

EUROSTAT

Directorate C: National and European Accounts

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ESTAT/C-3/LN/LA/AK/vb D(2007) 30163Mr Pál Pozsonyi
Director
Hungarian Central Statistical Office
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**Subject: Answer to your question in letter 490-960/1/2006 of 17 January 2007
about the cost based fees**

Dear Mr Pozsonyi,

In your letter mentioned above, a section was devoted to a question, asked by the Ministry of Finance (MoF), about the sale / transfer criterion in national accounts for the cost based fees.

The accounting issue for which a clarification is requested

The MoF statement suggests that fees based on past costs – taking into consideration even other factors as well – can be treated as market revenues (sale), whereas on the contrary, fees linked to actual (i.e. future) costs would be transfers and not market revenues. The MoF view seemed to be based on the concept of risk exposure of the provider of service, which is deemed to exist in the first case and is deemed to have been mostly transferred in the latter case. We examined the issue and would like to come back to you with an answer.

Methodological analysis by Eurostat

Concerning the fees based on actual costs we agree with your analysis. However, concerning fees based on past costs, we do not necessarily share the analysis of the MoF.

According to the Manual of Government Deficit and Debt (MGDD) (Part I.1.5.4), the price received from the general government is economically significant (that is: can be treated as market revenue) from the public producer's point of view, if this public producer is only financed according to the volume of the output it provides. As this is not the case for fees based on actual (i.e. future) costs, it is evident that these are not to be treated as market revenues. In the case of fees based on past cost, however, the issue must be investigated more thoroughly, especially whether the cost based fee is proportional to the service rendered and whether the contracted payment is subject of negotiations with the general government.

As far as the first point is concerned, this would mean that if the company did not fulfil its obligations (e.g. did not execute the maintenance tasks) and would still receive a payment, the latter should not be considered as market revenue. On the contrary, even in the presence of a formula based on fixed past costs, if the total amount received by the company would strictly depend on the volume of service provided, the revenue obtained could be considered in theory as market payment.

However, as far as the second point is concerned, it is recalled that ESA 1995, paragraph 3.36 states for schools: "...the payments by the general government [that] can be linked to the number of pupils but be the subject of negotiations with general government ... need not be regarded as sales though they have an explicit link with the volume of output..".

Moreover, the Manual (Part I.1.5.5) says that in the case of hospitals payments cannot be considered as sales, if these are made by government:

1. according to their cost; or
2. according to a negotiation (global budget) between general government and the public corporation; or
3. according to a system of pricing applied only to public corporation.

Payments made according to a system of pricing applied to both public and private companies can be considered as sales.

Extending these provisions to the case of roads would mean that payments based on fixed past costs, where there would be no proportionality between the payments and the service provided, could not be considered as sales. Another element to be taken into account in this context would be whether the contracted payments were subject only to bilateral negotiation between government and the public corporation. In this case the payments could not be considered as sales either.

Conclusion

Given the above, Eurostat finds that the receipts of SMMC based on past costs should be considered as non-market revenue.

It is recalled that according to the Final Findings of the dialogue visit in July 2006, a conclusion was made that the Hungarian authorities will come back on the issue of the sectorization of the SMMC for past years (i.e. for 2005 and before). We would like to remind the Central Statistical Office to provide us with an analysis of its examination and with conclusions about the sector classification of the corporation.

Procedure

This preliminary view of Eurostat is based on the information provided by the Hungarian 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. To this end Eurostat would request to be informed of the final details of the operation (contract and accompanying papers where relevant) when they are available, or (should this be the case) information that the planned operation has been abandoned.

In this context, we would like to remind you that Eurostat is committed to adopting a fully transparent framework for its decisions on debt and deficit matters in line with the amended Council Regulation 3605/93 and the note on ex-ante advice, which has been presented to the CMFB and cleared by the Commission and the EFC. Eurostat intends, therefore, to publish all future official methodological advice (ex-ante and ex-post) given to Member States, on the Eurostat web site. In case you have objections concerning this specific case, we would appreciate if you let us know. In any case (regardless of whether you have objections or not) we would like to receive an answer from you on the issue no later than 20 June 2007.

Yours Sincerely,



Lours Nørlund
Director