

STATISTICAL NOTICE TO TABLE 9 TRADE, INDUSTRY AND CONTRACTS 2016

SUBJECT: METHODOLOGY CHANGE RELATING TO ESTIMATED UK DEFENCE EXPENDITURE IN TRADE, INDUSTRY AND CONTRACTS 2016 – TABLE 9

Issue

Methodological improvements have led to a revision of previously published figures on MOD expenditure with UK industry and changed the distribution of expenditure in industry groups.

Background

Previously [UK Defence Statistics](#) included tables that detailed MOD expenditure with UK industry and the number of jobs that this expenditure supported. This series was discontinued in 2009 following streamlining cuts, leaving the most recent available data as 2007/8. The Secretary of State has requested the re-commissioning of these statistics to assist in monitoring outcomes from the SDSR.

Methodology Changes

Defence Economics has reviewed the methodology of the previous analysis and identified various improvements that could be implemented. Improvements to the quality and granularity of the data used to produce these statistics mean that they now more accurately show the money spent with UK industry. We are now able to exclude some expenditure now identified as being made overseas, with other government departments or related to elements such as pay, which should not have previously been included. This has resulted in a decrease in MOD expenditure with UK industry in both 2013/14 (3.4% drop from £19.5bn to £18.9bn) and 2014/15 (4.2% drop from £20.0bn to £19.2bn).

One reason for this is that some previously included expenditure has been reclassified as being made overseas. The largest example of this was roughly £1bn of expenditure with NETMA that was all previously classified as UK expenditure. By liaising with project teams we were able to get a more precise estimate of the UK workshare and now only £360m is allocated to the UK, with the rest being excluded due to it being spent overseas. We applied the same process to the A400M OCCAR payments and again this led to a better identification of UK workshare and exclusion of some overseas expenditure. Another reason is that in some cases Resource Account Codes (RACs) were used to attribute expenditure. These codes are no longer used as they incorrectly included elements such as accounting adjustments and pay. Using Location of Work (LOW) codes in place of RACs has also enabled us to exclude some expenditure with other government departments that was previously included and should not have been. Finally, improved data from HRMS and JPA has also allowed us to better identify T&S claims that were spent overseas. This has led to a small reduction in overall expenditure as the old method included all T&S claims as UK expenditure as no better information was available.

Distribution of expenditure across the different industry groups has also changed under the new method. This is because expenditure is attributed to these groups using Standard Industrial Classification (SIC) codes. Each SIC code relates to a different type of industry, for example 'the building and repairing of ships and boats' (27) or 'aircraft and spacecraft' (29). The weakness of this method is that each contract only has one SIC code, even if it covers multiple industries. In the new method an attempt was made to increase the precision of this process by contacting the project teams responsible for higher value contracts to identify more than one SIC code for the contract. Because of this some of the higher value contracts that were previously attributed to a single SIC code are now allocated to several different ones. This provides a more robust estimate of MOD expenditure with UK industry broken down by industry. An example of this is a contract with AWE that used to be associated with just one SIC code; further investigation has resulted in the redistribution across a number of different SIC groups of just over £1bn.