

ISSUES PAPER FOR THE AEG JULY 2005 – SNA UPDATE ISSUE 20

FOLLOW-UP TO LAND IMPROVEMENTS

CLASSIFICATION OF SOME LAND IMPROVEMENTS AS STRUCTURES

Anne Harrison, editor

Introduction

1. The Canberra Group II meeting in September 2004 proposed that what was previously known as land improvements, and included in the balance sheet as part of the non-produced asset land, should in future be treated as a separate produced asset. The AEG meeting in December 2004 approved this proposal but asked for clarification about which land improvements should remain as part of the new asset category, land improvements¹, and which should be reclassified as structures. The sense of the discussion was that more items should be treated as structures than is the present case.
2. The proposal below (paragraph 4) was presented to the meeting of the Canberra II Group in March-April, 2005 and received unanimous support.

¹ The actual terms to be used to describe 'land improvements' and 'unimproved land' will be dealt with in the issues paper concerning *Classification and terminology of assets* (27) to be discussed at a later meeting of the AEG.

Proposal

3. The present SNA text reads as follows:

Improvements to tangible non-produced assets

10.51. In practice, these consist of improvements to land. Acquisitions that lead to major improvements in the quantity, quality or productivity of land, or prevent its deterioration, are treated as gross fixed capital formation. They consist of acquisitions related to the following kinds of activities:

(a) Reclamation of land from the sea by the construction of dykes, sea walls or dams for this purpose;

(b) Clearance of forests, rocks, etc. to enable land to be used in production for the first time;

(c) Draining of marshes or the irrigation of deserts by the construction of dykes, ditches or irrigation channels;

(d) Prevention of flooding or erosion by the sea or rivers by the construction of breakwaters, sea walls or flood barriers.

10.52. These activities may lead to the creation of substantial new structures such as sea walls, flood barriers, dams, etc., but these are not themselves used directly to produce other goods and services in the way that most structures are. Their construction is undertaken to obtain more or better land, and it is the land, a non-produced asset, that is needed for production. For example, a dam built to produce electricity serves quite a different purpose from a dam built to keep out the sea, and it is useful to classify them separately.

10.53. Acquisitions of tunnels and other structures associated with the mining of mineral deposits, etc., are classified as gross fixed capital formation in structures and not as improvements to land. These activities lead to the creation of assets that are used separately from the land through which they are drilled or bored. Site clearance and preparation for purposes of construction - i.e., the clearance of land previously used in production - is also not classified as improvements to land but treated as an integral part of the gross fixed capital formation in buildings or other structures.

4. The following is proposed:

Assets that result from activities such as land clearance, land contouring, creation of wells and watering holes which are integral to the land in question and which are carried out by the landowner are to be treated as part of land improvements. Assets that result from activities such as the creation of sea walls, dykes, dams and major irrigation systems which are in the vicinity of the land but are not integral to it, often affect land belonging to several owners and which are often carried out by government, are to be classified as structures.

Points for discussion:

1. Do you agree with the proposal in paragraph 4?
2. If you answered NO to question 1, is there another division which you prefer?
If so, please describe it.
3. Or, do you think the SNA should be left unchanged in this respect?