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Mr Pál Pozsonyi
Director National Accounts
Hungarian Central Statistical Office
Keleti K. u. 5-7
H-1024 Budapest

Subject : **Statistical treatment of the change in method of calculating the EU contribution to operational programmes under the EU Structural Funds (from public cost to total cost method)**

Ref: **Your request for advice sent on 14 October 2013**

Dear Mr Pozsonyi,

Eurostat would like to express its opinion in this letter on the statistical treatment of the change in method for the calculation of the national co-financing, and consequently the EU´s contribution, for projects supported by EU structural funds (change from public cost to total cost method).

The accounting issue

The statistical authorities of Hungary have informed Eurostat about the forthcoming change in the method for the calculation of the national co-financing, and consequently the EU´s contribution, for projects supported by structural funds (change from public cost to total cost method). Eurostat has contacted the relevant Commission services in order to better understand the procedural arrangements concerning this change.

Documentation provided

The Hungarian statistical authorities provided their analysis in e-mail on 14 October 2013, which was followed by a more extensive explanation on 4 November 2013.

Description of the case

With the intention to provide more liquidity to the system and to speed-up some EU related programmes the Hungarian authorities started negotiations with European Commission on the modification of the settlement method from public cost (PC) to total cost (TC) for certain operational programmes (OPs) in EU funding.

According to EU Regulation 1083/2006 laying down provisions in the European Regional Development Fund, the European Social Fund and the Cohesion Fund, "*the contribution from the Funds, at a level of operational programmes, shall be calculated with reference to (a) either the total eligible expenditure including public and private expenditure; (b) or the public eligible expenditure.*"

At the beginning of the programming period, the Hungarian authorities elected to use option (b), the so-called public cost method. The change from public cost to total cost method means in practice, that the EU´s contribution will be based on the sum of the national private and public expenditure, not only the public expenditure, thereby increasing the EU´s contribution to any given project.

According to the current procedural arrangements, the European Commission is applying the change in method for the whole programming period, that is from 2007-2013, also increasing its contributions to past projects, and this results in a transfer of cash to the national government. The procedure is as follows:

1) The Member State submits its request for the modification of the calculation method to the European Commission,

2) Within three months the European Commission accepts (or refuses) this request,

3) A claim for reimbursement is submitted,

4) Within two months the European Commission pays the Member State.

Analysis

The Hungarian authorities in their reasoning explained that they foresee no changes for recording in national accounts, as: "*According to our interpretation there is no difference on ESA-accounting's point of view between the two settling methods, such as receiving EU funds under PC or TC. We confirm that the payment process to the beneficiaries will remain unchanged in Hungary. The modification in settling method makes effect only on liquidity as EU COM will initiate the interim payments also to the OP treasury accounts of the Certifying Authority (non-budgetary treasury accounts). ESA-accounting remains unchanged as the TC settling method does not modify the OP-level amount of EU-funds, only speed up the cash availability of EU funds.*"

Eurostat however, based on its understanding of the procedural arrangements, believes that the following recording is appropriate:

The funds transferred from the European Institutions relating to past projects have to be recorded in national accounts as government revenue (capital transfer, D.99), at the time of the Commission´s decision to accept the request[1]. The reason for this is that these funds represent a reimbursement of part of the national contributions made to projects since 2007. It would not be appropriate to revise past data because the change of method is a new event, and the impacts of this new event should be reflected in the period in which the event takes place.

Furthermore, the funds transferred from the EU to the Hungarian government are not advance payments by the EU, because they do not relate to future projects.

Concerning the future projects, there are no special issues in national accounts to be observed, and the rules for EU grants in the Manual on Government Deficit and Debt should continue to be applied.

In their second analysis, the Hungarian authorities compared the recording of this change in the settling method to the top-up payments received in 2012 for the period of 1 January 2010 to 4 November 2010, when Hungary was authorised – alongside other countries – to apply for a higher EU funding ratio for an interim period. As the Hungarian authorities mention "*The regulation did not create obligation for modifying the individual contracts, but simply allocated extra EU fund for liquidity purposes*". They also mention that regulation allowing this change, Regulation (EU) No 1311/2011 of the European Parliament and of the Council of

[1] Any difference between this time of recording and the cash payment should be recorded as an other account receivable (AF79).

13 December 2011 amending Council Regulation (EC) No 1083/2006 as regards certain provisions relating to financial management for certain Member States experiencing or threatened with serious difficulties with respect to their financial stability paragraph 8 says: „*8. The increased interim payments resulting from the application of paragraph 2 shall be made available as soon as possible to the managing authority and shall only be used for making payments in the implementation of the operational programme*.".

However in the case of a change of PC/TC method, the Member State is not required to use the transferred amounts for operational programmes, and the government is free to spend them as it wishes. The money received is not an advance payment but rather has the nature of meeting some expenditure by the Hungarian government in previous years.

The Hungarian authorities also mention in their note that there are no rules in the Regulation 1083/2006, laying down provisions for treating individual contracts on national level, these are at the sole discretion of the national authorities, therefore a change in the settlement method with the EU does not affect the national recording of the individual contracts nor the internal project financing mechanisms in Hungary. Eurostat does not dispute this, it is simply stating that statistics should reflect new events when they arise, in this case affecting the recording of flows from the EU to the Hungarian government.

Conclusions

Eurostat considers that the funds transferred from the European Institutions to the Hungarian government for past projects should be recorded in national accounts as government revenue, at the time of the Commission´s decision to accept the request of the national authorities to change the settlement mechanism. Any timing difference between the point of recording revenue and the related cash flow should be considered as other accounts receivable for the Hungarian government.

Procedure

This preliminary view of Eurostat is based on the information provided by the country authorities. If this information turns out to be incomplete, or the implementation of the operation differs in some way from the information presented, Eurostat reserves the right to reconsider its view.

In this context, we would like to remind you that Eurostat is committed to adopt a fully transparent framework for its decisions on debt and deficit matters in line with Council Regulation 479/2009, as amended, and the note on ex-ante advice, which has been presented to the CMFB and cleared by the Commission and the EFC. Eurostat is therefore publishing all official methodological advice (ex-ante and ex-post) given to Member States on the Eurostat website. In case you have objections concerning this specific case, we would appreciate if you let us know before **10 January 2014.**

Yours Sincerely,

(eSigned)
Laurs Norlund
Director