**United Kingdom comments on draft updated SNA 93 chapters**

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## Comments on Chapter 20: Capital Services and the National Accounts

### General comments

- This is a good and well-written chapter covering a lot of technical detail for a new area covered in the updated SNA. It is better to assume that the reader does not know much about capital services. Therefore, in Section 1, there is a need to define clearly "what are capital services?" and provide a range of examples (this is partly achieved within Paragraph 20.5). Furthermore, it should made clearer "why are capital services important?" as well as the pros and cons why capital services should be considered as part of the production function.

- The chapter needs to cover other assets. For example, the treatment of other intangible capital assets such as computer software (own account and bought-in) and R&D etc.? With bought-in computer software, issues such as varying and short asset lives should also be covered.

- The treatment of intellectual property assets should be covered. It should be made clear early in the chapter that not all assets generate capital services. For example, intellectual property assets do not provide to capital services but contribute to the production function. These assets exhibit the characteristic of not possessing a quantity attribute. An idea does not have a unit but assets may be generated from an idea. Thus the payments for the use (sharing in) of intellectual property assets are also treated as property income transfers, and do not form part of the production account, and are shown alongside rent in the primary income allocation account.

- The assumptions being made in the basic model in Sections B.1 and B.2 need to be made explicit at the start of each of the sections. For example, for the basic model to work as described then the age-efficiency and age-price profiles have to be the same and there cannot be any residual asset value. These issues are addressed later in the paper but without making clear the assumptions underlying the basic model. This is confusing for the reader who may not already have a good understanding in this area.

### Specific comments

Para 20.8 - references to PIM should be "method" and not "model".

Para 20.14 - it should be explicitly stated that in order to derive the value of capital stock from the known decline in the value of the asset, this is only achievable as the rate of return is linked to the value of capital stock. For example, a higher rate of return generates a lower value of capital stock, and vice-versa.

Para 20.22 - need to cover and describe the appropriate rate of return on the production of output by the non-market sector where the approach using gross operating surplus may not be appropriate. Present text is relevant to market sector output.

Section D - there is a need to cover the treatment of own account capital assets. The return to capital is relevant for market transactions. However, if the capital is generated from own account production, there are no financing costs beyond those already recorded as costs in the production account.

Para 20.26 - the term "imputed rent" should be "imputed rental".

Para 20.27 - the section on land needs to present that land plays a complex role in the economy, and this is reflected in the way it is recorded in the national accounts. The reader will benefit knowing these issues. For example, points to note, rent is traditionally shown, not as a capital service - a cost in the production account, and recorded within operating surplus. Why is the payment for the use of land shown as rent, as a separate transaction not in the production account but shown as property income in the allocation of primary income account?

Land as a location generates payments of rent (recorded as property income transfers) because the land is not used up in production. Therefore, there can be no associated "quantity" of capital services delivered by land. Value of land can vary due to demand and not a wearing away of the asset with an associated volume delivery of a service.

If this is not accepted, then it needs to be made clear, how can land deliver a quantity of capital services if there is no reduction in asset value due to a reduction in quantity?

If there is no quantity delivered, then it follows that rent must be shown as a property income transfer between landlords and tenants - which is partly covered in paragraph 20.31.

Also, Table 20.5 should be moved from page 10 to page 9 where it is first referenced.

Para 20.28 - it would be useful to have a definition and an example explaining what is the user cost of capital.

Para 20.31 - need to distinguish that the treatment of "rent" is different from "rental".

Para 20.41 - it would be useful to recognise the difficulties, and provide guidance, on how and when to estimate terminal costs.

Para 20.47 - the term "imputed rent" should be "imputed rental".

Section 10 - need to have a description distinguishing between finance leases and operating leases. In addition, need to cover the treatment of leases under Public/Private Finance Initiatives.

Para 20.49 - the table reference should be Table 20.10 and not Table 20.12.

Para 20.52 - we do not agree with "c". This paragraph could describe that there are various reasons why the age-efficiency and age-price profiles should, and could, be different.

Para 20.54 - for non-market sectors, their gross operating surplus is mainly the consumption of fixed capital. Therefore, in estimating capital services, if the discount rate is not set to zero then the capital services will be larger than the gross operating surplus. Further details should be provided in estimating capital services for the non-market sectors.

Section E - the supplementary Table 20.1 should be Table 20.11.

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