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Developments in UK Business Demography

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Introduction

The new Structural Business Statistics Regulation in Europe introduces a legal requirement to produce basic business demography data i.e. birth, deaths and survivals of enterprises. Eurostat and OECD have produced a joint manual which sets out how demography data should be produced.

A limitation of the current methodology is that data are only available with a long time lag. This is particularly the case with deaths, which require two years to elapse before reporting, in accordance with the Eurostat/OECD methodology.

The UK user demand is for much more timely data. This note sets out the UK user demand and also looks at how this can be met. There is also a growing need for sub-annual and regional demography data, so this is also discussed.

UK user demand.

BERR (Business Enterprise and Regulatory Reform - the former trade and industry department) use headline business birth and death data to illustrate changes in the business population for policy purposes, and regularly respond to Parliamentary Questions about how many businesses have started in different areas.

The birth and death levels and rates per head are used to compare performance between local authorities and regions, by BERR Regional policy teams. The data are

used to monitor the impact of schemes, such as the Local Enterprise Growth Initiative, at a local level and is also useful for monitoring performance in deprived areas relative to the rest of the country. The time lag in publishing the data can cause some issues in terms of its usefulness for policy-making.

Although BERR was thought to be the main customer for demography data, other customers have emerged. These are English Regional Development Agencies (RDA) and Local Authorities. These also need timely data, and are mainly focussed on data for small geographical areas within the UK. Another UK government department, the Department for Communities and Local Government (DCLG), has set an economic development target for local authorities based on the number of business births in the local authority areas.

The RDAs have been monitoring the number of business start-ups (as a raw measure and/or on a per capita basis). Business start-ups are regarded as useful indicators of 'enterprise'. The RDAs have all produced economic strategies which include objectives such as 'Creating economically sustainable businesses', 'Driving up the creation, growth and survival of economically sustainable and competitive businesses' or 'Address barriers to enterprise start-up, growth and competitiveness'. To monitor progress against such objectives RDAs will generally have selected outcome indicators such as 'new VAT registrations per 10,000 population', or '3 year survival rates for new VAT registered enterprises'. There is also consideration as to how indicators have moved over the course of the economic cycle, hence a need for a time series. RDAs are also interested in having a measure of the number of high-growth businesses (e.g. gazelles) in their region as these are seen as major contributors to job creation.

So there is both central and local government demand for business demography data, but both users are very interested in monitoring regions or smaller geographical areas.

Current Publication

Currently colleagues in BERR publish data on birth and deaths of VAT (sales tax) registered enterprises. Their publication uses datasets supplied by the ONS business register and uses a methodology which is different from the new business demography methodology. The biggest difference is that the business demography methodology covers all active enterprises, and hence includes PAYE based records (i.e. the national insurance tax). So the new methodology is more comprehensive.

BERR have agreed that it would not be sensible to have two datasets with different methodologies being put into the public domain, so they have agreed that after 2008 they will stop publishing their VAT registration based publication. Instead ONS's new business demography based publication will take over. In 2008 we will publish in parallel to allow users to compare the data.

A key problem in the negotiations was the speed of data availability. Users in the UK need data quickly. Currently the VAT registration publication is available for birth and deaths around 10 months after the reference period. BERR published 2006 data in autumn 2007. So a key requirement of a new demography publication is to be NOT significantly slower than the VAT based enterprise publication.

ONS Response

ONS are publishing business demography containing births and deaths for 2007 in November 2008, whereas in June 2008 we only delivered 2006 reference data to Eurostat. Eurostat will then publish 2006 in spring 2009.

At this stage the 2007 deaths will be provisional and will be revised in 2009 and possibly 2010. Based on the experience of the earlier deliveries, we believe that the revision to deaths will be in a fairly narrow range. Although only two years of provisional records were available, we have used these as a guide to the expected level of reactivations

Given the uncertainty about the level of reactivations we have been very clear in the notes to the publication that the deaths data is provisional and subject to revision. We

have also included in the notes a table showing the deaths with and without the reactivation adjustment for both 2006 and 2007.

To meet the demands for regional data, ONS have added geographical coding to the demography datasets. This will enable births, deaths and survivals to be analysed by small area geography. Users are mainly interested in government office regions, county and district level data. The adjustment for reactivations has been applied uniformly to deaths. Since tax data are processed centrally, there should not be any regional differences in the death lags due to the administrative sources.

Secondly we are planning to make further amendments to the demography data set to allow the following DCLG prescribed Local Authority indicators to be produced.

Indicator N171

Count of enterprise births by District, County and Government Office Region (GOR). The analysis will include the count of adult population (i.e. age 16 plus) and a count of the business registrations per 10,000 population.

Indicator N172

Count of enterprises with employee < 50 employment, by District, County and Government Office Region (GOR), where the number of business report higher employment in year 2 than year 1, the denominator being the number of business that were in year 2 as well as being in year 1. Derive the percentage of businesses that have shown year on year employment growth.

Enterprise versus Local Unit

The user demand for regional data in the UK is going to be satisfied by enterprise data. This contrasts with the recent Eurostat request to use local unit data for regional analyses. This is because we consider enterprise data gives a better indicator of entrepreneurial activity. If local unit data had to be produced, considerable extra work would be required to examine the methodological issues. Also there would be a need to do extensive quality assurance of the resulting local unit datasets. The UK register processing is focussed on maintaining business continuity at the enterprise level, so there could be quality problems with local unit ownership transfers.

Regional demography data can be derived as a by-product of the current enterprise demography requirement of Eurostat, so this is a quick win for the regional users.

Register Updating

This extra demand means that it is even more important to ensure the register is fully updated each year from administrative and survey data. The UK register is updated from a business register survey, VAT, PAYE and company registrations, so the update schedule is considered sufficient to meet the extra demand for this data on an annual basis.

Future demands

UK users are also very interested in using the register administrative data flows to identify short-term changes in the number and economic activity of businesses in the UK. Some preliminary work has been done to assess the viability of doing this from the current VAT, PAYE and Company registration data sources. The use of this data would not be without problems, since the administrative processing can create volatility.

The key data source is VAT, and the business register receives the following data feeds:

Daily notification of VAT births and deaths. There are lags in the reporting to the revenue department (HMRC), which are typically 3 months for births and 9 months for deaths.

Monthly updates on the turnover of VAT registered businesses. Turnover updates are from the administrative system based on a combination of monthly, quarterly and annual reporting to HMRC, but the majority of returns are quarterly.

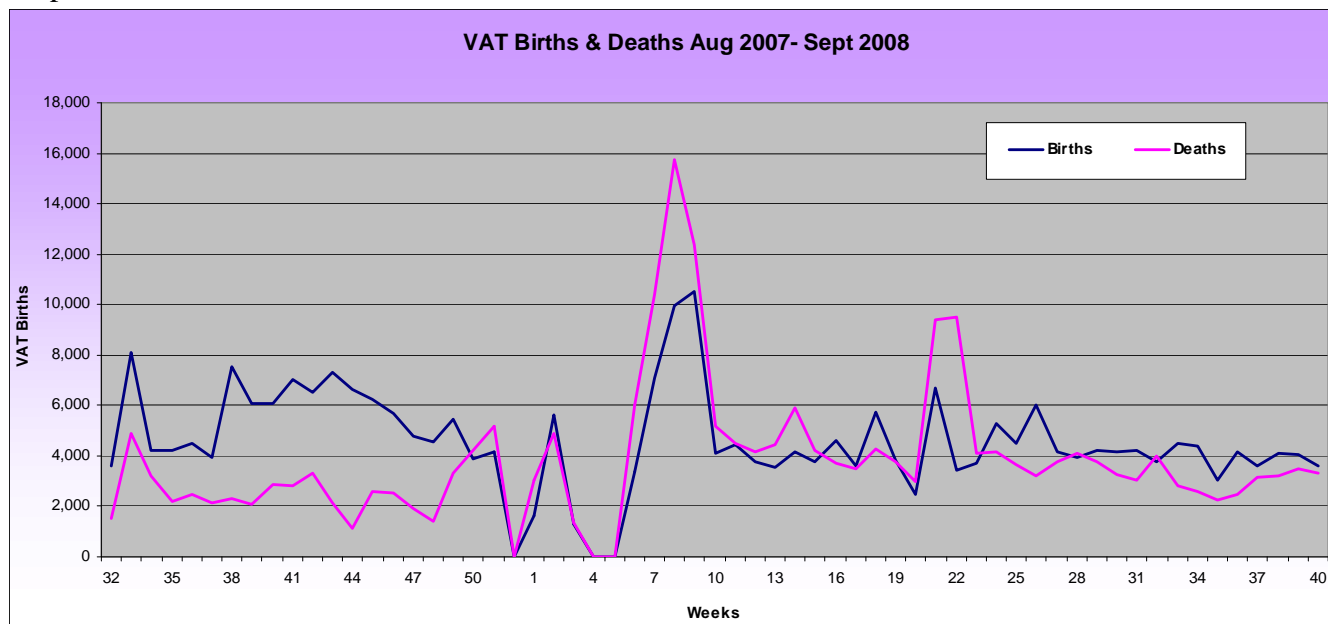
Issues to be aware of when using this data are:

VAT records only cover businesses with a turnover over the VAT threshold (£66,000 in 2008)

VAT records are administrative and can be changed for accounting and business reasons. The register takes these records and creates enterprises. So a new VAT registration could belong to an existing enterprise, or a VAT deregistration could occur in a live enterprise for administrative reasons.

There have been administrative delays and catch ups at HMRC, which would add an irregular component to monthly data. This can be clearly seen from the short series graph below, when at the beginning of 2008 (week 4 -7) there were some weeks with zero registrations followed by catch up weeks. (It is normal to receive zero in week 52).

Graph 1



A long run time series for VAT registrations and de-registrations is readily available. Whilst it would be possible to use a combination of administrative data, restricting analysis to just VAT based units reduces the complexity associated with mixing different data sources and gives a clearer signal of change.

Summary

User demand in the UK means that the ONS has decided to publish business demography promptly. This introduces the risk of revisions to the death data, but this risk has to be balanced against user requirement. The level of adjustment for reactivations is explicitly stated in the UK release.

The UK will also introduce a detailed regional analysis of business demography, based on enterprises, to satisfy regional development users.

The administrative data flows received by the IDBR could be used to develop a short term demography indicator, but more work is required to examine the data quality.

Issues for Discussion

Regional demography - Enterprise or Local unit

Speeding up annual data delivery

Requirement for higher frequency demography data