

# **SMALL AND MEDIUM-SIZED ENTERPRISE (SME) STATISTICS FOR THE UK, 2003**

## **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 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 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.

4. Employment was originally taken from the biennial Census of Employment, or an ONS enquiry. From 1995-1998 the main source was the Annual Employment Survey, which has now been replaced by the Business Register Survey (BRS).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 2002 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 2002, or January/February 2003, 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 are checking records on the IDBR that have PAYE data but no VAT data. While many of these PAYE-based enterprises will have no VAT registration, some may duplicate existing VAT records. This work is likely to reduce the estimate of the number of enterprises with employees in next year's publication.

### **Classification changes in SME Statistics 2003**

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 Office for National Statistics 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 while the 2003 SME Statistics are correct, one should subtract the above figures from the 2003 SME Statistics for Government in order to compare them with earlier figures.

10. A quick comparison appears to show that employment, in Government enterprises with employees, has risen from 3.7 million at the start of 2002 to 4.8 million at the start of 2003; and turnover here has risen from £52.6 million to £114.7 million. But the figures in paragraph 9 show that most of this apparent increase is not genuine and merely due to the reclassification of the above trusts.

11. Similarly (but separately, and with less of an impact), several charities, which were previously classified as companies, have been correctly reclassified as non-profit organisations in the 2003 SME Statistics. All Employers total employment for Non-Profit Organisations rose from 1.3 million at the start of 2002 to 1.5 million at the start of 2003, and turnover rose from 37.9 million to 45.7 million, but this was at least partly due to the reclassification of these charities.

12. Overall, this means that the proportions of employment and turnover in small firms are correctly stated in the SME Statistics 2003 at 46.2 per cent and 38.3 per cent respectively; but the increase in these proportions between the start of 2002 and the start of 2003 is not nearly as large as it appears simply from comparing the tables.

### **The time period covered**

13. 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 HM 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**

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

15. The threshold for compulsory VAT registration at the start of 2003 was an annual turnover of £56,000. Below that some businesses will register voluntarily.

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

17. 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**

18. 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)**

19. An estimate of self-employment for start 2003 of around 3.6 million was obtained from the Autumn 2002 LFS.

20. This is made up of 3.22 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 status.

## **Overlap of the IDBR and LFS self-employment count**

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

22. 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

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

24. 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).

25. At the start of 2003 there were about 1.06 million sole proprietorships and partnerships on the IDBR run by 1.47 million self-employed people (see Figure 1).

## Self-employed not on the IDBR

26. The second step is to estimate how many businesses are run by the remaining 2.1 million self-employed<sup>1</sup>.

27. The Inland Revenue's Survey of Personal Income (SPI) is a further source of self-employment data. The 2001/02 SPI (the latest data available) 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.

28. 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	0.68	0.68	1.84	1.84
Partnerships	0.38	0.79	0.16	0.32
Companies	0.96	-	-	-
All	2.03	1.47	2.00	2.15

<sup>1</sup> 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.

## **Assumptions used in the estimation of unregistered businesses**

### **Economic contribution**

29. Unregistered businesses are clearly very small. It is 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.

30. 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.

31. 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.

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

33. The resulting addition to total turnover at start 2003 was about £72 billion (only 3.2 per cent of the overall figure.)

### **Sole Traders/Partnership ratio**

34. 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**

35. 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.

36. 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.

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

38. The 'no employees' size class estimates rely heavily on the Labour Force Survey, which is a sample survey of around 78,000 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 Office for National Statistics release practices.

## **Definitions used**

### **Businesses**

39. 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**

40. 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**

41. 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.

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

43. The Office for National Statistics publish official estimates of “workforce jobs”, which totalled 30.0 million in December 2002. The estimate shown in most tables in this publication (21.7 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 28.0 million, slightly higher than at the start of 2002.

### **Turnover**

44. 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 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**

45. 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.

46. 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**

47. 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.

48. 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 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](mailto:idbr.helpdesk@ons.gov.uk)
- Website: <http://www.statistics.gov.uk/idbr>

### 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. The 2004 publication will be under the new name "UK Business: Activity, Size and Location".

- Contact ONS: 01633 812293
- Email: [pa1003@ons.gov.uk](mailto: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](mailto:statistics@sbs.gsi.gov.uk)
- Website: <http://www.sbs.gov.uk/analytical/statistics/vatstats.php>

### SME Statistics for the Regions, 2001

This National Statistics Publication provides estimates of the number of businesses, employment and turnover in each region, by broad industry group. The 2003 publication is due out later in 2004.

- Contact Small Business Service: 0114 279 4439
- Email: [statistics@sbs.gsi.gov.uk](mailto:statistics@sbs.gsi.gov.uk)
- Website: <http://www.sbs.gov.uk/analytical/statistics/smestats.php>

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](mailto: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](mailto:census.customerservices@ons.gov.uk)
- Website: <http://www.statistics.gov.uk/census2001>