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- FINDINGS -

EDP Mission to Malta

5-6 July 2010

Eurostat EDP dialogue visit to Malta

5-6 July 2010

Findings

Executive summary

A regular EDP dialogue visit to Malta took place on 5-6 July 2010 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 Maltese EDP and Government Finance Statistics (GFS) data. The recording of specific government transactions in the Maltese national accounts and EDP notifications were also discussed during the visit.

The meeting was very constructive and Eurostat thanked the Maltese authorities for the openness and transparency shown in the meeting and for the quality of documents provided prior and during the visit.

Eurostat took note of the new centralised "Financial Data Reporting System" (FDRS) covering all government units, which will be used in the first EDP reporting of the year (starting from April 2011) until the annual audited accounts will become available (second EDP reporting of the year).

In relation to the EDP tables, Eurostat asked the Maltese statistical authorities to analyse whether the operating profit of the Central Bank of Malta includes a super-dividend element due to the introduction of the special provision introduced in 2008, and if so, ensure the correct recording in EDP tables in 2010 (relating to the profit in 2009) and in future years. Eurostat also encouraged the Maltese statistical authorities to analyse in detail the relatively high statistical discrepancy reported by central government in 2009 (0.33% of GDP) and to report back to Eurostat on the issue.

In relation to EU grants, Eurostat took note of the change in the recording of EU grants from 2009 onwards, eliminating the previous risks of possible timing effects between years. Eurostat invited the Statistical authorities to provide a split of amounts of receivables and payables from the two systems (old and new) and to record figures on a gross basis for F.7

Eurostat furthermore invited the Maltese statistical authorities to correct the current EDP related questionnaire table 6 on EU grants, and to complete sections 2.5 and 2.6 in the ad-hoc questionnaire on the recording of EU grants from 2008, and to send an update to Eurostat¹.

About the contract between the Maltese government and an Italian private company regarding the sale and emphyteusis of the Maltese Shipyards facilities, Eurostat currently considers that the sale of the movable assets should be recorded as a sale (recorded as government revenue),

¹ An updated version of the ad-hoc EU questionnaire was sent to Eurostat on 29 Jul 2010.

for its full value (amounting to 18 mn euro), in 2010, although the amounts will be paid in instalments in future years. As regards the deed of emphyteusis, Eurostat considered at this stage that it should be recorded as rent for the full duration of the contract. Eurostat asked the Maltese statistical authorities to send to Eurostat the investment plan of the emphyteusis in order to get a complete picture of the project and, notably, of the exact nature of the related expenditure (this document was not available in the meeting).

In relation to the recording of taxes and to the change from the so called realistic balances to time adjusted cash, which took place in 2008 (reported for the first time in October 2008 concerning the years 2004-2007), the Maltese authorities shall revise data for backward years (1995-2003) in order to ensure coherence between the figures reported before and after 2004.

As regards the Tax Penalty Reduction Scheme, as introduced in September 2009, Eurostat considers that the amounts received by government have the nature of a tax and not of fines and penalties, and should therefore be recorded according to the time-adjusted cash method as is the case for other taxes. As this is the method currently used by the Maltese authorities, there will be no need for revision of data.

Finally, Eurostat took note that there have been no interventions by government in the context of the financial crisis, that there have been a few reclassifications of units inside or outside government in recent years, that there have been no cases of privatisations in 2009 and 2010, that there have been no calls for guarantees or debt cancellations in 2009 and 2010 and that there have been no new Public-Private-Partnerships projects, sale and leaseback operations or securitisation operations in 2009 and 2010.

Introduction

In accordance with Council Regulation (EC) No 479/2009 as amended, as regards the quality of statistical data in the context of the excessive deficit procedure, Eurostat carried out an EDP dialogue visit to Malta on 5-6 July 2010.

The delegation of Eurostat was headed by Mr. Luca Ascoli, Head of the Eurostat Public Finance Unit (C3). The Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meeting as observers. The Maltese authorities were represented by the National Statistics Office (NSO), the Ministry of Finance (MoF) and the Central Bank of Malta (NCB).

Eurostat carried out this EDP dialogue visit with the aim to assess the existing statistical capacity, to review the division of responsibilities concerning the compilation of EDP statistics and government accounts, to discuss the quality and exhaustiveness of primary data sources, to clarify the issues relating to EDP tables raised in the context of previous notifications, to review the progress achieved in implementing ESA 1995 methodology and to ensure that provisions from the ESA 1995 Manual on Government deficit and debt and recent Eurostat decisions are duly implemented in the Maltese EDP tables and national accounts. In particular, the recording of EU grants and the accounting consequences of the recently signed contract regarding Malta Shipyards were discussed.

1. Statistical institutional issues

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

Introduction

The compilation of EDP tables is a joint exercise between the National Statistical Office (NSO), the Central Bank (the NCB) and the Ministry of Finance (Budget Office and Treasury). There exists a well established Government Finance Committee, which in turn reports to a Steering committee, headed by the Permanent secretary at the Ministry of Finance.

Discussion

The Maltese confirmed that there have been no changes in the structure of the EDP co-operation of the different institutions. EDP matters are discussed on a regular basis and Eurostat is consulted frequently in case of doubt on the correct recording of a specific operation. As concluded in previous visits, the ultimate responsibility for methodology rests nationally with the NSO.

Conclusions

- Eurostat welcomed the transparent and well-functioning co-operation in EDP matters between the involved institutions; the National Statistics Office, the Ministry of Finance and the Central Bank of Malta (*Action point 1*).

1.2 EDP inventory and data sources

Introduction

The government sector of Malta consists of Budgetary Central Government, Extra Budgetary Units (EBUs) and local government. Malta has no state or social security sectors. EDP table 1 includes a split of the information for Budgetary Central Government and Extra Budgetary Units (EBUs), for transparency reasons. The main data source for Budgetary Central Government (Ministries and Departments) is the Departmental Accounting System (DAS) complemented with financial reports and estimates and surveys.

The discussion focussed on the new centralised Financial Data Reporting System covering all government units (EBUs and public corporation) and the EDP inventory.

Discussion

The Financial Data Reporting System

In January 2010, the Ministry of Finance, Economy and Investment, launched a Financial Data Reporting System (FDRS) geared towards attaining real time financial data pertaining to Government Entities. Given that various departments and entities within the Ministry of Finance, Economy and Investment, make use of the same data, although for different purposes, it has been considered opportune to introduce such a system.

The data collected are used for specific purposes, including among others:

1. Monthly analysis, by the Ministry of Finance, the Economy and Investment (MFEI), of expenditures and revenues of Government entities.
2. Utilisation of data by the National Statistics Office. In this regard, part of the information hitherto gathered through NSO questionnaires shall be collected through the FDRS, hence replacing the relevant questionnaires in the process and reducing response burden;
3. The reporting of end-of-year accruals positions to the Treasury, through the collection of accruals data.

The expected benefits from the new system are more timely data, better use of resources, only one single harmonised form to fill in financial information required by MFEI and NSO, transmission done electronically through one dedicated webpage, updates in template automatically visible to users, automatic e-mail confirmation sent upon submission of data, data which may be stored on one's computer for later retrieval and Excel sheet functions still applicable in submitting these data.

For the monthly basis templates, entities are required to submit the income statement (profit and loss account) within 22 calendar days following the end of each month. For the quarterly basis templates, entities are to submit their balance sheet position and other data required within 22 calendar days following the end of each quarter.

All templates are available online. The entities surveyed are all the EBU (50 entities) and 15 public corporations. The Public Finance unit within the National Statistics Office has online access to this system.

The new system (to be effectively used from 2011 onwards) is expected to lead to fewer revisions of EBU data, which used to be a problem between the April and the October notifications each year. For the second reporting of the year, the annual audited accounts are available and will be used instead.

The EDP Inventory

The Maltese authorities published the EDP inventory on the web site of the National Statistics Office (NSO) on 23 October 2008 and since then it has been updated twice. This constitutes progress since the latest dialogue visit in January 2008 when the EDP inventory had not yet been published nationally.

Due to the introduction of the FDRS, Eurostat requested the Maltese authorities to update the EDP inventory with the new information.

Conclusions

- Eurostat took note of the new centralised "Financial Data Reporting System" (FDRS) covering all government units, which will be used in the first EDP reporting of the year (starting from April 2011) until the annual audited accounts will become available (second EDP reporting of the year). (**Action point 2**). *Deadline: April 2011 notification and onwards*

- Eurostat asked the Maltese statistical authorities to send to Eurostat a note describing the new reporting system (FDRS)² and to update the EDP inventory accordingly. (*Action point 3*)³. *Deadline: October 2010 notification*

2. Follow-up of the October 2009 EDP reporting – analysis of EDP tables

Introduction

In the meeting the discussion focussed on the adjustment for the operating profit of the Central Bank and the statistical discrepancies. The other adjustment items had already been discussed in previous visits or bilateral exchanges.

Discussion

In the context of the EDP notifications, Eurostat generally has few questions on the Maltese EDP tables. One reason is frequent bilateral contacts in-between the notifications. Another reason is the annexes which are sent with each notification by the Maltese authorities, detailing most of the reported data.

Malta has no State and Social Security sectors. The local government sector consists of 68 communes.

Table 2A includes a number of financial transactions included in the working balance. There are also a range of reported non-financial transactions which are not included in the working balance. The subsector delimitation relates to the EBUs and includes the receivables and payables relating to these EBUs. There are also accrual adjustments in the tables.

Concerning table 2C, only the working balance and B.9 are reported. Local councils are small and data are on full accrual basis. The local councils do not buy and sell equities, but they may take loans.

Concerning the adjustment for the Central Bank of Malta Non-Trading Profits in EDP table 2A, Eurostat asked the Maltese authorities whether there was a super-dividend element included in the distributed profit, following-up on the discussion in the recent FAWG (June 2010) on the special provision as introduced by the ECB in 2008 (a special provision covering the risk of losses on certain ABS collaterals placed by counterparts in some euro area Central Banks). The issue could not be fully clarified in the meeting.

In the April 2010 notification, Eurostat expressed concern about the relatively high statistical discrepancy in the year 2009. The Maltese authorities explained that they had started to look for explanations, but that they had found no new elements so far.

Conclusions

- Eurostat asked the Maltese statistical authorities to analyse whether the operating

² A note describing the FDRS was sent to Eurostat on 29 July 2010

³ An updated EDP Inventory was published in Malta on 1 October 2010.

profit of the Central Bank of Malta includes a super-dividend element due to the introduction of the special provision introduced in 2008, and if so, to ensure the correct recording in EDP tables in 2010 (relating to the profit in 2009) and in future years. (**Action point 4**) *Deadline: October 2010 notification*

- Eurostat encouraged the Maltese statistical authorities to analyse in detail the relatively high statistical discrepancy reported by central government in 2009 (0.33% of GDP) and to report back to Eurostat on the issue⁴ (**Action point 5**). *Deadline: October 2010 notification*

3. Recording of EU grants in Malta

Introduction

The recording of EU grants in the Maltese accounts was discussed in the meeting after an introductory presentation by the Maltese authorities.

Discussion

Concerning the institutional arrangements, for *structural funds* and *cohesion funds* execution of payments are with the Treasury at the Ministry of Finance, the certifying authority is the EU paying authority at the MOF and the managing authority is the planning and priorities co-ordination division at Office of the Prime Minister. On the contrary, for *agricultural funds* the paying, certifying and managing authorities is a single body, the Paying Agency at the Ministry of Rural Affairs. This agency is classified in S.1311.

The main data sources for EU grants are the Departmental Accounting System (DAS) at the Treasury Department (data on expenditure funded by the EU) and the EU Paying Authority at the MOF (certified pending claims).

For EU funds, where government is not the final beneficiary, as in the case of agricultural funds, the payments do not transit via the so called Consolidated Fund of Government and are therefore not included in the government accounts. There is accordingly no impact on government accounts.

When on the contrary government is the final beneficiary, the amounts transit via the Consolidated Fund and both revenue and expenditure are taken into account when calculating B.9. However, the revenue from the EU is currently only recorded after the Maltese Authorities have made the relative claim, which means at a moment in which the expenditure has already been incurred. This may imply a timing effect on B.9 between years, overestimating government expenditure in some years and government revenue in other years.

It should however be recalled that this method is only used for the previous programming method (remaining years 2004-2006) and that from 2009 onwards (referring to the period 2007-2013) there is a mixture of methods, with a recording in line with Eurostat rules for the new programming method. From the April 2011 notification, the previous programming period will have been phased out and the recording of EU funds in the Maltese accounts

⁴ In the October notification, after having undertaken investigations, the Maltese Authorities reported a lower discrepancy for 2009 (0.1% of GDP)

should be fully in line with Eurostat rules with no impact (timing effect) on government accounts.

It was furthermore agreed during the meeting that it would be appropriate to net the receivables and payables but to split them. Therefore flows should be identified and included correctly in Questionnaire tables and EDP tables.

Apart from the method of recording, the completion of the ad-hoc questionnaire and the regular bilateral questionnaire table on EU grants were also discussed.

Conclusions

- Eurostat took note of the change in the recording of EU grants from 2009 onwards, eliminating the previous risks of possible timing effects between years. Eurostat invited the Statistical authorities to provide a split of amounts of receivables and payables from the two systems (old and new) and to record figures on a gross basis for F.7 (receivables and payables). (**Action point 6**). *Deadline: October 2010 notification*⁵
- Eurostat invited the Maltese statistical authorities to correct the current EDP related questionnaire table 6 on EU grants, and to complete sections 2.5 and 2.6 in the ad-hoc questionnaire on the recording of EU grants from 2008, and to send an update to Eurostat⁶. (**Action point 7**). *Deadline: October 2010 notification*

4. Recording of taxes and social contributions in the Maltese accounts

Introduction

The discussion focussed on the change in method for recording of taxes as implemented in October 2008 and of the "tax penalty reduction scheme".

Discussion

The change in the method of recording of taxes and social contributions from "realistic estimates" to time-adjusted cash in October 2008, coincided with the financial crisis and had a negative effect in Malta in particular on Income tax and VAT revenue of government. Companies delayed their payments at the end of 2008 and in the first quarter of 2009, resulting in much lower cash revenue (time adjusted) in 2008 than previously forecasted. Therefore government deficit was negatively affected in 2008.

Malta reported taxes according to the new method for the first time in October 2008 and for the years 2004-2007. It was decided at that time that data should be revised backward for 1995-2003 as soon as feasible. The Maltese explained in the meeting that this revision had not yet been done but that it would be undertaken in 2011.

⁵ The action point was addressed in the October 2010 notification

⁶ An updated version of the ad-hoc EU questionnaire was sent to Eurostat on 29 July 2010.

Concerning the so called tax penalty reduction scheme, which was discussed with the Maltese authorities for the first time, a lengthy discussion took place in the meeting.

The tax penalty reduction scheme relates to the reduction of pending penalties and interest on unpaid taxes (but not to the taxes themselves). The scheme includes amounts up to year 2009. Under the scheme, individual taxpayers have two options: settle all the tax owed by October 31 in one lump sum and benefit from a reduction of 85 per cent on penalties and interest or else pay in instalments, with a 30 per cent down payment and the rest over a period of 18 months. In this case there would be a 75 per cent reduction on penalties and interest.

Employers who are late with their income tax and social security dues between 1998 and 2009 also have two options. They could either pay all their dues by October 31, and benefit from a reduction of 90 per cent on fines and interests, or make a 30 per cent down payment and settle the rest over 18 months and have fines cut by 80 per cent.

The scheme was announced by the Finance Minister on 4 September 2009 and the deadlines have been extended twice to 16 December 2009 and 15 January 2010. The deadline concerned the sending of the declaration form, to be followed by the related payment. Some amounts have however been paid only after the declaration was sent and government still receives payments from individuals and corporations, although the deadline has already expired.

So far (by the time of the EDP dialogue visit), 40 mn euro had been received, 28 mn euro in 2009 and 12 mn euros in 2010. The amounts have been recorded according to the time-adjusted cash method, in line with the recording of normal tax payments.

Concerning the nature of these payments, Eurostat considered that they do not have the nature of penalties or of a special payment with a fixed deadline but that they rather have the nature of income taxes. Therefore the tax revenue, including the amounts of penalties and interest paid, should be recorded cash (time-adjusted).

As the penalties and interest on unpaid taxes relate to taxes from 1998 onwards, and the change in the recording from realistic balances to time-adjusted cash was only implemented in the Maltese accounts from 2004 (with the October 2008 report), there exists a risk of double counting of some revenue. Some amounts may have been included in the "realistic balances", that is as government revenue in the past, and then been recorded again as government revenue (tax income) in the context of the tax penalty reduction scheme. This problem will however be solved when the Maltese authorities undertake the foreseen revision of data in 2011.

- In relation to the recording of taxes and to the change from the so called realistic balances to time-adjusted cash, which took place in 2008 (reported for the first time in October 2008 concerning the years 2004-2007), the Maltese authorities shall revise data for backward years (1995-2003) in order to ensure coherence between the figures reported before and after 2004. (**Action point number 9**) *Deadline: end 2011*
- As regards the Tax Penalty Reduction Scheme, as introduced in September 2009, Eurostat considers that the amounts received by government have the nature of a tax and not of fines and penalties, and should therefore be recorded according to the time-adjusted cash method as is the case for normal taxes. As this is the method used by the Maltese authorities up to now, there will be no need for revision of data. (**Action point number 10**)

5. Further methodological issues and recording of specific government transactions

5.1 The financial turmoil: actual cases and accounting consequences for government

Introduction

In the 2010 notification, Malta reported no government operations in 2007 to 2009. This was confirmed during the meeting by the Maltese authorities.

Conclusions

- Eurostat took note that there have been no interventions by government in the context of the financial crisis (*Action point 11*).

5.2 Classification of units

Introduction

As regards the delimitation of general government, the Maltese authorities have developed a special template which is used for each classification case. The Maltese authorities also make regular official reviews of units when conditions change, like for example when there is a change in the funding of a unit. In recent years, the most important reclassification relates to the Malta shipyards which was reclassified inside government in 2008. Malta has 5 public hospitals and 3 private ones which are classified outside the public sector. These hospitals get no money from government but are fully financed by patient fees and insurance companies outside S.1314. In Malta there is one university and it is classified inside government (see questionnaire reply).

The list of all government units is published on the web site of the NSO.

Conclusions

- Eurostat took note of the general practise for sectorisation and that there have only been few cases of reclassifications of units inside or outside government in recent years. (*Action point 11*).

5.3 Capital injections into public corporations, dividends, privatisations

Introduction

Malta has reported no privatisations in 2009 and there are no plans for 2010 according to the information given in the meeting.

Conclusions

- Eurostat took note that there have been no cases of privatisations in 2009 and 2010 (so far) (*Action point 11*).

5.4 Recording of guarantees

Introduction

Malta has a large amount of outstanding government guarantees (684 mn in 2008 equal to 12% of GDP and 867 mn in 2009 equal to 15% of GDP) but there have been no calls in the past. During previous EDP visits it has been concluded that, due to the high amounts at stake, the issue should be closely monitored.

Discussion

The issue of guarantees was briefly discussed in the meeting and in particular the increase (new guarantees) of government guarantees in 2009, which mainly consisted of guarantees to Enemalta cooperation. The Maltese authorities explained that they follow closely the guarantees and that whereas guaranteed amounts are large, there have been no calls.

Conclusions

- Eurostat took note that there have been no calls of guarantees in recent years (**Action point 11**).

5.5 Recording of debt assumptions, debt cancellations and debt write-offs

Introduction

The Maltese authorities have reported no debt assumptions, debt cancellations or debt write-offs in recent years in EDP tables and in the related questionnaire tables. The Maltese authorities confirmed that this was indeed correct.

Conclusions

- Eurostat took note that there have been no debt assumptions, debt cancellations or debt write-offs in recent years (**Action point 11**).

5.6 Public Private Partnerships (PPPs), sale and leaseback and securitisation operations

Introduction

Malta has one PPP project in relation to an old people's home. The project has been discussed with, and analysed by, Eurostat, which agreed that the correct classification of the assets constructed is outside government. The Maltese authorities informed Eurostat that there were currently no plans for further PPPs. The Maltese authorities furthermore confirmed that there have been no sale and leaseback or securitisation operations.

Conclusions

- Eurostat took note that there have been no Public Private Partnerships (apart from the old people's home), no sale and leaseback or securitisation operations in recent years (*Action point 11*).

5.7 Enemalta debt restructuring

Introduction

On 1 October 2009, Eurostat gave its official advice on the methodological treatment of Enemalta debt restructuring. The operation was however neither completed in all details nor public by the time of the advice.

Discussion

In the meeting it was confirmed that the restructuring processes is still not finalised and that there is therefore no full information available about the operation.

- Eurostat requested the Maltese authorities to inform Eurostat when there will be more information available about the forthcoming debt-restructuring of Enemalta. (*Action point 12*). *Deadline: as soon as available*

5.8 Miscellaneous

Privatisation of the ship-repair facilities of Malta shipyards

As a preparation for the meeting, the Maltese Statistical authorities provide Eurostat with information on the privatisation of the ship-repair facilities of Malta shipyards. The background of the issue is the following:

In November 2008, there was a call for proposal for the privatisation of the Ship Repair Facility of Malta Shipyards Ltd. On 3 June 2010, a sale and purchase agreement between the Government of Malta and an Italian company was signed.

The agreements included 2 parts:

1. A deed of emphyteusis
2. Sale of movable assets like plants, machinery and equipment, spare parts, tools raw material, consumables and other inventories.

For the *deed of emphyteusis*, the length of the contract is 30 years. The emphyteusis includes land with relative airspace, quays, wharves, berths, piers and jetties as well as underground tunnels.

The ground rent is 1,66 mn euro per year, which should be paid in advance. After each 5 year period, the rent will increase by 15%. The total rent over 30 years equals around 70 mn euro.

The price of *the sale* amounts to 18 mn euro, out of which 4.58 mn euro is paid at signature of the contract and the rest in eight instalment in the coming years. The buyer bears all risks relating to the assets from the date of the sale.

- For the contract between the Maltese government and an Italian private company regarding the sale and emphyteusis of the Maltese Shipyards facilities, Eurostat currently considers that the sale of the movable assets should be recorded as a sale (recorded as government revenue), for its full value (amounting to 18 mn euro), in 2010, although the amounts will be paid in instalments in future years.

As regards the deed of emphyteusis, Eurostat considers at this stage that it should be recorded as rent for the full duration of the contract. Eurostat asked the Maltese statistical authorities to send to Eurostat the investment plan⁷ of the emphyteusis in order to get a complete picture of the project (this document was not available in the meeting). (**Action point 8**) Deadline: October 2010 notification.

Recording of possible capital injection into Air Malta

Introduction

Air Malta has been running large losses in 2009 (€31 million in its last financial year) and there have been rumours about possible capital injections by government to cover part of the losses in 2010.

Conclusions

- In the meeting the Maltese authorities confirmed that there have been no capital injections into Air Malta in 2009 and that there will be no capital injections in 2010.

Recording of Transport Malta compensation package

Introduction

Eurostat asked about the compensation package (estimated at € 52.4 million) to be paid by Transport Malta to bus owners if they give up their business and their buses and about the possible accounting consequences. It became clear that the package does in fact not involve government and that there will be no impact on government accounts.

Conclusions

- Eurostat took note that the compensation package to bus owners will not impact government accounts.

⁷ The investment plan was sent to Eurostat on 9 August 2010