

**BERR** | Department for Business  
Enterprise & Regulatory Reform

**CONSULTATION ON SMALL AND  
MEDIUM ENTERPRISE STATISTICS  
FOR THE UK AND REGIONS**

A National Statistics  
Consultation

DECEMBER 2008



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## Introduction

1. Small and Medium Enterprise (SME) Statistics for the UK and Regions is a National Statistics<sup>1</sup> publication produced by the Department for Business, Enterprise and Regulatory Reform (BERR).
2. The publication consists of high quality estimates of the total business population in the UK, Devolved Administrations and English Regions. Information on employment and turnover in these businesses and splits by size and industry are also published.
3. 2007 saw the 14<sup>th</sup> annual release of SME Statistics for the UK, which included the seventh release of regional statistics. Office for National Statistics (ONS) guidance states that the production methodology and the usefulness of National Statistics publications should be reviewed once every five years. This review updates work conducted in previous reviews but for the first time we are conducting a public consultation.
4. The purpose of this consultation is to seek views on how the publication could be improved. Improvements in the quality of data sources that go into producing the estimates mean that it is now possible to refine the existing methodology for estimating the number of businesses and their economic contribution. In addition to proposed improvements in methodology we would like to know more generally whether the scope and layout of the publication is still relevant.
5. Views are welcome from all users including officials from central and local government, academics, representative bodies, business owner-managers and members of the general public.
6. The responses we receive in connection with this consultation will help shape the Small and Medium Enterprise Statistics 2008, which will be released in summer 2009. A formal response to the consultation will be published spring 2009.
7. This consultation does not include any proposals to change government regulation and will have no direct impact and no direct cost or burden to businesses. As such no partial Regulatory Impact Assessment has been included with this consultation document.
8. This consultation is open from the 22 December 2008 to the 23 March 2009.

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<sup>1</sup> National Statistics are a subset of official statistics which have been nominated by ministers for assessment by the UK Statistics Authority and certified by the UK Statistics Authority as compliant with its Code of Practice for Statistics. For further information see: <http://www.statisticsauthority.gov.uk/uk-statistical-system/statistics/index.html>

## How to respond

9. When responding please state whether you are responding as an individual or representing the views of an organisation. If responding on behalf of an organisation, please make it clear who the organisation represents and, where applicable, how the views of members were assembled.

10. Response to the consultation can be submitted by letter, fax or email to:

Julian Shaw  
Enterprise Directorate, Analytical Unit  
Department of Business, Enterprise and Regulatory Reform.  
Level 2,  
St Mary's House  
9-11 London Road  
Sheffield

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Email: [julian.shaw@berr.gsi.gov.uk](mailto:julian.shaw@berr.gsi.gov.uk)

## Additional copies

11. You may make copies of this document without seeking permission. Further printed copies of the consultation document can be obtained from:

BERR Publications Orderline  
ADMAIL 528  
London SW1W 8YT  
Tel: 0845-015 0010  
Fax: 0845-015 0020  
Minicom: 0845-015 0030  
[www.berr.gov.uk/publications](http://www.berr.gov.uk/publications)

12. An electronic version can be found at:

<http://www.berr.gov.uk/files/file49351.pdf>

13. Other versions of the document in Braille, other languages or audio-cassette are available on request.

## Confidentiality & Data Protection

14. Information provided in response to this consultation, including personal information, may be subject to publication or release to other parties or to disclosure in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004). If you want information, including personal data that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence.

15. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

## Help with queries

16. Questions about statistical issues raised in the document can be addressed to:

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17. If you have comments or complaints about the way this consultation has been conducted, these should be sent to:

Tunde Idowu, Consultation Coordinator

Department for Business, Enterprise and Regulatory Reform  
Better Regulation Team  
1 Victoria Street  
London  
SW1H 0ET

E-mail: [babatunde.idowu@berr.gsi.gov.uk](mailto:babatunde.idowu@berr.gsi.gov.uk)

Tel: 020 7215 0412

Fax: 020 7215 0235

18. A copy of the Code of Practice on Consultation is available from the link below:

[www.berr.gov.uk/files/file47158.pdf](http://www.berr.gov.uk/files/file47158.pdf)

## The purpose of Small and Medium Enterprise Statistics for the UK and Regions

19. Small and Medium Enterprise (SME) Statistics for the UK is a National Statistics publication, produced annually by BERR. The expanded publication, which includes regional data, is published once every two years. Regional data has been published for the years 1997, 1998, 1999, 2001, 2003, 2005 and 2007.
20. The primary function of the publication is to provide estimates of the total number of businesses in the UK and regions as well as the estimated employment and turnover associated with these businesses.
21. The scope of the publication is wider than the Office for National Statistics (ONS) publication *UK Business: Activity, Size and Location* as it incorporates estimates of the number of businesses which are not registered for either VAT or PAYE. As such it is the only publication which estimates the total business stock.
22. The methodology currently relies on three main data sources:
  - Enterprises registered on the ONS Inter Departmental Business Register (IDBR) – a database of all VAT and/or PAYE registered enterprises in the UK.
  - Self-employment data from the ONS Labour Force Survey.
  - Data on the number of working proprietors in sole proprietorships and partnerships from the HM Revenue and Customs (HMRC) Survey of Personal Incomes.

Further details of the methodology used to produce the SME Statistics can be found in Annex E and also in the methodology note here: <http://stats.berr.gov.uk/ed/sme/smestats2007-meth.pdf>

23. The SME Statistics for the UK provide estimates of the number of businesses broken down by size, which is based on the number of employees in the enterprise. Auxiliary data on employment and turnover is available. The data is also produced down to the level of the three digit standard industrial classification (SIC).
24. The data for the English Regions, Wales, Scotland and Northern Ireland, which accompanies the UK statistics every two years, does not include the three digit standard industrial classification (SIC). Instead data is grouped into broad industries for each region.

25. The SME Statistics are used widely within Central Government for resource planning, improving research methods, policy evaluation, small firm impact assessment and for briefing.

26. More widely regional bodies, such as Regional Development Agencies, and Devolved Administrations make use of the data produced at sub-national level to inform regional and devolved policy making.

27. The statistics provide a rich source of data for academics and researchers to analyse the business population or produce accurate weighting factors for business surveys.

28. Finally the data are widely used by businesses themselves, for such things as assessing the size of the market they wish to occupy or for determining the value of their customers market.

29. The latest Small and Medium Enterprise Statistics for the UK and the Regions relate to the start of 2007. Data for the start of 2008 will be published in summer 2009. All published information relating to the SME Statistics can be found here: <http://stats.berr.gov.uk/ed/sme>

## Next Steps

30. The responses we receive in connection with this consultation will help shape the Small and Medium Enterprise Statistics 2008, which will be released in summer 2009. A formal response to the consultation will be published spring 2009.

31. Once finalised the government response relating to the SME Statistics consultation will be available on the following web page : <http://stats.berr.gov.uk/ed/sme>

## Consultation questions

32. BERR would welcome any feedback from users of the publication, including any comments on the usefulness of the publication and how it could be improved.

33. Views are welcome from all users including officials from central and local government, academics, representative bodies, business owner-managers and members of the general public.

34. Views are welcome on all aspects of the publication. The scope of the consultation covers the methodology used to produce the data, the scope of the publication, the way the data is presented and the format of dissemination.

35. BERR would especially be interested in receiving responses to the questions outlined below. When responding it would be helpful to refer to the question number.

**Methodology** (readers not familiar with the methodology should consult the relevant Annex and the separate methodology note<sup>2</sup> for further information)

**Question 1.** Should the methodology be changed to use a different source (or series) for estimating the unregistered self-employed population? (See Annex A)

**Question 2.** In estimating the number of un-registered working proprietors should we move to only using businesses with no employees and self-employed with no employees, rather than using the total self-employed population as in the current methodology? (See Annex B)

**Question 3.** The current methodology assumes a) that there are two working proprietors per partnership and b) that unregistered turnover is half that of registered businesses with zero employees - are there better ways of estimating these ratios? (See Annex C)

**Question 4.** Should the criteria of the Inter Departmental Business Register (IDBR – VAT and PAYE registered) data used in the SME Statistics match that used in the ONS publications such as *UK Business: Activity, Size and Location* or *Business Demography*?<sup>3</sup>

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<sup>2</sup> Available at <http://stats.berr.gov.uk/ed/sme/smestats2007-meth.pdf>

<sup>3</sup> Please contact [julian.shaw@berr.gsi.gov.uk](mailto:julian.shaw@berr.gsi.gov.uk) for further information on this.

**Question 5.** Specifically should the publication switch to recording businesses with any activity during the calendar year, rather than just those registered at the start of the year? (See Annex D)

**Question 7.** Should we exclude second job self-employment and/or should a lower limit on the number of hours a self-employed person works for each week be applied to filter out businesses with a very low economic contribution? The LFS asks how many hours were worked in the reference week, or if we moved to using HMRC data we could set a limit on income.

**Questions 8.** Should we exclude second job self-employment where, for an individual, it is in the same SIC as first job self-employment?

**Question 9.** The Survey of Personal Incomes (SPI) data, used to estimate the ratio of sole proprietors to partners, is untimely (for example SPI 2005/06 was available for the 2007 SME Statistics as this was the latest available at the time of production). Are there other sources that could be used?

**Question 10.** BERR are looking into using other data sources that would allow the accurate estimation of the unregistered small business population, specifically HMRC self-assessment data. Suggestions of other potential data sources, or comments on the use HMRC data would be welcomed.

**Question 11.** Currently self-employment data used to calculate unregistered businesses comes from the fourth quarter of the calendar year. So for example start 2007 SME data uses quarter four 2006 Labour Force Survey data. Is this the most relevant quarter to use? The first quarter of the following year could just as easily be used. Or should the two quarters be averaged to produce a more reliable estimate<sup>4</sup>?

### **Scope of the publication**

**Question 12.** Is the biennial release of SME Statistics for the regions frequent enough?

**Question 13.** Currently the definition of private sector includes sole proprietorships, partnerships, companies and public corporations, but excludes central and local government and the not-for-profit sector<sup>5</sup>. Is this definition of the private sector the correct one to use? Or should we include the not-for-profit sector?

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<sup>4</sup> See Annex D for implications on self-employment data used by changing to the active in year approach.

<sup>5</sup> The current ONS definition of the private sector is identical except that it includes the not-for-profit sector.

**Question 14.** Should revisions to previous SME Statistics be included in the annual release – for example once re-weighted Labour Force Survey data becomes available?

**Question 15.** Are auxiliary variables on employment and turnover the most useful ones to have? For example the number of employees or the number of working proprietors could be included in more tables.

**Question 16.** Considering that no adjustments are made to the three-digit Standard Industrial Classification (SIC) information (because it excludes businesses without employees), should the publication just exclude this data as it already exists in greater detail in the ONS publication *UK Business: Activity, Size and Location (although for a different point in time)*, or alternatively should it be expanded to provide more detailed (four or five digit SIC) data?

**Question 17.** Should improvements in methodology allow (for example larger sample sizes from the ONS Labour Force Survey if averaged over four calendar quarters) would a series of sub-regional data add value to the publication? If so would users be able to accept that in such a table some local areas would be populated with data but some would not (due to small sample sizes)?

#### **Presentation of the data**

**Question 18.** Is the publication title, Small and Medium Enterprise Statistics for the UK and Regions, the correct one to use given that it includes data for businesses of all sizes?<sup>6</sup>

**Question 19.** Currently data for businesses with no employees includes sole proprietorships and partnerships with no employees and companies with a single employee director (since the single employee is treated as a working proprietor). Is the presentation of businesses without employees easy to understand, and if not are there better ways of displaying this data?

**Question 20.** Is employment in businesses without employees displayed in a useful way? If not are there ways to improve the way it is displayed?

**Question 21.** Is the standard table displaying the column percentages of businesses, employment and turnover across the size-bands useful? Or would users find it easier to calculate additional information as and when it was required?

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<sup>6</sup> Greater dis-aggregation is given to the smaller size-bands, hence the reason for the current title.

**Question 22.** Are the size-bands used to present the data the most relevant?

**Question 23.** Should methodologies for presenting data in new aggregations (for example deprived areas, rural areas, age of business, turnover size bands) be developed? Or would these estimates detract from the core function of the publication?

**Question 24.** The publication format was designed for printing (footnotes repeat at the bottom of each page if printed). Would users prefer a more web-friendly layout to make analysis more straightforward?

### **Format and dissemination of the publication**

**Question 25.** Is the standard release, containing Statistical Press Release, methodology note and additional data tables, the best way to disseminate the data?

**Question 26.** In the Statistical Press Release has the right balance has been struck between tables and text?

**Question 27.** Are there any areas that you think would benefit from further commentary of the data?

**Question 28.** Should charts and maps be used to present more of the summary data?

**Question 29.** Would users prefer a Statistical First Release format which contains key results up front and an annex of key tables, such as in the ONS *Labour Market Statistics* First Release<sup>7</sup>?

**Question 30.** Are the associated data tables in the correct format to allow data analysis and comparisons over time?

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<sup>7</sup> See <http://www.statistics.gov.uk/pdfdir/lmsuk1108.pdf> for example

## Annex A:

### Background to improvements to the main-job self-employment estimates

Our SME statistics publication relies heavily on self-employment data from the ONS Labour Force Survey to estimate the number of un-registered businesses in the UK as follows:

The number of working proprietors in sole proprietorships and partnerships on the ONS Inter Departmental Business Register (IDBR) are aggregated, and subtracted from the LFS self-employed in main and second job to provide an estimate of self-employed people not running registered businesses. These are all assumed to be in the “no employees” category since they would otherwise most probably appear on the IDBR. The HMRC Survey of Personal Incomes is then used to allocate these individuals to sole proprietorships and partnerships.

There has been a concern over recent years that the LFS self-classification of economic activity may over-estimate self-employment; since analysis of the “status” variable (which relates to main job only) shows that some say they are “company directors” and/or “paid by an agency”. Separation of those considered agency workers has been conducted previously by ONS, however it is only in the past year that an accurate estimate of company directors has been possible. Without these adjustments the BERR statistical series could over-estimate the number of businesses.

ONS developments (see Economic and Labour Market Review March 2008

[http://www.statistics.gov.uk/elmr/03\\_08/downloads/ELMR\\_Mar08\\_Machin.pdf](http://www.statistics.gov.uk/elmr/03_08/downloads/ELMR_Mar08_Machin.pdf)) have led to new, more accurate estimates of the number of main-job self-employed people.

The ONS work has highlighted the fact that the LFS may over-count self-employment (in main job) by nearly 400 thousand (10 per cent of the September 2008 estimate of 3.7 million). Therefore this will have an impact on our estimates.

The new data will be available for Q4 2007 which will meet next year’s publication needs. However it will not be possible to backdate the series on the same basis, so some estimation process would have to be devised to adjust the self-employment series before 2007.

It is also not possible to extend this methodology to second job self-employment as the relevant questions are not asked on the Labour Force Survey.

There are other sources available to estimate the self-employed population- for example HMRC records of self-employed traders during each financial year. Although this would provide census rather than sample data on the self-employed population, this would involve changing the basis of the publication from point in time to businesses operating at any point in the year.

## **Annex B:**

### **Background to calculations of unregistered working proprietors from data on self-employed without employees**

The first step in calculating the number of unregistered businesses is to calculate the number of unregistered working proprietors. The current methodology for estimating the number of unregistered working proprietors uses all the self-employed people on the Labour Force Survey (LFS) and all of the working proprietors on the IDBR (based in sole proprietorships and partnerships only). The number of unregistered working proprietors is the difference between the two sets of figures.

However all unregistered businesses should have no employees, as otherwise they would be picked up on the IDBR through the PAYE registration.

A different way of doing the calculation would be to only use IDBR data on the number of working proprietors in businesses with no employees and LFS data on the number of self-employed without employees.

Logically this would make sense and should improve accuracy. The LFS variable which states whether the self-employed person has employees is also available for second job self-employment.

However one concern of moving to this method is that it would further reduce the LFS samples sizes used, which in some cases could lead to increased suppression to avoid statistical disclosure.

## **Annex C:**

### **Background information on the ratios used for estimating unregistered partnerships and unregistered turnover**

i) The current methodology converts the number of unregistered self-employed people into sole proprietors and partners by using a ratio from the HMRC Survey of Personal Incomes. However to convert the number of unregistered partners into the number of unregistered partnerships it is assumed that each unregistered partnership has two people.

The assumption that each unregistered partnership has two working proprietors (or partners) may not be true, and indeed there will be variation between each industry sector.

ii) Currently turnover in unregistered businesses is calculated by assuming that the turnover per person working in unregistered businesses is half that of turnover per person working in registered businesses in the zero employees size category. This assumption is assumed to be false only where this figure would give a higher average turnover per business than the compulsory VAT threshold, in which case the turnover figure would be set at that of the VAT threshold.

However this assumption will also not necessarily be true and the true ratio will vary from industry to industry. In addition it may be that in some VAT exempt sectors that turnover is higher than the compulsory VAT registration threshold.

## Annex D:

### Background information on measuring business activity at any point in the year

The current SME Statistics methodology estimates the number of businesses active at the start of the calendar year. For example the 2007 SME Statistics for the UK and Regions is based on an extract from the IDBR relating to the last day of 2006 and self-employment data from the fourth quarter of 2006<sup>8</sup>.

Methodology used in the new ONS publication *Business Demography*<sup>9</sup> takes into account businesses with activity at any point in the reference year. It may be possible to use this new methodology in the SME Statistics, which would have the effect of increasing the numbers of businesses.

Problems would arise when trying to develop self-employment estimates based on the same principle. Longitudinal datasets over five quarters are available to determine the total number of self-employed people active during a calendar year. However the sample size of these datasets is only a fifth of that of the quarterly datasets currently used for estimating unregistered businesses.

Alternatively averaging self-employment data over the course of a calendar year would enhance the sample, and hence the quality of the data but would reduce the number of businesses (as self-employed people active in one quarter only would be divided by four).

As shown in Annex A, if we were to move to using HMRC self-employed at any point in a financial year, then we could move to an "activity at any point in the reference year" basis, although this would of course not be directly comparable to Business Demography which is calendar rather than financial year.

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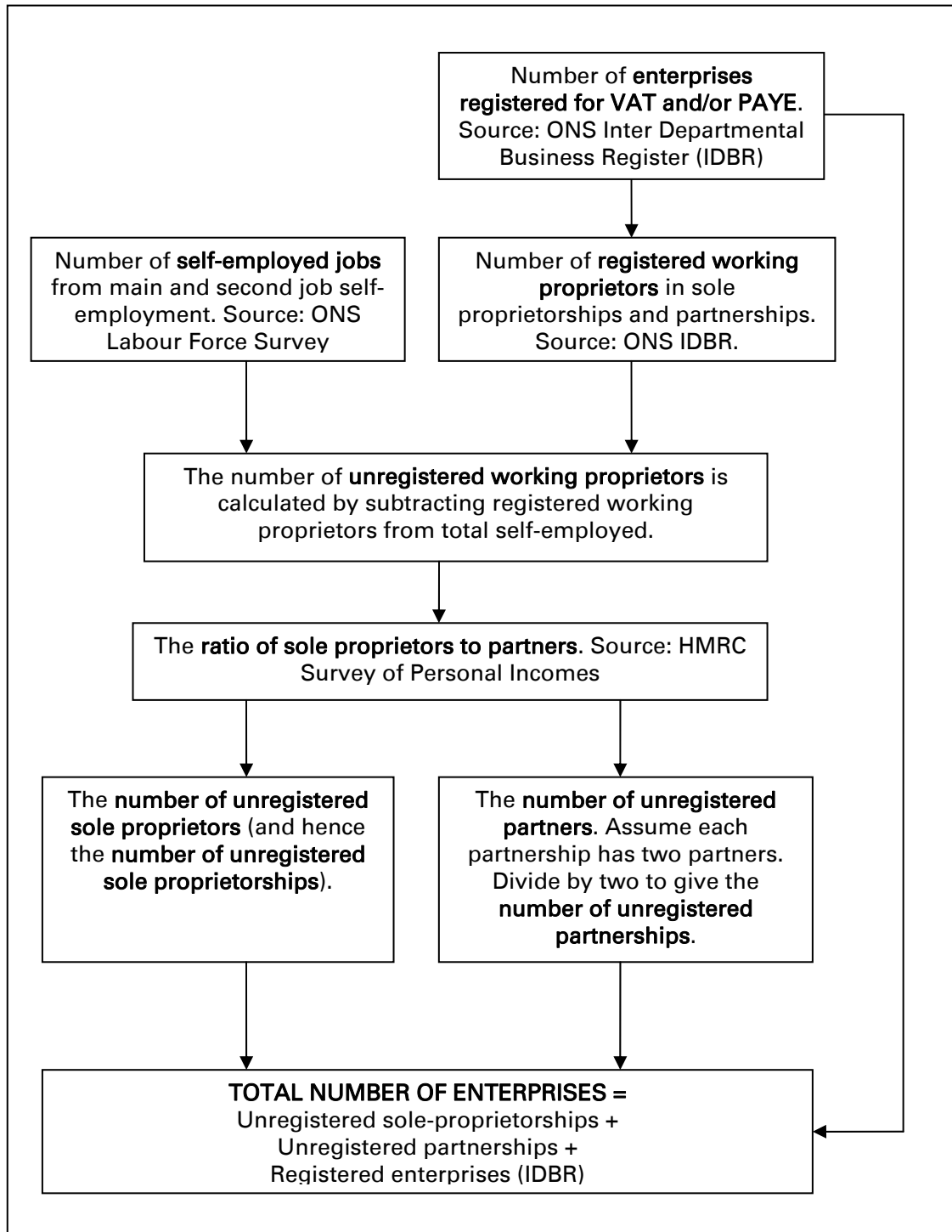
<sup>8</sup> The Survey of Personal Incomes data from the 2005/06 survey is also used, but this is simply for calculating the ratios between sole proprietors and partners, not for determining the overall numbers of businesses.

<sup>9</sup> Available at <http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=15186>

## Annex E:

### SME Statistics methodology flow chart

The following chart shows how the different data sources used in the SME Statistics fit together to estimate the total number of UK enterprises.



## **Annex F:**

### **The Consultation Code of Practice Criteria**

1. Formal consultation should take place at a stage when there is scope to influence policy outcome.
2. Consultation should normally last for at least 12 weeks with consideration given to longer timescales where feasible and sensible.
3. Consultation documents should be clear about the consultation process, what is being proposed, the scope to influence and the expected costs and benefits of the proposals.
4. Consultation exercise should be designed to be accessible to, and clearly targeted at, those people the exercise is intended to reach.
5. Keeping the burden of consultation to a minimum is essential if consultations are to be effective and if consultees' buy-in to the process is to be obtained.
6. Consultation responses should be analysed carefully and clear feedback should be provided to participants following the consultation.
7. Officials running consultations should seek guidance in how to run an effective consultation exercise and share what they have learned from the experience.



Department for Business, Enterprise and Regulatory Reform  
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