
Chair of the UK Statistics Authority, Sir Andrew Dilnot CBE

Rachel Reeves MP and Chuka Umunna MP
House of Commons
LONDON
SW1A 0AA

4 September 2014

Dear Ms Reeves and Mr Umunna,

SELF-EMPLOYMENT STATISTICS

Thank you for your co-signed letter dated 11 August 2014 asking whether it would be feasible for the Office for National Statistics (ONS) to publish self-employment earnings data alongside the Labour Force Survey (LFS) each month, and whether further measures are needed to reflect the contribution of self-employed people to the UK economy.

You are correct that self-employed people comprise a growing proportion of the workforce, with the most recent ONS figures (for the period April to June 2014) showing that 15 per cent of people in work in the UK are self-employed, which is a larger proportion than at any time in the last 40 years¹, and an increase of almost 1.8 percentage points compared with the same period in 2009 when 13.2 percent of people in work were self-employed. It is clear that accurate and timely information on self-employed earnings is a gap in official statistics. ONS has told me it is aware of this and notes that all currently available sources suffer from timeliness or coverage issues. A technical note provided by ONS detailing the issues with the currently available statistical sources is provided in the attached annex. ONS has undertaken to explore options to improve earnings estimates, including for the self-employed, and will engage with users, experts and data suppliers at a Resolution Foundation seminar due to be held on 15 September.

In taking this work forward, ONS recognises that it must address some difficult challenges. There remain conceptual and definitional issues to be resolved; not least what would be included in a measure of self-employment earnings or income. For example, it is not always possible to distinguish between the earnings and profit components of a self-employed person's income. In addition, the resource implications for ONS and the additional burden on survey respondents of any new data collection exercise would need to be taken into account.

In terms of the contribution of the self-employed to the economy, earnings are included in the income measure of Gross Domestic Product (GDP). Self-employment earnings are

¹ <http://www.ons.gov.uk/ons/rel/lmac/self-employed-workers-in-the-uk/2014/rep-self-employed-workers-in-the-uk-2014.html#tab-Self-employed-workers-in-the-UK---2014>

measured as 'Mixed Income', which is compiled using HM Revenue and Customs (HMRC) tax data. Because of a time lag in the published statistics, the series is extended to the most recent period using Labour Market indicators, including Average Weekly Earnings (AWE). Therefore, the growth in Mixed Income is also subject to coverage and timeliness issues. It is the view of the Statistics Authority that improved access to anonymised HMRC data would deliver realisable benefits in this area, and I will ask officials in the ONS to explore this with HMRC to see what might be possible, and to overcome any unnecessary barriers to further data-sharing.

I would be happy to meet with you and John Pullinger, the National Statistician, to discuss these and any other matters which may be of interest to you if you would find such a meeting useful?

I am copying this to John Pullinger, and to Lin Homer, Permanent Secretary to HMRC.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Andrew Dilnot". The signature is written in a cursive, slightly slanted style.

Sir Andrew Dilnot CBE

Annex: Technical note provided by ONS

Labour Force Survey (LFS)²

The collection of earnings data from self-employed people has been piloted in the past on the LFS but significant problems were experienced. In particular there were high levels of non-response and, of those that did respond, most were unable to identify their income sufficiently accurately for the purposes of the survey, as defined at the time. Also, the length of the LFS questionnaire has adversely affected the survey's response rates in recent years. Currently any new questions can only be accommodated by the removal of existing ones.

Family Resources Survey (FRS)³ and the Living Costs and Food Survey (LCF)⁴

The main self-employment income measure from the FRS is derived using the latest profit/loss figures prepared for HMRC, if these are available from the respondent. There are a significant number of cases where the reported profit/loss period is prior to the survey year which, coupled with the fact that the latest survey results are for 2012/13, means that there is a significant time lag compared to our current measures of income from employment. Additionally, a substantial proportion of respondents (around 30%) are unable to provide accounts prepared for HMRC. In these cases, respondent-reported income figures are used, which are subject to similar quality concerns as mentioned for the LFS. The LCF is subject to similar quality and timeliness concerns.

HMRC tax data

HMRC publishes statistics by income source (including employment and self-employment) from the Survey of Personal Incomes⁵. It is subject to a significant time lag (21 months after the reference period), which reflects a general issue with collecting timely tax information from the self-employed via self-assessment returns. In addition, tax sources will not cover those who earn too little to pay tax, and any earnings which are not declared are not recorded. It is possible that improved access to HMRC data will help with the timeliness aspect, although this needs to be explored further.

Bank of England NMG Consulting Survey⁶

An annual survey carried out by NMG Consulting on behalf of the Bank of England captures household income information for respondents, along with their employment status. It does not provide income or earnings information for individuals. The Resolution Foundation has suggested elaborating this survey as an option for collecting information on self-employed earnings, and it is anticipated that this will be discussed with the Bank at the seminar in September.

² <http://www.ons.gov.uk/ons/about-ons/get-involved/taking-part-in-a-survey/information-for-households/a-to-z-of-household-and-individual-surveys/labour-force-survey/index.html>

³ <https://www.gov.uk/government/collections/family-resources-survey--2>

⁴ <http://www.ons.gov.uk/ons/about-ons/get-involved/taking-part-in-a-survey/information-for-households/a-to-z-of-household-and-individual-surveys/living-costs-and-food-survey/index.html>

⁵ <http://data.gov.uk/dataset/hmrc-survey-of-personal-incomes-spi>

⁶ <http://www.bankofengland.co.uk/publications/Pages/quarterlybulletin/surveys.aspx>