

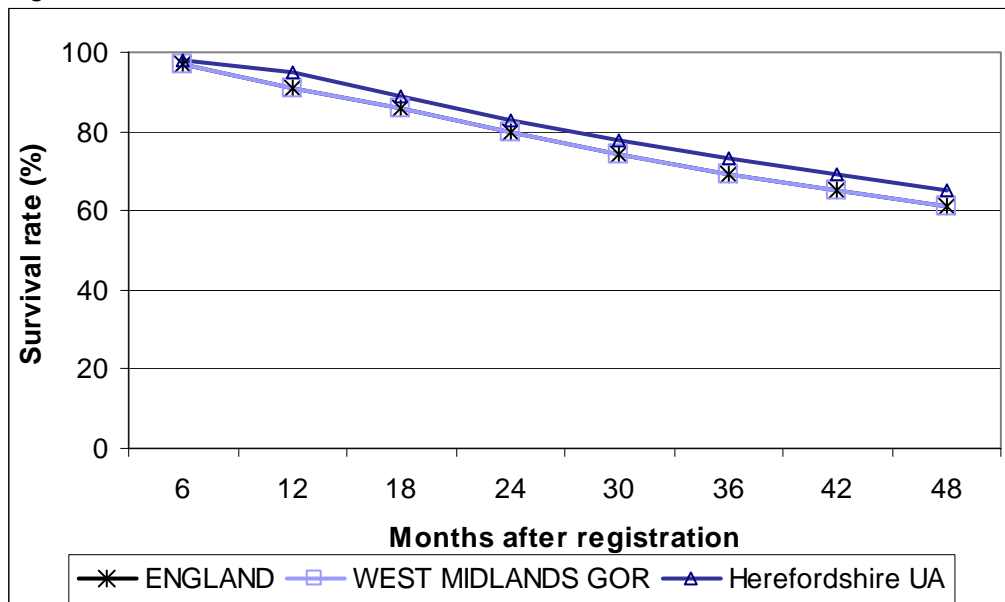
Business Survival rates

VAT statistics provide a guide to business formation, closures and survival rates at a national, regional and local level. A business is legally required to register for VAT when its annual turnover reaches a certain threshold. This threshold changes year on year, but was £67,000 annually as of June 2008. A number of small businesses and particularly sole traders may be excluded from these figures due to the high VAT threshold. Herefordshire contains a high proportion of sole trader and micro businesses, so levels of VAT based businesses and VAT registrations and de-registrations can only give an indication of the trend in business activity in Herefordshire. Businesses de-registering from VAT do so as a result of closure or (in a small number of cases) because turnover has fallen below the registration threshold. Closure does not necessarily involve bankruptcy or insolvency proceedings, these make up only around one in four closures.

Business survival rates are determined by calculating the percentage of new VAT registered enterprises, in a given year, that are still operating after a given time period. For example in Herefordshire out of all the new enterprises that registered for VAT in 2001, 73% were still trading after three years (36 months). Data for Herefordshire covers the period 1995 to 2005 and for a survival rate of up to 48 months after registration.

Chart 1 shows how the business survival rate progressively decreases with time after registration. In Herefordshire the survival rates dropped from 98% after 6 months to 65% after 48 months (registration year 2001). When compared to other areas, Herefordshire had a higher survival rate for the first 12 months after 2001 (95%) than both the West Midlands region (91%) and England as a whole (91%), with this being the case for the majority of the reporting period.

Chart 1. Business survival rate up to 48 months after registration, for enterprises registered for VAT in 2001.



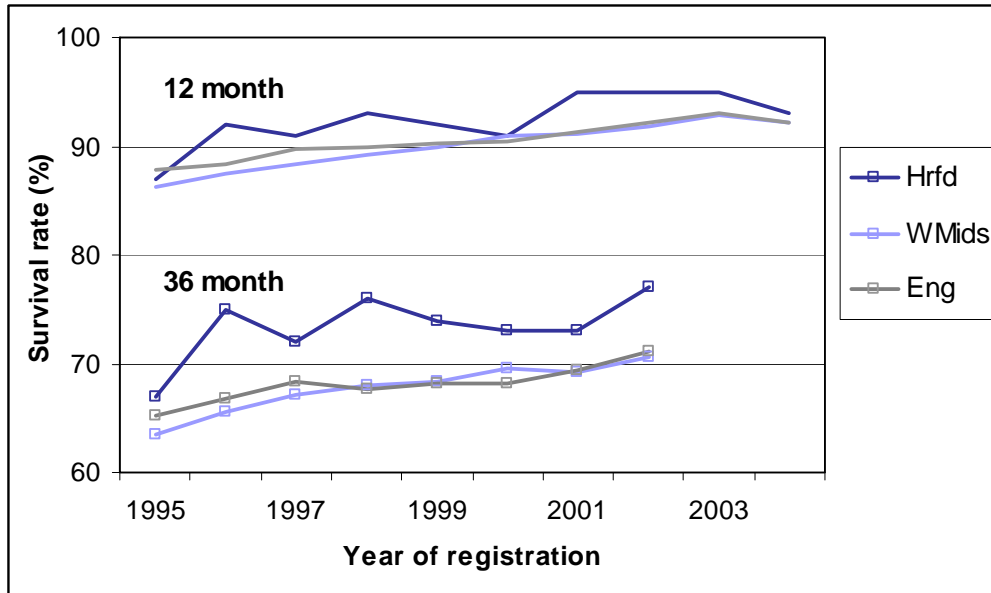
Source: DTI Small Business Service

Between 1995 and 2004 both the 12-month and the 36-month survival rate showed an increase, with this being the case for Herefordshire, the West Midlands and England as a whole (chart 2). Over this period Herefordshire maintained a

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consistently higher survival rate than regionally and nationally. This difference was most noticeable for the 36-month survival rate. This suggests that a higher proportion of businesses are 'surviving' longer, especially in Herefordshire compared to regionally or nationally.

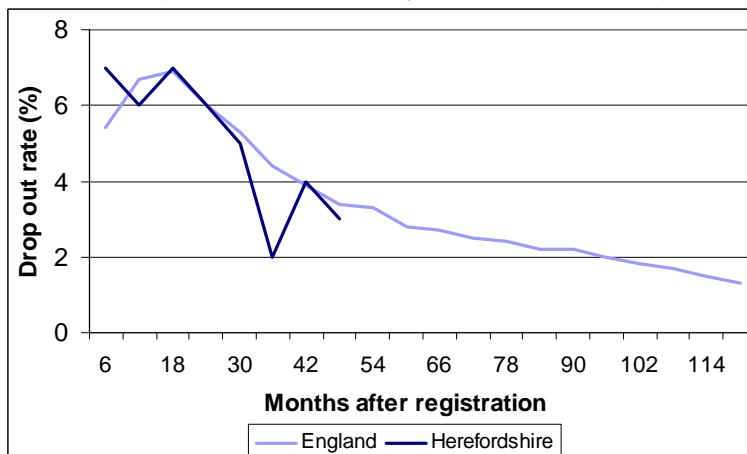
Chart 2. 12-month and 36-month survival rate for Herefordshire, the West Midlands and England, 1995 to 2004.



Source: DTI Small Business Service

By calculating the change in the number of businesses who are still registered, we can see at what stage a business is more at risk of de-registering. Chart 3 shows the 'drop out' rates for England over ten years for VAT enterprises registered in 1995. This highlights that there was a peak between 12 and 18 months when the percentage of businesses that de-registered was 7 percent. After 18 months this decreases rapidly, from 7% at 18 months to 5% at 30 months and then tends towards zero. In general Herefordshire has a lower drop out rate up to 48 months than both the West Midlands and England as a whole. This data set shows a greater degree of variation for Herefordshire compared to England as a whole, a result of the relatively small business population on which the data is based and of the level of accuracy to which the data is provided.

Chart 3. Drop out rate over ten years for VAT enterprises registered in 1995



Source: DTI Small Business Service

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