GVA and GDP Supplementary Information

This question and answer style document has been produced to accompany the Guernsey Annual GDP and GVA Bulletin 2016, published in December 2017. A new method for calculating GVA and GDP was introduced in 2017 and details of the new method are contained within the bulletin. Supplementary details on the differences between the old and new methods is provided in this document.

What are GVA and GDP?

Gross Value Added or GVA is a measure of how much each sector contributes to Gross Domestic Product (if the household sector is excluded it is referred to as Factor Income).

Gross Domestic Product (GDP) is an aggregate measure of the total amount of income generated by individuals and corporations on the Island, which consists broadly of the following:

Individuals:

- Wages, bonuses, benefits in kind, employer social security and pension contributions
- Rental income (and imputed rental income for owner occupiers)
- Income from self-employment

Companies and Trading Bodies:

- Operating or Trading Profits
- Rental income

Why change the method?

- Part of a continual improvement of government statistics.
- International comparability (highlighted in October 2015 Policy Letter, see article 7: **https://www.gov.gg/article/150854/States-Meeting-starting-on-October-28th-2015-Billets-XIX-Budget-and-XVIII**).
- Consistency with our other published statistics e.g. employment and earnings.
- New data is now available due to other projects, such as the eCensus.
- The Guernsey method has not been updated for many years. Countries in the EU legally have to keep their methods up to date – others don't, but it is good practice to do so.
- The necessary changes have now been fully researched, tested and audited by the Office for National Statistics, ready for publication.

Are we calculating GDP in the same way as other jurisdictions now?

- National accounting calculation is a complex exercise and resources and methods vary across jurisdictions.
- Those within the EU have to comply with the European System of Accounts, but other jurisdictions do not (although it is good practice).
- The UK uses three separate methods, each cross–checking the other. To do this, the UK are able to make use of comprehensive and reliable data sources, such as the VAT system and the Bank of England, which are not available in Guernsey.
- Jersey and ourselves only use one method - the principles and components are aligned with those applied to the equivalent UK method and the Isle of Man.
- Whereas BVI and Cayman, for example, continue to only include the components included in our previous method.

Figure 1. Components of 2015 GDP - new method (total value £2.8bn)

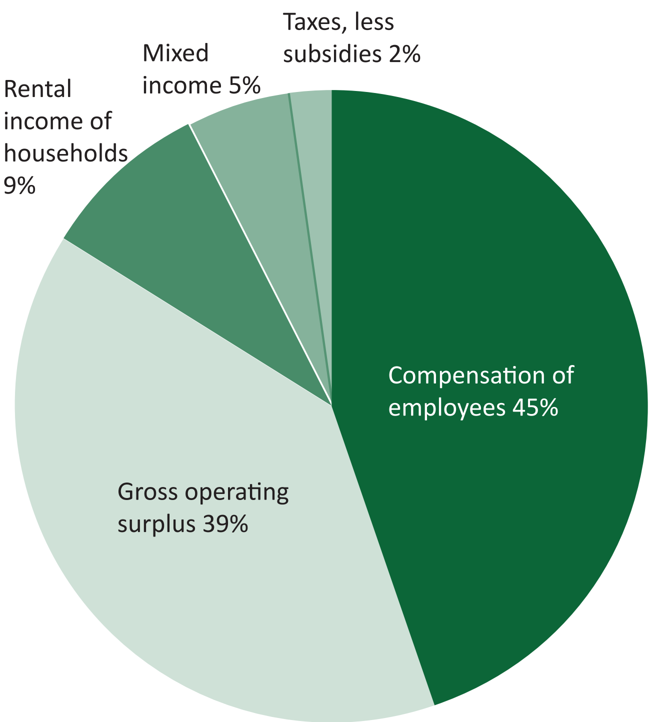
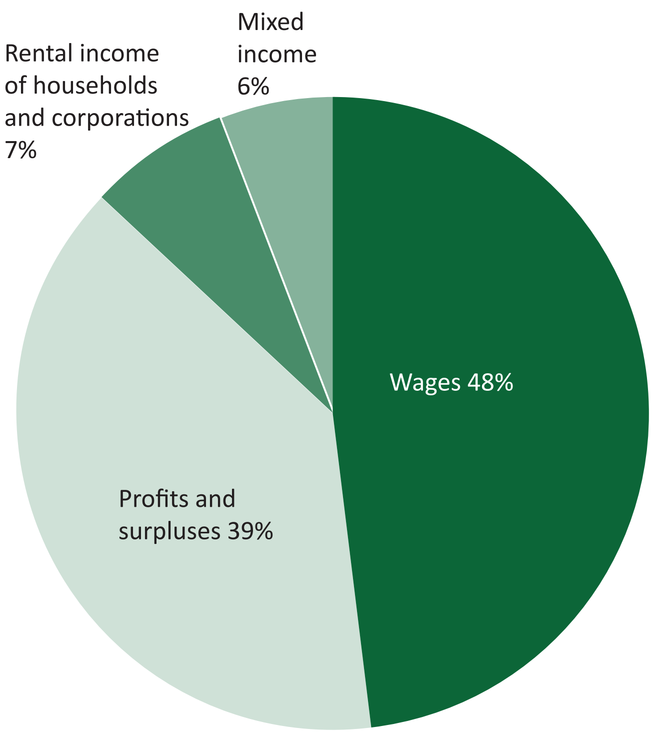


Figure 2. Components of 2015 GDP - old method (total value £2.4bn)



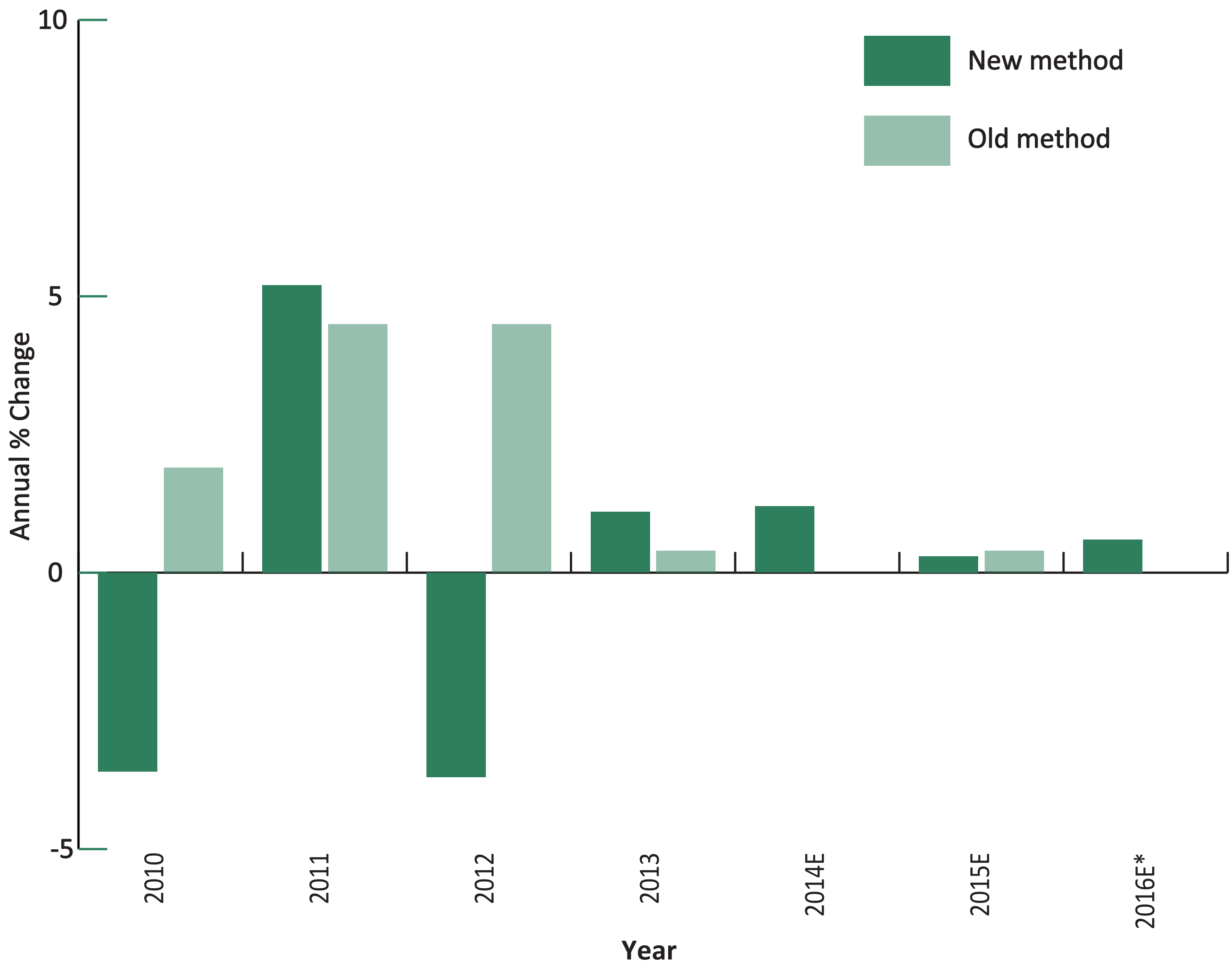
Is this level of restatement unusual?

- Routine revisions are made to GDP in almost all jurisdictions. Sometimes these revisions can have quite a large impact on reported GDP.
- The United Nations updates its System of National Accounts occasionally, with emphasis on changes being infrequent and only made when there is enough time series data for transition from one method to the next.
- The size of the revision in Guernsey reflects the length of time since the last major updates and substantial improvements in the scope and robustness of the data used in calculation.

Does this mean Guernsey's economy is bigger than it was?

- No. The economy itself is the same, only the way we measure it has changed.
- The revised method provides a more complete picture of what Guernsey's economy looks like and what has happened in the last seven years.
- The low levels of year-on-year growth reported over the past few years (back to 2013) have not been restated by as much as the growth in 2012 and 2010, where the new method reveals a different picture.
- Declines in total GDP, primarily due to reductions in profits generated by banking in 2010 and retail (including online) in 2012 are now visible. Previously these declines were masked due to the way company profits data was interpreted in the old method.
- The revised time series is much more consistent with other data sets such as employment trends and those published by the GFSC, as well as business experience.

Figure 3. Annual percentage change in GDP (in constant/real prices)



* The previously published figures are available up to and including 2015. Only the new method was used to calculate 2016 figures.

What are the differences between the old and new methodologies?

As explained at the start of this bulletin, Guernsey (like many other small jurisdictions) measures its economy only using an 'income' approach, and has done so since 1965. The methodology used until recently had not been updated since the 1990s, but international standards defined by the United Nations (as described by the framework known as the System of National Accounts) were updated in 1993 and 2008. Other jurisdictions use up to three approaches, in order to produce full National Accounts and cross-check the total GDP figure that is resultant.

Billet XVIII, October 2015 (see item 7, **https://www.gov.gg/article/150854/States-Meeting-starting-on-October-28th-2015-Billets-XIX-Budget-and-XVIII**) highlighted the need to standardise the methodology used to make it more internationally comparable and that to do so some additional data would need to be collected from employers and companies. Drafting the necessary legislation to enable this and implementing the best method for collecting the data in practice, in conversation with businesses, will take several years. As such, some interim improvements have been identified and implemented. Completion of the Housing Stock Monitoring system in 2010 and the Electronic Census in 2014 have made available some data that had not been accessible in the past.

The main revisions compared to previous reports are:

- Alteration to presentation of information to enable comparisons with other jurisdictions by aligning the economic sectors with the Standard Industrial Classification system, as used in all other publications produced by Data and Analysis (see **www.gov.gg/ecodes**).

- Alteration to presentation of information by referring to nominal figures as "current" and real figures as "constant" (RPI reflation factors continue to be used, as they had been in the past, to make previous years' figures comparable with the most recent year's, by presenting them all in the most recent year's prices).

- Inclusion of estimates for pension contributions made by employers on behalf of current employees and inclusion of social security contributions made by employers on behalf of current employees. This is in addition to wages, which have always been included, to give a more complete reflection of the value of compensation of employees.

- Refinement of the method used to determine the gross operating surplus of corporations, which is based on the net assessable (for tax purposes) business and rental incomes (but not investment or other incomes) of locally trading companies. Previously not all business income was included. In Guernsey, a high proportion of finance sector corporations operate as part of international groups in which inter-group financial transfers are common. As such, deriving the gross operating surplus (of banking corporations in particular) continues to be challenging. Estimation methods have been refined, but inevitably there will continue to be a judgemental element to this.

- Inclusion of 'owner occupied imputed rents', this is a notional figure indicative of the value of housing services generated from housing stock capital owned by owner occupiers, which is calculated using data also used in the publications available from **www.gov.gg/property**. This figure has not previously been included in the Guernsey method (it was not possible to make reliable estimates prior to the establishment of the Guernsey Housing Stock database and Rental Price Index), but is included by most other jurisdictions as it is recommended by the internationally agreed System of National Accounts, the latest version of which is dated 2008 and was confirmed in the European System of National Accounts in 2010.

What are the differences between the old and new methodologies? (cont.)

As you will have gathered, most of the methodological revisions involve including elements that had not been included in the past, contributing to the higher figures than previously published. Much of the information had simply not been available before, but due to improvements in other areas (such as the Electronic Census and the Guernsey Economic Model), it can now be quantified and incorporated. The figures published in this bulletin are not comparable with those published in the past, but are now far more comparable with those published by other jurisdictions, such as Jersey and the Isle of Man.

These amendments represent steps towards international standards of best practice. The Office For National Statistics audited the new method in November 2017 and agreed that it is now better aligned with the System of National Accounts, but that further improvements can always be made; both within the income approach method and by introducing an additional output approach as a cross check.

Office for National Statistics (ONS) Gross Domestic Product statisticians, Andrew Walton and Rob Doody, have provided independent scrutiny of the data sources and methods used to calculate the restated GDP estimates and provided the following statement,

> *"Within the methodology used there are some substantial improvements; for instance the inclusion of Owner Occupier Housing (Imputed rental) puts the States of Guernsey data on an internationally comparable basis consistent with the European System of Accounts 2010 and with a very detailed and high quality set of data sources. The work to restate GDP has also uncovered some areas where data were not being used fully in the past. In particular the ONS recognises the openness of the States of Guernsey in admitting previous deficiencies in the data used for compensation of employees and the willingness to incorporate the new data into the published estimates at the first opportunity. In ONS's opinion the use of only the Income approach to measuring GDP will always leave room for further improvements and the potential for future revisions, especially within the financial sector which is so dominant in Guernsey. However, with the currently available data sources and the limited resources available within the States of Guernsey Data and Analysis team, the ONS experts have confirmed that the restatement of GDP published today is a significant improvement in data quality. The States of Guernsey GDP dataset is now based on much firmer foundations while leaving the potential to further improve the underlying data sources in future years as well as beginning to develop an output approach to measuring GDP in the longer term which will aid data confrontation."*

The new method has resulted in the inclusion of some additional data, but the majority of the data used in the calculations continues to be sourced from Income Tax (in a grouped, anonymised format). As such, and since tax returns may not have been submitted by all relevant companies or available at the time of publishing the figures, the most recent figures are labelled as estimates. These estimates can be subject to revisions three years from the date of their first publication.

As well as the methodological changes to update what data is included in GVA and GDP, more refined estimation models to fill data gaps have also been introduced. It is hoped that these will reduce the size of revisions between first estimates and final figures, which have been considerable in the past. It is also hoped that in future, final figures will be accessible to Data & Analysis more directly, so that estimated data can be replaced with actuals more quickly (as described overleaf).

What Further Methodological Improvements are Planned?

Further developments planned include, investigating the feasibility and costs of introducing an output approach of calculation as well as improving the data used in the income approach. As described in Billet XVIII, October 2015, see item 7, **https://www.gov.gg/article/150854/States-Meeting-starting-on-October-28th-2015-Billets-XIX-Budget-and-XVIII**) the intention is to source data directly from businesses, where secondary data is not adequate, potentially including:

- Separation of information on wages paid to current employees from pensions paid to past employees
- Value of employer contributions to pension schemes
- Gross Operating Surplus of locally trading finance corporations
- Depreciation of capital assets

The intention is for collection of any additional data required to be coordinated with the submission of annual company tax returns and quarterly employer Social Security and ETI schedules to keep the administration to a minimum for both businesses and Data & Analysis. The additional requirements will be requested in 2019 at the earliest and Data & Analysis will engage with business groups in advance. If you have any questions or feedback on this, please do not hesitate to contact us using the details provided below.

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