Non-market producers' owned assets - Cost of capital services

Issue 16; Paper SNA/M1.06/07; for decision

Summary conclusion

1. Excerpts from the Project Manager's note included in SNA/M1.06/07, which was prepared following discussion of this issue in the AEG meetings of December 2004 and July 2005

> The responses to the country consultations do not fit easily into the simple categorization of "agree" or "disagree;" there was a spectrum of comments in between that dealt with conceptual, practical, and other considerations. Some responses called for further discussion, and some indicated less than full understanding of the issue. (The paper presented at the July 2005 meeting was intended to be responsive to these comments.) The Project Manager subsequently spoke to representatives of 15 countries about the issue and their country's response. The single most often mentioned aspect was the need to settle on a rate of return to be used in the calculation. As well, scope was mentioned.

Questions

(a) Should a rate of return on assets used by non-market producers be taken to be the real rate of return of interest on all outstanding government bonds?

(b) Should a rate of return for all assets such as computers, vehicles and buildings used by the employees of non-market producers in their regular work be included in the measurement of the output of the non-market producer?

(c) Should a rate of return for assets such as roads and other infrastructure be included in the value of output of government?

(d) Should the SNA acknowledge that because data on such assets as city parks and historical monuments are often poor or non-existent, by convention no estimates of either consumption of fixed capital or a return to capital should be made for these assets?

(e) Similarly should the SNA recommend a return to capital in respect of land under buildings and structures be included in the measurement of output of non-market producers where such information is available separately from the buildings and structures involved, but as a convention neither estimates of return to capital nor of consumption of fixed capital should be made in respect of other land held by government?

Outcomes

(a) The AEG agreed that the expected real rate of return on government bonds is an appropriate indicator. If necessary, it should be supplemented by other indicators of the cost of capital to government, particularly if a country has a thin bond market or a negative real rate of interest.

(b)-(d) The AEG did not consider this breakdown of assets was helpful and preferred to say that by convention a return to capital should appear for all fixed assets and only fixed assets. This means that a rate of return should be calculated for computers, vehicles, etc used by employees and for roads and infrastructure and for city parks and historical monuments to the extent that they are included in fixed assets. By convention, no return to capital would be applied to other classes of assets.

(e) The AEG did not favour including a rate of return on "open land". On balance, the AEG agreed that a rate of return should not be estimated on land under buildings. However, the AEG acknowledged that it may be difficult for some countries to exclude it, given their estimation methods. Therefore the AEG recommended that, by convention, it should be excluded but, in practice, it may be impossible to do so.

The AEG agreed that since land improvements should be included in fixed assets, a rate of return was appropriate for them.