

# Background Quality Report: Defence Economics Contracts/Commercial Statistics

## Section 1: Introduction

### 1.1 Overview of the Statistical Output

These statistics provide information about the Ministry of Defence (MOD)'s spending with industry and commerce which forms a large proportion of Departmental expenditure. The underlying commercial data is used for a wide range of purposes both within the Department and externally to provide accountability and transparency to parliament and the public. From 2013 these tables have been incorporated into a new Finance Bulletin 1.01 called "Trade, Industry & Contracts". This bulletin is an amalgamation of 3 Sections from the old UK Defence Statistics and is aimed to be published in early August each year.

These statistics set out the numbers, types and values of contracts placed by the MOD, major equipment projects and payments made by the MOD to its top 10 suppliers. The supplier information (Tables 1.01.02 and 1.01.03) is presented in payment bandings and alphabetically ordered to allow easy comparison with the previous year's table. From 2012 a link has been provided to spreadsheets, which contain the actual amounts paid to companies, rounded to the nearest £1 million. This followed the release of transaction level data into the public domain under the Government's Transparency Agenda, which generated some interest from the media due to the divergence between the statistics Defence Economics release and their analysis of the transactions data. From 2014, the supplier information tables now include information on expenditure by MOD Trading Funds - Defence Science Technology Laboratory (Dstl), Defence Support Group (DSG) and UK Hydrographic Office (UKHO).

#### History

These tables have been produced for at least 30 years. Prior to UK Defence Statistics (UKDS), they featured in Volume 2 of the Statement on the Defence Estimates which the MOD had a statutory requirement to publish. When DASA became an agency in 1992, UKDS became DASA's flagship publication and the publication of these statistics moved into UKDS. Data on PFI contracts is still provided by HM Treasury with input from the MOD private Finance Unit.

From 1<sup>st</sup> April 2013 the Directorate formerly known as DASA was split into two one-star analytical business areas within the Head Office Strategy Directorate – Defence Economics and Defence Statistics. Contract & Commercial Statistics are produced by Defence Economics and are referred to as such in this document. Current and historical publications are stored on the GOV.UK website and are updated regularly by the Directorate Media and Communications. Links and references point to the GOV.UK website.

#### Strengths and Weaknesses

The strengths of these statistics are that they provide clarity on a large area of MOD spending and provide transparency on our engagement with suppliers. The data are presented in a clear format with charts and diagrams used to complement the key tables. The inclusion of Trading Funds data since 2014 provides even more granularity about where, and with whom, MOD spends its money.

There are a number of weaknesses relating to data quality and presentation following the transparency agenda.

### Future Improvements

- Strengthen the governance framework for the production and release of contracts data, and set a strategic direction for commercial MI.
- Improve the quality of data input on Def Form 57 (the complex data capture form completed by MOD commercial officers).
- Further consolidation of Departmental IT systems and in-house databases.
- Improved awareness and education amongst MOD commercial officers of the value of the Def Form 57 data for senior management and policy branches.

### Latest Publications

1. [Finance Bulletin 1.01 – Trade, Industry & Contracts](#)
2. [Note explaining the divergence between UKDS and transactions data.](#)
3. [Note explaining the change of data source for contracts data.](#)
4. [NAO Major Projects Report 2013](#)

## 1.2 Producer Information

These statistics are produced by the Defence Expenditure Analysis area within Defence Economics, which is part of the Ministry of Defence (MOD). The responsible statistician for these statistics can be contacted by emailing [DefStrat-Econ-ESES-DEA-Hd@mod.uk](mailto:DefStrat-Econ-ESES-DEA-Hd@mod.uk).

Further details about how to contact Defence Economics and Defence Statistics can be found [here](#).

## 1.3 Summary of Method and Processes used to Compile Outputs

We use the single source of contracts data – Purchase to Payment (PtP) - which is used by the MOD's primary bill paying authority. Contract information is collected on the Def Form 57 which is the statistical input form completed by commercial officers at the start of a contract. We have carried out investigations into the quality of contracts data and cleanse the fields most relevant to our analysis. We cross-check the total spend figures with the MOD bill paying authority and in certain cases with individual Project Teams as validation during production. The presentation and source of data on new contracts changed for UK Defence Statistics 2011 and further information about this can be found [here](#).

Government Procurement Card (GPC) payment information is used to produce more robust information in Table 1.01.02a (Organisations paid £5 million or more). In Table 1.01.03 we use the OneSource website and individual company reports for information about company structures and annual turnover. The MOD's Supplier Relations Team provides information and advice on Joint Ventures.

From 2014, Tables 1.01.02a, 1.01.02b, 1.01.03 and 1.01.04 includes information taken from the MOD Trading Funds own payments systems. The payments have been added to the payments made to companies by MOD Main, via the DBS Liverpool Contracts database, and provide more granularity to where MOD spends its money with industry.

Major Projects Report information is provided for use in Table 1.01.01 (Major Equipment

Projects) and originates from the Corporate Management Information System (CMIS) and the published Major Projects Report.

#### 1. 4: Other Documentation

[Defence Statistics Pre-Release Access lists](#)  
[Defence Statistics Confidentiality Policy](#)  
[Defence Statistics Revisions Policy](#)  
[Statement of Administrative Data Sources](#)

## Section 2: Quality Dimensions

**2.1 Relevance:** The degree to which the statistical product and underlying data meet user needs for both coverage and content.

In addition to the tables published in Finance Bulletin 1.01, the underlying data is used to provide input to Office for National Statistics publications and we answer a high volume of external correspondence (Parliamentary Questions and Freedom of Information requests) relating to commercial/contracts data. Common requests are for: spending with suppliers (overall and for specific companies); details of suppliers providing specific types of service such as Consultancy and Training; contract expenditure by industry sector and details of contracts in specific location of work areas (normally associated with Ministerial visits or base closures).

Researchers, academics, politicians and journalists all use this data, often to make or support political points. Other external users include the Defence Industry, specifically we are aware of ADS group (who use the data to establish their membership thresholds), the Defence Industrial Council, BAE Systems, Babcock International and the Royal United Services Institute (RUSI). Table 1.01.03 was developed and published at the request of external users.

There is a high level of demand for bespoke special purpose analysis of this data to support key MOD policies and studies. Recent analysis has been performed to support various work strands for the Defence Industrial and Technology White Paper and the Single Source Contracting Review. We have been heavily involved in providing analysis of MOD expenditure and contracts held with Small and Medium sized Enterprises (SME) and the Materiel Strategy Review. Our secretariat contacts use the data to answer PQs and FOIs, along with briefing for ministers, the press office and senior officials.

We have provided data and assistance to other areas of Defence Economics and Defence Statistics, particularly the Price Indices team who use this data to estimate defence inflation, and Health Information who are required to report MOD spend on pharmaceuticals.

Other internal users use the data to:

- provide evidence of MOD spend with specific companies;
- ensure correct processes are being followed when new contracts are being set up;
- monitor value and spend on new contracts;
- assist in contract renegotiations;
- review the terms and conditions of single source contracts;
- add value to briefings prior to Ministerial company visits.

### **Unmet User Needs**

We have had requests to provide the details of the top suppliers in specific spend categories. It is not possible to accurately link the contracts data to accounts data which would be required to answer this type of question.

**2.2 Accuracy:** The closeness between an estimated result and the (unknown) true value, and the accuracy of the raw data.

### **Coverage of the Contracts Database**

The contracts database covers a significant subset of MOD expenditure excluding pay and personnel costs; it provides information on those contractual bills paid directly by the MOD's bill payments centre to defence suppliers<sup>1</sup>. Defence Economics utilise the data to provide information and statistics about MOD expenditure. It is estimated that the data contained on the database covers around 95% of all payments made to defence suppliers. It does not cover those payments which may have been made (a) on behalf of other government departments, (b) by the Executive Non Departmental Public Bodies (which lie outside the MOD's accounting boundary), (c) locally by the Department, (d) through third parties such as prime contractors or other government departments, (e) by MOD Trading Funds and (f) in relation to collaborative projects where the payments are made through international procurement agencies or overseas governments.

Furthermore, VAT complicates any analysis of the coverage of the database and complete data from the Def Form 57 data capture form are not available on every contract entry:

- i) If a contractor with whom the MOD has an existing Enabling Agreement undertakes further work on it then the Commercial Branch is not required to complete another Def Form 57. For any work done under such agreements the database will record the company name, contract number, Resource Account Code and payments made. We will not know, for example, the location of the work or Standard Industrial Classification of work subsequently placed under the agreement.
- ii) As indicated above, the contracts database does not capture information on payments to contractors on international collaborative projects. The absence of these data is a concern to us as these can be significant. We note, however, that the sums involved are not identifiable from the MOD's bill payments centre. As collaborative procurement continues to expand, the need for these data will grow. (There are further complications with such tasks: should the NATO Eurofighter and Tornado Management Agency (NETMA) payment be associated with the UK firms or strictly divided among all the suppliers appropriately?)
- iii) Annually, payments of around £5 billion are made to Miscellaneous contracts on the database, yet the details retained on these individual contract payments are particularly limited. In addition in 2013/14 around £3m of payments are recorded against "Non Registered Contractors" on the database, with this figure having reduced considerably over the years as MOD strives to categorise all of its miscellaneous expenditure. Again, full data on these contracts are limited as a Def Form 57 is not raised on these transactions. Typically, payments to Non Registered Contractors include payments of foreign currency purchases and one off sundry payments.
- iv) The introduction of P2P (e-commerce) did lead to some contracts appearing on the system twice, sometimes with different contract values. Work has been undertaken in Defence Commercial to address this issue and only a small number of these duplicates now remain.

- v) Defence Expenditure Analysis (DEA) now sends out lists of new high value contracts (over £10m) to Commercial Operating Centres to check that the correct values are recorded on the DBS Finance database.
- vi) From 2014, DEA has been able to access expenditure details made by the MOD Trading Funds to Industry and are able to identify expenditure totals by contractor. This information is merged with the DBS Liverpool contracts data using Excel. DEA do not have access to the detailed contract information or the reason for the payments.

### **Coding of the Def Form 57 During Data Input**

Time and resources limit the manual checks which the bill payments centre are able to make on data sent in by Commercial Staff prior to entry on the system. Indeed the payments centre staff probably do not have the knowledge to amend data fields. They check and verify only that the mandatory fields are completed. They advise that a significant proportion of the forms that they receive contain errors or missing fields.

As far as we are aware, no automated system exists to check the accuracy of bill payments data entry. Analysis of the database suggests that the problem posed by typing errors is relatively small. Work is currently being undertaken by Defence Business Services (DBS) Finance to identify data errors and work is being managed by the Commercial Management Data Working Group (CMDWG). The Commercial Officers tend to be quite prompt in sending in their Def Form 57 once a contract has been signed. Improvements have been made in this area with the majority of Def Form 57's now being input through an electronic system called ASPECT, which is helping to improve the accuracy of the data

### **Completion of Def Form 57**

It appears that most Commercial staff endeavour to fill in the form as well as they can, though the entries provide them with no benefit. The process through which the data are collected appears to work reasonably well. The Commercial Officer who signed the contract is also required to sign the Def Form 57. However, in the majority of cases, the person signing the contract delegates the completion of the form to another member of the team. Some training may therefore be required for these staff, as the Commercial Officer who agreed the contract does not always check the entries on the Def Form 57 before signing it. DEA are currently working with Commercial staff to identify the right forum for providing briefings to new and existing Commercial staff.

### **Revisions**

Any errors are flagged in the commentary to the table when corrected. In the past when implementing corrections we have written to members of the Commercial Management Information Steering Group (CMISG) to explain the errors. We also announced the errors on the GOV.UK website.

We follow the [Defence Statistics Revisions Policy](#).

**2.3 Timeliness and Punctuality:** Timeliness refers to the lapse of time between publication and the period to which the data refer. Punctuality refers to the time lag between the actual and planned dates of publication.

The publication date for Finance Bulletin 1.01 is decided by the editor and these tables are published approximately 4 months after the end of the financial year that the data relates to.

All releases of these tables have been punctual although they were delayed in UKDS 2012 because of the late publication of the MOD Accounts data used in other sections within Chapter 1.

**2.4 Accessibility and Clarity:** Accessibility is the ease with which users are able to access the data output, also reflecting the format(s) in which the output is available and the availability of supporting information. Clarity refers to the quality and sufficiency of the metadata, illustrations and accompanying advice.

Defence Economics publish this data through Finance Bulletin 1.01, which is freely available on the GOV.UK website. The data in the 2014 Bulletin 1.01 can be downloaded in several formats (e.g. Excel and PDF) and is accompanied by commentary to provide supporting information, along with links to relevant publications.

The supplier information (Tables 1.01.02a, 1.01.02b and 1.01.03) is presented in payment bandings and alphabetically ordered to allow easy comparison with the previous year's table. From 2012 a link has been provided to spreadsheets, which contain the actual amounts paid to companies, rounded to the nearest £1 million. This followed the release of transaction level data into the public domain under the Government's Transparency Agenda, which generated some interest from the media due to the divergence between the statistics we release and their analysis of the transactions data. Table 1.01.03 lists only those holding companies with whom MOD has spent over £50 million, due to cost and time constraints.

From 2014, expenditure by MOD Trading Funds has been added to 1.01.02 and provides greater visibility of contractors with whom MOD spends its money.

Presentation of the Major Equipments Project data was designed to align with the CADMID procurement cycle and there is explanation of this cycle within the table.

We are currently undertaking a review of the Finance Statistics Bulletin commentaries and have made changes to improve accessibility and clarity. We have received no feedback relating to accessibility and clarity. If you have feedback please [contact us](#).

**2.5 Coherence and Comparability:** Coherence is the degree to which data that are derived from different sources or methods, but which refer to the same phenomenon, are similar. Comparability refers to the degree to which data can be compared over time and domain.

Due to changes in data availability, Table 1.01.06 (New contracts placed by type) has been derived from a different data source since UKDS 2011. The data is presented with a time series but the table is not consistent with the tables published in previous editions of UKDS. Further information about this change can be found in the [Statistical Notice](#) accompanying the table.

Table 1.01.01 is coherent with the Major Projects Report.

The transaction level data published under the transparency agenda is not directly comparable with the data in Tables 1.01.02 and 1.01.03. These issues were highlighted in a [statistical notice on the Defence Statistics website](#), a link to which has been added in the table commentary.

**2.6 Trade-offs between Output Quality Components:** Output quality components are not mutually exclusive in the sense that there are relationships between the factors that contribute to them. There are cases where the factors contributing to improvements with respect to one component lead to deterioration with respect to another.

There are no trade-offs relevant to these statistics.

**2.7 Assessment of User Needs and Perceptions:** Users are provided with products and services that meet their needs. The articulated and non-articulated needs, demands and expectations of external and internal users should guide the department.

Users are encouraged to provide feedback on Statistical Bulletins. The further information page contained within each bulletin provides details on how to contact the responsible statistician and there is also the opportunity to do so through the feedback pages on the GOV.UK website. Users can be informed of the latest changes to statistics through the GOV.UK website and through consultation exercises where significant change is proposed.

More informally, we monitor the requests for information that we receive from within the MOD and from outside, and respond accordingly. We have been actively involved in User Engagement and have interacted with the user community on the 'Think Defence' website, who have used our outputs in some of their blogs.

Our current assumptions about users and uses of these statistics are contained in [Section 2.1 - Relevance](#). If you use these statistics in another way please [contact us](#).

**2.8 Performance, Cost and Respondent Burden:** Resources must be effectively used. The desired outcome must be produced cost effectively. Respondent burden should be proportional to the needs of users and not excessive for respondents.

In producing these statistics, our main data sources are administrative data which are used for a number of purposes.

**2.9 Confidentiality, Transparency and Security:** The privacy of data providers (e.g. administrations, enterprises and others), the confidentiality of the information they provide and its use only for statistical purposes must be absolutely guaranteed. The department must produce and disseminate statistics respecting scientific independence and in an objective, professional and transparent manner in which all users are treated equitably.

In producing these statistics, we adhere to the [Defence Statistics Confidentiality Policy](#). A disclosure policy for commercial data has been agreed and a process now exists for deciding on the release of data that is consistent with the Transparency Agenda and the existing rules relating to the answering of Freedom of Information requests.

Expenditure with suppliers data is presented in bandings with suppliers ordered alphabetically to avoid disclosure. In light of transparency, our approach to confidentiality and disclosure has had to change with the actual amounts of money paid to companies now included as part of the table.

We adhere to the principles and protocols laid out in the Code of Practice for Official Statistics and comply with pre-release access arrangements. The [Defence Statistics Pre-Release Access lists](#) are available on the GOV.UK website.

We maintain good links with policy colleagues to ensure that these statistics are understood

and prevent misuse. Finance Bulletin 1.01 contains commentary explaining these statistics which we have recently reviewed.

The formation by Defence Economics of the pan MOD Commercial Data Working Group (CDWG) in October 2008 was an attempt to brigade the commercial community of users, customers, IT specialists and policy branches to consolidate the processes and tasks performed under the commercial MI umbrella. It also (crucially) undertook to develop a governance framework and sought to identify a single strategic process owner. Alongside these central themes, Defence Economics initiated a 7 strand development programme aimed at improving the current state of commercial MI, consolidate the systems and bring consistency to external and internal statistics and analysis, through a pan-MOD disclosure policy. This work programme was approved at a senior level and endorsed by the MOD's internal audit professional at the time. The recently formed Commercial Management Information Steering Group (CMISG) and Commercial Management Data Working Group (CMDWG) are now working to further develop the strategic direction of the commercial management information area. Alongside this work, the MOD finance policy area has instigated a review of current commercial and financial Management Information in order to simplify roles and ensure a consolidation of data sources.

The team operate a secure environment for the storage of sensitive commercial data and other linked data.