

Background Quality Report

MOD Trade, Industry and Contracts

1. Introduction

1.1 Overview

In this Bulletin a range of Ministry of Defence (MOD) spending statistics are reported, covering spending on contracts, within industry and as trade across UK borders. The underlying data are used for a wide range of purposes both within the Department and externally to provide accountability and transparency to parliament and the public.

The Trade, Industry and Contracts Bulletin is produced annually (as listed on the [statistical release calendar](#)) and contains figures from the most recent financial year for which data are available.

Specifically, this bulletin is published to provide information on: Major Equipment Projects (the MOD's largest projects); competitive and non-competitive spending by MOD; payments to organisations, holding companies and key suppliers; contracting with Small and Medium-sized Enterprises (SMEs); the number and value of new contracts placed; payments on PFI projects; estimates of defence export orders; and the MOD's Balance of Payments for Trade in Services. Where possible, numbers, types and values of contracts are provided, as well as spend on individual projects and with specific suppliers. Where noted, spending by the MOD's Trading Funds (UKHO and Dstl) is also included in the figures.

The bulletin comprises a PDF document, which focuses on commentary and data visualisations, and Excel tables that contain the data behind the text and visualisations.

1.2 Background and Context

The MOD have published statistics on trade, industry and contracts for at least 30 years. Historically, these were published in the Statement of Defence Estimates and subsequently in UK Defence Statistics (UKDS from 2010 to 2014 is available [online](#)). Since 2013, these statistics have been published as the [Trade, Industry and Contracts Bulletin](#).

In previous versions of this bulletin a table has been published showing 'Estimated Defence Expenditure in the UK'. Following an external consultation, the results of which can be found [here](#), it has been decided to remove the duplicate production of this table in this bulletin and publish it only in the [MOD regional expenditure with UK industry and supported employment](#) bulletin, the next version of which will be published in early 2018. All information previously contained within the table in this bulletin can be found in the regional bulletin.

Where possible, expenditure on and values of contracts let by competition have been provided. This follows interest from the Single Source Regulation Office (SSRO) in 2016.

This Bulletin also records the number of contracts and expenditure with SMEs. Since 2015, the Government's aspiration has been for 33% of expenditure with third parties to be placed with SMEs by 2020, with MOD contributing to this aspiration by committing 25% of its expenditure to be with SMEs.

The Balance of Payments figures published here also feed into the UK Balance of Payments estimates, or "[The Pink Book](#)", which is published quarterly by the Office for National Statistics (ONS). Production of the Balance of Payments is a statutory requirement covered by [EU statistical legislation](#). Specifically, these MOD figures form

part of the Government Services total of the Balance of Payments. ONS have confirmed that if MOD were to cease production of these figures a significant element of the Government Services total would be lacking, and alternative estimates would have to be sought.

1.3 Methodology and Production

Many (although not all) of the statistics in this bulletin use two datasets: **HQ contracts** and **miscellaneous expenditure**. The expenditure recorded in these two datasets are combined to produce MOD Core Department expenditure.

HQ contracts: These are formal contracts set up by MOD Core Department which require a Def Form 57 to be raised. A range of information about individual contracts is obtained for the production of this bulletin, including expenditure in 16/17, total agreed contract value, supplier, contract start date and competitive index. HQ contract spend also includes single payments to each of Dstl and UKHO, the MOD's Trading Funds. Pan-Government Enabling Contracts are removed from this dataset when identifying new contracts but are included when expenditure totals are being displayed.

Miscellaneous expenditure: This is 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. The information obtained includes supplier, invoice amount and payment dates. Miscellaneous expenditure also includes a single payment to the Royal Bank of Scotland (prior to 2016/17 - Barclay's Bank) to cover all ePC (Electronic Purchasing Card) payments made by MOD.

Both of these datasets are obtained from Contracting Purchasing & Finance (CP&F), which is the online end to end procurement system used by the DBS Finance. CP&F was brought in mid-way through 2016/17 and, at the time of publication, the data quality obtainable from CP&F is lower than from the previous system, particularly in regards to the HQ contracts data. To improve data quality and coverage, information from ASPECT, another internal MOD system, has been incorporated manually, along with ad-hoc data from other sections of MOD.

Below, the methodology and production for each section of the bulletin is described. Each section title from the PDF is listed, with the relevant pages from the PDF and Excel table numbers given in brackets. Each section that is based on HQ contracts and miscellaneous expenditure data is indicated; not all sections use these data sources.

- *Major Equipment Projects (p4, Table 1)*
These data are collated directly from Fig. 18 (p40) of [The Defence Equipment Plan 2016](#) document, which is the MOD's financial summary of the Defence Equipment Plan.
- *MOD Expenditure by Competition (p5, Table 2)*
These figures are derived by adding together **HQ contract** spend and **miscellaneous expenditure**. Competitive indices are only available for HQ contracts; the remainder of the data fit into the category 'Other'.
- *Organisations paid over £5 million by MOD (p6, Tables 3a & 3b)*
The underlying data come from **HQ contract** spending and **miscellaneous expenditure**. In addition to this, information about payments to suppliers made by the MOD Trading Funds, Dstl and UKHO, are obtained from the Trading Funds themselves. For this statistic, the data obtained from Trading Funds is used in place

of the single MOD HQ contracts with Dstl and UKHO because it provides new information on how much money is spent with individual suppliers. Similarly, data on individual ePC payments is obtained from Defence Commercial and used in place of the single payment to Royal Bank of Scotland listed in the miscellaneous expenditure data. Information on spending with MOD Core Department including Trading Funds (Table 3a and annex) and for the Trading Funds individually (Table 3b and annexes) is provided.

- *Holding Companies paid over £50 million by MOD (p7, Table 4)*
HQ contract expenditure and **miscellaneous expenditure** (including the separated Trading Fund and ePC components) is mapped to Holding Company structures, using Avention OneSource Solution supplier information. An internal database listing Holding Companies and Subsidiaries is then updated annually for all new companies appearing on the DBS Finance database (CP&F). Where a company is part of an identified Joint Venture, expenditure is attributed to the company based on their percentage share. However, expenditure with consortia is not distributed amongst the members of the consortia. Holding Companies are split into spending bands in Table 4, with Table 4 Annex listing MOD Core Department expenditure amounts together with a breakdown of the expenditure into the competition status of the payments.
- *Focus on Key Suppliers (p8-10, Table 5)*
This section of the bulletin builds on the previous section, providing further information on the ten Holding Companies in receipt of the largest amounts of MOD expenditure in 2016/17. To find the dependency of the Key Suppliers on MOD business, the total revenue of the holding company is identified from the Avention OneSource Solution database and a calculation made as to the proportion of this total revenue that has originated from the MOD. The level of competitive expenditure with each of these suppliers is calculated from the competitive index given for HQ contract spend.
- *MOD Contracting with SMEs (p11, Table 6a & 6b)*
SMEs in the MOD supplier list are identified using an [EU definition](#). This identification is carried out for MOD by Dun & Bradstreet (D&B). The suppliers identified as being in receipt of **HQ contracts** and **miscellaneous expenditure** are matched to the SME list provided by D&B data to find the proportion of MOD expenditure with SMEs. HQ contracts data is used to find the number of, and value of, new contracts with SMEs.
- *New Contracts Placed (p12, Table 7)*
This statistic is compiled using the **HQ contract** dataset only. The total number of contracts and the number and value by competitive index is provided in Table 7 with the contracts being identified as those with a Contract start date in the appropriate Financial Year.
- *MOD Payments on PFI Projects (p13, Table 8)*
The data underlying this statistic is obtained internally from the MOD Private Finance Unit in the form of information on individual contracts. The spending for all contracts within each PFI project is summed and put into payment bands.
- *Estimates of Identified Export Orders (p14, Table 9)*
This data is taken directly from the [DIT Defence and Security Organisation export figures](#).
- *Balance of Payments for 'Trade in Services' (p15, Table 10)*
Foreign Currency expenditure is obtained from a number of data sources within CP&F. It is equal to foreign currency expenditure by MOD on services minus MOD

receipts. 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.

2. Relevance

The data in this Bulletin has a wide reach externally, being used by researchers, academics, politicians and journalists. Additionally, the Bulletin has featured on blogs, such as Think Defence. Furthermore, this Bulletin is the only source for much of the data contained within it. Thus, the Bulletin strongly contributes to public accountability for MOD.

There are a number of specific uses for the individual statistics reported here. The 'Focus on Key Suppliers' section of this bulletin is used specifically by the Single Source Regulation Office (SSRO). The SME and competition statistics allow for government aspirations regarding these topics to be directly measured.

This bulletin is also used widely within the Defence Industry. Specifically, these users include 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).

Additionally, the HQ contracts and miscellaneous expenditure data gathered for the production of this Bulletin is used to provide input to questions from the Office for National Statistics and to answer a high volume of external correspondence (Parliamentary Questions and Freedom of Information requests) relating to commercial/contracts data. Common requests include: 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). The production of this bulletin builds up the data and expertise to answer these requests, further contributing to public accountability.

Three of the tables in this bulletin (Major Equipment Projects, Identified Export Orders and Balance of Payments) are based on figures published elsewhere. However, they are visualised and summarised differently in this bulletin to provide high level clarity.

3. Accuracy and Reliability

In this section, the accuracy and reliability of the two main datasets, HQ contracts and miscellaneous expenditure, will be detailed (the statistics that rely on these underlying data sources have been identified in the Methodology and Production of this Background Quality Report). Following this, any issues specific to each section of the bulletin will be detailed.

The HQ contracts and miscellaneous expenditure cover a significant subset of MOD expenditure, excluding pay and personnel costs. These two sources provide information on those contractual bills paid directly by the MOD's bill payments centre to defence suppliers. It is estimated that the data contained on the database covers around 95% of all payments made to defence suppliers. It does not, for example, cover those payments which may have been made by (a) British Defence Staff (United States) and (b) locally by the Department through local cash offices

HQ contracts:

The basis of the HQ contracts data is the Def Form 57, which is a data collection form used as the authority to start paying invoices in relation to the contract. It is a requirement that the Commercial Officer who signs off a contract also completes a Def Form 57. However,

the completion of the Def Form 57 is often delegated to another member of the Commercial 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. Work is currently being done with Commercial staff to identify the right forum for providing briefings to new and existing Commercial staff and articles have been included in Commercial newsletters highlighting the importance of the information collected by the Def Form 57.

The introduction of CP&F is designed to improve data quality with information being input at the start of the contracting process and being contained within one system. However, since its introduction in late 2016 there have been problems with missing data. To improve data quality for this bulletin, HQ contracts data from CP&F was combined with older data extracts held internally that still contain relevant information, and extracts from ASPECT, another data entry system for Commercial Officers. This has increased the level of data coverage used to conduct our analyses and proved invaluable in validating the CP&F data.

Although expenditure on international collaborative projects is recorded on the database, neither the suppliers providing the service nor the agreed contract type are known. The absence of these data is a concern to us as these can relate to significant amounts of expenditure. 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.

New high value contracts (over £10m) are checked directly with the Commercial Operating Centres to check that the correct values are recorded on the DBS Finance database and cross checks key fields such as value and competition marker against the ASPECT contract database used by commercial teams.

Another issue raised by the introduction of CP&F is the appearance of 'parent' and 'child' contracts. Child contracts have the same contract number as the parent, but with the addition of -1, -2 etc at the end of the contract number, and will eventually have a value equal to the value of the parent. When calculating annual expenditure against a contract, both child and parent contracts are included in the count. However, when calculating total contract values or the number of contracts, only parent contracts are used.

Miscellaneous expenditure:

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. This is also the payment method used to make large payments to NETMA and other collaborative projects as well as payments to foreign governments and other government departments in the UK. Smaller amounts of expenditure are made to thousands of small suppliers using this method. In addition in 2016/17 around £3.0 million of payments have been recorded against "Non Registered Contractors" on the database. However, this figure has 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 small amounts in one-off transactions with a particular supplier.

For specific statistics:

- *Organisations paid over £5 million by MOD (p6, Tables 3a & 3b) and Holding Companies paid over £50 million by MOD (p7, Table 4)*

The main accuracy issues for these statistics relate to those described for the HQ contracts and miscellaneous expenditure. In addition to this contract data, information is also drawn from Dstl, UKHO and ePC systems. This data has been

sought to improve the quality of supplier spending figures, as it allows us to identify spend with individual suppliers rather than using the large lump sums paid to each Trading Fund and the Royal Bank of Scotland. The Dstl and UKHO data are obtained directly from the payment system of each Trading Fund. As such, we cannot control the quality of this data. The ePC data is obtained from within MOD. Suppliers that have been paid by both MOD Core Department and at least one of Dstl, UKHO and ePC are identified, and payments to these suppliers from all sources are summed. This is possible for Dstl and UKHO, which have fewer suppliers. However, it is not possible for many of the very small ePC payments as it would be too labour intensive for the subsequent marginal improvement in the coverage of the data.

- *MOD Contracting with SMEs (p11, Table 6a & 6b)*

The identification of SMEs is carried out for MOD by Dun & Bradstreet. However, in 2013/14 and 2014/15, these identifications were not updated, leading to an apparent fall in MOD contracting with SMEs as the SME status of new suppliers was not assessed in these years. However, this identification resumed in early 2017 and was applied to the 2015/16 data, however no updated assessments have been received to apply to the 2016/17 published data.

- *Balance of Payments for 'Trade in Services' (p15, Table 10)*

For this calculation, it is assumed that all foreign currency bought by MOD is spent overseas.

Revisions

Revisions to this bulletin are planned for November 2017, due to late reporting of new contracts which started in 2016/17. We follow the [Defence Statistics Revisions Policy](#).

4. Timeliness and Punctuality

This publication is aimed to be released in September each year. The exact release date is announced on the statistical [Release Calendar](#), as set out in the [Code of Practice for Official Statistics](#).

There is a 5 month gap between the end of the financial year and publication of this Bulletin to allow for data collation and analysis.

5. Accessibility and Clarity

This statistical bulletin is published on gov.uk and consists of a commentary in PDF format accompanied by supporting Excel tables. All of the figures quoted in the text and displayed in the visualisations of the PDF commentary can also be found in the Excel tables. The Excel tables give the most detail about the statistics.

The commentary begins with an initial summary page and contents page, and after this is split into sections, with statistics on industry and contracts listed first, and trade last. Visualisations have been chosen to best display patterns and trends within the data. Terms used in the commentary are defined within the glossary of the same PDF document.

The supplier information within the Excel tables (Tables 2 and 3) has been split into payment bandings to allow for easy comparison of suppliers between this and previous editions of this bulletin. Table annexes (also within the Excel document) provide the actual payment data for these suppliers, rounded to the nearest £m. Due to time constraints, only information on the largest suppliers is provided, while there remain issues with balancing the desire for transparency against the publication of information that might be commercially sensitive.

6. Coherence and Comparability

Currently, the only break in series in this Bulletin occurs in the Balance of Payments table. In earlier publications and prior to the range of data displayed in this bulletin there may have been further breaks in series. Where this has occurred, information can be found in the Background Quality Report for the relevant year.

The Balance of Payments time series had breaks between 2010 and 2011, due to an improvement in the quality of foreign currency data, and between 2013 and 2014 due to more accurate recording of receipts from US forces based in the UK. The Balance of Payments data meets the requirements and definitions set out in the Pink Book and conform to EU statistical legislation. They are therefore coherent with the National Accounts.

7. Trade-offs between Output Quality Components [Optional]

There are no trade-offs relevant to these statistics.

8. Assessment of User Needs and Perceptions [Optional]

We continually monitor the requests for information that we receive and identify any common themes in these requests. Table 3 was developed and published at the request of external users.

Previously, we have had requests to subdivide spending with the top suppliers into a specific spend category, such as consultancy and legal advice. However, it is not possible to accurately link the contracts data to accounts data which would be required to answer this type of question.

A Service Level Agreement (SLA) with the ONS Balance of Payments team exists, which sets out the standards required for the Balance of Payments quarterly returns. Meetings are held on a regular basis to review the SLA and discuss matters of mutual interest.

9. Performance, Cost and Respondent Burden [Optional]

In producing these statistics, our main data sources are administrative data which are used for a number of purposes, or in the case of the Balance of Payments data, information that is a by-product of the necessary Balance of Payments return. A small number of fields must be cleansed manually, and this work was greater this year due to the introduction of CP&F. However, this cleansing cannot be avoided as it is the only way to improve data quality to the standard required for this publication.

10. Confidentiality, Transparency and Security [Optional]

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.

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 to prevent misuse. Finance Bulletin: Trade Industry & Contracts contains commentary

explaining these statistics which we have recently reviewed and which now have added visualisations.

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

11. Contact Details

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