

# SMALL BUSINESS SERVICE (SBS) SMALL AND MEDIUM-SIZED ENTERPRISE (SME) STATISTICS FOR THE UK, 2005

## 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 2.1 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 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 From 1995-1998 the main source was the Annual Employment Survey, which has now been replaced by the Business Register Survey (BRS).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 2004 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 2004, or January / February 2005, 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.

### **The time period covered**

8. 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**

9. 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.

10. The threshold for compulsory VAT registration at the start of 2005 was an annual turnover of £58,000. Below that some businesses will register voluntarily.

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

12. 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**

13. Apart from Table 1, which also includes Government and non-profit enterprises, the estimates comprise three types of businesses. 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 businesses. The estimates exclude companies that are not on the IDBR because they are inactive.

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

14. An estimate of self-employment for start 2005 of around 3.8 million was obtained from the Autumn 2004 LFS.

15. This is made up of 3.47 million people describing themselves as self-employed in their main job, and 0.32 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**

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

17. First, not all self-employed people run businesses on their own - 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**

18. 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.

19. The IDBR records employment 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 HMRC Tax Self-Assessment suggests it is slightly more than two).

20. At the start of 2005 there were about 975,000 sole proprietorships and partnerships within the scope of the SME Statistics on the IDBR run by 1.36 million self-employed people (see Figure 1).

21. 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**

22. The second step is to estimate how many businesses are run by the remaining 2.5 million self-employed<sup>1</sup>.

23. HMRC's Survey of Personal Incomes (SPI) is a further source of self-employment data. The 2003/04 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.

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

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<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.

**Figure 1: Enterprises and self-employment on and off the IDBR**

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

	On the IDBR		Not on the IDBR, unregistered	
	Number of Businesses	Self- employed people	Number of Businesses	Self- employed people
Sole proprietorships	0.63	0.63	2.11	2.11
Partnerships	0.34	0.72	0.17	0.34
Companies	1.08	- <sup>2</sup>	-	-
All	2.06	1.36	2.28	2.45

UK, millions

## Assumptions used in the estimation of unregistered businesses

### Economic contribution

25. 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.

26. 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.

27. 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.

28. For two 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 below the VAT threshold of £58,000.

29. The addition to total turnover from unregistered businesses at the start of 2005 was about £85 billion (only 3.5 per cent of the overall figure.)

### Sole Proprietors/Partners ratio

30. 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 businesses.

<sup>2</sup> 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.

## Suppression of data

31. 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.

32. 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.

33. 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.

34. 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 every three months. In the SME Statistics 2002 to 2004, any business 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.

35. 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, such estimates are no longer suppressed in the SME Statistics 2005, although footnote 3 in the tables advises users about their reliability.

36. 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 2005, along with additional values to avoid disclosure by deduction.

## Discontinuities

37. 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.

38. 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.

39. 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 was felt across the LFS and showed that earlier estimates of self-employment were lower than they should have been.

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

41. SBS 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. This may have an effect on our estimate of the number of SMEs in future.

## **Definitions used**

### **Businesses**

42. 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**

43. 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**

44. 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.

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

46. The ONS publishes official estimates of "workforce jobs", which totalled 30.7 million in December 2004<sup>3</sup>. The estimate shown in most tables in this publication (22.1 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 28.9 million, slightly higher than at the start of 2004.

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<sup>3</sup> Source: ONS Labour Market Trends August 2006 Table A3.

## Turnover

47. 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

48. 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.

49. 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.

50. Approximately 55,900 Composite and Managed Services Companies have been excluded, where the address does not represent the location of the activities of these businesses, 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

51. 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. SIC 745 (Labour recruitment and provision of labour personnel) is also excluded to avoid possible double counting of employees.

52. 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>

### 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](mailto:pa1003@ons.gov.uk)
- Website: <http://www.statistics.gov.uk/ukbusiness>

### 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/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 will produce SME Statistics for the Regions 2005 before the end of 2006.

- 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/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](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>