

SMALL AND MEDIUM-SIZED ENTERPRISE (SME) STATISTICS FOR THE UK AND REGIONS, 2007

METHODOLOGY AND ACCURACY

TECHNICAL NOTE

PUBLISHED BY THE ENTERPRISE DIRECTORATE OF THE DEPARTMENT FOR
BUSINESS, ENTERPRISE AND REGULATORY REFORM (BERR)

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

The Inter-Departmental Business Register (IDBR)

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

3. The main administrative source for the IDBR is 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 From 1995-1998 the main source was the Annual Employment Survey, which has now been replaced by the Business Register Survey (BRS).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 2006 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 enterprises is based on VAT returns for a 12 month period ending in December 2006, or January / February 2007, according to the reporting pattern of the enterprise. For other records, in particular members of VAT group registrations, turnover may relate to an earlier period. For enterprises who have registered more recently, turnover represents the estimate made by enterprises 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 enterprises 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 enterprises 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.

The time period covered

8. The SME statistics are a snapshot at the start of each calendar year. A count of IDBR enterprises that were “live” at start-year is achieved by referring to each enterprise’s 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 an enterprise 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 enterprises

9. Small enterprises are not completely covered by the IDBR. Enterprises that are neither registered for VAT nor operate a PAYE scheme are excluded from the IDBR.

10. The threshold for compulsory VAT registration for 2006/2007 was an annual turnover of £61,000. Below that some enterprises will register voluntarily.

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

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

Types of enterprise

13. Apart from Table 1, which also includes Government and non-profit enterprises, the estimates comprise three types of enterprises. These are sole proprietorships, run by one self-employed person; partnerships, run by two or more people; and companies (including public corporations and nationalised bodies) in which the working directors are counted as employees. The first two categories will make up the vast majority of unregistered enterprises. The estimates exclude companies that are not on the IDBR because they are inactive.

14. Since the publication of SME Statistics 2000 single employee companies have been excluded from the 1-4 employees category, and instead included in with the

zero employees category. This was done to ensure that any incorporations by individuals operating alone did not distort the overall numbers of enterprises with employees.

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

15. An estimate of self-employment for start 2007 of around 4.0 million was obtained from the Q4 2006 LFS (October to December).

16. This is made up of 3.7 million people describing themselves as self-employed in their main job, and 0.34 million (in some cases the same people) who had a second job with self-employed status¹.

Overlap of the IDBR and LFS self-employment count

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

18. First, not all self-employed people run enterprises on their own - some are in partnership. Second, some of them run IDBR registered enterprises. The LFS does not record whether the self-employed are in partnership, or whether their enterprises are VAT or PAYE registered, so some estimation is needed.

Self-employed on the IDBR

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

20. The IDBR records employment via survey forms. For the smallest enterprises it is not collected directly, but assumed to be one per sole proprietorship, and two per partnership (evidence from HMRC Tax Self-Assessment suggests it is slightly more than two).

21. At the start of 2007 there were about 929,000 sole proprietorships and partnerships within the scope of the SME Statistics on the IDBR run by 1.29 million self-employed people (see Figure 1).

22. For some industry divisions, the IDBR shows more registered self-employed people than there are unregistered and registered self-employed people according to the LFS. For these divisions, we assume that the IDBR is correct, and our best estimate of the number of unregistered self-employed people is zero.

Self-employed not on the IDBR

23. The second step is to estimate how many enterprises are run by the remaining 2.5 million self-employed².

¹ The ONS has added some new questions to the LFS in 2007 which show that the self-employment jobs may be over-estimated (see "Other developments" section on page 7).

24. HMRC's Survey of Personal Incomes (SPI) is a further source of self-employment data. The 2005/06 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

(private sector; excludes Standard Industrial Classification (SIC2003) 745, P and Q)

UK,
millions

| | On the IDBR | | Not on the IDBR, unregistered | |
|----------------------|--------------------------|-----------------------------|----------------------------------|-----------------------------|
| | Number of Enterprises | Self- employed people | Number of Enterprises | Self- employed people |
| Sole proprietorships | 0.61 | 0.61 | 2.38 | 2.38 |
| Partnerships | 0.32 | 0.68 | 0.18 | 0.37 |
| Companies | 1.19 | - ³ | - | - |
| All | 2.12 | 1.29 | 2.56 | 2.75 |

Assumptions used in the estimation of unregistered enterprises

Economic contribution

26. Unregistered enterprises 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 enterprises 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 enterprises was imputed from turnover per head of size class zero enterprises on the IDBR and then scaled down by a factor of a half.

29. For three 2-digit industry divisions, this still left average annual turnover per unregistered enterprise above the VAT threshold. In these cases, the unregistered turnover total was adjusted until turnover per enterprise was below the 2006/2007 VAT threshold of £61,000.

² 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.

³ On the IDBR there are around 460,000 companies with one employee. In the SME Statistics publication, we class these one-employee enterprises 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

30. The addition to total turnover from unregistered enterprises at the start of 2007 was about £94 billion (only 3.4 per cent of the overall figure.)

Sole Proprietors/Partners ratio

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

Suppression of data due to disclosure

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 53,000 households in the UK every three months. In the SME Statistics 2002 to 2004, any enterprise estimates using an LFS estimate of less than 10,000 self-employed in the industry were suppressed, along with additional values to avoid disclosure by deduction. This was consistent with the publication guidelines used by ONS to advise users which estimates met a certain level of reliability.

36. In April 2004, the Statistical Policy Committee expressed a strong preference for publishing data rather than suppressing data for reasons of quality. Following this discussion, the threshold of 10,000 has been removed from labour market outputs where possible. Therefore since the publication of SME Statistics 2005, such estimates are no longer suppressed, although footnote 3 in the tables advises users about their reliability.

37. The exception to this is where estimates are based on fewer than three cases. These could potentially be disclosive, so they are still suppressed in the SME Statistics 2007, along with additional values to avoid disclosure by deduction.

Discontinuities

38. 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.

39. 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.

40. In April 2004, ONS brought the LFS micro data into line with the results of the 2001 population census, taking into account the February – March 2003 population estimates. The effect of the new population data impacted across the LFS and showed that earlier estimates of self-employment were lower than they should have been.

41. This affected the SME statistics published 2002. The SME statistics 2003, 2004, 2005 and 2006 are all consistent, but as mentioned in the SME Statistics 2003 statistical press release, the number of unregistered enterprises in SME Statistics 2002 should have been about 70,000 higher. Earlier estimates of unregistered enterprises should also have been higher, but by increasingly smaller amounts as you go back in time.

42. A National Statistics Quality Review (report number 34 “Strategic Review of Farming and Food Statistics”) has led to an improvement in the quality of agricultural statistics from January 2006, by aligning information on the IDBR and the DEFRA Farm Survey System. This has impacted on SIC’s 011 – 013 and resulted in approximately a 7 per cent increase in the number of units registered in the 2006 SME statistics, at the 2-digit level (for SIC 01), however at the 3-digit level (where any IDBR changes will be more pronounced due to our methodology) this change will have more variable impact.

43. A change in the way schools can return their PAYE records means that they could either continue to be recorded against their local authority’s PAYE report or, from 2006 SME statistics onwards, may appear as a completely separate enterprise. This has led to a small increase in the number of enterprises in Education between 2005 and 2006, but won’t have an impact on the Whole Economy data.

44. In August 2007, ONS published mid-year population estimates for 2006 and revised population estimates for 2002-2005. In October 2007 ONS published 2006-based national population projections. In June 2008 ONS brought the LFS micro data into line with the results of the 2006-based population estimates. The effect of the new population data impacted across the LFS and showed that earlier estimates of self-employment were lower than they should have been.

45. The number of unregistered enterprises in SME Statistics 2006 should have been about 50,000 higher. Earlier estimates of unregistered businesses should also have been higher, but by increasingly smaller amounts as you go back in time. We therefore advise caution when comparing the 2007 figures with those in earlier publications.

46. The spring 2006 Labour Force Survey was the final dataset made available by ONS for micro-data analysis on a seasonal quarter basis. Since then all data sets have been released on a calendar quarter basis only. The 2007 SME Statistics

therefore uses quarter four (October to December) LFS data for the first time, instead of the usual autumn quarter (September to November) data. The effect of this change is likely to be small, but cannot be accurately estimated for the 2007 statistics. However this change is an improvement to the quality of the SME Statistics as it brings the end point of the period covered by the LFS data up to the reference point for the IDBR extract, which is the 31 December.

Other developments

47. BERR is currently reviewing the methodology for the SME Statistics. Self-employment in the LFS is self-defined by the respondent and it is known that some people who state that they are self-employed are likely actually to be employees and receive a salary.

48. In January 2006 ONS published its Quality Review of Employment and Jobs Statistics. One of the recommendations was better comparisons between LFS job estimates and those coming out of the Workforce Jobs Series. As part of this work ONS have developed a new methodology to more accurately assess whether individuals are self-employed or an employee.

49. The new methodology includes the use of a long standing LFS question called SELF, which asks about other methods of payment aside from receiving a salary or wage direct from an employer. The new methodology also makes use of a new LFS question called NITAX, which asks whether the respondent pays their own National Insurance or Tax. The full methodology is described in *Comparison of Statistics on Jobs; September 2007* available at:

<http://www.statistics.gov.uk/statbase/product.asp?vlnk=14358>

50. NITAX was added to the LFS in the first quarter of 2007 and so is not available for use in the quarter four LFS dataset used in the SME Statistics 2007. In addition NITAX is not asked to those who describe their second job as being self-employed, which we also include in our SME Statistics. From using the new methodology ONS estimate that first job self-employment on the LFS is over-estimated by around ten per cent. If in future the SME Statistics were to move towards using the new ONS methodology for estimating first job self-employment this may lead to a fall in the estimates of the number of enterprises, which at this point is estimated to be less than ten per cent.

51. This SME Statistics 2007 publication uses SIC 2003 as a way of classifying the activities of enterprises (see paragraph 61). A major revision of the UK Standard Industrial Classification of Economic Activities was completed in 2007. The revised classifications in SIC 2007 reflect the growing importance of service activities in the economy over the last fifteen years, mainly due to the developments in information and communication technologies (ICT). It is expected that SIC 2007 will be adopted in time for the production of Small and Medium Enterprise Statistics for the UK 2008. Further information on SIC 2007 can be found here:

<http://www.statistics.gov.uk/statbase/Product.asp?vlnk=14012>

Definitions used

Enterprises

52. There is no single definition of an enterprise, or of a firm or business, 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 enterprise

53. This refers to the number of employees. There is no universally accepted definition of a small, medium or large enterprise. The revised European Union definition, used for EU statistical comparisons, defines a small enterprise as one with a headcount less than 50, and a medium enterprise as one with a headcount of at least 50 but less than 250. Large enterprises have 250 or more staff. BERR uses the above definitions but applies them to employees, not headcount (which includes employees and the self-employed).

Employment

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

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

56. The ONS publishes official estimates of “workforce jobs”, which totalled 31.4 million in December 2006⁴. The estimate shown in most tables in this publication (22.7 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 29.7 million, slightly higher than at the start of 2006.

Turnover

57. This refers to the value of sales, work done and services rendered. It excludes VAT. Turnover data for registered enterprises comes from the IDBR. Where there is a group, turnover for all the VAT enterprises 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.

⁴ Source: ONS Economic and Labour Market Review July 2008 Table 2.05, http://www.statistics.gov.uk/elmr/07_08/2.asp

Coverage

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

59. There is no lower boundary for inclusion in the SME statistics. Even a small amount of enterprise 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.

60. Approximately 86,900 enterprises are excluded from the registered enterprise counts in SME Statistics 2007. The majority of these (around 82,300) are Composite and Managed Services Companies. A further 4,600 enterprises, registered at the address of an Official Receiver's Office, are also excluded. In both cases the address does not represent the location of the activities of these enterprises and they have been excluded to avoid giving a false impression of growth in these locations. Further details on Composite and Managed Services Companies can be found on the HM Revenue & Customs website <http://www.hmrc.gov.uk/bulletins/tbissue74.htm#d>.

Classification

61. The industrial classification used in this publication is the Revised Standard Industrial Classification 2003 (SIC2003). Private households and extra-territorial bodies (sections P and Q) are not included, as they are outside the scope of this National Statistics publication. SIC 745 (Labour recruitment and provision of labour personnel) is also excluded to avoid possible double counting of employees.

62. 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.

Sources of Enterprise 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 455200
- E-mail: jdbr.helpdesk@ons.gov.uk
- Website: <http://www.statistics.gov.uk/idbr>

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 455229 or 01633 455228
- Email: paul.wetherill@ons.gov.uk
- Website: <http://www.statistics.gov.uk/pa1003> or <http://www.statistics.gov.uk/ukbusiness>

Business Start-Ups and Closures - VAT Registrations and De-registrations

This annual publication provides the best official guide to the pattern of enterprise start-ups and closures. The figures include all but the very smallest enterprises operating below the VAT registration threshold.

- Contact BERR Enterprise Directorate: 0114 279 4440
- Email: enterprise.statistics@berr.gsi.gov.uk
- Website: <http://stats.berr.gov.uk/ed/sme>

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

- Contact ONS: 0845 601 3034
- 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 444972
- Email: census.customerservices@ons.gsi.gov.uk
- Website: <http://www.statistics.gov.uk/census2001>