

2025 System of National Accounts revision – implications

No major changes, but changes nonetheless for the digital era

The FIDIC-EFCA survey uses investment and supply-use tables taken from national accounts to obtain the current and forecast demand and fee levels for consulting engineering services in countries and regions that have adopted the UN 2008 *System of National Accounts* (SNA).

Using other sources such as industry surveys and indexes it is then possible to estimate the consulting engineering industry's revenue and turnover. These business estimates are approximate since it is impossible to analyse the impact of subsidies and transfers.

The United Nations Statistical Commission (UNSD) organises the development and implementation of the international classifications of economic activities (ISIC) and of products and services (CPC) which are the basis for the SNA.

The UNSD annual meeting in March 2021 will decide to complete an update of the 2008 SNA by March 2025 according to the usual approximately 15-year cycle.

This process is necessarily accompanied by an updating of ISIC and the CPC and of all the main national accounts and classifications that depend upon ISIC and the CPC. These two classifications have regional and national equivalents which are identical at the four-digit class level, but differ in detail at the sub-class and exclusions levels to cope with local features.

Recent comments, reports and discussions indicate that for the planned SNA25 revision:

- there will not be major changes;
- changes will involve greater attention to classifying and quantifying services such as architecture and engineering design that have an increasingly digital content;
- the revision will lead to the compilation of supply-use tables (SUT) for the digital economy which consolidate many of the accounting principles and procedures that will be used for national accounts;
- architecture and engineering design will not be identified as a specific economic activity that needs to be separated out in the planned digital SUTs;
- architecture and engineering services will be subject to greater scrutiny and the introduction of restructured and new classifications to ensure that price and volume measures are accurate. This will affect significantly how consulting firms are classified and surveyed.

Given below are the key details of the proposed SNA revision.

1. SNA Update

1.1. Process

The proposed updating process for the SNA has been changed significantly because experience with SNA08 has shown that many countries have difficulty in implementing updates (only 108 countries reported according to SNA08 in 2020).

In the three- to four-year lead up to the final recommendations for SNA25, the emphasis will be to prepare, test and reconcile feedback for both conceptual and practical guidance for proposed changes so that:

- implementation can take place immediately once SNA25 is published;
- macroeconomic measures are linked to the SDGs and the 2030 Agenda for sustainable development.

1.2. Timetable

A list of issues based on comments to a SNA research agenda and feedback to SNA08 was released for comment in July 2020. The timetable therefore is:

- 2020 - 23: analysis by task forces leading to recommendations and guidance notes, including step-by-step practical guidance, that are sent to countries for comments and testing as they become available;
- 2023 (Quarters 3 - 4): consolidated recommendations for changes to the SNA08 circulated;
- 2024 (March): recommendations submitted to UNSD for endorsement;
- 2005 (March): adoption by UNSD

The timetable is considered to be ambitious. Based on past experience the revision process will probably extend to 2026, especially since the issues currently being considered are based on a pre-established UNSD list and not necessarily on issues that countries and regions will have to address in their updating of economic activity and product classifications.

1.3. Issues

1.3.1. Globalisation

Globalisation issues are largely technical at the macroeconomic level and thus mainly about consistency between the SNA and the Balance of Payments Manual.

Currently being considered are:

- valuation of imports and exports;
- treatment of multi-national enterprises following on from the 2018 early warning system for the timely detection of the restructuring of these enterprises and the recording of special purpose entities;
- treatment of factory-less goods producers;
- measures of trade in value added;
- ownership of intellectual property products;
- improve cross-country consistency of estimates of the consumption of fixed capital;
- statistical issues arising from economic globalisation (confidentiality; data access; communication)

At this stage it can be commented that:

- decisions on how these UNSD identified issues, and possibly similar issues brought forward during the revision process, will probably lead to consulting engineering firms working internationally having to report more accurately and comprehensively in several areas (design ownership; sub-consultants; prices; value-added; special-purpose vehicles such as PPP projects and turnkey contracts).
- one hopes that adequate guidance will be made available.

1.3.2. Digitalisation

The impact of digitalisation on SNA is mainly reflected in guidance that is being prepared so that countries can issue new *Supply and Use Tables for the Digital Economy*. The strategy here is to disaggregate under existing classes the goods and services which have undergone significant differentiation because of the introduction of a new digital component.

This strategy implies:

- not to make major changes to the SNA.
- introduce more sub-classes in classifications, while keeping the number of manufacturing sub-classes the same and increasing the number of service classes and sub-classes to match the increased importance of services.
- ensure that products and services having a significant digital component are subject to frequent quality reviews so that price statistics achieve a like-for-like comparison.

Currently being considered are:

- price and volume measurement of goods and services affected by digitalisation.
- valuation of free digital assets and services.
- crypto-assets, cloud computing, artificial intelligence and digital platforms and intermediaries.
- digital economy satellite accounts.

At this stage it can be commented that:

- as for globalisation (see above), consulting engineering firms will probably be affected to some extent by proposed SNA revisions because there will be greater scrutiny and surveying of the services affected by digitalisation.
- the likely increased availability of free digital assets and services such as earth-observation data will increasingly impact the consulting engineering industry. The SNA's proposed handling of these services should be monitored.
- the increased use of digital platforms and intermediaries for mediation in the consulting engineering industry has been forecast. The SNA's deliberations should be monitored to ensure that activity in this area is classified and regulated accordingly

- industry guidance on the use of crypto-assets, cloud computing and artificial intelligence is probably necessary as these components of economic activity will be increasingly classified, quantified and priced.
- having digital economy satellite accounts is merely an natural extension of the decision to prepare digital SUTs (see above).

1.3.3. Well-being and sustainability

The SNA serves many key policy objectives such as monitoring the material well-being of households, but still fails to address many important questions on well-being and sustainability. Moreover, even within SNA's narrow scope, globalisation and digitalisation have resulted in a new economic reality that requires a re-thinking of how to account for economic progress. Within the household sector, for example, the factors contributing to material well-being are increasingly polarized.

The assessment of well-being and sustainability requires a broader measurement framework to monitor and analyse multiple aspects, enabling a better understanding of trade-offs and win-wins.

In the short-term, for the SNA08 revision the aim is to leverage the comparative advantage of the SNA as a coherent integrating framework that used extended modules to integrate guidance and established satellite accounts for each of five domains.

The extensions to the SNA framework would add human and natural capital to the SNA's produced and financial capital.

This strategy implies:

- that asset valuation will not be strictly monetised. Instead, alternative non-market valuations will be used to complement monetary measures (i.e., measures should not incorporate either conventional valuation concepts or monetary values reflecting alternative institutional and policy contexts).
- that while the UNSD tends to focus, as for the SNA itself, on the feasibility of implementing extensions, most users are more interested in the value of the extensions. Many business users will probably not be interested measures based upon alternative non-market valuations.

The five areas currently being considered are discussed below.

a) Extended environmental economic accounts

EAs currently mainly address the most critical "cross-border" climate change policy issues, i.e., accounts for energy, air emissions, and environmental taxes and subsidies. Not treated are accounts for:

- material flow (i.e., circular economy)
- land cover and land use
- water
- natural resource depletion (appropriately reflect in how far income growth is realised through running down natural resources, thus hampering the potential for sustainable incomes in the future).
- natural resource losses (especially theft, storage and distributional losses of extracted resources).
- biological resources and the distinction between cultivated and non-cultivated biological resources that determines how output and assets are defined and recorded.
- a broad range of renewable natural resources.
- ecosystem assets

- decommissioning costs and the treatment of provisions (i.e., accounts for provisions for future obligations to compensate third parties for environmental damages).

At this stage it can be commented that:

- alignment of the SNA to the Sustainable Development Goals should be supported;
- extended environmental accounts will highlight specific issues that impact significantly the valuation of and risks attached to physical assets such as buildings and infrastructure. Consulting engineers will need to be made aware of the changes.

b) Distributions of households' income, consumption, saving and wealth

These distributions provide insight on how specific household groups are faring in light of macroeconomic trends and policies, especially globalisation. They are of general interest but the implementation of extended accounting will not impact directly the consulting engineering industry.

c) Unpaid household service work

The valuation of unpaid household service work is necessary to better measure total economic growth and living standards. It takes into account non-market activity performed within and between households without monetary compensation.

Unpaid household services include any activity which meets the so-called "third-party criteria" (i.e., whether or not the activity could be contracted out to a market service provider).

At this stage it can be commented that:

- building renovation is a major activity (accounts for 50% of the annual investment in buildings). Some 15% of this demand is for consulting engineering services which are increasingly carried out by households.
- the UNSD implies that the impact on consulting engineering is dealt with under "Other unpaid household production not elsewhere classified". This definitely underestimates the importance of building renovation services, their valuation and the impact of climate change and digitalisation on the demand for these services.

d) Labour, education and human capital

Notwithstanding that human capital is the most important component of the total capital stock, in contrast to the guidance provided on inputs into the production process such as capital services and intermediate goods and services, the SNA currently does not detail labour and human capital.

However, government and industry policies require a better understanding of the links between the labour market and production and income

At this stage it can be commented that:

- the UNSD is effectively seeking to establish extended accounts for education and training, i.e., a human capital account.
- these would include own-account (in-house) training, the reporting of which will be difficult to standardise and expensive to implement, especially in industries such as consulting engineering that have high levels of innovation and intellectual property rights.

e) Health and social conditions

The issue here concerns harmonising the SNA with the well-established *System of Health Accounts 2011* according to well-established principles for scope, classification, product identification, quality-adjusted measures of service volumes, and the production of services by households.

At this stage it can be commented that:

- increased harmonisation will lead to an increase in the SNA's estimate of the investment in health and social infrastructure. This in turn will translate into an increase in the recognition of the importance of consulting engineering services and of the industry that supplies these services.

1.3.4. Other

Other areas currently being considered by the UNSD are the informal economy, balance of payments, current accounts, and direct investment. Except for the impact of the formal economy, these are perennial issues that constantly affect macro-economic aspects of the SNA but rarely impact consulting engineering business directly.

In the case of the informal economy, the SNA's attempts to classify occupations more rigorously and to quantify the informal economy more accurately will be impacted considerably in the COVID19-era. Discussion of the issue has only just started. The consulting engineering industry will be affected: to what extent it should be involved in ensuring realistic and accurate reporting of formal, informal and semi-formal employment is unclear.

Links

<https://unstats.un.org/unsd/statcom/52nd-session/documents/>

unstats.un.org/unsd/nationalaccount/Consolidated_SNA_RA.asp

<https://unstats.un.org/unsd/statcom/52nd-session/documents/BG-3k-TOR-UNCEISC-E.pdf>

<https://unstats.un.org/unsd/statcom/52nd-session/documents/BG-3d-NationalAccounts-E.pdf>

<https://unstats.un.org/unsd/statcom/52nd-session/documents/2021-8-NationalAccounts-E.pdf>

<https://unece.org/statistics/events/webinars-group-experts-national-accounts>

https://unece.org/fileadmin/DAM/stats/documents/ece/ces/ge.20/2020/mtg1/SNA_update_programme_UNECE.pdf

https://unstats.un.org/unsd/nationalaccount/aeg/2020/M14_6_5_Wellbeing_Sustainability_Framework.pdf

https://unece.org/fileadmin/DAM/stats/documents/ece/ces/ge.20/2020/mtg1/E-CN-3-2020-8_EN.pdf

16 February 2021

For information: peter@peterboswell.com