

This bulletin contains a size breakdown of the number of businesses in the United Kingdom, from small traders with no employees to those with 500 or more employees. It also shows the contribution to employment and to turnover made by businesses of different sizes, with an industry breakdown.

This Bulletin is the sixth in a series, first published in June 1995.

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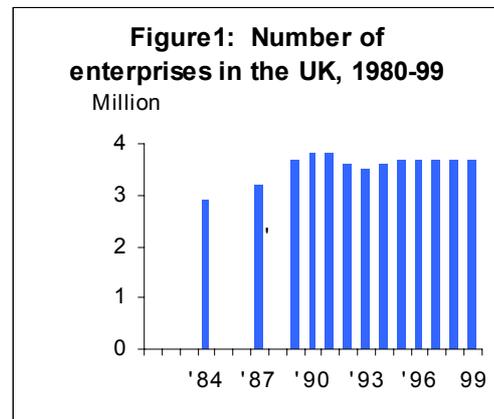
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Chapter 1 Commentary on the 1999 Estimates

Key findings

- There were an estimated 3.7 million businesses in the UK at the start of 1999
- Most businesses were small - only 31,000 had fifty or more employees.
- Small businesses (those with fewer than 50 employees), were the source of almost half of employment and over a third of turnover.
- Small businesses accounted for a higher proportion of employment in some industries including agriculture, business activities and construction.
- Large firms still dominate in both number and employment in some industries, including electricity, gas & water supply, mining & quarrying, and manufacturing.



Trend in the number of businesses

The stock of enterprises has now been at a similar level for the fifth successive year, following falls between 1991 and 1993. The business stock is 1.3 million higher than in 1980 (the first year for which comparable figures are available). See Figure 1.

Businesses with and without employees

Of the 3.7 million businesses in 1999 over 2.3 million were 'size class zero' businesses - those made up of sole traders or partners without employees (see Table 1).

Accuracy of the estimated number of businesses

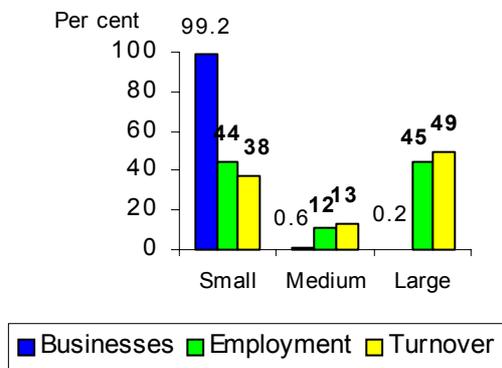
The SME statistics show the number of businesses in each of ten employee based size classes. The smallest size class, which contains an estimate of the number of businesses with no employees, is the greatest potential source of error. This is due both to the assumptions necessary in estimating businesses that do not appear on the official register, and to sampling error within the self-employment data on which the zero class estimates are based.

Given this, only the data for businesses with at least one employee are suitable for detailed analysis. Data for businesses with no employees (and hence the total number of businesses) may be regarded as a broad indicator of the level of business activity. Estimates for higher size classes suffer no such error. The Technical note covers these issues in more detail.

The number of size class zero businesses has fallen slightly since the start of 1998 due to the rise in employment.

At the start of 1999 1.3 million businesses were employers, a slight increase on last year. The increase is mainly due to an increase in single employee businesses. 1999 also saw improved survival rates for businesses.

Figure 2: Proportion of businesses, employment and turnover in small, medium and large firms at start-99



Small, medium and large businesses

The majority of the 3.7 million businesses were small (fewer than 50 employees). Only 24,000 were medium sized (50 to 249 employees) and almost 7,000 were large (250 or more employees).

Small businesses, including those without employees, accounted for over 99% of businesses, 45% of non-government employment and 38% of turnover¹.

In contrast, the 7,000 largest businesses accounted for 45% of non-government employment and 49% of turnover (see Figure 2).

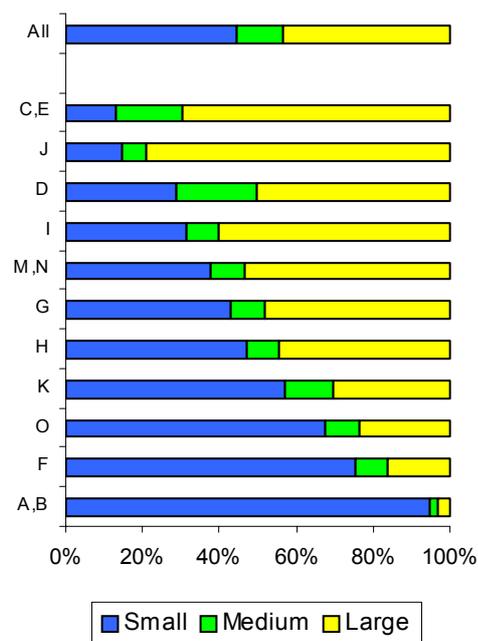
¹ All turnover figures quoted exclude the finance industry unless stated otherwise.

Industry patterns

At the start of 1999, at least 99% of businesses in all but the electricity, gas & water supply, and mining & quarrying industries were SMEs.

The share of employment in small businesses was higher than average in agriculture, forestry and fishing and in most service industries at the start of 1999 (see Figure 3). Small businesses continued to dominate employment in the construction industry.

Figure 3 : Share of employment in SMEs by industry, start 1999



See Appendix A1 for a list of industry codes.

Chapter 2 Regional Estimates

Background

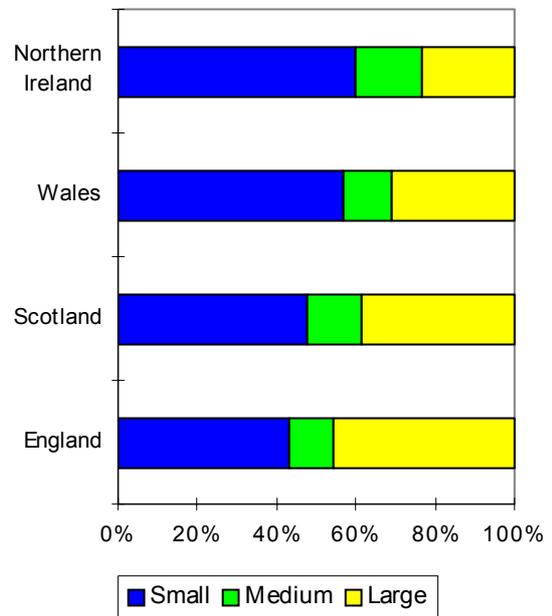
For the third time the SME statistics publication includes regional estimates. The methodology used was the same as for the UK estimates. National Survey of Personal Income (SPI) data were used in the absence of regional figures. This means there are small differences in the results for the size class zero estimates when compared to the UK totals. This time the regional data excludes results for SIC 745 (Labour recruitment and provision of personnel), in line with the national figures.

Where an enterprise has several local units, the location of the enterprise is generally the head office. So in these tables all the employees are allocated to the region of the head office of the enterprise.

Regional analysis

Small and medium enterprises accounted for over 99% of businesses in all regions. The share of employment in SMEs was highest among Northern Ireland based businesses and lowest among those based in London (see Figure 4 for country results). The share of turnover in SMEs was also highest among Northern Ireland based businesses, and was lowest among those based in London, the South East, North East and Yorkshire and the Humber.

Figure 4 : Share of Employment in SMEs by country, start 1999



One way of measuring the level of entrepreneurship is to look at the number of businesses per head of resident population (table 8). London has the most SMEs per head. This is to be expected as many businesses register in London, even if much of the actual trading occurs elsewhere.

Furthermore, many people run businesses in London without being resident there, which also inflates London's figures. Outside London the South East and South West have the highest number of SMEs per head. The rates are lowest in the North East.

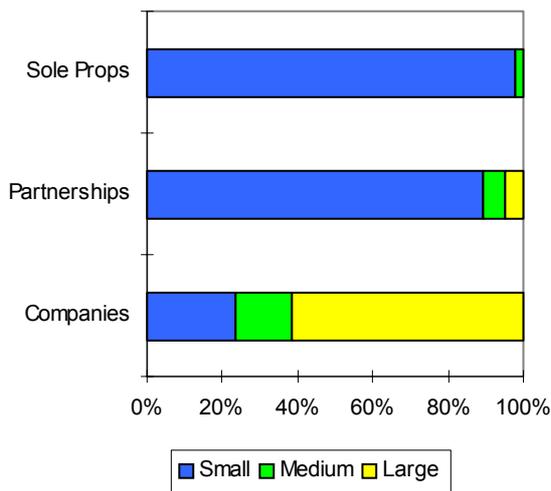
The results this year do not show Merseyside, which is no longer a separate statistical region. Figures are included in the North West total.

Chapter 3 Additional Analyses

Legal status

The vast majority of businesses are sole proprietorships. This is a result of the large number of sole traders. However, it is companies which account for the majority of employment. There are almost as many partnerships as companies, but they account for a much smaller proportion of employment and turnover (see Figure 5).

Figure 5 : Share of Employment in SMEs by Legal Status, start 1999



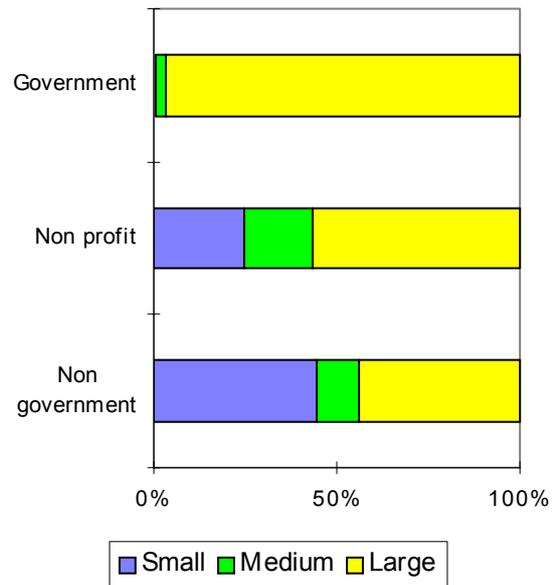
The public and not-for-profit sectors

Most of the tables in the SME statistics publication cover the non-government sector, that is they contain data for sole proprietors, partnerships, companies and public corporations only. The IDBR also contains information on establishments in central and local government and the not for profit sector. Table 23 includes estimates of the number of units and employment in each of these two sectors, and hence in the economy as a whole. The results show

that the contribution to employment of small businesses is greatest in the non-government sector, while central and local government employment is dominated by large units (see Figure 6).

The table also shows the distribution of employee jobs in enterprises of different sizes. Although SMEs account for 55% of non-government employment much of this is self-employment. They provide 45% of employee jobs in the non-government sector, and only 41% of employee jobs in the economy as a whole.

Figure 6 : Share of employment in SMEs by sector of the economy, start 1999



Chapter 4 Trends in the SME Statistics; the Number of Businesses 1980-99

Industry pattern

Between the start of 1998 and the start of 1999 the number of businesses employing one to four people increased by 4%, while the number of sole traders without employees decreased by 1%. In particular the number of sole traders decreased in the construction and wholesale sectors, while there was an increase in the number of businesses employing one to four people in the business activities industry.(Table 24).

Legal status

Between the start of 1998 and the start of 1999 the number of sole proprietors decreased by 1%, while the number of companies increased by 7% and partnerships remained the same. In particular there was an increase in companies with one to four employees. (see Table 25).

The number of businesses 1980-92

SME statistics were previously published from other sources for the years 1980, 1984, 1987, and 1989-92².

These earlier estimates are not comparable with the estimates in the present series starting from 1994 onwards. The earlier work was not able to draw on the IDBR, and the method for estimating the number of unregistered businesses has changed.

Estimation of unregistered businesses

² See for example McCann A. "The UK Enterprise Population 1979-91" in NatWest Quarterly Review of Small Business Trends, June 1993.

- The previous method excluded self-employment from second jobs. However it is clear that some self-employed people run more than one business, and that some employees run businesses in their spare time.
- Previously the number of self-employed people running VAT registered businesses had to be estimated. Evidence from the IDBR suggests that it was overestimated, thereby reducing the number of unregistered businesses.
- It was previously assumed that partnerships were just as common among unregistered businesses as among small registered businesses. SPI evidence now suggests that sole proprietorships are more common.

See Chapter 5 for how the self-employed figure is now estimated.

Revisions to 1980-92 estimates

Estimates of the number of businesses from 1980 have been revised upwards in line with the changes. The absence of IDBR data for previous years has made it impossible to produce a detailed revised size breakdown. However, some broad estimates of the split between small and large enterprises are available.

Chapter 5 Technical Note and Definitions Used

No single source is able to estimate the total number of businesses in the UK. The official register of businesses, the Inter Departmental Business Register (IDBR), holds records of around 2 million businesses but its coverage is known to be incomplete among the very smallest businesses. Therefore these SME statistics include an estimate of the number of unregistered businesses, their employment and turnover.

The Inter-Departmental Business Register (IDBR)

The IDBR is a business register administered by the Office for National Statistics (ONS). It holds records of all businesses registered for VAT and all businesses operating a PAYE scheme. Careful monitoring of the Register minimises double counting. The IDBR records each business' employment (and hence size), turnover and industry.

The main administrative sources for the IDBR are HM Customs and Excise for VAT information (passed to the ONS under the Value Added Tax Act 1994), and Inland Revenue for PAYE information (transferred under the Finance Act 1969). Other information is added to the register if required for ONS statistical purposes, for example information from Dun and Bradstreet on company structure and information from Companies House.

Employment was originally taken from the biennial Census of Employment, or an ONS enquiry. From 1995 the main source is the Annual Employment Survey. The employment information currently on the IDBR is drawn mainly from the 1998 annual employment

survey. Because this does not cover all enterprises, estimates from the 1997 and 1996 surveys and from other ONS enquiries have also been used. Where no employment data are available from these sources employment is taken from PAYE returns. ONS also send a data proving form to newly registered businesses employing more than twenty people to confirm employment information.

Turnover also comes from an ONS enquiry, or direct from VAT returns. Turnover information provided to the ONS for the majority of traders is based on VAT returns for a twelve-month period ending in March 1999, according to the reporting pattern of the trader. For other records, in particular member companies of VAT group registrations, turnover information may well relate to an earlier period. For traders who have registered more recently, turnover will represent the estimate made by traders at the time of registration. For the small number of records for which there are no data turnover is imputed from employment (and vice versa).

The IDBR is being continuously updated as new data from enquiries are received and businesses open and close. In addition checks on individual records improve the quality of the register on an ongoing basis. Thus there will be differences in results taken at different times from the register as new data are added and other data revised.

The time period covered

The SME statistics are a snapshot at the start of each calendar year. A count of IDBR businesses that were "live" at start-year is achieved by referring to

each business' recorded start date and, where appropriate, its closure date. The reporting of these dates is subject to a number of lags. For example when a business closes there may be a delay before Customs & Excise, who collect VAT, are informed. Closure of the VAT record may then be delayed until all liabilities are settled. There may also be lags in recording PAYE data. These lags introduce a delay of about a year and a half into the production of the snapshot estimate.

Unregistered businesses

Many businesses are not covered by the IDBR. Excluded are those that are neither registered for VAT nor operate a PAYE scheme.

The threshold for compulsory VAT registration at start 1999 was an annual turnover of £50,000. Below that some businesses will register voluntarily. On the other hand businesses with a turnover above the threshold are not required to register if they trade exclusively in exempt goods.

If a business has no employees or only low paid (perhaps part-time) employees then it is unlikely to operate a PAYE scheme.

Types of business

There are three main types of

Figure 7 : Enterprises and self-employment on and off the IDBR

	On the IDBR		Unregistered	
	businesses	self-employed	Businesses	self-employed
Sole proprietorships	0.73	0.73	1.47	1.47
Partnerships	0.42	0.82	0.26	0.52
Companies	0.80	-	-	-
All	1.95	1.55	1.73	1.98
- nil or negligible				

businesses covered by the estimates: sole proprietorships, run by one self-employed person, partnerships, run by two or more people and companies, in which the working directors are counted as employees. Unregistered businesses are almost certainly made up of the first two. Companies not on the IDBR are likely to be inactive.

Self-employment estimate from the Labour Force Survey (LFS)

An estimate of self-employment for start 1999 of around 3.6 million was obtained from the Autumn 1998 LFS.

This is made up of 3.3 million people describing themselves as self-employed in their main job, and 0.3 million (in some cases the same people) who had a second job with self-employed status.

Overlap of the IDBR and LFS self-employment count

Simply adding the self-employment estimate from the LFS and the IDBR count would lead to over-counting.

First, not every self-employed person runs a business by his or herself - some are in partnership. Second, some of them run IDBR registered businesses. The LFS does not record whether the self-employed are in partnership, or whether their businesses are VAT or PAYE registered, so some estimation is

needed.

Self-employed on the IDBR

The first step is to estimate how many self-employed people run IDBR registered businesses.

The IDBR records this information via enquiry forms. For the smallest businesses it is not collected directly, but assumed to be one per sole proprietorship, and two per partnership (evidence from the proving form suggests it is slightly less than two).

At the start of 1999 there were about 1.15 million sole proprietorships and partnerships on the IDBR run by 1.55 million self-employed people (see Figure 7).

Self-employed not on the IDBR

The second step is to estimate how many businesses are run by the remaining 2 million self-employed.

The Inland Revenue's Survey of Personal Income (SPI) is a further source of self-employment data. It estimated that the proportion of self-employed people who were in partnership rather than acting alone, was around a third. However, this varied from industry to industry.

Converting the remaining self-employed into 1.47 million sole proprietorships and 0.26 million partnerships was reasonably consistent with the SPI's findings.

The results showed that away from the IDBR, sole proprietorships were much more common than partnerships.

Assumptions used in the estimation of unregistered businesses

Economic contribution

Unregistered businesses are clearly very small. It was assumed that they are all in the smallest size class (no employees). Some may generate employment, but it is likely to be transitory or low paid, otherwise a PAYE scheme would be in operation.

Turnover in unregistered businesses will generally be lower than that of registered businesses of the same size, as turnover in the former would usually be below the VAT threshold.

Turnover for unregistered businesses was imputed from turnover per head of size class zero businesses on the IDBR and then scaled down by a factor of a half. For a few 2-digit industry divisions, this still left average annual turnover per unregistered business above the VAT threshold.

In these cases, the unregistered turnover total was adjusted until turnover per business was equivalent to that of other industry divisions within the same sector.

The resulting addition to total turnover at start 1999 was about £48 billion (only 1 per cent of the overall figure.)

Sole Traders/Partnership ratio

As mentioned above, the SPI is used to apportion the LFS self-employed population into sole traders and partners (assuming two partners per partnership) to determine the number of unregistered businesses.

Suppression of data

The disclosure of data relating to individual undertakings without consent is prohibited under the Statistics of Trade Act 1947, the Value Added Tax Act 1994 and the Finance Act 1969. All counts have been rounded to the nearest five to avoid disclosure.

This means that totals may not necessarily equal the sum of the data in rows and columns, and counts of less than 3 will be shown as zero. In addition, percentages may not always add to 100 owing to rounding.

Employment and turnover information has to be suppressed where the count is less than 20. To avoid disclosure by deduction additional values must be removed.

Definitions used

Businesses

There is no single definition of a business, or of a firm or enterprise, which are often used to mean the same thing. Generally it means a legal unit, person or group of people producing goods or services under their own control and with their own legal identity. A branch or office of a larger organisation is not in itself a business.

Size of business

This refers to the number of employees. There is no universally accepted definition of a small, medium or large business. The revised European Union

definition, used for EU statistical comparisons, defines a small enterprise as one with under 50 employees, and a medium enterprise as one with at least 50 but under 250 employees. Large enterprises have 250 or more employees.

Employment

This refers to the number of employees plus the number of self-employed people that run the business. Individuals with two jobs and self-employed people running two businesses will be counted twice.

Both full-time and part-time employees are counted.

The official estimate of “workforce jobs” at start 1999 was around 27 million. The estimate shown in most tables in this Bulletin differs in that it excludes employment in central and local government, HM Forces and participants on government training programmes who do not have a contract of employment. Table 23 shows total employment of 26 million, the same as at the start of 1998.

Turnover

This refers to the value of sales, work done and services rendered. It excludes VAT. Turnover data for registered businesses comes from the IDBR. Where there is an enterprise group, turnover for all the VAT businesses within the group may be notified (to HM Customs and Excise) by a reporting or ‘standard’ unit. If this is not updated from other sources the IDBR record will hold an unusually high turnover for the reporting enterprise and other enterprises within the group will hold an estimated turnover.

Coverage

With the exception of Table 23, the SME statistics cover the market sector. This includes all private sector businesses, even if they sell their products exclusively to the Government. This excludes central and local government, charities and other non-profit organisations.

There is no lower boundary for inclusion in the SME statistics. Even a small amount of business activity counts. It must be remembered that many size class zero businesses are labour-only subcontractors - self-employed people trading in their own skills or professional knowledge. They might work for just one customer. Many are genuine entrepreneurs or at least think of themselves as separate from the organisation to which they sell their skills. Others probably do not - for example people whose employers have simply shifted their job from employee to self-employed status.

Classification

The industrial classification used in this publication is the Standard Industrial Classification, SIC(1992). Private households and extra-territorial bodies (sections P and Q) are not included, as they are outside the scope of this book.

Enterprises may change their industrial classification and such changes are reflected on the IDBR when they are notified. Work also continues to improve the quality of the classification of data on the IDBR.

Appendix A1

The Standard Industrial Classification 1992

A,B Agriculture, forestry and fishing

- 01 Agriculture and hunting
- 02 Forestry and logging
- 05 Fishing

C Mining and quarrying

- 10 Mining of coal and lignite; extraction of peat
- 11 Extraction of crude petroleum and natural gas
- 13 Mining of metal ores
- 14 Other mining and quarrying

D Manufacturing

- 15 Manufacture of food products and beverages
- 16 Manufacture of tobacco products
- 17 Manufacture of textiles
- 18 Manufacture of wearing apparel
- 19 Manufacture of leather and leather products
- 20 Manufacture of wood and wood products except furniture
- 21 Manufacture of pulp, paper and paper products
- 22 Publishing, printing and reproduction of recorded media
- 23 Manufacture of coke, refined petroleum products and nuclear fuel
- 24 Manufacture of chemicals and chemical products
- 25 Manufacture of rubber and plastic products
- 26 Manufacture of other non-metallic mineral products
- 27 Manufacture of basic metals
- 28 Manufacture of fabricated metal products, except machinery and equipment
- 29 Manufacture of machinery and equipment not elsewhere classified
- 30 Manufacture of office machinery and computers
- 31 Manufacture of electrical machinery and apparatus not elsewhere classified
- 32 Manufacture of radio, television and communication equipment and apparatus
- 33 Manufacture of medical, precision and optical instruments, watches and clocks
- 34 Manufacture of motor vehicles, trailers and semi-trailers
- 35 Manufacture of other transport equipment
- 36 Manufacture of furniture; manufacturing not elsewhere classified
- 37 Recycling

E Electricity, gas and water supply

- 40 Electricity, gas, steam and hot water supply
- 41 Collection, purification and distribution of water

F Construction

G Wholesale, retail and repairs

- 50 Sale, maintenance and repair of motor vehicles; retail sale of automotive fuel
- 51 Wholesale trade and commission trade, except of motor vehicles
- 52 Retail trade, except of motor vehicles; repair of personal and household goods

H Hotels and restaurants

I Transport, storage and communication

- 60 Land transport; transport via pipelines
- 61 Water transport
- 62 Air transport
- 63 Supporting and auxiliary transport activities; activities of travel agencies
- 64 Post and telecommunications

J Financial intermediation

- 65 Financial intermediation, except insurance and pension funding
- 66 Insurance and pension funding, except compulsory social security
- 67 Activities auxiliary to financial intermediation

K Real estate, renting and business activities

- 70 Real estate activities
- 71 Renting of equipment without operator and of personal and household goods
- 72 Computer and related activities
- 73 Research and development
- 74 Other business activities¹

L* Public administration, defence and compulsory social security

M Education

N Health and social work

O Other community, social and personal services

- 90 Sewage and refuse disposal, sanitation and similar activities
- 91 Activities of membership organisations not elsewhere classified
- 92 Recreational, cultural and sporting activities
- 93 Other service activities

P* Private households with employed persons

Q* Extra-territorial organisations

* not included in these estimates.

1 Labour recruitment and provision of personnel (SIC 745) has been excluded from the start 1999 estimates for SIC 74.

Appendix A2

Sources of Business Information

Inter-Departmental Business Register

'The Inter Departmental Business Register'

John Perry, Economic Trends, November 1995 gives more details on the IDBR.

If you have questions about the IDBR:

Contact IDBR Helpdesk : 01633 813229

E-mail : idbr.helpdesk@ons.gov.uk

Size Analysis of United Kingdom Businesses (PA1003)

This annual publication is compiled from the IDBR. The publication contains detailed information on VAT registered enterprises in the UK including size, classification and location.

Contact ONS : 01633 812751

Business Start-Ups and Closures - VAT Registrations and Deregistrations 1980-99

This Bulletin provides the best official guide to the pattern of business start-ups and closures. The figures include all but the very smallest businesses operating below the VAT registration threshold.

Contact Small Business Service : 0114 259 7538

European Business Data

Eurostat, the Statistics body of the European Commission, publishes data on SMEs throughout Europe in the Enterprises in Europe series. The 6th report is due to be published September 2000.

Contact ONS The European Data Shop: 0207 533 5676

E-mail : eurostat.datashop@ons.gov.uk

Additional Contacts

Other ONS business statistics are available from the Data Analysis Service. Data can be specifically tailored to customer requirements.

Contact ONS : 01633 812751 or www.statistics.gov.uk

A wide range of statistics on self-employment data are available from the Labour Force Survey. Contact ONS : 020 7533 6094

Appendix A3

Address for Enquiries

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