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Directorate D: Government Finance Statistics (GFS)
Unit D-2: Excessive Deficit Procedure (EDP) 1



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FINAL FINDINGS

EDP dialogue visit to Belgium

27 June 2012

Executive summary

Eurostat carried out an EDP dialogue visit to Belgium on 27 June 2012. Eurostat welcomed the openness and transparency demonstrated by the National Accounts Institute (NAI) during the meeting and thanked the NAI for the documentation provided prior to the visit.

The visit's main objectives were to review the issues relating to EDP tables raised in the context of the April 2012 EDP notification assessment, to analyse sector classification practices and to ensure that the provisions from the ESA95 Manual on government deficit and debt (MGDD) and the recent Eurostat decisions are implemented and that specific government transactions are appropriately recorded in the Belgian EDP notifications and national accounts.

Firstly, Eurostat inquired about the institutional arrangements and division of responsibilities with respect to the reporting of data under EDP. Eurostat took note of the current organisational framework for EDP with a central role for the NAI, which Eurostat had recommended be reviewed, and involving a large number of federal, state and local government entities. Eurostat welcomed the largely well-functioning co-operation with the majority of these institutions.

Eurostat furthermore emphasised the importance of sufficient staffing in the area of EDP and GFS in order to ensure a good quality of the reported data, in particular in the light of the recent European legislation, imposing new data requirements on Member States. The efforts currently being undertaken by the NAI to increase the number of staff in the short term were welcomed.

Eurostat also welcomed the recent improvements in data reporting, in particular in relation to local government. Eurostat however stressed that further progress is expected in this respect, in particular concerning the access to individual data of local entities by the NAI in the Walloon Region and concerning the exhaustiveness of the coverage for all government entities.

Eurostat appreciated that all action points resulting from the 2010 EDP dialogue visit were completed in due time.

The issue of the sector classification of the three public regional holding companies was discussed in detail. Eurostat suggested that a classification in the government sector was most appropriate.

Eurostat requested the NAI to increase the coverage of data on trade credits for all government sub-sectors and stressed the importance of the availability of balance sheets for all reporting entities.

Note was taken on the further improvement of reporting practices for the assets and liabilities of all government units, for guarantees, for government controlled units and for PPPs.

Finally, Eurostat welcomed the considerable progress made on the action points of the Upstream Dialogue Visit of 5-7 March 2012 (UDV), in particular in relation to the establishment on 15 June 2012 of the high level task force, which will, among other things,

investigate the possibilities of enacting a binding law or protocol ensuring the enhancement of the reporting of public accounts to the NAI.

Introduction

In accordance with article 11(1) of Council Regulation (EC) No 479/2009, as amended, concerning the quality of statistical data in the context of the Excessive Deficit Procedure (EDP), Eurostat carried out an EDP dialogue visit to Belgium on 27 June 2012.

The delegation of Eurostat was headed by Ms Lena Frej Ohlsson, Head of Eurostat Unit D-2: Excessive Deficit Procedure (EDP) 1. The Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meeting as observers. The Belgian authorities were represented by the National Bank of Belgium and the Federal Planning Office, both on behalf of the National Accounts Institute (NAI).

Eurostat carried out this EDP dialogue visit in order to review the implementation of ESA95 methodology and to ensure that provisions of the ESA95 Eurostat Manual on Government Deficit and Debt and Eurostat decisions are duly implemented in the Belgian EDP and Government Finance Statistics (GFS) data.

The objectives of the dialogue visit were to review the institutional arrangements for GFS compilation, to follow up on actions and outstanding technical issues, to clarify the issues relating to EDP tables raised in the context of previous notifications, to analyse sector classification practices, to review the treatment of specific government transactions and to take stock of the progress made regarding the action points of the Upstream Dialogue Visit (UDV) that took place from 5 to 7 March 2012.

In relation to procedural arrangements, Eurostat explained the procedure, in accordance with article 13 of Regulation No 479/2009, as amended, indicating that within days the main conclusions and action points would be sent for comments to the Belgian statistical authorities. Within weeks, the provisional findings would be sent in draft form for review. After amendments, the final findings will be sent to the Economic and Financial Committee (EFC) and published on the website of Eurostat together with the final report of the UDV.

Eurostat appreciated the excellent co-operation and transparency demonstrated by the Belgian authorities during the meeting and the high quality of the documentation provided before the EDP dialogue visit.

1. Statistical capacity issues

1.1. Institutional responsibilities in the framework of the compilation and reporting of EDP and government finance statistics

Introduction

During the previous EDP dialogue visit in November 2010, Eurostat noted the good co-operation among the institutions involved in the compilation of government finance statistics. Eurostat asked about changes in the existing arrangements. Eurostat also recalled the relative understaffing of the NAI which was taken up as an action point of the UDV in March 2012.

Discussion

The compilation of EDP, government finance statistics (GFS) and annual financial accounts is under the responsibility of the NAI. The Federal Public Service Finance (FPS is the denomination in English of the Federal Ministries) and the National Bank of Belgium (NBB) provide in the EDP notification, respectively, planned data on deficit and debt of general government.

The President of the NAI is also the President of the Directors' Committee of the FPS of the Economy. It was noted already in the Eurostat peer review in 2007 that "the appearance of a high degree of integration of Statistics Belgium into the Ministry of Economy raises the issue of professional independence as advocated by the Code of Practice" and "the cooperation structure of the NAI may perhaps be reconsidered".

In the final report of the UDV Eurostat recommends that: "the current set-up of the NAI be reviewed in order to ensure that there can be no conflicts of interest in its management, and to guarantee its professional independence, taking into account the job description of and responsibilities assigned to the function of the President of the Directors' Committee of FPS Economy".

The NAI explained that their long serving interim Chairman had very recently been replaced by a new Chairman with full competences, Mr. Jean-Marc Delporte. They emphasised that up to the present, the independence of the NAI had never been compromised by its administrative hierarchy.

In Belgium, methodological issues and transactions relating to GFS and EDP are discussed within the NAI, in the meetings of the Assistance Committee. Questions are usually brought about by federal, regional or community services. The final decision on these issues is taken by the NAI, very often after having consulted with Eurostat.

As far as staffing is concerned, one of the conclusions of the UDV was that: "Despite their expertise and commitment, the (GFS/EDP) team (of the NAI) is understaffed, given the complexity of government structures in Belgium and the need for substantial investment into necessary improvements in data collection and processing. Lack of staff creates risks for quality and business continuity".

Eurostat therefore recommended: "a substantial increase in the level of staffing allocated by the NAI to the compilation of general government accounts. Eurostat considers that the level of staffing is at present fully inadequate, also taking into consideration the position in other EU Member States of a comparable size".

The NAI had followed-up on this recommendation by proposing to the Board of the NBB (which provides NAI staff for the compilation GFS and EDP notifications) a reallocation of resources within its Statistics department and potentially also an addition of resources from other NBB departments. This should result in a resource increase by 3 to 4 posts for the GFS/EDP team of the NAI.

Findings and conclusions

1. Eurostat welcomed the proposal for the reinforcement of the NAI with 3 to 4 extra posts for the GFS/EDP team to be filled before the end of 2012.

1.2. Data sources and revision policy

Introduction

Source data for the compilation of EDP and GFS data were discussed in detail during the previous EDP visits. The introduction of the FedCom accounting system (for the federal entities) gradually makes available more and more accruals data. The roll-out of the system should be complete by 2015. Eurostat inquired about the main remaining issues which are the lack of data on year t-1 in the April notifications and the reporting of data on local government. The introduction of a new data collection system for local government has generated a number of revisions in the headline figures for past years. The NAI's revision policy was also discussed more in general.

Discussion and methodological analysis

Concerning the timeliness of source information, only since the April 2011 notification the NAI provides a full table 2A for **central government** on year t-1. For tables 2B **state government**, 2C **local government** and 2D **social security**, the situation is as in the past: only estimates of the net lending / net borrowing (B.9) data are provided for the year t-1, without working balances or transitional items. These forecasts are based mainly on annualised quarterly information for four quarters of the previous year. This issue was raised in the UDV and is part of the list of tasks to be performed by a high level task force (established in June 2012) which should ensure a 'significant enhancement of the reporting of public accounts to the NAI'.

The current deadline for the provision of the first data is 15 April of year t, i.e. 2 weeks after the April notification. The newly established high level task force will however have a dedicated working group on data collection which will treat the issue with priority. The NAI acknowledged the importance of this issue and indicated that initiatives will be developed by the NAI, on top of the High Level Task-Force (HLTF) activities, to accelerate the reporting of the state governments and the social security sector and to try to provide Eurostat with the tables 2B and 2D for the April 2013 notification.

A new compilation method for **local government** data was developed by the NAI in the course of 2011 and has made possible the provision of a full table 2C for the first time in April 2012. Before, Belgium used to provide only an estimated B9 figure. For the time being, the table notified in April covers data for t-4, t-3 and t-2.

The method is still under development and the coverage of the 5 types of **local government** entities (provinces, municipalities, public social assistance centres, local police zones and other local entities) is gradually being increased. In particular in the Walloon Region, there is room for improvement as the NAI does not have access to the accounts of the individual entities. This issue was discussed in a follow-up UDV with the Walloon authorities on 4 September 2012. The report of this meeting is attached to the present document.

The implementation of the new compilation method has caused positive revisions in the April 2012 notification for deficit figures for 2008, 2009 and 2010 between +0.2 and +0.3 percentage points of GDP. In the request for clarification of April 2012 the NAI have indicated that further revisions are possible as the compilation method develops. The NAI indicated that both upward and downward risks exist for future revisions due to further quality improvements in these data. The extrapolation method currently used, is cautious. The NAI verifies that the lack of basic data for the Walloon provinces, and some important cities does not have a positive effect on the local government balances. They expect that when the real data are provided, their balance will be better than the implicit estimate. The uncertainty about the perimeter of the local government sector entails a more downward risk. Especially in the Flemish region, local administrations have created local enterprises to finance some investments (the main reason is VAT deductibility). In cooperation with the Flemish government, the NAI have launched a project in April 2012 to verify the sector allocation of some 400 local entities and to ensure their data transmissions. All in all, further revisions of local government data are expected to be of a very limited nature.

For the year t-1 (2011 in this case), the old method of extrapolation, based on taxes and wages data and local government budgets is still being used. The NAI will undertake further efforts in order to speed up the delivery of local government data so that at least in the October notifications, a full set of t-1 data could be sent to Eurostat. This should however not be envisaged before the October 2013 notification.

Findings and conclusions

2. Eurostat congratulated the NAI on the progress achieved concerning the reporting of local government data in the April 2012 notification and encouraged further efforts, in particular relating to the access to the individual data of local entities by the NAI in the Walloon region, the exhaustiveness of coverage for all government entities and the objective to include all available data as soon as possible in the EDP reporting.

2. Follow-up of the EDP dialogue visit of 26 November 2010

Introduction

All the 18 agreed action points have been implemented from the point of view of the NAI. Only action point 9, concerning the sector classification of the 3 regional public holding companies had not been closed.

Discussion and methodological analysis

Based on the criterion of autonomy of decision, a comprehensive analysis on the sector classification of the 3 regional public holding companies had been provided to Eurostat in January 2012. The analysis proposed by the NAI concluded that all three regional holding companies could be classified outside the government sector although their statutes, shareholderships and practices differ quite notably. The issue was discussed in detail during the visit and Eurostat's conclusions for the three cases were presented. Based on the answers received, the following issues became apparent:

- all 3 regional public holding companies can be considered as being institutional units as there is no proof that they do not have a sufficient degree of decision autonomy. This criterion alone, is however not sufficient for a decision on the appropriate sector classification.
- the mission statements of these entities can be considered as belonging to the public domain, profitability is not the main driver behind the investments they carry out.
- the entities do not act as real holding companies as their objective is not to control the companies or organisations in which they have stakes. Moreover they do not only take equity stakes, but also provide subordinated and regular loans. On top of that, the entities do not fulfil the 50% test. This leads to the conclusion that they cannot be classified in the non-financial corporations sector (S11).
- the entities cannot be considered as being financial intermediaries (sector S12) as they are not exposed to market risk. They do not search funding from financial markets and their equity is in the case of PMV solely, and in the case of SRIB/GIMB in large majority, provided by government. Equity moreover constitutes almost the total of both entities balance sheet total.
- in the case of SRIW, where debt constitutes a significant part of the liabilities, this debt itself was provided by government as well, together with full equity. Here as well, equity is almost solely provided by government.

The argumentation above led Eurostat to conclude that all 3 entities should be classified inside the government sector (S1312). The reclassification should be carried out starting from the 2nd EDP notification of 2012. The impact of this reclassification on Belgium's deficit and debt figures is negligible.

During the meeting the NAI indicated the lack of clear guidance for this kind of entities in the ESA95 and that it had problems to understand some of the argumentation put forward by Eurostat.

Findings and conclusions

3. Based on the available information at this point, Eurostat is of the opinion that the three regional holding companies (PMV, SRIW and SRIB/GIMB) should be reclassified inside the general government sector. Eurostat agreed in this context to send a note, detailing the accounting argumentation on which this opinion is based and on which the definitive decision would be taken. Deadline: Eurostat note 13 July 2012¹.

3. Analysis of the EDP tables – Follow-up of the April 2012 EDP notifications

3.1. Data for local government

Local government data were discussed under agenda item 1.

3.2. Trade credits (AF.71)

Introduction

In 2011, a large increase in commercial credits (+463.6 million, + 35%) has been noted compared to 2010. Eurostat enquired if this could be a structural issue as observed in other Member States. The recording of trade credits in general was also discussed.

Discussion and methodological analysis

The NAI explained that this increase is attributable to the Health Insurance Fund, which has seen an increase of the amount of these payable invoices. Some of the data used for payable invoices were an estimation based on the situation as of end November 2011. The actual payable invoices were not updated afterwards. There are no specific reasons for the large increase observed in 2011. The variation in the outstanding amounts of payable invoices at the end of the year is influenced by several factors such as the speed of treatment of invoices by the 7 bodies ("organismes assureurs") which act as intermediaries between the Health Insurance Fund and the hospitals, rejections due to errors in the invoices and failures in the IT system at the level of the bodies in charge of the payment.

The NAI explained that payment delays by government units were to their knowledge not an increasing phenomenon. However, except for the Health Insurance Fund mentioned above, there was not any really reliable information on trade credits and their recording. At present, no balance sheets for government units are available. Better information, at least for federal entities, will be available after the full roll-out of the FedCom accounting system.

The NAI finally confirmed that the data reported for F.71 only includes the trade credits in the social security sector. No F.71 data are available for the other subsectors of government.

¹ The full details on the methodological rationale behind the conclusions as discussed in the meeting were provided to the NAI in a note on 13 July 2012. The NAI asked Eurostat to clarify this issue further on 24 August 2012. A follow-up note, confirming the conclusions from the meeting and the 13th of July note was provided to NAI on 13 September 2012. The NAI welcomed Eurostat's approach to include this issue in the forthcoming revision of the MGDD in the light of ESA2010.

Findings and conclusions

4. Eurostat took note that at present, only partial trade credits data for health care within the social security sector are available. Eurostat therefore requested the NAI to improve their quality and increase the coverage of data on trade credits for all sub-sectors of government, among others by investigating the availability of these data in public accounts. Deadline: progress report by the end of 2012.

3.3. Statistical discrepancies

Introduction

Eurostat asked about the statistical discrepancy in table 3B for the year 2010, which remains more than 0.2% of GDP and asked the NAI to indicate its progress in investigating and potentially solving this issue.

Discussion and methodological analysis

The NAI explained that data sources for the subsectors of general government are not integrated. They do not have a full set of accounts and cash flows statements which could enable them to derive a full set of consistent ESA95 accounts, neither for budgetary units, nor for non-budgetary units. The absence of full information on financial assets by comparison with the liabilities (excluding trade credits) means that, there must be some "leaks" in financial transactions affecting the B.9f. Both financial and non-financial accounts theoretically are based on the same definition of the perimeter. Nevertheless, the main problems reside with the availability of information to compile the accounts, covering all transactions and all units from S.13. Given the fact that the B.9f is somewhat less reliable than the B.9, the large positive discrepancy observed in 2009 for central government implies that the NAI must have missed some transactions on assets. The issue is still pending and can only be solved by an improvement in data collection and treatment.

The new compilation method for local government data has made available financial accounts information from balance sheets. The main pitfall for the compilation of financial accounts remains their partial coverage. Moreover, it is more difficult to produce estimations for financial transactions than for non-financial ones.

The establishment of a binding legal act (as a result of the work of the high level task force) for data provision to the NAI by the upstream entities, will further contribute to data exhaustiveness and quality and should lead to decreasing statistical discrepancies.

The NAI will initiate a long-term project for the development of a system built for the purpose of reporting assets and liabilities or for the use of balance sheet information for all government units.

Findings and conclusions

5. Eurostat welcomed the long-term project initiated by the NAI on the development of a new purpose built reporting system for assets and liabilities or the use of balance sheet information for all government units which should result in a reduction of the high

statistical discrepancies in the Belgian accounts, and requested the NAI to provide an interim progress report. Deadline: by the end of 2013.

6. In the context of the examination of data sources and data quality, Eurostat stressed the importance of the availability and use of balance sheets of all reporting entities for all levels of government and welcomed the recent initiatives in the context of the high level task force in this respect.

3.4. Recording of guarantees

Introduction

The NAI have developed a new questionnaire on guarantees. Eurostat inquired about the timing for the introduction of the new questionnaire and the use of its results in the notifications.

Discussion and methodological analysis

The questionnaire has been sent to federal government entities, the regions and communities and supervising authorities for the local governments. The questionnaire has been designed in order to be able to answer to EDP questionnaire tables 9.1 to 9.3, as well as to the proposed new questionnaire on individual guarantees. The first deadline for central government, regions and communities was set at 15 March 2012. The deadline for the local government is set at 15 August 2012.

From the first results (for S1311 and S1312), it appears that it will require some time and effort in order to receive exhaustive and usable data. The issue of the reporting of guarantees by the regions is further discussed in Annex 2, the report of the EDP follow-up upstream visit to Wallonia, 4 September 2012.

For S1313 some guarantees are already recorded. The introduction of the results of the new questionnaire on guarantees granted by local government will depend on the quality of the outcome. Given the limited number and amounts for the guarantees by local government, the NAI questioned the cost efficiency of establishing a regular reporting for these entities in general.

Over the past few years, only the guarantee for the Municipal Holding Company was called.

The proposed guarantee by the federal government for the co-operative shareholders of Arco (which was itself shareholder of Dexia and is currently undergoing a liquidation process) is still subject to approval by the European Commission (DG COMP).

Findings and conclusions

7. Eurostat offered its assistance with the redesign of the questionnaire on guarantees for regional and local government, which was introduced by the NAI in 2011, and which is now used for EDP reporting.

4. Methodological issues and recording of specific government transactions

4.1. Delimitation of general government, application of market/non-market rule in national accounts

Introduction

During the UDV in March it was noted that there is a risk that the register of government controlled entities classified outside government is not exhaustive concerning new entities. Eurostat inquired about the state of play concerning the register and on a number of new entries in the list of government units, which was sent by the NAI before the visit.

Discussion and methodological analysis

During the UDV, it was concluded that: "The NAI should set up a plan for the constitution of an exhaustive and documented register of government controlled units under the supervision of all levels of government and put the necessary procedures in place in order to maintain the register and keep it up-to-date. The register of government controlled units should enable a distinction between GG and non-GG units and individual financial statements necessary to perform the market/non-market test on a regular basis. This register should contain the information necessary to feed the compulsory questionnaire of public corporations recently circulated by Eurostat. The first version is due to be transmitted to Eurostat by the end of the year 2012".

The NAI made clear that although all possible efforts are being undertaken, it would be virtually impossible to complete the Eurostat questionnaire before the end of 2012.

Before the visit a description of the process concerning classification decisions was sent to Eurostat. The process can evidently be applied only if the NAI is informed about the creation of new public units. This is not systematically the case. The Business Register (DBRIS managed by the National Statistical Institute) is often used as a starting point but the definition of public/non-public applied here is not in line with ESA95.

The 50% test can only be applied if the unit files complete and correct annual accounts into the Central balance Sheet Office of the NBB, which is not always the case.

Information on non-profit institutions (NPIs), funded by the different levels of government, could be collected from these governments' budgets and could be also subject to a 50% test if the accounts are available and usable. Hence, there is a problem of exhaustiveness here as well. A threshold could be applied based on the subsidy the NPI receives.

Findings and conclusions

8. Eurostat welcomed the work undertaken by the NAI to complete the compulsory questionnaire on government controlled units. This implies an exhaustive list of entities including their total liabilities. Eurostat furthermore stressed the importance of the provision of profit-loss/deficit data and of the implementation of the 50% test for all entities over the threshold (total liabilities amounting to more than 0.01% of GDP). Deadline: by the end of 2012.

9. Eurostat stressed the importance of improving access to information on newly created units at regional and local level in order to ensure their correct classification in national accounts. In general, Eurostat recommended a prudent approach (classification inside the government sector until data are available on which a clear decision can be based). Deadline: continuous.
10. Eurostat emphasised, that in case entities do not pass the 50% test, they should be immediately reclassified into general government and that it is not acceptable to delay reclassifications until the time benchmark revisions are to be carried out.

4.2. Implementation of the accrual principle

Introduction

In Belgium there are no major issues concerning the implementation of the accrual principle for GFS and EDP reporting. Eurostat inquired about the recording of gross fixed capital formation (GFCF).

Discussion and methodological analysis

The NAI briefly explained the recording of taxes, EU-flows and military expenditure. Recording appears to be fully in line with ESA95.

As far as GFCF is concerned, the recording of investments is done at the time when the order to pay (ordonnancement) is issued by the responsible services. According to ESA95 it should be at the time of transfer of ownership, as the actual payments sometimes occur up to 6 months later.

4.3. Recording of specific government transactions

4.3.1. Guarantees, guarantee fees

This issue was treated above.

4.3.2. Debt assumptions, debt cancellations and debt write-offs

Introduction

Before the visit, the NAI had sent an overview of recent operations. In 2011, the main operations concerned the Municipal Holding Company in the state government sector. Eurostat inquired about the state of play.

Discussion and methodological analysis

The NAI underlined the difficulty in finding information concerning these operations and also in identifying whether a specific operation is a write-off (unilateral) or a cancellation (bilateral).

Mainly for local government the access to information is proving difficult. The issue is closely related with the definition of the government sector perimeter.

Findings and conclusions

11. In the case of data on debt cancellations for local government, Eurostat took note of the fact that the access to information is currently insufficient and hence encouraged the NAI to take steps to assure a complete recording of these data. Deadline: progress report by the end of 2012.

4.3.3. Capital injections in public corporations, dividends, privatisation

Introduction

Before the visit, the NAI had sent a detailed description of the practical implementation of the capital injection test, an overview table of capital injections and a description of the application of the super dividend test. Eurostat inquired about the state of play and asked the NAI to elaborate on both tests.

Discussion and methodological analysis

The approach to the implementation of the capital injection test is in line with the March 2012 version of the MGDD. The NAI applies it strictly so that any capital injection (equity or loans) which is not duly justified before 1 September of $t+1$, is reclassified as a capital transfer. The acceptance criteria for an equity injection are the following:

- at least 25% equity should be invested by the private sector;
- no accumulated losses and prospect of future profits are proven;
- an audited financial plan is presented with a credible expected return corresponding to long term bond yields.

The NAI indicated that the above approach is at this point applied to federal and state level entities. Local government entities are not covered by this method. Given the considerable number of local governments, this procedure has been partly standardised. Based on a functional division of capital stakes, a number of stakes are being reclassified. These concern stakes in the social sector, in the education and cultural sector and in the police sector. Generally, these sectors do not yield sufficient return in order for them to be accepted as a financial transaction. Without additional justification from the supervisory authorities, these are not accepted as capital stakes. In principle, other stakeholdings in the energy sector or in other corporate sectors are accepted. For the unspecified stakes, an attempt is made to discover the important transactions and an analysis is made on the basis of the available data. The NAI provides ex ante advice on request for all government levels.

A number of dividend payments to entities of the local government sector could be identified as superdividends and have been reclassified as such by the NAI.

4.3.4. Public Private Partnerships (PPPs)

Introduction

The NAI is setting up a reporting scheme and a classification aid for reporters on PPPs for all levels of government. Eurostat has suggested inspiring the framework on the decision tree developed by EPEC (EIB). A number of existing and new PPP projects were discussed.

Discussion and methodological analysis

In order to be able to report questionnaire table 11 to Eurostat, the NAI is in the course of setting up a reporting scheme (with guidance for classification decisions) for all levels of government in Belgium. The first delivery of information under the scheme is due on 15 August 2012 for federal and state authorities and on 15 February 2013 for local authorities. Information on PPP-projects commissioned by local authorities are lacking at this point in time. The template for the scheme is based on questionnaire table 11. It is envisaged that potential changes in contracts which would occur in the course of the projects' operational phases can be incorporated into the reporting scheme.

The NAI regularly provides formal advice on classification issues in the framework of PPP-projects.

A revised version of the PPP-project for the Flemish School buildings was supposed to be submitted to the NAI shortly after the termination of the April 2012 EDP-procedure. A consultation of Eurostat would follow in case the NAI would be of the opinion that this PPP-project could be recorded off-balance. The terms of the project have been changed a number of times and it is currently classified inside the government sector. The NAI had however not received any request and would inquire with the Flemish authorities.

The NAI had recently advised that a project for the construction of a tramline extension in Antwerp was to be classified inside government. The advice was based on the fact that penalties for non-availability were insufficient. Here as well, a revised contract would be submitted to the NAI for advice.

The NAI has recently published an advice to classify a PPP-project on the construction of 4 new prisons by the federal government outside the government sector. Further construction contracts of this type are in the pipeline.

The Walloon government has announced that it would submit a number of PPP-projects to the NAI for advice. In this context, the NAI is examining the sector classification of Sofico (Société wallonne de financement complémentaire des infrastructures).

Findings and conclusions

12. A number of planned but not yet implemented Public-Private-Partnerships (PPPs) were discussed during the meeting. In this context, Eurostat welcomed the recent initiative

taken by the NAI to set up a comprehensive reporting system in order to improve reporting by all levels of government. This system would also include a monitoring of potential amendments to existing PPP contracts. Deadline: continuous.

13. In relation to Sofico, the NAI will analyse the sector classification and the transactions to ensure their correct classification in national accounts. An official request for advice will be sent to Eurostat as soon as possible.

4.3.5. Government operations relating to the financial crisis

Introduction

Further to the Eurostat request prior to EDP dialogue visit, the NAI had sent to Eurostat on 22 June a very detailed overview of the operations relating to the financial crisis since 2008. Eurostat inquired about a number of operations.

Discussion and methodological analysis

Data concerning federal government are gathered directly from the Treasury and from the Federal Public Investment Company (FPIM/SFPI). The state level information comes from state treasuries as well and from holding companies acting on their behalf.

Over the past few years, government revenue from the interventions relating to the financial crisis has risen considerably; mainly in the form of dividends and guarantee fees.

At the end of 2011, contingent liabilities had risen to EUR 47 billion. This figure is expected to rise further due to the guarantees provided by the Belgian government for Dexia. For the Dexia 2011 operation, the ceiling of the guarantees provided by Belgium was EUR 27.225 billion end 2011. In the meantime a temporary EUR 10 billion increase has been granted by the three countries involved (Belgium, France and Luxembourg) of which 60.5% is granted by Belgium. The NBB monitors the guaranteed amounts on a daily basis and publishes them on its website.

5. Follow-up of the Upstream Dialogue Visit (5-7 March 2012)

Introduction

As the subjects treated in the UDV were closely intertwined with the subjects of this visit, a number of follow-up issues of the UDV have already been commented on above. The Main conclusions and recommendations' of the UDV are attached to this document together with the report on the follow-up UDV to the Walloon region. The three documents are to be published on Eurostat's website together.

Discussion and methodological analysis

One of the main action points of the UDV was the establishment of a high level task force including representatives of the responsible authorities from the federal/regional/community levels, the national Court of Audit, and the NAI, which is to prepare a binding act or protocol, involving all regions and communities, to ensure a significant enhancement of the reporting of

public accounts to the NAI. This task force has been established on 15 June 2012 and will start its operations in September 2012. As the task force will have to perform many tasks in a quite limited period of time, it was decided to create 6 working groups which will be coordinated by the presidency of the task force. The 6 working groups will focus on the following issues:

1. the legal (some constitutional) aspects of establishing a binding act,
2. the perimeter of the public sector,
3. the role of the Court of Auditors,
4. human and information technology resources,
5. databases for documentation,
6. and data collection.

Findings and conclusions

14. Eurostat welcomed the considerable progress made on the action points of the Upstream Dialogue Visit of 5-7 March 2012, in particular in relation to the establishment on 15 June 2012 of the high level task force, which will, among other things, investigate the possibilities of enacting a binding law or protocol ensuring the enhancement of the reporting of public accounts to the NAI. Eurostat also welcomed the creation of the supporting working groups, which will contribute to the results of the different action points. Eurostat will schedule in co-operation with the NAI a follow-up visit to the authorities of the Walloon Region as soon as possible.²

6. Any other business

Eurostat inquired on the possibility to publish COFOG level II data for Belgium, which are currently not published. The NAI confirmed the non-publication status of the COFOG level II data. For the local government sector, COFOG data are currently based on data received in year 2003. The new accounting information received for local government will be now used to change the COFOG data and the quality will increase. In addition, the NAI expressed their intention to analyse how regions are currently classifying the functional codes. These actions need some time and will be implemented once the NAI has the time and necessary staff. In any case, COFOG level II data will be publishable once the new ESA enters into force.

² The follow-up visit to the Walloon region has taken place on 4 September 2012. As mentioned above, the report on this visit is attached to this document.

Annex

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EUROPEAN COMMISSION
EUROSTAT

Directorate D: Government Finance Statistics (GFS)
Unit D.4: GFS Quality Management and Government Accounting



Luxembourg, 10.5.2012

EDP upstream dialogue visit to Belgium
5 - 7 March 2012
Main conclusions and recommendations – *Final report*

The main objective of the visit was to review the quality of the EDP reporting system, in particular primary public accounting ("upstream") data sources, as specified in the Communication from the Commission to the European Parliament and the Council COM(2011)211 "Towards robust quality management for European Statistics", and in accordance with Art. 8 of Regulation (EC) 479/2009 as amended. Another point of interest was to review the ability of the Belgian National Accounts Institute to utilise its powers under Article 16 of Regulation (EC) 479/2009 as amended by Regulation (EU) 679/2010.

I. General statements

Eurostat staff visited Belgium to assess the quality of upstream data and processes used as the basis for EDP notifications. The visit was undertaken in the context of the strategy towards robust quality management for European Statistics related to enhanced economic policy coordination, which includes mechanisms to ensure the high quality of statistical indicators, especially for statistics related to EDP. The aim of this visit was to gather information on the accounting, auditing, control and reporting systems in place and to assess the strengths and weaknesses of those systems.

Decision making power in Belgium is not exclusively in the hands of the federal government and parliament. It falls to several partners (in particular Communities and Regions) which are not subordinated to one another nor to the federal authorities, and exercise their competence in different fields independently.

The National Accounts Institute (NAI) was established in 1994. It comprises three partners (National Bank of Belgium (NBB), Federal Planning Bureau and the Directorate-General Statistics and Economic Information, one of the nine Directorates General of the Federal Public Service Economy, SMEs, Self-employed and Energy (FPS Economy)) in order to produce statistics (financial and non-financial accounts), forecasts and economic analysis.

The NAI is the reporting authority for EDP statistics and therefore to be considered a National Statistical Authority. This means that it must respect in full the European 'statistical law' as stated in Regulation (EC) 223/2009, the Regulation (EC) 479/2009 as amended by Regulation (EU) 679/2010 and the European Statistics Code of Practice.

Eurostat, in coordination with the NAI, reviewed practices regarding the management and control of the flows of public finance data from public entities to the NAI which are used to compile the ESA deficit and debt.

Eurostat welcomed the cooperative approach of the Belgian authorities and their willingness to clarify and resolve the issues discussed.

II. Main conclusions and recommendations

1. Governance

The President of the NAI is also the President of the Directors' Committee for the FPS Economy. It was noted in the Eurostat peer review in 2007 that "the appearance of a higher degree of integration of Statistics Belgium into the Ministry of Economy raises the issue of professional independence as advocated by the Code of Practice" and "the cooperation structure of the NAI may perhaps be reconsidered".

Eurostat notes that the NAI does not have any operational staff of its own. EDP is within the responsibility of and compiled by employees of the NBB.

Eurostat recommends that the current set-up of the NAI be reviewed in order to ensure that there can be no conflicts of interest in its management, and to guarantee its professional independence, taking into account the job description of and responsibilities assigned to the function of the President of the Directors' Committee of FPS Economy.

Action point 1: NAI will provide Eurostat, by the end of May 2012, a report on the actions planned concerning the recommendation related to the governance issues explained above.

2. Data sources and government accounting issues

There is a significant weakness as regards the reliability, exhaustiveness and timeliness of the reporting to the NAI of the accounts of non-federal public entities, in particular municipalities and other primary entities at lower level. Up to 2011, the reporting of the latter entities was very approximately estimated via unreliable indirect means. In 2012, Eurostat notes the progress made in the collection of the data for these entities by the NAI which allowed in the April 2012 notification, for the first time, the provision of details of EDP data for local government based on a partial observation of their accounts for the accounting year of 2010.

However, there remain significant weaknesses in terms of the coverage of the entities - and hence the coverage of their transactions - and of the timing of reporting, which the National authorities should address as they seriously affect the capacity of the NAI to derive high quality consolidated accounts for the complete general government sector. This is considered by Eurostat a significant risk on the overall quality of EDP statistics.

In this context, Eurostat recommends that a special task force or similar working platform, chaired at a high level, and including representatives of the responsible authorities from the federal/regional/community levels, the national Court of Audit, and the NAI, prepare a binding act or protocol, involving all regions and communities, to ensure a significant enhancement of the reporting of public accounts to the NAI.

The binding act or protocol should confirm that the NAI has the legal mandate for data collection and that there should be no exception in the reporting of individual data for public entities, when requested by the NAI.

The task force should play a leading role in the preparation of the transposition of the budgetary frameworks directive (Council Directive 2011/85/EU of 8 November 2011 on requirements for

budgetary frameworks of the Member States) into national law in particular in order to ensure that EDP upstream data are subject to internal control and external audit.

Action point 2: The task force will propose the binding act or protocol for October 2012, and will report on its preparation to Eurostat during the standard EDP dialogue visit scheduled in June 2012.

The NAI will explore other working arrangements to reach specifically the following objectives until they can be included in the binding act or protocol:

- a. For regions and communities: to obtain the complete consolidated accounts in time for use for the April n+1 notification;
- b. For municipalities, Public Social Assistance Centres (CPAS), and other primary public entities: to obtain an exhaustive coverage of the accounts of all entities at T+9 months. This should be in place in September 2013.
- c. For the provinces of the Walloon Region: to obtain exhaustive reporting for 2010 accounts, applicable for the October 2012 notification.
- d. For the reporting by regions and communities: to incorporate data on debt and guarantees according to a standardized process. This should be applicable for the October 2012 notification.
- e. Accounts of universities for 2011 should be incorporated as soon as possible and at the latest by March 2013, for the 2011 accounts.
- f. List of Public Private Partnerships (PPP) should be also reported by the reporting entities either via the General Documentary Base (GDB) or via a system of direct data collection. This should be applicable for the October 2012 notification.

Action point 3: NAI will provide Eurostat with a progress report by the end of October 2012 on the progress made in the realization of the intermediate objectives which should be included in the binding act or protocol.

Eurostat also recommends that the NAI should establish a set of standardized tables and issue the necessary guidelines to ensure the uniform application of EDP methods in practice and the effective data collection from upstream data providers on each level of the general government in a centralized way. This should be done under the guidance and supervision of the NAI, either via the GDB or via a system of direct data collection by the NAI.

Given the serious and ongoing data reporting problems for the Walloon region, by summer 2012 Eurostat is willing to visit, together with NAI, the Walloon authorities in order to resolve those issues.

3. Register of government controlled units (register defining full population of entities on which the 50% test would be applied)

Information on government controlled units in Member States is a necessary input for EDP and other monitoring purposes, and crucial for the delineation of the general government sector (GG).

Eurostat notes that there is a potentially significant risk of the register of government controlled units not being exhaustive, concerning for example new entities.

The NAI should set up a plan for the constitution of an exhaustive and documented register of government controlled units under the supervision of all levels of government and put the

necessary procedures in place in order to maintain the register and keep it up-to-date. The register of government controlled units should enable a distinction between GG and non-GG units and individual financial statements necessary to perform the market/non-market test on a regular basis. This register should contain the information necessary to feed the compulsory "questionnaire of public corporations" recently circulated by Eurostat. The first version is due to be transmitted to Eurostat by the end of the year 2012.

Action point 4: NAI will provide Eurostat by the end of September 2012 with a report on the preparation of this plan to establish an exhaustive register of government controlled units.

4. IT Issues

Eurostat supports, in general, the harmonisation of public accounting between entities at central, state and local levels as well as harmonisation with international statistical and accounting requirements.

In this context Eurostat welcomes the implementation of accrual accounting in the Federal Government of Belgium within the FEDCOM project and invites the NAI to play an active role in the further development of this integrated IT system in order to use it effectively for its own purposes. The NAI should take part in the transposition of the above mentioned budgetary frameworks directive into national law in order to achieve a higher degree of harmonisation of accounting rules, and primary data for EDP needs.

Eurostat proposes that NAI consider extending integrated systems of data provision to state and local levels, taking into account their experience with FEDCOM.

Action point 5: NAI will provide Eurostat by the end of 2012 with a progress report concerning the above proposal related to the extension of an integrated system to state and local levels.

The compilation of GFS-statistics is currently neither considered as a critical IT process within the IT applications of the NBB nor covered by a business continuity plan.

Eurostat stressed that EDP statistics have a very significant role in national and international decision making and such it should be considered as a critical IT process at the level of NBB, subject to internal control and included in a business continuity plan.

Action point 6: NAI will inform Eurostat by the end of May 2012 on the progress made and actions planned to consider EDP statistics processes as a significant risk area.

5. Documentation

Eurostat noted the absence of written formal procedures related to the EDP compilation processes to be followed by the staff in the National Bank of Belgium. Documentation is essential to ensure proper quality control and business continuity.

Eurostat recommends that standardized quality management procedures be applied, in particular to map and document each process used to produce EDP data.

Action point 7: NAI will inform Eurostat by the end of May 2012 on the progress made and actions planned to document each EDP process.

It has been also noted that the release and pre-release access policy of NAI for EDP statistics is not documented.

Action point 8: NAI will provide Eurostat by the end of May 2012 with a document describing the release and pre-release policy.

6. Controls

The mandate of the Belgian Court of Auditors (CoA) does not cover the whole of the general government sector. In particular, municipalities do not belong to the scope of its remit.

However, Eurostat advises NAI to systematically check, analyse and use the information provided by the CoA. Even if the reports of the CoA are available within a relatively short period, Eurostat encourages the Court to directly inform the NAI as regards possible limitations in the upstream data audited by the Court as soon as possible in the process of audit and taking into account the timing of the notification.

Action point 9: NAI will provide Eurostat with a progress report on how it will develop cooperation with the CoA by the end of May 2012.

Eurostat noted that, while the individual accounts of the social security entities are audited by the CoA, the process of their consolidation is not covered, although the report of the consolidated accounts is a primary data source for EDP.

Eurostat recommends that the process of consolidation of the social security accounts should be subject to external audit.

Action point 10: NAI will provide Eurostat by the end of 2012 with a report on the progress made concerning the audit of consolidated social security accounts.

The individual social security accounts are submitted with a substantial delay to the CoA. Therefore, for a long period, only unaudited estimates are available to NAI.

Action point 11: NAI will provide Eurostat with a comparative analysis of the estimates and the real outcome of social security figures of the last 5 years by 30 April 2012.¹

7. Resources

Eurostat acknowledges the quality of the work done by the small and motivated team dedicated to the compilation of government accounts in the NAI.

Despite their expertise and commitment, the team is understaffed, given the complexity of government structures in Belgium and the need for substantial investment into necessary improvements in data collection and processing. Lack of staff creates risks for quality and business continuity.

Eurostat recommends a substantial increase in the level of staffing allocated by the NAI to the compilation of general government accounts. Eurostat considers that the level of staffing is at present fully inadequate, also taking into consideration the position in other EU Member States of a comparable size.

¹ This Action point was completed on 20 April 2012.

Action point 12: NAI will provide Eurostat by the end of May 2012 with a progress report concerning the improvement of staffing issue together with a list of actions implemented or actions planned.

8. Other

The GDB collects, stores, and transmits federal and state government data to the NAI.

Eurostat requests that the traceability of this data back to the source should be ensured by a properly documented archiving system as well as a business continuity plan for the GDB.

Action point 13: Eurostat invites the NAI to investigate and report to Eurostat by the end of 2012 on how traceability and business continuity is ensured for EDP data sources, in particular for the GDB.

III. Final remarks

In view of procedural arrangements within the framework of EDP dialogue visits, in accordance with article 13 of Regulation 479/2009, as amended, the above main conclusions and recommendations will be, where relevant, integrated into a subsequent report following the standard dialogue visit which is foreseen to take place later in 2012.



EUROPEAN COMMISSION
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Directorate D: Government Finance Statistics (GFS)
Unit D.4: GFS Quality Management and Government Accounting



Luxembourg, 3.10.2012

**EDP follow-up upstream dialogue visit to Wallonia
4 September 2012
Main conclusions and recommendations – *Final report***

The main conclusions and recommendations of the EDP upstream dialogue visit to Belgium pursuant to Art. 11a of Regulation (EC) 479/2009 carried out from 5th to 7th March 2012 explained the need to address the serious and on-going data reporting issues concerning Wallonia. In order to discuss and resolve those issues in cooperation with the responsible authorities, Eurostat carried out an upstream dialogue visit to Wallonia on 4 September 2012.

The meeting focussed on the needs to improve and standardize EDP data flows, especially in the following areas:

- Local governments: The provision of individual accounts for the municipalities and Public Social Assistance Centres (CPAS), and the need for exhaustive coverage, especially for the CPAS.
- Classification of public entities: The need for further specific information in some cases, for example concerning Sofico.
- Reporting on capital injections and guarantees: The delays experienced in providing the additional information needed by the National Accounts Institute.

The objective of the visit was therefore to review the above-mentioned issues and increase the awareness of the authorities of the Walloon Region of the necessity of fulfilling their statistical obligations in the framework of Council Regulation (EC) 479/2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community. As a general rule, the National Accounts Institute (NAI) should be provided with access to all relevant information necessary to perform their duties.

I. General statements

Eurostat, in collaboration with the National Accounts Institute (NAI), met with the high level representatives of Wallonia, led by the Minister-President of the government of Wallonia, and further comprising the Vice Minister-President responsible for Budget, Finance, Employment, Training and Sport, the Vice Minister-President responsible for the Economy, SMEs, the Minister for Local government, Cities and Tourism and the Head of Cabinet of the Vice Minister-President responsible for Sustainable Development, Public service, Energy, Housing and Research to review issues relating to the EDP reporting, in particular access to individual local government data, classification of public entities and reporting on guarantees and capital injections.

Eurostat welcomed the constructive and cooperative approach of both the NAI and the Walloon authorities and appreciated the willingness on both sides to clarify and resolve the issues under discussion.

II. Main conclusions and recommendations

All participants recognised the importance of the issues under discussion and the need to resolve them as rapidly as possible.

The Walloon authorities clarified that there was no legal reason to prevent the supply of the required data, in particular those concerning municipalities to the NAI. The basic accounting data that is needed by NAI is already compiled by the municipalities. There were however practical administrative issues to resolve.

Eurostat concluded that there had been issues of understanding and communication between the Regional authorities and the NAI which had impeded the earlier resolution of the data supply deficiencies. Furthermore, Eurostat proposed a joint communication initiative be made by the NAI and the government of the Walloon Region to inform the upstream data providers in the Region in order that they better understand their roles in the EDP reporting process and to increase their acceptance for this new initiative.

The Walloon authorities committed to resolving all of the reporting issues under discussion in time for the April 2013 EDP notification. In practice, the High-level Task Force (HLTF) set up following the Upstream Dialogue Visit of 5-7 March 2012, scheduled to first meet on 13 September 2012, would take up this issue.

In view of the HLTF Eurostat recommended a new protocol (for example in the form of a memorandum of understanding or service level agreement) between the Walloon authorities and the NAI in order to ensure that, in time for the April 2013 EDP notification, all of the necessary data are available.

This protocol should design and put in place a new procedure for reporting EDP data and deal with specifically the following:

- Clear definition of the responsibilities of the parties,
- Clarification and specification of the role of the Walloon Region as intermediary in the transmission of data from municipalities and the NAI, and full description of data transmission process,
- Deadlines set according to a preannounced data collection schedule,
- Statistical correspondents within the Walloon authorities.

The government of the Walloon Region, without questioning the responsibility and competence of the NAI to compile EDP data and decide on methodological issues concerning Belgium, but taking into account the importance and sensitivity of EDP data, expressed the wish that the protocol should enhance communication on decisions taken by the NAI, including those decisions taken close to the EDP notification period. Specifically, the new reporting procedure should comprise (a) a timetable specific to each notification that allows sufficient time for the upstream providers, the government of the Walloon Region in particular, to supply the necessary data (b) a dialogue phase to clarify data issues and (c) documented motivations for classification decisions.

Eurostat understood that Wallonia, and other regions, are facing difficulties to collect the necessary detailed and complete information on guarantees. The government of the Walloon Region reassured Eurostat about their willingness to overcome these difficulties. All parties present agreed that the issue should, as planned, be referred to the High Level Task Force. It was agreed that by the April 2013 notification it will be resolved.

Action point 1: The NAI will provide Eurostat by the end of 2012 a report on the actions achieved and planned, including the new protocol presented above, in order to ensure that the information needed for the April 2013 EDP notification will be complete and made available to NAI in a timely manner.

III. Final remarks

In view of procedural arrangements within the framework of EDP dialogue visits, in accordance with article 13 of Regulation 479/2009, as amended, the above main conclusions and recommendations will be integrated into the report of the standard dialogue visit carried out on 27 June 2012.