

SMALL AND MEDIUM-SIZED ENTERPRISE (SME) STATISTICS FOR THE UK, 2004

METHODOLOGY AND ACCURACY

TECHNICAL NOTE

1. 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)

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

3. The main administrative sources for the IDBR are HM Revenue & Customs (HMRC) for VAT information (passed to the ONS under the Value Added Tax Act 1994) and 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.

4. Employment was originally taken from the biennial Census of Employment, an ONS inquiry. From 1995-1998 the main source was the Annual Employment Survey, which has now been replaced by the Business Register Survey (BRS). The employment information currently on the IDBR is drawn mainly from the 2003 BRS. Because this is based on a sample of enterprises, estimates from previous surveys and from other ONS surveys have also been used. For the smallest units, either PAYE jobs or employment imputed from VAT turnover is used.

5. Turnover provided to the ONS for the majority of traders is based on VAT returns for a 12 month period ending in December 2003, or January/February 2004, according to the reporting pattern of the trader. For other records, in particular members of VAT group registrations, turnover may relate to an earlier period. For traders who have registered more recently, turnover represents the estimate made by traders at the time of registration. For the small number of PAYE only records for which there are no data, turnover is imputed from employment.

6. The IDBR is being continuously updated as new data from surveys are received and businesses open and close. In addition a variety of 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.

7. The ONS undertakes numerous and continuous checks on the quality of the data held on the IDBR. Regular VAT and PAYE updates are received from HMRC and these updates are checked with the new VAT and PAYE registrations being matched. Many of the PAYE-based businesses will have no VAT registration, some units may be waiting to be matched to existing VAT records on the IDBR. This will cause a small number of records to be duplicated on the IDBR.

Classification changes

8. In SME Statistics 2002, and earlier releases, primary care trusts and National Health Service trusts were classified as public corporations / nationalised bodies, and therefore included with the figures for companies and the private sector.

9. In 2003, the ONS correctly reclassified these trusts, resulting in 275 enterprises, with employment of 990,000 and turnover of £41 billion, being moved out of the figures for companies and private sector, and into the figures for Central Government. So for SME Statistics before 2003, private sector figures will appear larger and Government figures will appear smaller than they really were. This will also affect, for private sector employment and turnover, the proportion that is in small and medium-sized enterprises.

The time period covered

10. 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 time delays. For example when a business closes there may be a delay before HMRC, 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

11. Small businesses are not completely covered by the IDBR. Businesses that are neither registered for VAT nor operate a PAYE scheme are excluded from the IDBR.

12. The threshold for compulsory VAT registration at the start of 2004 was an annual turnover of £56,000. Below that some businesses will register voluntarily.

13. On the other hand businesses with a turnover above the threshold are not required to register if they trade exclusively in exempt goods.

14. 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

15. There are three main types of businesses covered by the estimates. These are 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. The first two categories will make up the vast majority of unregistered businesses. Companies not on the IDBR are likely to be inactive.

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

16. An estimate of self-employment for start 2004 of around 3.8 million was obtained from the Autumn 2003 LFS.

17. This is made up of 3.49 million people describing themselves as self-employed in their main job, and 0.33 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

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

19. 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

20. The first step is to estimate how many self-employed people are registered for VAT or PAYE and HMRC and are on the IDBR.

21. The IDBR records this information via survey 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 more than two).

22. At the start of 2004 there were about 1.01 million sole proprietorships and partnerships within the scope of the SME Statistics on the IDBR run by 1.41 million self-employed people (see Figure 1).

Self-employed not on the IDBR

23. The second step is to estimate how many businesses are run by the remaining 2.4 million self-employed¹.

¹ In a few cases, the Labour Force Survey self-employment total for a particular industry is less than the working proprietors total on the IDBR for that industry, resulting in a negative unregistered self-employment figure. In these cases, the unregistered self-employment figure is revised upwards to zero.

24. HMRC's Survey of Personal Incomes (SPI) is a further source of self-employment data. The 2002/03 SPI (the latest data available) estimated that the proportion of self-employed people who were in partnership, rather than acting alone, was around a quarter. However, this varied from industry to industry.

25. The results showed that away from the IDBR, sole proprietorships were much more common than partnerships (see Figure 1).

Figure 1: Enterprises and self-employment on and off the IDBR UK, millions

	On the IDBR		Not on the IDBR, unregistered	
	Number of Businesses	Self-employed people	Number of Businesses	Self-employed people
Sole proprietorships	0.65	0.65	2.07	2.07
Partnerships	0.36	0.76	0.18	0.36
Companies	1.02	- ²	-	-
All	2.03	1.41	2.25	2.43

Assumptions used in the estimation of unregistered businesses

Economic contribution

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

27. 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.

28. 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.

29. In these cases, the unregistered turnover total was adjusted until turnover per business was below the VAT threshold of £56,000.

30. The resulting addition to total turnover at start 2004 was about £82 billion (only 3.5 per cent of the overall figure.)

² On the IDBR there are nearly 400,000 companies with one employee. In the SME Statistics publication, we class these one-employee businesses as having no employees and one working proprietor. However, these working proprietors do not count as being self-employed in the methodology as they are still officially employees of the company.

Sole Traders/Partnership ratio

31. 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

32. 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 avoid disclosure.

33. 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.

34. Employment and turnover information has to be suppressed where the count is deemed to be disclosive. To avoid disclosure by deduction additional values have been removed.

35. The 'no employees' size class estimates rely heavily on the Labour Force Survey, which is a sample survey of around 61,000 households in the UK. Any business estimates resulting from an LFS estimate of less than 10,000 self-employed in the industry have been suppressed, following ONS release practices.

Definitions used

Businesses

36. 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

37. 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 less than 50 employees, and a medium enterprise as one with at least 50 but less than 250 employees. Large enterprises have 250 or more employees.

Employment

38. 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.

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

40. The ONS publishes official estimates of “workforce jobs”, which totalled 30.4 million in December 2003³. The estimate shown in most tables in this publication (22.0 million) differs in that it excludes employment in central and local government, charities and other non-profit organisations, HM Forces and participants on government training programmes who do not have a contract of employment. The “Whole Economy” table shows total employment of 28.6 million, slightly higher than at the start of 2003.

Turnover

41. 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 a group, turnover for all the VAT businesses within the group may be notified (to HMRC) 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

42. With the exception of the Whole Economy table, 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.

43. 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; that is, 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

44. The industrial classification used in this publication is the Standard Industrial Classification, SIC (2003). Private households and extra-territorial bodies (sections P and Q) are not included, as they are outside the scope of this National Statistics publication.

45. 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.

³ Source: ONS Labour Market Trends August 2005 Table A3.

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.

- Contact IDBR Helpdesk: 01633 813229
- E-mail: idbr.helpdesk@ons.gov.uk
- Website: <http://www.statistics.gov.uk/idbr/idbr.asp>

UK Business: Activity, Size and Location

This annual publication is compiled from the IDBR. The publication contains detailed information on VAT registered enterprises in the UK including size, classification (to 4-digit SIC) and location. Previously this was known as the PA1003.

- Contact ONS: 01633 812075
- Email: pa1003@ons.gov.uk
- Website: <http://www.statistics.gov.uk/pa1003>

Business Start-Ups and Closures - VAT Registrations and Deregistrations

This annual publication 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 279 4440
- Email: statistics@sbs.gsi.gov.uk
- Website: <http://www.sbs.gov.uk/vats>

SME Statistics for the Regions, 2003

This National Statistics Publication provides estimates of the number of businesses, employment and turnover in each region, by broad industry group. SBS have no plans to update this for 2004.

- Contact Small Business Service: 0114 279 4439
- Email: statistics@sbs.gsi.gov.uk
- Website: <http://www.sbs.gov.uk/smes>

A wide range of statistics on self-employment data is available from the Labour Force Survey.

- Contact ONS: 020 7533 6094
- Email: labour.market@ons.gov.uk
- Website: <http://www.statistics.gov.uk/>

The Census 2001 asked questions about self-employment. Data are already available by gender, ethnic group, location, and main industry group.

- Contact ONS Census Customer Services: 01329 813800
- Email: census.customerservices@ons.gov.uk
- Website: <http://www.statistics.gov.uk/census2001>