

# 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. 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; the number and value of new contracts placed; payments on PFI projects; and estimates of defence export orders. 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 Fund (UK Hydrographic Office) and On-Vote Defence Agency (Defence Science and Technology Laboratory) 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 2019. 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 has also previously included tables showing 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. From 2017/18 these tables have been removed as for over 52% of the MOD's 14,000 direct suppliers their SME status is unknown and a decision has been taken that the data quality is not sufficiently good to be included in an Official Statistic.

Similarly, the table showing the Balance of Payments Trade in Services figure has also been removed from 2017/18. The data feeds in to 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](#) however the introduction of a new computer system within MOD (CP&F) has resulted in Defence Statistics being unable to identify whether some types of expenditure relate to goods or services. We are no longer satisfied that the quality of this data allows us to make robust estimates of how the expenditure should be allocated to produce this table.

Defence Statistics will continue to work closely with colleagues to try and improve the quality of these 2 data sources and, if successful, the production of these tables may be resumed in future publications of the bulletin.

### 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 to produce this bulletin, including expenditure in 17/18, total agreed contract value, supplier, contract start date and competitive index. HQ contract spend also includes single payments to Dstl (an On-Vote Defence Agency) and UKHO (MOD Trading Fund). 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 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 introduced 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 regard 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. 19 (p44) of [The Defence Equipment Plan 2017](#) document, which is the MOD's financial summary of the Defence Equipment Plan.

- **MOD Expenditure by Type of Contract (p5-6, 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 (p7, 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 Dstl and UKHO, are obtained from the organisations themselves. For this statistic, the data obtained from Dstl and UKHO is used in place of the single MOD HQ contracts with Dstl and UKHO because it provides new information on how much money they then spend 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 and Defence Agencies (Table 3a and annex) and for the Trading Funds and Defence Agencies individually (Table 3b and annexes) is provided.
- **Holding Companies paid over £50 million by MOD (p8, Table 4)**  
**HQ contract** expenditure and **miscellaneous expenditure** (including the separated Trading Fund, Defence Agency 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 (p9-11, 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 2017/18. 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.
- **New Contracts Placed (p12, Table 6)**  
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 6 with the contracts being identified as those with a Contract start date in the appropriate Financial Year.
- **MOD Payments on PFI Projects (p13, Table 7)**  
The data underlying this statistic is obtained from the HM Treasury PFI Project database at March 2017 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 8)**  
This data is taken directly from the [DIT Defence and Security Organisation export figures](#).

## 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 many 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).

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 to produce 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.

Two of the tables in this bulletin (Major Equipment Projects and Identified Export Orders) 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. A data cleansing exercise has also taken place, which has increased the level of data coverage used to conduct our analyses and proved invaluable in validating the CP&F data. Defence Statistics has been engaged with interested parties to improve the quality of the CP&F data but this has not proved to be wholly successful and further work will be required during 2018/19 to improve the quality of the existing data and educate Commercial teams into how data needs to be recorded going forward.

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.

A further 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 2017/18 around £4.3 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 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 supplier.

#### **For specific statistics:**

- ***Organisations paid over £5 million by MOD (p7, Tables 3a & 3b) and Holding Companies paid over £50 million by MOD (p8, 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, Defence Agency and the Royal Bank of Scotland. The Dstl and UKHO data are obtained directly from the payment system of these two organisations. 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.

## **Revisions**

Revisions to this bulletin are planned for late 2018, due to late reporting of new contracts which started in 2017/18. 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 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, there are no break in series in this Bulletin. 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.

## **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.

## **9. Performance, Cost and Respondent Burden [Optional]**

In producing these statistics, our main data sources are administrative data which are used for many purposes. 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**

Defence Expenditure Analysis  
Tel: 030 679 84442  
Email: [DefStrat-Econ-ESES-PQFOI@mod.gov.uk](mailto:DefStrat-Econ-ESES-PQFOI@mod.gov.uk)

**Last updated: 3 September 2018**