

# Assessment of compliance with the Code of Practice for Official Statistics

## Statistics on Defence Inflation

*(produced by the Ministry of Defence)*

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### **About the UK Statistics Authority**

The UK Statistics Authority is an independent body operating at arm's length from government as a non-ministerial department, directly accountable to Parliament. It was established on 1 April 2008 by the *Statistics and Registration Service Act 2007*.

The Authority's overall objective is to promote and safeguard the production and publication of official statistics that serve the public good. It is also required to promote and safeguard the quality and comprehensiveness of official statistics, and good practice in relation to official statistics.

The Statistics Authority has two main functions:

1. oversight of the Office for National Statistics (ONS) – the executive office of the Authority;
2. independent scrutiny (monitoring and assessment) of all official statistics produced in the UK.

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## ASSESSMENT AND DESIGNATION

The *Statistics and Registration Service Act 2007* gives the UK Statistics Authority a statutory power to assess sets of statistics against the *Code of Practice for Official Statistics*. Assessment will determine whether it is appropriate for the statistics to be designated as National Statistics.

Designation as National Statistics means that the statistics comply with the *Code of Practice*. The *Code* is wide-ranging. Designation can be interpreted to mean that the statistics: meet identified user needs; are produced, managed and disseminated to high standards; and are explained well.

Designation as National Statistics should not be interpreted to mean that the statistics are always correct. For example, whilst the *Code* requires statistics to be produced to a level of accuracy that meets users' needs, it also recognises that errors can occur – in which case it requires them to be corrected and publicised.

Assessment reports will not normally comment further on a set of statistics, for example on their validity as social or economic measures. However, reports may point to such questions if the Authority believes that further research would be desirable.

Assessment reports typically provide an overview of any noteworthy features of the methods used to produce the statistics, and will highlight substantial concerns about quality. Assessment reports also describe aspects of the ways in which the producer addresses the 'sound methods and assured quality' principle of the *Code*, but do not themselves constitute a review of the methods used to produce the statistics. However the *Code* requires producers to "seek to achieve continuous improvement in statistical processes by, for example, undertaking regular reviews".

The Authority may grant designation on condition that the producer body takes steps, within a stated timeframe, to fully meet the *Code's* requirements. This is to avoid public confusion and does not reduce the obligation to comply with the *Code*.

The Authority grants designation on the basis of three main sources of information:

- i. factual evidence and assurances by senior statisticians in the producer body;
- ii. the views of users who we contact, or who contact us, and;
- iii. our own review activity.

Should further information come to light subsequently which changes the Authority's analysis, it may withdraw the Assessment report and revise it as necessary.

It is a statutory requirement on the producer body to ensure that it continues to produce the set of statistics designated as National Statistics in compliance with the *Code of Practice*.

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# 1 Summary of findings

## 1.1 Introduction

1.1.1 This is one of a series of reports<sup>1</sup> prepared under the provisions of the *Statistics and Registration Service Act 2007*<sup>2</sup>. The Act requires all statistics currently designated as National Statistics to be assessed against the *Code of Practice for Official Statistics*<sup>3</sup>. The Act also allows Departments to request an assessment of other official statistics in order for them to gain National Statistics status. This report is in response to such a request; it covers the set of statistics reported in *Defence Inflation Estimates*<sup>4</sup> (*DI Estimates*), produced by the Ministry of Defence (MOD).

1.1.2 Section 3 of this report adopts an ‘exception reporting’ approach – it includes text only to support the Requirements made to strengthen compliance with the *Code* and Suggestions made to improve confidence in the production, management and dissemination of these statistics. This abbreviated style of report reflects the Head of Assessment’s consideration of aspects of risk and materiality<sup>5</sup>. The Assessment team nonetheless assessed compliance with all parts of the *Code of Practice* and has commented on all those in respect of which some remedial action is recommended.

1.1.3 This report was prepared by the Authority’s Assessment team, and approved by the Board of the Statistics Authority on the advice of the Head of Assessment.

## 1.2 Decision concerning designation as National Statistics

1.2.1 The Statistics Authority judges that the statistics covered by this report are readily accessible, produced according to sound methods and managed impartially and objectively in the public interest, subject to any points for action in this report. The Statistics Authority has determined that the statistics published in *Defence Inflation Estimates* can be designated as new National Statistics products subject to the MOD implementing the enhancements listed in section 1.5 and reporting them to the Authority by April 2012.

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<sup>1</sup> <http://www.statisticsauthority.gov.uk/assessment/assessment-reports/index.html>

<sup>2</sup> [http://www.opsi.gov.uk/Acts/acts2007/pdf/ukpga\\_20070018\\_en.pdf](http://www.opsi.gov.uk/Acts/acts2007/pdf/ukpga_20070018_en.pdf)

<sup>3</sup> <http://www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html>

<sup>4</sup> <http://www.dasa.mod.uk/applications/newWeb/www/index.php?PublishTime=09:30:00&date=2011-09-28&page=48&pubType=0&thiscontent=750>

<sup>5</sup> <http://www.statisticsauthority.gov.uk/assessment/assessment/guidance-about-assessment/criteria-for-deciding-upon-the-format-of-an-assessment-report.pdf>

### 1.3 Summary of strengths and weaknesses

- 1.3.1 The statistics team in the MOD engages with users within and outside the MOD but has not published sufficient information about users' views of the statistics or documented clearly the full range of likely uses.
- 1.3.2 The MOD has sought to improve the methods it uses to produce estimates of defence inflation in consultation with other members of the Government Statistical Service (GSS) and users of the statistics. It published detailed information about the rationale for the change in methods in 2010/11, but did not announce the changes in advance.
- 1.3.3 The MOD publishes a Background Quality Report on the quality of the statistics, which includes 'Key Quality Indicators', but this does not provide sufficient information about the extent to which the statistics meet users' needs, or the strengths and weaknesses of the statistics in relation to the range of uses.

### 1.4 Detailed recommendations

- 1.4.1 The Assessment team identified some areas where it felt that the MOD could strengthen its compliance with the *Code*. Those which the Assessment team considers essential to enable designation as National Statistics are listed in section 1.5. Other suggestions, which would improve the statistics and the service provided to users but which are not formally required for their designation, are listed at annex 1.

### 1.5 Requirements for designation as National Statistics

<b>Requirement 1</b>	Document more fully the use of statistics on defence inflation, and publish information about users' views of the statistics (para 3.1).
<b>Requirement 2</b>	Confirm that future changes to methods will be announced in advance (para 3.2).
<b>Requirement 3</b>	Improve the published information about the quality of the statistics (para 3.3).
<b>Requirement 4</b>	Disseminate the statistics on defence inflation in forms that enable and encourage analysis and re-use (para 3.5).

## 2 Subject of the assessment

- 2.1 The statistics on defence inflation measure the average change in the prices (including labour costs) of the goods, services and personnel that the MOD buys. They reflect the mix of goods, labour and services bought each year; they do not take account of productivity or efficiency improvements.
- 2.2 The statistics were developed following interest from MOD policy areas and from Parliament. During the 2007 Comprehensive Spending Review<sup>6</sup>, the House of Commons Defence Committee (HCDC) requested ‘a robust price index for defence products which will assist the MOD in its financial planning and its negotiations with the Treasury in future spending reviews’<sup>7</sup>. Following this request, the MOD’s Defence Analytical Services and Advice team developed these estimates. The statistics were published for the first time in March 2010, as Official Statistics, covering estimates for 2005/06 to 2008/09. The MOD published estimates for 2009/10 in September 2010 and for 2010/11 in September 2011. The estimates cover the UK as a whole.
- 2.3 The MOD changed the method to produce the estimates from 2010/11 onwards, so that both the military and civilian labour costs are produced using the Laspeyres chain-linked index. The estimates are now comparable with general inflation estimates produced by the Office for National Statistics (ONS)<sup>8</sup>, which also use a chain-linked price index. The change in method has led to a break in the time series after 2009/10.
- 2.4 Data used to produce *DI Estimates* are sourced from the MOD’s administrative systems including its contracts database, Joint Personnel Administration system, Civilian HR system and the Cash and Banking Services database. The MOD also uses information on National Insurance and Superannuation Contribution Adjusted for Past Experience (SCAPE) rates and levels from HM Revenue & Customs (HMRC), and statistics on price indices and exchange rates from ONS.
- 2.5 The statistics are used in a number of areas of the MOD:
- The Director of Finance used the defence inflation statistics during the planning stage of the Strategic Defence and Security Review<sup>9</sup> and in response to the 2007 Comprehensive Spending Review. They have also been used to inform budgetary and spending review discussions with HM Treasury.
  - The Defence Equipment & Support Commercial Director uses the information to measure the effectiveness of commercial policy and the impact of inflation on procurement projects.

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<sup>6</sup> [http://webarchive.nationalarchives.gov.uk/+/http://www.hm-treasury.gov.uk/pbr\\_csr/pbr\\_csr07\\_index.cfm](http://webarchive.nationalarchives.gov.uk/+/http://www.hm-treasury.gov.uk/pbr_csr/pbr_csr07_index.cfm)

<sup>7</sup> <http://www.publications.parliament.uk/pa/cm200708/cmselect/cmdfence/61/61.pdf>

<sup>8</sup> <http://www.ons.gov.uk/ons/taxonomy/index.html?nscl=Price+Indices+and+Inflation>

<sup>9</sup> <http://www.mod.uk/DefenceInternet/AboutDefence/WhatWeDo/PolicyStrategyandPlanning/SDSR/StrategicDefenceAndSecurityReviewsdsr.htm>

- Director Defence Resources team has used it to estimate the potential financial pressure that the Department might face as a result of contractual cost growth in the budgeted programme, over and above the formally published HM Treasury and Office for Budgetary Responsibility GDP deflator figures.
- 2.6 The statistics are used outside the MOD by NATO in order to collate defence inflation indices for its member countries, by the House of Commons' Defence Committee and Parliamentary Accounts Committee, and by the media and academics, to inform parliamentary and national debate on defence expenditure. The defence industry also uses the statistics for information about contract costs.
- 2.7 The MOD told us that it takes approximately 2 full-time equivalents resource to produce these statistics.

### 3 Assessment findings

- 3.1 The MOD invites feedback from users in *DI Estimates*, and at annual consultation meetings which are mainly attended by users from within the MOD and other government departments. The MOD has also held a seminar aimed at obtaining feedback from users of *DI Estimates*, which was attended by a range of users including representatives from the defence industry, academia, HM Treasury, Department for Business, Innovation and Skills and the Royal United Service Institute<sup>10</sup>. We were told that the statistics team follows the MOD's *User Engagement Policy*<sup>11</sup> in engaging with users. MOD maintains a record of user queries and publishes the minutes of its annual consultation meetings<sup>12</sup> and organisational level user feedback reports<sup>13</sup>. However, the minutes of the annual consultation meetings do not include information about users' views of the statistics and their needs, and the user feedback reports do not include feedback on *DI Estimates*. The MOD has published a *Background Quality Report: Defence Inflation (BQRDI)*<sup>14</sup>; this contains a section 'Assessment of User Needs and Perceptions'. *BQRDI*, along with an unpublished briefing document the MOD produced for the HCDC, provides some information about who uses the statistics, but the documents do not include sufficient information about uses outside the MOD. As part of the designation as National Statistics, the MOD should document more fully the use of *DI Estimates* and publish information about users' views of the statistics<sup>15</sup> (Requirement 1). We suggest that the MOD refer to the types of use put forward in the Statistics Authority's Monitoring Brief, *The Use Made of Official Statistics*<sup>16</sup>, when documenting use.
- 3.2 The MOD has presented the methodology for producing the estimates of defence inflation at GSS methodology conferences, which has provided the opportunity for the MOD to consult with some statistical experts and (government statistical) users about the methods. In March 2010, the MOD published *Defence Statistics Bulletin no. 10*<sup>17</sup> which outlined future planned changes to the methodology for estimating inflation in military labour costs. However, the MOD did not announce that the changes had been agreed, and confirm to users that they would be implemented, in advance of the release of the changed statistics. Instead the MOD published a methodology paper

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<sup>10</sup> <http://www.rusi.org/>

<sup>11</sup> [http://www.dasa.mod.uk/applications/newWeb/www/index.php?page=48&pubType=4&thiscontent=5010&PublishTime=09:30:00&date=2010-01-19&disText=Single Report&from=listing&topDate=2010-01-19](http://www.dasa.mod.uk/applications/newWeb/www/index.php?page=48&pubType=4&thiscontent=5010&PublishTime=09:30:00&date=2010-01-19&disText=Single%20Report&from=listing&topDate=2010-01-19)

<sup>12</sup> <http://www.dasa.mod.uk/applications/newWeb/www/index.php?page=67&pubType=4&thiscontent=5210&date=2011-06-22>

<sup>13</sup> <http://www.dasa.mod.uk/applications/newWeb/www/index.php?page=48&pubType=4&thiscontent=5040&PublishTime=09:30:00&date=2010-03-05&disText=Single%20Report&from=listing&topDate=2010-03-05>

<sup>14</sup> <http://www.dasa.mod.uk/applications/newWeb/www/index.php?page=48&pubType=3&thiscontent=900&PublishTime=09:30:00&date=2010-09-29&disText=Single%20Report&from=listing&topDate=2010-09-29>

<sup>15</sup> In relation to Principle 1, Practices 2 and 5 of the *Code of Practice*

<sup>16</sup> <http://www.statisticsauthority.gov.uk/assessment/monitoring/monitoring-briefs/index.html>

<sup>17</sup> [http://www.dasa.mod.uk/applications/newWeb/www/index.php?page=48&thiscontent=1200&pubType=0&date=2010-03-30&disText=Bulletin 10 - Defence Inflation&from=historic&topDate=2011-09-28&PublishTime=09:30:00](http://www.dasa.mod.uk/applications/newWeb/www/index.php?page=48&thiscontent=1200&pubType=0&date=2010-03-30&disText=Bulletin%2010%20-%20Defence%20Inflation&from=historic&topDate=2011-09-28&PublishTime=09:30:00)

*Defence Inflation: Military Labour Costs*<sup>18</sup> alongside the release of the 2010/11 estimates, which were produced using the changed methodology, to explain the development of the methodology and the rationale for the change. As part of the designation as National Statistics, the MOD should confirm that future changes to methods will be announced in advance<sup>19</sup> (Requirement 2).

- 3.3 *BQRDI* includes useful 'Key Quality Measure' tables covering different aspects of quality. Additionally, the section on 'Relevance' provides useful information about the coverage of the statistics but it does not cover the extent to which the statistics meet users' needs. The MOD does not publish information about the strengths and weaknesses of the statistics in relation to the range of potential uses. *BQRDI* provides an estimate of the expenditure accounted for within the statistical estimates by comparing expenditure figures with high level counts taken from the MOD's Annual Report and Accounts, which is considered to be 100% accurate. However *BQRDI* does not include information about how the data sources used to produce the counts within the Annual Report and Accounts and the inflation estimates differ in reliability and why sources used to create the Annual Report and Accounts cannot be used to create the estimates. As part of the designation as National Statistics, the MOD should improve the published information about the quality of the statistics in relation to their use<sup>20</sup> (Requirement 3).
- 3.4 *DI Estimates* contains charts and tables to present the statistics which are accompanied by some useful commentary. However, the commentary uses technical language in places which is not explained and would be improved by incorporating information about the policy context in which the statistics are used, which is referred to in *BQRDI*. We suggest that the MOD consider whether the commentary can be improved, taking into consideration the points detailed in annex 2.
- 3.5 Some of the statistics included in *DI Estimates* are available in Excel spreadsheets via the MOD compendium publication *UK Defence Statistics*<sup>21</sup>. The statistics available in spreadsheet format are those which appear in the compendium. The MOD does not provide links to these spreadsheets from *DI Estimates* or the web landing page for this release. As part of the designation as National Statistics, the MOD should make available clearly the statistics in *DI Estimates* in forms that enable and encourage analysis and re-use<sup>22</sup> (Requirement 4).

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<sup>18</sup> [http://www.dasa.mod.uk/applications/newWeb/www/index.php?page=48&thiscontent=1200&pubType=0&date=2011-09-28&disText=Bulletin 12&from=historic&topDate=2011-09-28&PublishTime=09:30:00](http://www.dasa.mod.uk/applications/newWeb/www/index.php?page=48&thiscontent=1200&pubType=0&date=2011-09-28&disText=Bulletin%2012&from=historic&topDate=2011-09-28&PublishTime=09:30:00)

<sup>19</sup> In relation to Principle 2, Practice 4 of the *Code of Practice*

<sup>20</sup> In relation to Principle 4, Practice 2, Principle 8, Practice 1 and Protocol 1, Practice 4 of the *Code of Practice*

<sup>21</sup> <http://www.dasa.mod.uk/modintranet/UKDS/UKDS2011/pdflist.php>

<sup>22</sup> In relation to Principle 8, Practice 6 of the *Code of Practice*

## Annex 1: Suggestions for improvement

A1.1 This annex includes some suggestions for improvement to the MOD's *DI Estimates*, in the interest of the public good. These are not formally required for designation, but the Assessment team considers that their implementation will improve public confidence in the production, management and dissemination of official statistics.

### **Suggestion 1**

Refer to the types of use put forward in the Statistics Authority's Monitoring Brief, *The Use Made of Official Statistics* when documenting use (para 3.1).

### **Suggestion 2**

Consider whether the commentary could be improved, taking into consideration the points detailed in annex 2 (para 3.4).

## **Annex 2: Compliance with Standards for Statistical Releases**

A2.1 In October 2010, the Statistics Authority issued a statement on *Standards for Statistical Releases*<sup>23</sup>. Whilst this is not part of the *Code of Practice for Official Statistics*, the Authority regards it as advice that will promote both understanding and compliance with the *Code*. In relation to the statistical releases associated with Defence Inflation Statistics, this annex comments on compliance with the statement on standards.

A2.2 In implementing any Requirements of this report (at paragraph 1.5) which relate to the content of statistical releases, we encourage the producer body to apply the standards as fully as possible.

### **Appropriate identification of the statistics being released**

A2.3 The title of the release does not describe the geographical coverage of the release, but it is stated on the front cover. The title includes the period to which the latest statistics relate.

A2.4 The release does not include a statement about the frequency of the release, nor the frequency with which the statistics are compiled or updated, although this can be inferred.

A2.5 The originating department is clear on the front of the release, as well as the name and contact details of the responsible statistician.

A2.6 The release contains a clear contents page.

### **Include commentary that is helpful to the non-expert and presents the main messages in plain English**

A2.7 The release contains an 'Executive Summary' as well as a summary of the main messages within Chapter 1: 'Defence Inflation: Summary Results'.

A2.8 The release includes commentary which explains the drivers behind the rates of inflation. Time-series are presented in tables, but comparisons cannot be made over time up to the latest year (2010/11) since the method used to produce the statistics changed. The language used is technical in places and is not explained; the release assumes some knowledge of the topic area.

### **Use language that is impartial, objective and professionally sound**

A2.9 The text used in *DI Estimates* is impartial and descriptive statements are consistent with the statistics. Descriptions of trends are professionally sound and the break in the time series is highlighted in places. Non-sampling variability is not discussed in the text.

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<sup>23</sup> <http://www.statisticsauthority.gov.uk/news/standards-for-statistical-releases.html>

## **Include information about the context and likely uses**

A2.10 The commentary within *DI Estimates*, *BQRDI* and related methodology papers includes information about the operational context in which the statistics have been collected and will be used, although the information about use is not sufficiently detailed. *BQRDI* provides information about the policy context in which the statistics have been produced, but *DI Estimates* does not.

A2.11 *BQRDI* presents information about the quality and reliability of the statistics, but not in relation to the range of potential uses.

## **Include, or link to, appropriate metadata**

A2.12 The MOD publishes information about data sources and methods within *BQRDI* and also within related methodology documents. *DI Estimates* includes a section on definitions and links to methodology documents.

A2.13 *BQRDI* includes a section on coherence and comparability which explains that the method used to measure inflation is consistent with the approach taken by the Office for National Statistics. It also explains that the recent change in methods means that the civilian and military pay and labour costs are now directly comparable.

A2.14 The MOD has provided adequate description of the changes made to the methods used to produce the statistics from 2010/11 onwards in a separate paper *Defence Inflation: Military Labour Costs*. It also presents numerical comparisons using the previous and new methodologies within this paper.

A2.15 *DI Estimates* includes a description of the nature of revisions made to figures released previously, as well as tables which demonstrate the impact of the revisions. The statistics are not subject to scheduled revisions.

## Annex 3: Summary of assessment process and users' views

A3.1 This assessment was conducted from October to December 2011.

A3.2 The Assessment team – Emma Bowditch and Neil Jackson – agreed the scope of and timetable for this assessment with representatives of the MOD in October. The Written Evidence for Assessment was provided on 4 November 2011. The Assessment team subsequently liaised with the MOD during November to review compliance with the *Code of Practice*, taking account of the written evidence provided and other relevant sources of evidence.

### Summary of users contacted, and issues raised

A3.3 Part of the assessment process involves our consideration of the views of users. We approach some known and potential users of the set of statistics, and we invite comments via an open note on the Authority's website. This process is not a statistical survey, but it enables us to gain some insights about the extent to which the statistics meet users' needs and the extent to which users feel that the producers of those statistics engage with them. We are aware that responses from users may not be representative of wider views, and we take account of this in the way that we prepare assessment reports.

A3.4 The Assessment team received 7 responses from the user consultation. The respondents were grouped as follows:

MOD	5
Academic	1
Other government department	1

A3.5 Overall, users were content with the statistics and reported that the statistics met their needs. One user said that they considered Figure 1 in *DI Estimates* to be misleading, since it presents the time series including the latest year, even though the estimate for the latest year has been produced using different methods and cannot be compared to previous years' data. This user also said that they found the pre-release access arrangements to be restrictive because there is not enough time to provide briefing and background to the statistics to assist others to interpret the statistics. The suppliers reported good relationships with the producer and that they understand enough about how the data are used in order to supply what is needed. They also said that supplying data creates minimal additional burden since they collect the data anyway.

### Key documents/links provided

Written Evidence for Assessment document

