Towards the 2025 SNA

# Sum of Costs Approach Outcome of Global Consultation

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Meeting of the Advisory Expert Group (AEG) on National Accounts
10 – 13 July 2023

# Background

Action item A.8 arising out of the October 2023 AEG meeting was to investigate the application of the sum of costs approach for measuring:

- Output of for own final use (in the absence of reliable market-equivalent prices)
- Non-market output provided free of charge, or at prices that are not economically significant, to other institutional units or the community as a whole

An Issues Note was prepared that considered three issues related to the sum-of-costs approach:

- consistency in the application of the approach – whether a return to capital on assets used in production should be included. In the 2008 SNA there are different approaches, depending on whether the producer is market or non-market
- the scope of assets for which a return on capital should be applied if a return on capital is included in the sum-of-costs approach
- the scope of costs to be included – in particular whether rent costs should be included

The Issues Note was discussed at the March 2023 AEG meeting

# Background

The Issues Note was updated to take account of the discussion at the AEG meeting, including to:

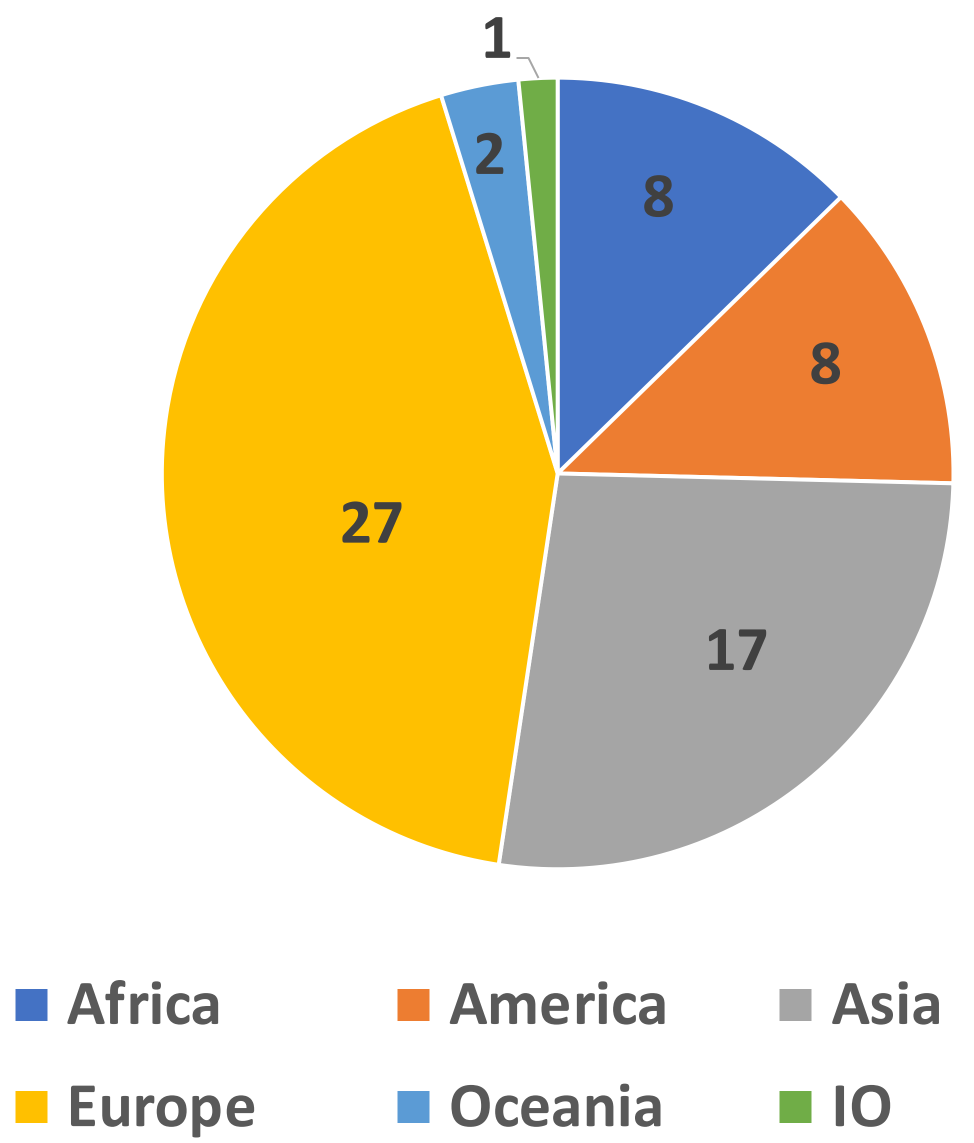
- provide the conceptual justification(s) for excluding net return to capital from the current sum of costs method to measure non-market output
- clarify why the possibility of non-market producers making profit or gross operating surplus should not be a key determinant in excluding net return to capital in the sum of costs method
- clarify why inventories are included in the measurement of capital services
- clarify why the sum of costs method to measure insurance output includes an additional element "allowance for normal profit" and elaborate on what is meant by "normal profit"

Following AEG endorsement, the updated Issues Note underwent global consultation

Global consultation took place during 6 June to 3 July 2023

There were 63 responses to the global consultation

# Geographical breakdown of responses



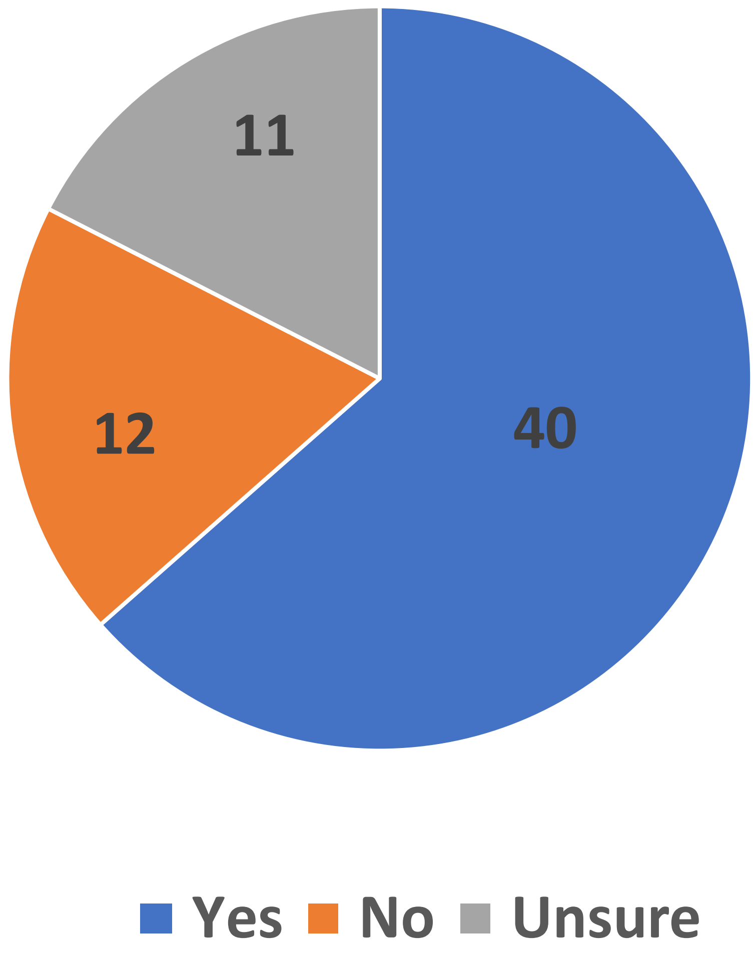
# Q1 Include a return to capital in the sum of costs approach for non-market producers?

No

- As there is no profit for non-market producers, there is no need to include a return to capital
- It is not a genuine cost for non-market producers
- Measurement is problematic and would impact main macro-economic indicators
- There is no internationally agreed estimation methodology

Unsure

- Correct from a theoretical viewpoint but difficult to implement which could lead to inconsistencies across countries



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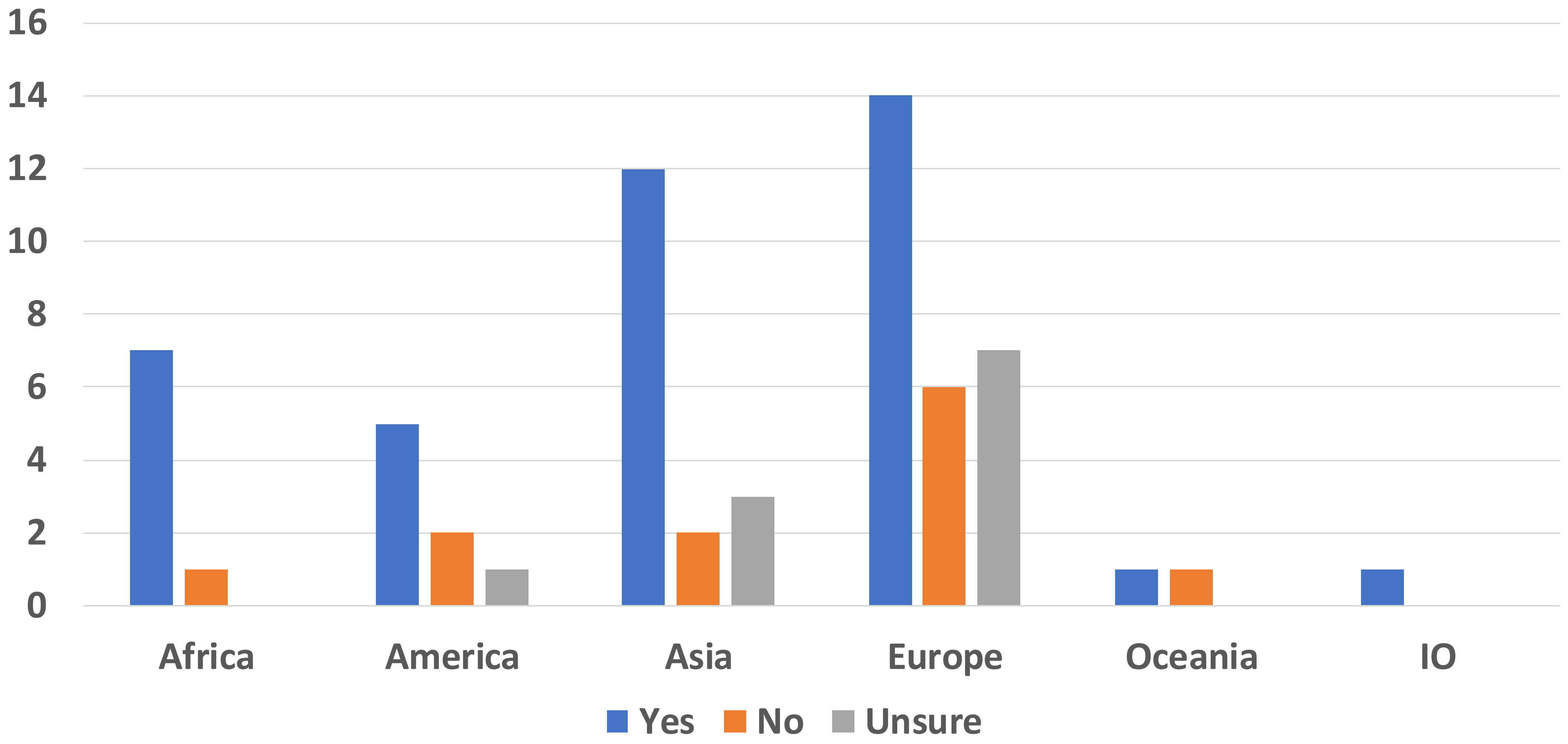
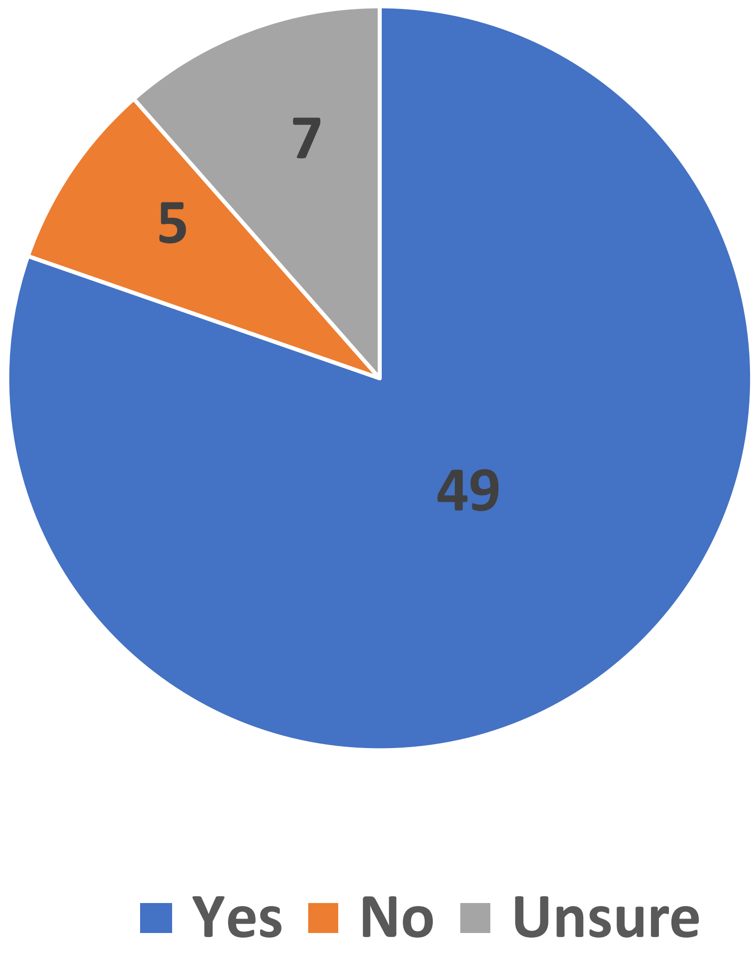


# Q2 Exclude a return to capital for city parks and historical monuments on pragmatic grounds?

No

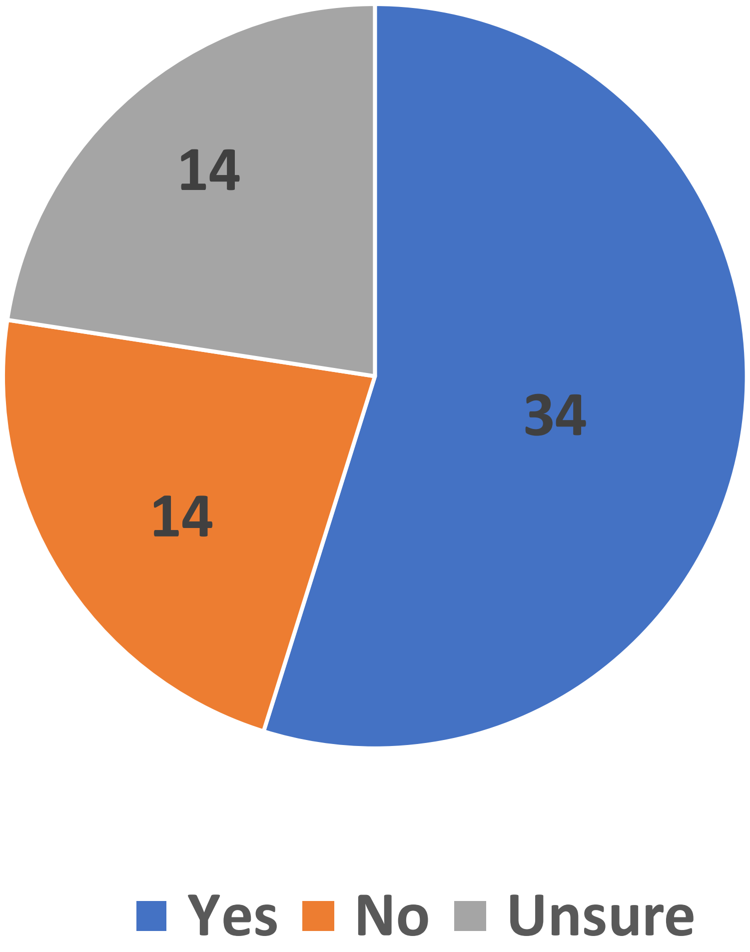
- There should be no expectations on pragmatic grounds
- It may be difficult to separate out these assets from other assets



# Q3 Expand scope of assets for which a return to capital should be recognized to include work-in-progress, other inventories (where significant) and non-produced non-financial assets that are used in production?

No

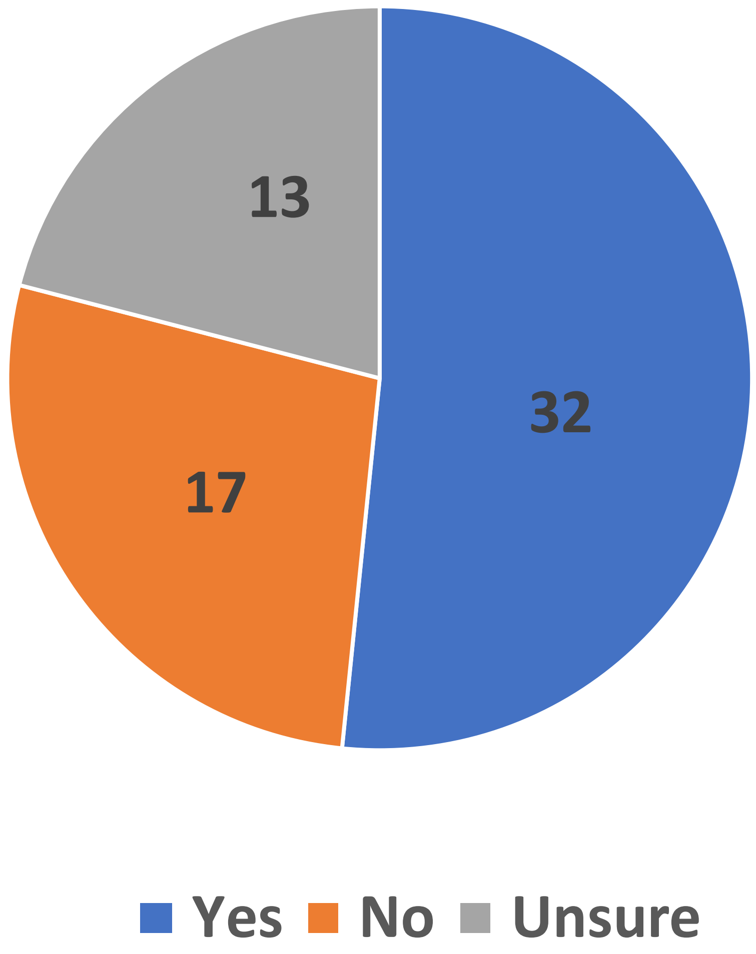
- Complexity of calculations required
- Many open questions regarding practicality
- Focuses too much on the theoretical and not on practicalities
- Impacts could be volatile



# Q4 Add depletion of natural resources as a cost (where relevant) to the sum of costs approach?

No

- Complexity of valuation
- May have unexpected consequences
- Does it make sense to allow non-produced non-financial assets to impact on the value of production?

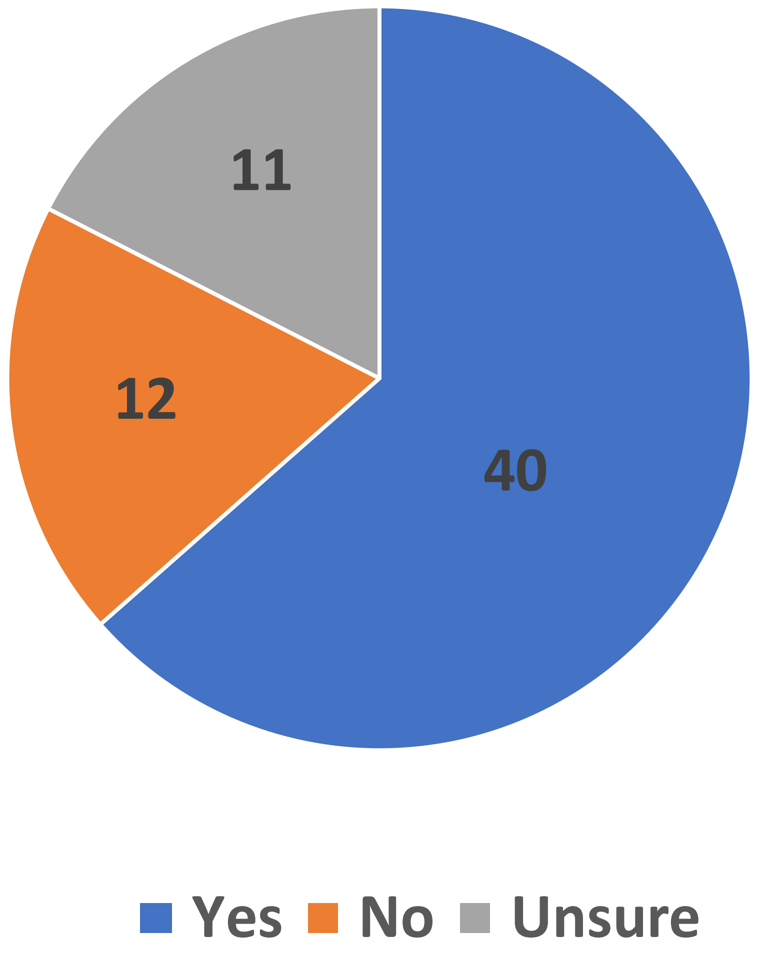


# Q5 Add rent to the sum of costs approach?

No

- May be methodologically reasonable, but there practical concerns and there may be unexpected consequences
- Inconsistent with the 2008 SNA treatment of rent
- The sum of costs approach should include an expected return (ie normal profit/surplus) which should include rent, rather than showing it as an explicit cost of production

Note – this issue is also addressed in GN AI.2 – Treatment of Rent



# Conclusions

A majority of respondents to the global consultation supported each recommendation

- This is the case even when the 'unsure's' are considered, but more so when they are excluded

While some respondents raised theoretical concerns, most of the 'no's' expressed concerns around practicality (where comments were provided)

Those who expressed theoretical concerns evidently did not agree with the rationale put forward in the Issues Note; however many of the comments from 'yes's' strongly supported the conceptual arguments made in the Note

As noted in the Issues Note, in the absence of good quality balance sheet information estimates, it can be difficult to measure return on capital

- balance sheets are a requirement of the 2008 SNA and are also needed to underpin good quality estimates of CoFC (and for a return to capital for market producers, which is already included in the sum of costs approach for own-account production for these producers)

Nonetheless, it is considered that it would be worthwhile to develop supporting guidance if the recommendations are accepted

# Questions for AEG

Considering the outcomes of the global consultation, do you agree with the following recommendations for the 2025 SNA:

1. To include a return to capital in the sum of costs approach for non-market producers?
2. To exclude a return to capital for city parks and historical monuments on pragmatic grounds?
3. To expand scope of assets for which a return to capital should be recognized to include work-in-progress, other inventories (where significant) and non-produced non-financial assets that are used in production?
4. To add depletion of natural resources as a cost (where relevant) to the sum of costs approach?
5. To add rent to the sum of costs approach (recognizing that this is also relevant to GN AI.2 – Treatment of Rent)?

If you agree with these recommendations, do you support the development of guidance material to assist in implementation?

# THANK YOU FOR YOUR INTEREST