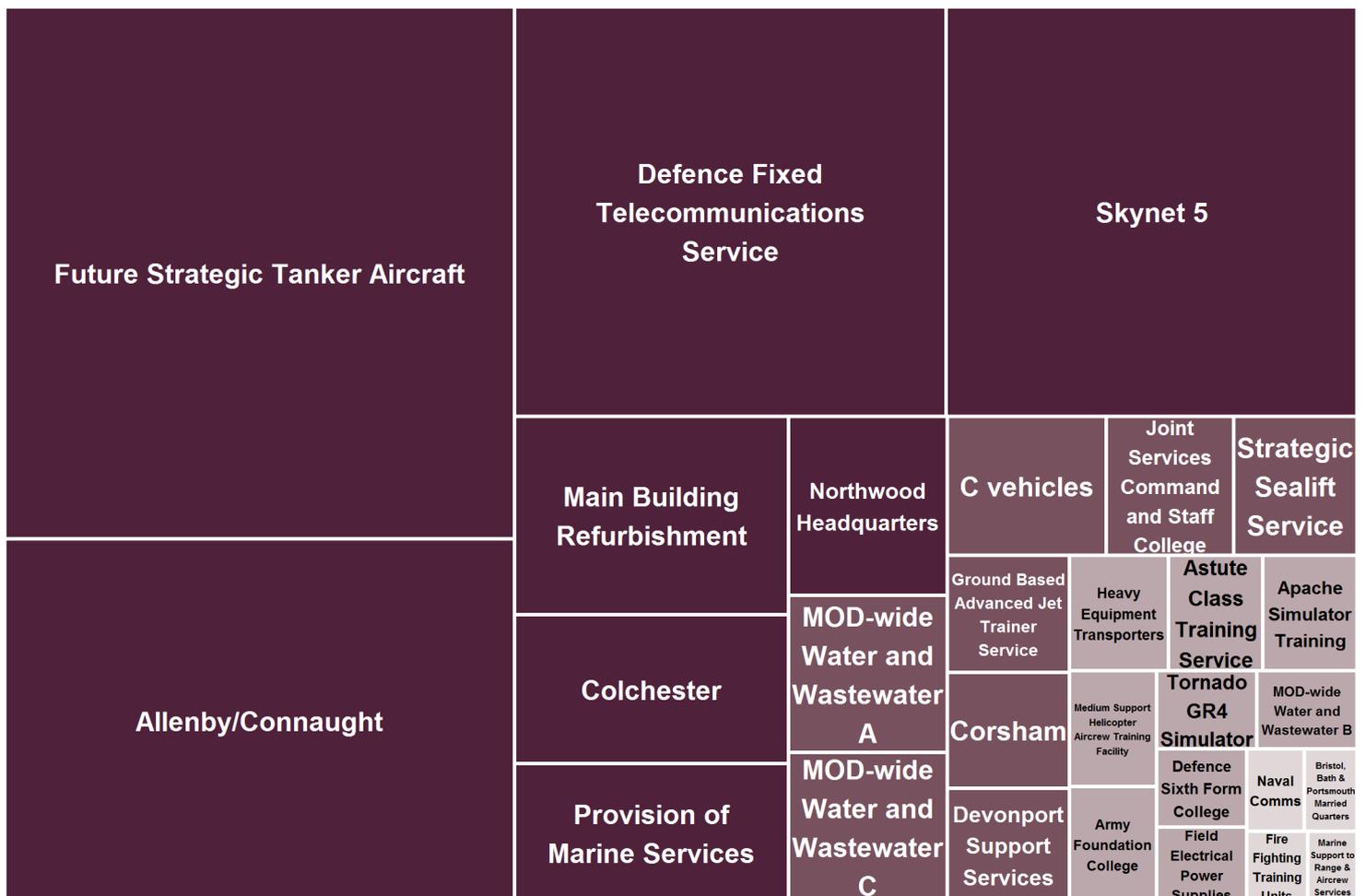
# MOD Payments on Private Finance Initiative (PFI) Projects

This section provides an analysis of Private Finance Initiative (PFI) commitments and payments by MOD during 2015/16. PFI is a system for providing capital assets (such as buildings, vehicles, equipment and water systems) for the provision of public services. Typically, the private sector designs, builds and maintains infrastructure and other capital assets, and then operates those assets to sell services to the public sector.

The values in the chart below represent payments made against contracts relating to PFI projects. They may include payments for unexpected work and services, which means they may not match the planned unitary charge for the year. The unitary charge is the regular payment for the PFI services made to the private sector partner. The PFI's presented below are 'signed' MOD projects from the HM Treasury PFI database as at April 2015. The payments data is drawn from DBS Finance. More detailed information on the through life planned unitary charges for currently signed contracts can be found [here](#).

Future Strategic Aircraft (FSTA) was the PFI in receipt of the highest amount of MOD expenditure in 2015/16 (£500 million), followed by Allenby/Connaught (£340 million) and Defence Fixed Telecommunications Service (£330 million).

**Amount Spent on PFI Projects in 2015/16**



## Estimated Defence Expenditure in the UK

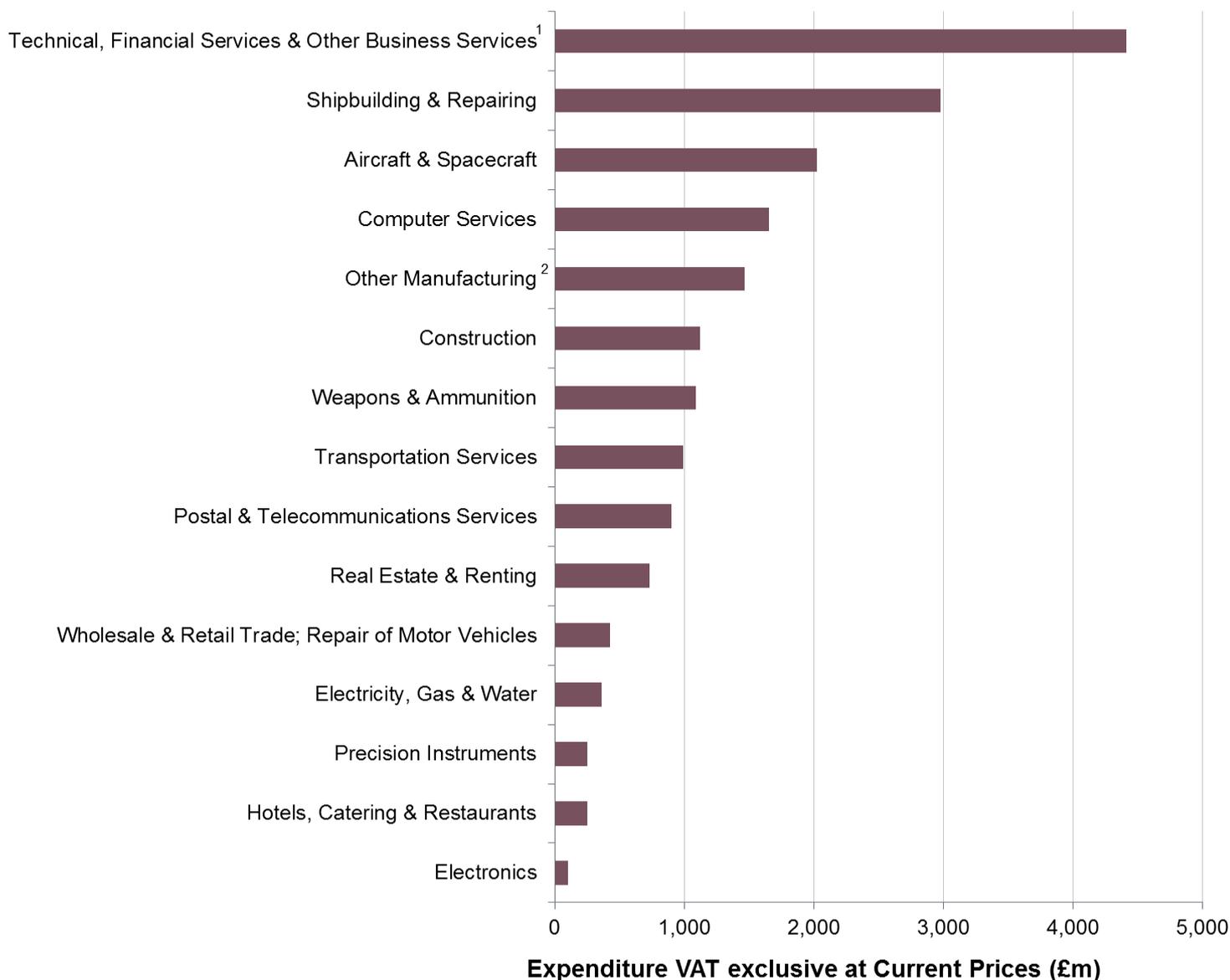
This section presents the amount of money MOD spent directly with UK industry and commerce in 2015/16 and the types of goods and services purchased. The industry groups are based on the [Standard Industrial Classification \(SIC\) 2007 guidelines](#) maintained by the Office for National Statistics.

In 2015/16, the **MOD spent £18.7 billion with UK industry**; a small decrease on the 2014/15 figure. Manufacturing accounted for under half of MOD expenditure with UK industry.

The industry group that received the highest level of expenditure from the MOD was 'Technical, Financial Services and Other Business Services', at just over £4.4 billion. This covers services for legal, accounting, management consultancy, and technical testing and analysis.

In February 2017 this table was updated to show 2015/16 figures compiled using a new methodology developed during the development of regional statistics. More information about the change in methodology can be found in the Statistical Notice found [here](#).

### UK Defence Expenditure by Industry Group: 2015/16



Source: Defence Economics (Defence Expenditure Analysis)

1. Includes 'Financial Services, Business Activities, Education, Health, & Other Service Activities'.

2. Excludes 'Weapons & Ammunition', 'Electronics', 'Precision Instruments', 'Shipbuilding & Repairing' and 'Aircraft & Spacecraft'.

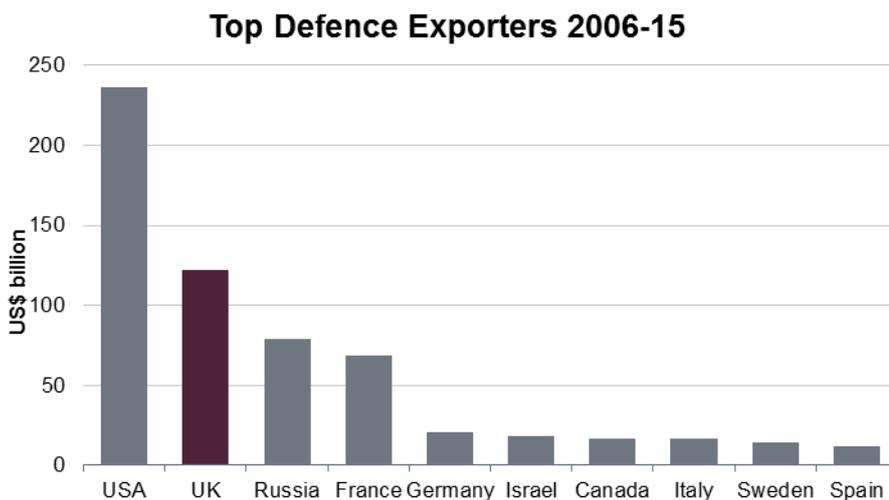
## Estimates of Identified Defence Export Orders

The estimated value of the global defence export market in 2015 was more than £63 billion, of which, **£7.7 billion originates from the UK defence industry.**

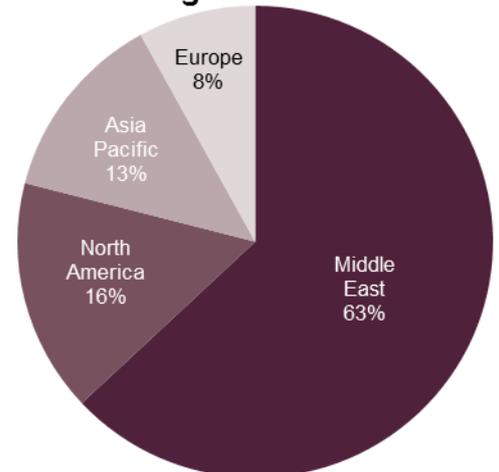
The Middle East remains an important regional market for the UK, with 63 per cent of the UK's export orders in 2015. The Royal Saudi Air Force agreed a multi-million pound order for a further 22 Hawk Advanced Jet Trainers in December 2015.

**Over the last ten years, the UK had export orders totalling US\$122 billion representing 20 per cent of the global total, and the second highest behind the USA.**

More information on identified export orders can be found in the [UKTI DSO Export Statistics for 2015](#). It should be noted that export orders can be cancelled or changed at any time after the initial order has been placed.



**UK Defence Export Orders to Regions: 2015**



Source: UKTI Defence and Security Organisations

## Balance of Payments for 'Trade in Services'

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Balance of Payments is a measure of the UK's trading account with the rest of the world. 'Trade in Services' are provisions of services (e.g. training, cleaning services, IT support) between UK residents and non-residents. It also covers transactions in goods which are not freighted out of the country in which they take place; these transactions are not recorded in the official 'Trade in Goods' statistics. A detailed discussion of these concepts can be found in the latest edition of [The Pink Book](#) published by the Office for National Statistics.

The net balance in 2015 was -£2,322 million, made up of credits amounting to £214 million and debits of £2,536 million. The £769 million change in the net balance from 2014 is mostly due to a decrease in debits with the USA and Germany, caused in part by the lower service personnel numbers now located in Germany.

### MOD Estimated Balance of Payments for 'Trade in Services'

Current Prices (£ million)

	2007	2008	2009	2010		2011	2012	2013		2014	2015
<b>Net Balance</b>	-2,338	-3,061	-3,276	-3,170		-2,948	-3,030	-3,345		-3,091	-2 322
<b>Total Debits</b>	2,763	3,366	3,619	3,504		3,249	3,289	3,580		3,336	2 536
<b>Total Credits</b>	425	304	343	334		302	259	235		245	214

Source: Defence Economics (Defence Expenditure Analysis)

## Methodology

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This short section on methodology sets out the processes and methods used to make some of the tables and charts in this bulletin. More detailed explanations of the data sources and methodologies used can be found in the related [Excel tables](#) and [Background Quality Reports](#).

### Small and Medium-sized Enterprises (SMEs)

- **Classification of Suppliers** The SME status of suppliers is determined by Dun & Bradstreet (D&B), based on the [EU definition](#). MOD quality assure the SME status of suppliers: (i) where the SME status is different to existing records or (ii) where expenditure against a new supplier is large. D&B didn't provide assessments for new MOD suppliers for 2013/14 and 2014/15, and for this reason the quality of the data cannot be guaranteed for these two financial years. In 2017 Dun & Bradstreet once again provided assessments for new suppliers for the financial period 2015/16, increasing the accuracy of the SME estimates in this financial year. However, for 2013/14 and 2014/15 many suppliers remain unassessed, so figures in these years remain at the low end of the scale for both expenditure and contracting and should not be used in time series analysis.

- **Expenditure** All suppliers in receipt of direct MOD payments are matched to the D&B dataset of SME suppliers. SME expenditure is identified from within a dataset of all expenditure on MOD HQ contracts, Pan Government Enabling Contracts, miscellaneous transactions and Government Procurement Card (GPC) payments. The percentage calculation of total MOD expenditure with SMEs excludes expenditure on GPC in the denominator, as it has not been possible to determine the SME status of suppliers in receipt of 89 per cent of GPC payments, although the low level of identifiable expenditure with SMEs is included in the numerator. All calculations exclude expenditure on subcontracts with SMEs, contracts placed by the Department's Trading Funds and contracts placed with other organisations, such as Other Government Department's, overseas governments and NHS Trusts where it is viewed MOD had no opportunity to influence placement.

- **New Contracts Placed** A similar matching process is followed as with the expenditure calculations but looks at suppliers who have awarded a HQ Contract by MOD during the most recent FY. The calculations exclude Pan Government Enabling Contracts, contracts placed by the Department's Trading Funds and contracts placed with other organisations, such as Other Government Department's, overseas governments and NHS Trusts where it is viewed MOD had no opportunity to influence placement. Contracts that may have been erroneously paid through miscellaneous transactions are also excluded.

### Defence Expenditure Outturn in the UK

The Location of Work (LOW) codes associated with HQ contracts were used to identify expenditure with UK industry. This expenditure was added to the Miscellaneous contract expenditure which had a UK postcode as the billing address. For the higher value contracts (such as those with AWE, NETMA and OCCAR), contact was made with the relevant project teams to obtain more detailed information about whether any contract expenditure occurred overseas (in which case it was removed from the analysis) and in what regions of the UK the remaining expenditure occurred. This provides more granularity and accuracy to the analysis. HQ contracts have SIC code information associated with them so this was used to break down expenditure by industry group for these contracts. Miscellaneous contracts have no SIC code assigned to them so the distribution of SIC codes from the HQ contracts was applied here. Project teams in charge of the higher value contracts were contacted to ensure that this information was correct and as only one SIC code is normally attributed to each contract when it is let we were able to identify a wider range of SIC codes

from the project teams and were then able to redistribute the expenditure accordingly. Expenditure with overseas contractors and other government departments is removed entirely. More detail about the new methodology used in this analysis can be found in the Statistical Notice that can be found [here](#).

## **Holding Companies**

Holding Companies have been compiled from supplier expenditure data taken from the DBS Finance contract expenditure database. The suppliers are then mapped to Holding Company structures based on Avention OneSource Solution supplier information. The structures are stored on an internal database and updated annually for all new companies appearing on the DBS Finance database.

The number of companies that receive over £50 million does not change much over time but any new companies that might receive over £50 million are identified as part of the annual update.

Where a company is part of an identified Joint Venture, expenditure is attributed to the company based on their percentage share. For example, if Serco owns 33 per cent of AWE Management, then 33 per cent of the MOD spend with AWE Management is assigned to Serco. Trading Funds data is included in the process. Expenditure with consortia, such as the Modus Services Ltd Private Finance Initiative to redevelop Main Building in London, are not distributed amongst the members of the consortia.

## **Balance of Payments**

Balance of Payments is a measure of the UK's trading account with the rest of the world. 'Trade in Services' are provisions of services (e.g. training, cleaning services, IT support etc.) between UK residents and non-residents, and transactions in goods which are not freighted out of the country in which they take place.

Foreign Currency expenditure is obtained from a number of data sources within Departmental Financial Management Systems (DFMS). It is assumed that the foreign currency is spent overseas. A return from DBS Finance provides details of whether reported overseas expenditure is on goods and services. A further report run by DBS identifies overseas receipts and the level of receipts for services received from US Forces based in the UK.

## **New Contracts**

Includes details of all HQ contracts, which are contracts set up by means of a DEFFORM57, where payment is through DBS Finance. Contracts have been included in the relevant financial year based on the start date of the contract provided in the DEFFORM57. Details of the Competition marker are also taken from the DEFFORM57.

Pan-government enabling contracts have been removed from the analysis as the value recorded on the DBS Finance database reflects the cross-government total contract value, rather than the MOD element. Additionally in 2015/16, around 60 contracts were removed because they were not MOD owned contracts. The contracts related to the privatised Defence Support Group (DSG) and the outsourcing of the military logistics capability to Leidos.

Included in the analysis are contracts set up for the MOD using the Crown Commercial Service (CCS). The Crown Commercial Service manages the procurement of common goods and services, so that public sector organisations with similar needs achieve value by buying as a single customer.

## Glossary

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**Balance of Payments** The UK's Balance of Payments (BoP) is a measure of the UK's trading account with the rest of the world. It is one of the UK's key economic statistical series. MOD BoP statistics support the ONS estimate of the UK's BoP.

**Core Department** Entities within the MOD Departmental Boundary but excluding the two Trading Funds (DSTL and UKHO).

**Crown Commercial Service (CCS)** manages the procurement of common goods and services so that public sector organisations achieve value by buying as a single customer.

**DBS Finance** provides expert information, advice and services to and on behalf of MOD business areas, including processing four million invoices, totalling more than £23 billion a year. See also **Defence Business Services**.

**DEFFORM 57** Completion of this form is mandatory for all contracts where the Defence Business Services (DBS) is the payment authority. It is used to set up a contract with DBS for payment purposes and is an important source of capturing data on contract activity within the Ministry of Defence.

**Defence Business Services (DBS)** was established on 4 July 2011 to transform the delivery of corporate services to the Department. The services delivered initially included: Civilian HR, Finance, Information Systems and some Information Services. On 1 April 2014 DBS merged with the Services Personnel & Veterans Agency and now has responsibility for managing HR processes for Military personnel including pay and pensions. Also see **DBS Finance**.

**Defence Equipment & Support (DE&S)** At 1 April 2007, the Defence Logistics Organisation and the Defence Procurement Agency merged to form Defence Equipment & Support. DE&S equips and supports the UK's armed forces for current and future operations. It acquires and supports through-life equipment and services ranging from ships, aircraft, vehicles and weapons, to electronic systems and information services. DE&S satisfies ongoing requirements including food, clothing, medical supplies, maintenance and temporary accommodation. It operates HM Naval Bases and the joint supply chain for land, sea and air.

**Defence Science and Technology Laboratory (DSTL)** is a Trading Fund of the MOD created in July 2001. It supplies impartial scientific and technical research and advice to the MOD and other government departments.

**Defence Support Group (DSG)** was a former Trading Fund of the MOD created following the merger of Army Base Repair Organisation (ABRO) and Defence Aviation Repair Agency (DARA) on 1 April 2008. On 1 April 2015 the land repair and maintenance business was sold to Babcock. The remaining part of the business, the Air division and Electronics and Components division, stayed under MOD ownership.

**Departmental Financial Management Systems (DFMS)** provides all the systems and processes required for effective financial management of the Department's operations. The system comprises a number of applications but is mainly ORACLE driven.

**Dun & Bradstreet (D&B)** provides a global source of business information and insight. See **DUNS Number**.

**DUNS Number** A nine-digit DUNS Number is assigned to each business location in the D&B global database. It is widely used for identifying, organising, and consolidating business information.

**Enabling Contract** A contract which, once initially set up, can be used to procure goods and services where requirements arise on a regular basis. It combines the benefits of reduced process costs with enhanced buying power from consolidating requirements.

**Government Procurement Card (GPC)** was introduced in 1997 as a convenient and cost-effective way to make low-value purchases. The card was made available to all public sector organisations, including central government departments, local authorities and NHS organisations.

**Holding Company** refers to companies which are the full or part owners of other companies.

**HQ Contracts** are formal contracts set up by MOD Core Department which require a DEFFORM 57 to be raised.

**Major Projects Report (MPR)** is the National Audit Office (NAO) annual report to Parliament on progress in equipment procurement. It provides a summary of each project's current status and progress to date. It provides comparisons on current forecast costs and in-service dates.

**Ministry of Defence (MOD)** is the United Kingdom Government Department responsible for implementation of Government defence policy. It is the headquarters of the British Armed Forces. The principal objective of the MOD is to defend the United Kingdom and its interests. The MOD manages day to day running of the armed forces, contingency planning and defence procurement.

**Miscellaneous Contracts** The payment method employed by DBS Finance (the MOD's primary bill paying authority) for running service items such as the provision of utilities. These items are covered by "miscellaneous" transactions, where no 'MOD HQ Contract' exists. These agreements for goods or services will have been set up locally between the MOD Branch and the supplier, and are legally binding.

**National Audit Office (NAO)** scrutinises public spending on behalf of Parliament. It is independent of Government and audits the accounts of all government departments and agencies as well as a wide range of other public bodies. It reports to Parliament on the economy, efficiency and effectiveness with which government bodies have used public money.

**NATO Eurofighter and Tornado Management Agency (NETMA)** is the prime contractor for the Eurofighter Weapon System. The arrangements for the management of the Eurofighter programme were set out in the NATO Charter dated 18 December 1995, in which the international management agencies of the Tornado and Eurofighter programmes were integrated into a single agency, NETMA. This NATO agency is essentially a multi-nation HQ project office for these two collaborative projects, involving the UK, Germany, Italy and Spain. In the UK, Eurofighter is now called 'Typhoon'.

**Novated Contract** A contract which has been taken on by a new contractor/supplier following an agreement with the original owner of the contract.

**OCCAR (Organisation Conjointe de Cooperation en Matiere d'Armement) – the Organisation for Joint Armaments Co-operation** was originally set up in November 1996 by France, Italy, Germany and the UK with the aim of improving the efficiency and lowering the cost of managing co-operative defence equipment programmes involving European nations (e.g. A400M). Belgium and Spain are now also members.

**Office for National Statistics (ONS)** is responsible for the production of a wide range of independent economic and social statistics. The statistics are there to improve understanding of the United Kingdom's economy and society, and for planning the proper allocation of resources, policy-making and decision-making. It is the executive office of the UK Statistics Authority, a non-ministerial department which reports directly to Parliament. ONS is the UK Government's single largest statistical producer.

**Pink Book** Detailed annual estimates of the UK Balance of Payments including estimates for the current account (trade in goods and services, income and current transfers), the capital account, the financial account and the International Investment position.

**Private Finance Initiative (PFI)** is a system for providing capital assets for the provision of public services. Typically, the private sector designs, builds and maintains infrastructure and other capital assets (such as buildings, vehicles, equipment and water systems) and then operates those assets to sell services to the public sector. In most cases, the capital assets are accounted for on the

balance sheet of the private sector operator.

**QinetiQ** Formerly part of the Defence Evaluation and Research Agency (DERA). QinetiQ became a limited company in July 2001. UK government holds a Special Share, through the Secretary of State for Defence, which confers certain rights to protect UK defence and security interests.

**Small and Medium-sized Enterprises (SME)** are organisations that have less than 250 employees **and** one of the following: a) turnover less than 50 million euros or b) balance sheet total less than 43 million euros.

**Smart Acquisition** is a long-term MOD initiative to improve the way defence capability is acquired. MOD no longer replaces military equipment, services, estates or business information systems on a like-for-like basis but instead takes into account how such a capability will integrate with other capabilities to achieve optimum effect by its Armed Forces. A through-life approach to acquisition is adopted, rather than concentrating resources on the initial procurement.

**Standard Industrial Classification (SIC)** classifies business establishments and other statistical units by the type of economic activity in which they are engaged. The classification is maintained by the **ONS**.

**Terms of Business Agreement (TOBA)** aims to create a more disciplined interface between the key acquisition parties (e.g. MOD and DSTL), strengthening the relationship between the main parties involved in acquisition.

**Trading Funds** were introduced by the Government under the Trading Funds Act 1973 as a “means of financing trading operations of a government department which, hitherto, have been carried out on Vote”. They are self-accounting units that have greater freedom, than other government departments, in managing their own financial and management activities. They are free to negotiate their own terms and conditions with their staff. For this reason their grading structures do not always match that of the rest of the Ministry.

The MOD Trading Funds are currently Defence Science & Technology Laboratory and UK Hydrographic Office.

**UK Hydrographic Office (UKHO)** was formed as a Trading Fund of the MOD in 1996 and is responsible for surveying the seas around the UK and other areas, to aid navigation.

**UK Statistics Authority (UKSA)** is an independent body, and is directly accountable to Parliament. It was established on 1 April 2008. The Authority's overall objective is to promote and safeguard the quality of Official Statistics that serve the public good. It is also required to safeguard the comprehensiveness of Official Statistics, and ensure good practice in relation to Official Statistics. The UK Statistics Authority has three main functions: oversight of the Office for National Statistics (ONS) (its executive office), monitoring and reporting on all UK Official Statistics, and independent assessment of Official Statistics.

**UK Trade & Investment Defence & Security Organisation (UKTI DSO)** works with industry and overseas governments to ensure UK equipment, products and services are promoted in the best possible way and that the overseas customer's requirements are appropriately met and supported by industry through life.

## Further Information

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### Symbols

	discontinuity in time series
*	not applicable
..	not available
p	Provisional
r	Revised
–	Zero or rounded to zero

*Italic* figures are used for percentages and other rates, except where otherwise indicated.

### Rounding

Where rounding has been used, totals and sub-totals have been rounded separately and so may not equal the sums of their rounded parts.

### Revisions

There are no further planned revisions of this Bulletin. Corrections to the published statistics will be made if errors are found, or if figures change as a result of improvements to methodology or changes to definitions. When making corrections, we will follow the Ministry of Defence [Statistics Revisions and Corrections Policy](#). All corrected figures will be identified by the symbol “r”, and an explanation will be given of the reason for and size of the revision. Corrections which would have a significant impact on the utility of the statistics will be corrected as soon as possible, by reissuing the publication. Minor errors will also be corrected, but for convenience these corrections may be timed to coincide with the next annual release of the publication.

The number of new contracts, and their value, in 2015/16 (pages 11 and 12) were updated in early November as part of a planned update of the bulletin. This update now includes late reported contracts, which have a start date during 2015/16 and which have been added to the DBS Finance Database between July and October 2016. Tables 6b and 7 of the excel tables have been similarly updated.

This bulletin was revised again in February 2017 to incorporate 2015/16 data on expenditure with UK industry (page 14). This updates the 2014/15 figures previously included in this bulletin and have been calculated using a new methodology developed as part of work being undertaken to produce estimates of regional UK expenditure with industry. The regional estimates will be published in March 2017 and will be based on the estimates shown on page 14.

This bulletin was revised further in March 2017 when new SME supplier assessments were provided by Dun & Bradstreet for 2015/16. This allowed for estimates of the number of contracts and expenditure with SMEs in 2015/16 to be updated (p11). However, assessments were not provided for the years 2013/14 and 2014/15 (see Methodology) and are unlikely to be provided in the future, so the figures for these two years are not revised and remain as published in previous versions of this bulletin and should not be used in time series analysis.

A further revision occurred in April 2017 when the glossary description of QinetiQ was revised following advice from the company.

## Further Information (cont.)

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### Contact Us

Defence Economics welcomes feedback on our statistical products. If you have any comments or questions about this publication or about our statistics in general, you can contact us as follows:

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If you require information which is not available within this or other available publications, you may wish to submit a Request for Information under the Freedom of Information Act 2000 to the Ministry of Defence via the following link:

<https://www.gov.uk/make-a-freedom-of-information-request/the-freedom-of-information-act>

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