



# Ministry of Defence

## Annual Statistical Series 1 Finance Bulletin 1.01a MOD Contracting with Small and Medium-sized Enterprises: Direct Expenditure 2013/14

### Statistical Release

Published 28 May 2014

Issued by:

Defence Economics  
(Defence Expenditure Analysis),  
Ministry of Defence,  
Oak 0W,  
Abbey Wood,  
Bristol,  
BS34 8SJ.

The Responsible Statistician for this  
publication is the Defence Expenditure  
Analysis Head of Branch.  
Tel: 030 679 34531  
Email: [DefStrat-Econ-ESES-DEA-  
Hd@mod.uk](mailto:DefStrat-Econ-ESES-DEA-Hd@mod.uk)

A Background Quality Report for this  
publication can be found [here](#).

If you would like to be added to our  
contact list, so that we can inform you  
about updates to these statistics and  
consult you if we are thinking of making  
changes, you can subscribe to updates  
by emailing:  
[DefStrat-Econ-ESES-DEA-  
OutptMgr@mod.uk](mailto:DefStrat-Econ-ESES-DEA-OutptMgr@mod.uk)

Statistical Bulletin Series 1 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 other countries.

This bulletin provides updated estimates of MOD direct expenditure with SMEs, first presented in an [experimental bulletin](#) published October 2013. These estimates, along with estimates of new MOD contracts placed with SME, will be presented in "Statistical Bulletin 1.01 – Trade, Industry and Contracts" to be published in August 2014.

### Key Points and Trends

- In 2013/14, MOD spent £916 million directly with just over 7,000 different SMEs, principally on HQ contracts or miscellaneous transactions. Of this just over £1 million was spent on Government Procurement Cards (GPC).
- This is a fall in spend of £180 million compared to 2012/13 (£1,096 million) with nearly 5,000 fewer SMEs.
- In 2011/12 and 2012/13 direct expenditure with SMEs as a proportion of overall MOD procurement expenditure was fairly constant (5.2 per cent and 5.4 per cent respectively). In 2013/14 there was a fall in expenditure as a proportion of overall MOD expenditure to 4.5 per cent.
- The fall in expenditure with SMEs and the total number of SMEs paid, broadly reflects the overall drop in the number of suppliers MOD paid during 2013/14, a fall in the coverage of assessments provided by Dun & Bradstreet (a source of business information) and a drop in the actual amounts paid to the SMEs in receipt of the highest individual payments from MOD.

## Further Information

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

- Phone: Defence Economics (Defence Expenditure Analysis) 030 679 34531.
- Email: [DefStrat-Stat-Enquiries-Mailbox@mod.uk](mailto:DefStrat-Stat-Enquiries-Mailbox@mod.uk).

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

<http://www.mod.uk/DefenceInternet/ContactUs/FreedomOfInformationInformationRequest.htm>

### Other contact points within Defence Economics and Defence Statistics are:

Defence Expenditure Analysis	030 679 34531	DefStrat-Econ-ESES-DEA-Hd@mod.uk
Price Indices	030 679 32100	DefStrat-Econ-ESES-PI-Hd@mod.uk
Naval Service Manpower	02392 547426	DefStrat-Stat-Navy-Hd@mod.uk
Army Manpower	01264 886175	DefStrat-Stat-Army-Hd@mod.uk
RAF Manpower	01494 496822	DefStrat-Stat-Air-Hd@mod.uk
Tri-Service Manpower	020 7807 8896	DefStrat-Stat-Tri-Hd@mod.uk
Civilian Manpower	020 7218 1359	DefStrat-Stat-Civ-Hd@mod.uk
Health Information	030 679 84423	DefStrat-Stat-Health-Hd@mod.uk

The United Kingdom Statistics Authority can designate Official Statistics as National Statistics, in accordance with the Statistics and Registration Service Act 2007, 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.

This bulletin is an Official Statistic and as such has been produced in accordance with the requirements of the Code of Practice.

# Symbols and Conventions

## Symbols

}	categories merged for some years
	discontinuity in time series
~	fewer than five
*	not applicable
..	not available
p	Provisional
r	Revised
rp	revised but still provisional
e	Estimate
–	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 regular planned revisions of Bulletin 1.01a, although amendments to figures for earlier years may be identified during the annual compilation of Bulletin 1.01a. This will be addressed in one of two ways:

- i. Where the number of figures updated in a table is small, figures will be revised and identified with the symbol "r". An explanation for the revision will be given in the footnotes to the table.
- ii. Where the number of figures updated in a table is substantial the revisions to the table, together with the reason for the revisions, will be identified in the commentary at the beginning of the relevant chapter / section, and in the commentary above affected tables. Revisions will not be identified by the symbol "r" since where there are a large number of revisions in a table this could make them more difficult to read.

Occasionally updated figures will be provided to the editor during the course of the year. Since Statistical Bulletins are now published electronically it is possible to revise figures during the course of the year. However to ensure continuity and consistency, figures will only be adjusted during the year where it is likely to substantially affect interpretation and use of the figures.

In this Bulletin 2013/14 estimates are marked provisional. These will be updated in August and republished in Bulletin 1.01.

# Introduction & Results

## Background

The Government's aspiration is that 25 per cent of public expenditure with third parties should be placed with SMEs by 2015. MOD's expenditure is particularly important to the achievement of the overall Government position, as it accounts for some 45 per cent of the Government's overall £44 billion annual procurement expenditure<sup>1</sup>.

In 2009 the Cabinet Office directed the inclusion of DUNS numbers, maintained by Dun and Bradstreet (D&B)<sup>2</sup>, in Government finance systems.

MOD has worked collaboratively with D&B to map MOD suppliers to a unique DUNS number. This resulted in a database of MOD suppliers, their corresponding DUNS number and an assessment of their SME status based on the EU definition<sup>3</sup>. This currently provides assessments of suppliers responsible for around 93 per cent of direct MOD expenditure in 2013/14, which is a markedly lower proportion than in 2011/12 and 2012/13.

For full background and methodology please see [MOD Contracting with Small and Medium-sized Enterprises](#) (published 22 October 2013).

## Assumptions

### A: Scope of Analysis

- **Includes** expenditure for all MOD HQ contracts (those set up by means of a Def Form 57, the detailed statistics input form that is produced when most contracts are established) paid through DBS Finance.
- **Includes** all MOD expenditure against Pan Government Enabling Contracts recorded on MOD systems.
- **Includes** all expenditure on miscellaneous transactions. Despite no Def Form 57 being raised, sufficient information on the supplier is available to produce these estimates.
- **Includes** expenditure for GPC payments, supplementing expenditure recorded on the DBS Finance database.
- **Excludes** expenditure on subcontracts with SMEs as central records are not maintained by the Department. This also excludes contracts placed by the Department's Trading Funds.

### B: Classification of Suppliers

- The SME status of suppliers is determined by 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. If MOD identify possible discrepancies these are sent to D&B for review.

---

<sup>1</sup> [Defence Business Plan: Small and Medium-sized Enterprises, October 2013.](#)

<sup>2</sup> Dun & Bradstreet is a global source of business information and insight. The nine-digit D&B 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.

<sup>3</sup> <http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/>.

- D&B provide one of four assessments: SME, Large, Government or Unclassified. For the purpose of this analysis:
  - All Large suppliers are non-SME.
  - The D&B definition of a Government organisation is very broad. MOD assumes that these suppliers are non-SME except those MOD classifies as UK Government (e.g. Dstl<sup>4</sup>, Cabinet Office), other Governments or international collaborative organisations (e.g. NETMA<sup>5</sup>). These suppliers are excluded from the analysis based on the view that MOD does not have the opportunity to influence placement of these contracts with SMEs. This approach has been agreed between MOD and the Cabinet Office.
  - All Unclassified organisations are assumed to be unassessed<sup>6</sup> by D&B and treated as per the last bullet in this section.
- The 2011/12 estimates were compiled using assessments provided to MOD by D&B in early 2012. The 2012/13 and 2013/14 estimates have been compiled using assessments provided to MOD by D&B in July 2013 and April 2014 respectively. However, the April 2014 dataset is only a partial update to include new suppliers who had been paid by MOD during the first six months of the financial year. Therefore, estimates for 2013/14 are provisional.
- A number of MOD suppliers have never been assessed by D&B<sup>6</sup>. In 2013/14, about 7 per cent of direct MOD expenditure on contracts and by miscellaneous transaction was with suppliers who had never been assessed. This is markedly higher than in 2011/12 and 2012/13. In addition MOD could only map 8 per cent of GPC expenditure to a D&B SME assessment.

## Results

**Table 1.01a.01** presents a comparison of direct expenditure with SMEs during each of the past three financial years. The 2011/12 and 2012/13 estimates were previously published by the Cabinet Office as part of their policy paper [Making Government Business More Accessible to SMEs: 2 Years On](#).

**Table 1.01a.01 Direct Expenditure on Contracts with SMEs**

	VAT exclusive at Current Prices (£ millions)/Percentage		
	2011/12	2012/13	2013/14
<b>Estimated MOD Expenditure with SMEs<sup>1,2</sup></b>	<b>1 044</b>	<b>1 096</b>	<b>916<sup>P</sup></b>
<b>Percentage of Total MOD Expenditure with SMEs<sup>3</sup></b>	<b>5.2</b>	<b>5.4</b>	<b>4.5<sup>P</sup></b>

1. Estimated MOD expenditure with SMEs includes expenditure on MOD HQ contracts, miscellaneous transactions and GPC.

2. Estimates should be considered minimums. In 2013/14 about 9,700 suppliers, receiving about £1,420m (7 per cent of total expenditure) through MOD contracts or miscellaneous transactions, were not assessed by D&B. In addition, only 8 per cent of suppliers in receipt of GPC payments could be mapped to D&B assessments.

3. Percentage of Total MOD Expenditure with SMEs excludes expenditure on GPC in 2013/14. This is because we are unable to determine the SME status of suppliers in receipt of 92 per cent of GPC expenditure.

In 2013/14, MOD spent £916 million directly with just over 7,000 different SMEs, principally on HQ contracts or miscellaneous transactions, while just over £1 million of this was spent on Government Procurement Card (GPC). This is a fall in spend of £180 million from 2012/13 (£1,096 million) with nearly 5,000 fewer SMEs.

In 2011/12 and 2012/13 direct expenditure with SMEs as a proportion of overall MOD procurement expenditure was fairly constant (5.2 per cent and 5.4 per cent respectively). In 2013/14 there was a fall in expenditure as a proportion of overall MOD expenditure to 4.5 per cent.

4 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.

5 NATO Eurofighter and Tornado Management Agency (NETMA) is the prime contractor for the Eurofighter (now called Typhoon in the UK) Weapon System. This agency is essentially a multi-nation HQ for these collaborative projects involving the UK, Germany, Italy and Spain.

6 Unassessed MOD suppliers include those that cannot be confidently matched to a supplier on the D&B list or have not been assessed by D&B which includes foreign suppliers.

The fall in estimated direct MOD expenditure with SMEs is due to several factors. In particular:

- MOD has only been able to identify the SME status (based on D&B assessments) for MOD suppliers in receipt of about 93 per cent of 2013/14 expenditure. This is markedly lower than in 2011/12 and 2012/13 – in 2011/12 we successfully identified the SME status of suppliers in receipt of about 98 per cent of MOD expenditure. Since MOD has been unable to identify assessments for suppliers in receipt of about £1,420 million, the 2013/14 estimates should be considered a minimum.
- In 2013/14 MOD paid the ten SMEs in receipt of the most expenditure about £320 million. This was significantly lower than in 2012/13 where the top ten SMEs received just over £400 million.

The significant fall in the number of SMEs paid by MOD during 2013/14 is due to a number of compounding factors:

- The total number of MOD suppliers has dropped from about 27,500 in 2012/13 to just over 20,000 in 2013/14.
- Each year the MOD pays several thousand doctors, about half of whom are positively assessed by D&B as SMEs. Although in total they do not receive that much expenditure from MOD, they do make up a sizeable proportion of MOD SMEs. In 2013/14, the total number of doctors paid by MOD, who were assessed as SMEs, was nearly 1,300, which is just over one-third the number paid in 2012/13 (about 3,400).
- Despite MOD being able to assess suppliers in receipt of about 93 per cent of expenditure, this only relates to about half of MOD suppliers by number. This is a significantly lower proportion than in 2011/12 and 2012/13.

As outlined in the **Assumptions**, MOD procurement expenditure is taken from the DBS Finance payment systems. It excludes contractors the MOD defines as Government organisations.

## Future Work

This report has been published to meet Cabinet Office reporting requirements. The current estimates are provisional due to the coverage of D&B SME assessment data. MOD will update these figures and publish them alongside estimates of new contracts placed with SMEs in Finance Bulletin 1.01 "Trade, Industry & Contracts" in August 2014.

Going forward it will be important to increase the coverage of D&B assessments of MOD suppliers, to improve the confidence we can place in the estimates of expenditure and new contracts placed with SMEs. To achieve this MOD will need to work collaboratively with Cabinet Office and D&B.