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**- FINAL FINDINGS -**

**EDP dialogue visit to Spain**

**5-6 February 2007**

**Eurostat EDP dialogue visit to Spain**  
**05 - 06 February 2007**  
**Final findings**

**Executive summary**

Eurostat undertook an EDP dialogue visit to Spain on 5-6 February 2007 as part of its regular visits to Member States and with the more specific aim to analyse the EDP October 2006 notification and the questionnaire related to notification tables, and to follow-up on other issues such as the capital injections undertaken by government into ADIF, as well as the existing Public-Private-Partnership contracts in Spain.

As far as the analysis of the October 2006 EDP notification is concerned, Eurostat examined in detail the tables of the EDP reporting and suggested some changes, especially concerning the further break-down of some adjustment lines and also the renaming of some lines. Also the tables in the "*questionnaire related to EDP tables*" were analysed.

Concerning the capital gains of the Central Bank, it was noticed by Eurostat that a positive adjustment in table 2A was made by Spain for 2005. The Spanish authorities thought that there should also be correction for the holding losses for symmetry reasons. The Spanish authorities considered that the ESA 95 Manual on government deficit and debt does not provide any guidance about the recording of capital losses. Eurostat had not observed that any other Member State would have made a positive adjustment for capital losses, but would however cross-check with all EU Member States in bilateral exchanges if any of them records in a similar way to Spain these amounts.

The Spanish authorities made a presentation of the available statistical tool used to publish the sector classification of units, which is publicly available online. Eurostat pointed out that such a good co-operation sets high best practices standards for the European statistical system.

According to the Spanish authorities, the treatment of the Public Private Partnerships (PPP) projects aligns with the Eurostat rules. Spain is one of the EU countries with the highest number of PPPs. Eurostat asked to receive the contracts of some PPP projects in order to analyse the treatment of PPPs in Spain and reach final conclusions on the issue.

During the meeting, it was also confirmed by the Spanish authorities that there were no contracts of sale and leaseback in Spain.

Regarding the treatment of taxes and social contributions, it was concluded that the regulation 2516/2000 was generally satisfactory applied by Spain.

Some other issues relating to debt assumptions, guarantees, securitization and swaps were further discussed during the meeting. It was noted that these issue are in line with the Eurostat rules.

Concerning military expenditure, the Spanish authorities confirmed that the Eurostat rules are being followed. However, Eurostat asked for some further cross-checking of data to be conducted.

The issue of the capital injection undertaken by the Spanish government into ADIF was discussed in detail. During the meeting, the Spanish authorities explained the modalities of the new Spanish railway structure, including the creation of a new unit called *ADIF* as the owner of all profitable high speed infrastructures. The Spanish authorities explained that they consider it appropriate to record the capital injections as financial transactions, assuming that the State is acting as a private investor (equities to profitable company). Eurostat pointed out, that in order for capital injections to be considered as a financial transaction, the Eurostat rules have to be respected. It was concluded that the issue regarding ADIF is open and that further examination of the documentation is needed by Eurostat to arrive to a final decision on the treatment of this operation.

## **Final findings**

### **Introduction**

In accordance with article 8d of Council Regulation (EC) No 2103/2005 of 12 December 2005, amending Council Regulation (EC) No 3605/93 as regards the quality of statistical data in the context of the excessive deficit procedure, Eurostat carried out an EDP dialogue visit in Spain on 5 – 6 February 2006.

The delegation of Eurostat was headed by Mr. Ascoli, Head of Unit C3 - Public finance. The Directorate General for Economic and Financial Affairs and the European Central Bank (ECB) also participated in the meeting as observers. The Spanish Authorities were represented by the National Institute for Statistics (INE), the Government Audit Office (IGAE) and the Bank of Spain.

Eurostat carried out this EDP Dialogue visit with the aim to analyse the EDP October 2006 notification and the questionnaire related to notification tables, and to follow-up other issues such as the capital injections undertaken by the government into ADIF, as well as the existing Public-Private-Partnership contracts in Spain.

Eurostat introduced the meeting by referring to the new procedural arrangements as indicated in article 8 of the Regulation 3605/93, as amended, and by stating that the Main conclusions and action points from the meeting will be sent within days after the mission to the Spanish authorities for comments. Within weeks, Provisional findings will be sent to the Spanish authorities in draft form for review. Final findings, including possible comments from Spain, will be sent to the EFC and published on the Eurostat web site.

### **1. Follow-up of the October 2006 EDP reporting**

#### *Introduction*

The meeting began with the analysis of the October 2006 notification. The Spanish statistical authorities explained that the 2004 data reported in the October 2006 notification are final and the 2005 data are still provisional; no major changes on the deficit and debt figures are expected for the next April EDP reporting. Some changes will occur mainly due to the upward revision in medical health expenses, which results from better quality source data and not from changes in methodology.

#### **EDP table 2**

#### *Discussion and methodological analysis*

During the meeting, it was discussed whether the working balance appearing in the starting lines of EDP tables 2 is published at national level and/or audited. In addition, the Spanish statistical authorities provided a copy of the budget, at Eurostat's request. The Spanish authorities explained that the working balances as such are not published and therefore are not audited. Nevertheless, as all the elements in the revenues and expenditure are audited, then it

can be inferred that its balance is indirectly audited too. Thus, the working balance of EDP table 2A ("working balance in central government accounts") corresponds to total revenue ("derechos reconocidos") minus total expenditure ("obligaciones reconocidas") adjusted by a third item ("bajas por insolvencias").

As it has been pointed out during previous clarifications exchanged between Eurostat and the Spanish authorities, the line "net borrowing / net lending of other central government bodies" (line "consolidation adjustment and others") in EDP table 2A includes all the public enterprises classified in S.1311 sub-sector (Grupo RTVE, SEITTSA, CDTI, etc).

During the meeting, Eurostat asked further details on the activity of both SEITTSA and CDTI:

- SEITTSA (Sociedad Estatal de Infraestructura de Transporte Terrestre) is a public corporation created in 2005 in order to facilitate the construction of infrastructures. It will have mainly an instrumental role. It has a capacity to contract other enterprises and will finance transport infrastructures, notably roads and railways;
- CDTI is also a public corporation, existing for more than 15 years, and its main aim is to facilitate R&D projects.

Regarding the line "Variation in Treasury accounts and other adjustments", of other adjustments in the EDP table 2A, the Spanish authorities explained that it consists of:

- investment on behalf of the State: 684 million EUR in 2005 and 700 million EUR in 2006;
- expenditure for producing coins;
- advances to the Comunidades Autónomas;
- other adjustments.

At the meeting, it was agreed that the Spanish authorities will break down the content of the adjustment line "Variation in Treasury accounts and other adjustments" from the April 2007 notification onwards, and that the line called "consolidation adjustments" would be relabelled "adjustments", so to better reflect the content of the corrections made under this line.

The Spanish statistical authorities indicated that the compilation of the government deficit involved compiling the whole expenditure and revenue accounts (and compiling the deficit by difference) for the ESA 1995 transmission tables, and not by starting from the working balances of EDP table 2 and carrying out adjustments. Thus the reconciliation of the government deficit (EDP B.9) and the working balances leaves a residual, located within other adjustment of the "variation in Treasury accounts and other adjustments" item.

Eurostat noted a big change in data in the adjustment line "capital gains of the Central bank" from negative values to a positive one in 2005 (248 million Euro).

According to the ESA95 Manual on government deficit and debt, capital gains have to be excluded from the distributed profits of the central bank, for the measurement of the government revenue (and thus of the government deficit, EDP B.9). The accounting treatment adopted by the Spanish statistical authorities takes into account not only holding gains but also holding losses. It implies that a positive adjustment has been made in the EDP table 2 for 2005, reflecting capital losses by the central bank. The Spanish statistical authorities consider that the ESA95 Manual on government deficit and debt does not provide any guidance about the recording of capital losses and therefore does not explicitly preclude a symmetric

treatment to the one for holding gains, and this is what they have applied. They also pointed out that what is relevant is to take into consideration the income that has been generated by the current activity of the CB.

Eurostat noted that whilst reasonable, this amounted to imputing a dividend revenue not distributed (the manual only partitions an observed flow between an income and a financial transaction components), which is recognized in the system only for specific and well determined cases (reinvested earnings for foreign direct investment and retained earnings for mutual fund shares).

Eurostat will cross-check with all EU Member States in bilateral exchanges if any of them records in a similar way to Spain these amounts. Should it be the case that Spain is the only EU Member State which imputed a correction in EDP tables for the capital losses, Spain will be asked to change the reported data in its April 2007 notification. Eurostat noted that the amounts concerned are small and referred only to 2005.

However, Eurostat also agreed to the request of Spain of the need to further discuss this issue, particularly at the level of the Financial Accounts Working Party. The Bank of Spain stated clearly that they are confident in the approach they are using, and that they will prepare a methodological document explaining the issue and the reasoning behind.

The Spanish authorities explained that the other adjustment line "Consolidation adjustments" in EDP table 2B reflects the impact of the prioritisation of data sources. The working balance in table 2B is based on data reported by State governments, including transfers received from other government bodies for the amounts and at the time these State governments perceive their revenue accrue. However, government units paying those transfers (central government mainly) might have a different perception of the amounts and of the time of recording. Differences observed are considered, in Spain, to mainly originate from differences in time of recording and not from other issues (e.g. misclassification of transaction or of counterpart sector).

Eurostat noted that if such is the case, amounts would tend to compensate over time. Thus, Eurostat asked the Spanish authorities to rename this line in the EDP tables 2B, 2C and 2D to "Adjustments for difference in time of recording of source data".

In Spain, local government non financial data are based on samples, for provisional but also for final accounts. The Spanish statistical authorities explained that data reported in EDP table 2C in October each year are obtained through a sample of 3.060 local entities out of 8000. This sample is exhaustive for Diputaciones, Consejos Insulares, Cabildos Insulares, the capitals of the provinces and, finally, for the local entities whose population is over 5.000 inhabitants. These strata represented 90% of the total expenditure of the sub-sector in 2004. For the remaining strata, a one-step sample with a relative error of 5% in the expenditure has been designed.

In EDP table 2D the working balance includes the results of 3 entities as follows:

- SPEE (Servicio público de empleo estatal)
- FOGASA (salary and wages)
- Social security system (pensions)

The Spanish authorities informed Eurostat about a funded private pension scheme that was established by government, for complementing civil servants pension. It is not classified as a social security fund, and at the moment it is very small.

### *Findings and conclusions*

The Spanish authorities were asked to make the following changes in EDP tables 2:

- The adjustment line "Variation in Treasury accounts and other adjustments" in the EDP table 2A to be further broken down from April 2007 notification onwards to:

- investment on behalf of the State;
- expenditure for producing coins;
- advances to the Comunidades Autonomas;
- other adjustments.

- The line "consolidation adjustments and others" in EDP table 2A to be renamed into only "adjustments".

- The adjustment line "consolidation adjustments" in EDP tables 2B, 2C and 2D to be renamed into "adjustments for difference in time of recording of source data".

Eurostat will check the practice of the countries on the interpretation of the rules regarding the capital gains and losses from the Central Bank. If a large majority of Member States is applying the treatment as interpreted by Eurostat, Spain will be asked to change the reported data in its April 2007 notification. A change in the notified data for 2005 is likely to be considered. The Bank of Spain will prepare a methodological paper on their approach on the treatment of the issue. This issue also needs discussion at the level of the FAWG.

### **EDP table 3**

#### *Discussion and methodological analysis*

Concerning EDP table 3, it was noted by Eurostat that the splits of increase / reduction of shares and other equity was provided only for the central government and that no splits of increase / reduction of loans is available. The Spanish authorities noted that the amounts of increase / reduction of shares and other equity are much smaller for the other sub-sectors than for central government, and that they are making an effort for splitting the loan. Eurostat stressed the importance to receive the splits of increase / reduction of shares and other equity and of loans for all the sub-sectors. In the April 2007 notification, the Spanish authorities will deliver the splits of increase / reduction of loans for central government.

The Spanish authorities explained that the line "Net incurrence of other liabilities (F5, F6 and F7)" in EDP tables 3 also includes the statistical discrepancy (difference between the capital and financial accounts), being under the impression that this was a Eurostat preference. On the contrary, Eurostat asked the Spanish authorities to report these amounts separately, under the line "statistical discrepancy".

The Spanish authorities agreed to report separately statistical discrepancies in the April 2007 notification.

The Spanish statistical authorities indicated that the noticeable entries reported under "redemption of debt above/below nominal value" for some years reflected restructuring of

debt operations, where government offered repurchasing older debts, generally at a premium (owing to the high coupon of these instruments and so to offer an attractive option to investors). These operations only involved willing sellers and did not amount to an early redemption of debt with associated penalties. In this context, it is appropriate that these differences do not enter the deficit.

### *Findings and conclusions*

The Spanish authorities were asked to make the following changes in EDP tables 3:

- Spanish authorities to provide the splits of increase / reduction of loans for central government, and to make an effort for the other sub-sectors as well as for the split in shares and other equity in EDP tables 3.
- Statistical discrepancy to be reported separately.

## **2. Delimitation of general government**

### *Introduction*

The Spanish statistical authorities explained the working methods for determining the list of units included inside general government, pointing out, that in some cases, there is a re-classification of entities due to new available information. Only some small reclassifications are expected for the April 2007 notification.

The creation of a new public unit has to be endorsed by the cabinet or by the Parliament, in the case of the State, or by the equivalent regional or local bodies for the remaining General Government sectors. The existing Working Group composed by INE, Bank of Spain and IGAE analyses the sector classification of these units, determining which are the units that according to ESA95 are to be classified inside general government.

### *Discussion and methodological analysis*

At the meeting, the Bank of Spain made a presentation of the available statistical tool used to publish the sector classification of the units. A database (Sectorisation of Institutional Units Database - BDS) is available on line on the web-site of the Bank of Spain, containing more than 10 000 units, of which around 800 are classified in general government (excluding local government). This database covers all the legal units of the Spanish economy and classifies them according to the rules of the ESA95, i.e. on the basis of their economic nature. The database is updated on a monthly basis and can be consulted through various options. The variables shown in this database are the following: sector/sub-sector/agent/institutional grouping where the unit is classified; identity (fiscal) number; name of the unit; date of classification (removal) of the unit in a given sector, as well as other information considered relevant.

Regarding the sector classification of IFCAT (currently in General Government institutional sector), and following the request of the government of Cataluña, the Spanish authorities asked Eurostat for an opinion on the classification of this unit (ex-post consultation), last September. The view of the working group (INE, IGAE, Banco de España) was also sent to Eurostat. Nevertheless some outstanding information demanded by Eurostat (to be prepared by the government of Cataluña) is still pending to be sent.



## *Findings and conclusions*

Eurostat congratulated the Spanish authorities for the excellent work made on the sector classification and acknowledged that an enormous progress has been made through the co-operation between the three organisations, i.e. INE, Bank of Spain and IGAE. Eurostat also pointed out that such a good co-operation sets high best practices standards for the European statistical system. Eurostat found the facility managed by the Bank of Spain as outstanding.

### **3. Private Public Partnerships (PPP) Introduction**

#### *Introduction*

In Spain, about 40 PPP contracts have been concluded between general government and private partners. After the United Kingdom, Spain is most likely the Member State with the highest number of PPPs. During the meeting, the Spanish statistical authorities provided, at the Eurostat request, a document with a list of existing PPPs and with the main features of their analysis.

#### *Discussion and methodological analysis*

The Spanish authorities indicated that the joint working group was regularly sending letters to enquire on PPP operations at sub-national levels, with an obligation for government units to report PPP at least once a year, with descriptions of contractual arrangements, administrative and technical details.

The Spanish statistical authorities indicated that, until now, whenever the partner is public, the PPP has been classified on the balance sheet of government. Besides Madrid Calle 30 - a unit that is already classified inside general government - there are two cases of such PPP with public corporations (with assets on the balance sheet of government): Hospital Universitario in Oviedo and Hospitals in Murcia.

In all the cases where the partner is private, the Spanish statistical authorities reported that it was possible to observe the following:

- the construction risk is always on the side of the private partner. The only exceptions when government might be at risk are exceptional circumstances such as terrorist attacks or natural disasters;
- the demand risk is generally not transferred to the private partner. Although some contract might transfer some of the demand risk, this transfer was generally found insufficient. There was only one case, where the risk was transferred to the private partner;
- the availability risk is always transferred to the private investor and it is usually measured through quality indicators.

It was explained that PPPs in Spain are mainly to be found in the field of health (hospitals) and transport infrastructure (highways). There is also one PPP case for the "Ciudad de la Justicia" in Barcelona and one PPP project "Depuradora de Aguas".

The Spanish statistical authorities indicated that changes in costs (overruns or savings) during the construction phase could not be passed onto government by way of changes in availability fees or changes in services provided - an important feature when assessing the transfer of construction risk. Eurostat also enquired whether the payments by the General Government might fall to zero in case of non-availability of the asset, which is an important criterion for judging on a sufficient transfer of risks. This was confirmed by Spanish statistical authorities.

The Spanish authorities confirmed that the treatment of PPP projects is in line with the Eurostat rules. Eurostat asked the Spanish authorities to provide contracts for the following six PPP projects:

- Autovia Pamplona Logroño
- Estaciones Depuradoras de Aguas
- Hospital de Majadahonda
- one PPP for the hospitals in Valencia
- Adecuación, reforma y conservación Autovia A- 1
- Hospital de Murcia

During the meeting, the PPP modalities of the hospitals in Valencia were discussed, where the State Government seems to be paying to the private partner fixed amounts per citizen for a certain number of years (15 - 25 years). The Spanish authorities explained that this was a specific case of the new hospitals in Valencia, most of which are still in the process of being constructed and will become operational only next year. These hospitals are being constructed by private companies, and only the horizontal services such as the managing of the hospital and the non-medical services are in the hands of the private partner.

INE indicated that in case of complex contracts, the disentangling between a service component, a capital improvement component, a reimbursement component and a cost of capital component seemed difficult to carry out when the PPP is considered as leading to a government asset, and called Eurostat for additional guidance.

The Spanish authorities explained that the PPP "Ciudad de la justicia" in Barcelona includes also parking and apartments for lawyers and will not be used only for public purposes. It is at the moment under construction.

Concerning prisons, the Spanish authorities explained that no PPP are involved and that prisons are the sole responsibility of government. It is a government unit that is building the prisons (classified in the government sector).

### *Findings and conclusions*

Eurostat will further analyze some of the PPP contracts that are to be provided by the Spanish Statistical Authorities together with a copy of the law defining the procurement rules (PPP notably) in Spain, i.e. the "Ley de Contratos de las Administraciones Publicas", which was provided after the meeting.

#### **4. Sale and leaseback operations**

##### *Introduction*

On the basis of the information previously provided to Eurostat by the Spanish statistical authorities, a sale of buildings in Canarias had been tentatively identified as a sale and leaseback undertaken by local government. Prior to the meeting, Eurostat requested to the Spanish Statistical Authorities a list of all the sale and leaseback operations in Spain.

##### *Discussion and methodological analysis*

During the meeting, the Spanish statistical authorities said that in Spain there was no contract of sale and leaseback, contrary to initial indications, and that the operation of "Comunidad Autonoma de Canarias" was treated as a financial leasing, i.e. assets are included on the balance sheet of government. Total investment amounted to 93 million EUR. The contract is being made between a private company and the Comunidad Autonoma de Canarias for 5 years and the price was being fixed at the beginning of the contract.

Eurostat asked the statistical authorities how they monitor the operations of sale and leaseback in Spain. It was explained that the working group sent a letter to sub-national government units asking whether a financial lease contract had been signed. INE should receive a copy of such contracts. INE stressed that it is the responsibility of regions to send the contracts to INE.

Eurostat enquired on the potential impact of new developments on a lease of equipment by Mintra with a private company. The Spanish authorities indicated that an existing lease had simply be transferred from Mintra (the infrastructure builder) to Metro (the operator), which is without immediate impact to the extent that the lease was found to be of an operating lease nature.

##### *Findings and conclusions*

Eurostat took note of the explanations on sale and leaseback operations.

#### **5. Accrual recording of taxes and social contributions**

##### *Introduction*

The Spanish authorities confirmed that there were no changes in recording taxes and social contributions: the method of declarations/assessments is used.

##### *Discussion and methodological analysis*

Eurostat observed that the Spanish authorities do not provide data on stocks of other accounts payable related to total taxes and actual social contributions in table I of the questionnaire related to EDP tables. It was also explained that data on flows are not homogenous, with a break in time-series for the year 1998.

### *Findings and conclusions*

It was agreed that in the table I on taxes and social contributions of the questionnaire related to EDP tables, a footnote will be added marking the break in time-series. Moreover, it was agreed during the meeting that the Spanish statistical authorities will provide data on stocks for taxes and social contributions with the April 2007 notification. The starting point for the stocks to be reported to Eurostat will be the end of 1997.

The Spanish authorities also stated that an additional effort is to be made for harmonizing all the time-series and that actions will be undertaken in that respect. In the next change of the benchmark year, the harmonization of the long series will be undertaken since 1995.

## **6.1 Debt assumptions, debt cancellations and debt write-offs**

### *Introduction*

Eurostat noted that a breakdown of debt cancellation towards third countries in the table IV of the questionnaires related to EDP tables is available only until 2004.

### *Discussion and methodological analysis*

Eurostat asked the Spanish authorities to provide the breakdown of debt cancellation towards third countries in the framework of the Paris Club for the years 2005 and 2006, similarly to what has been made for previous years. In the EDP tables and in the questionnaires related to EDP tables, it is possible to observe that debt cancellations and debt assumptions are those related to cancellations of debt towards third countries (FAD operations) and to the restructuring of railways that led to a debt assumption by government.

Eurostat drew the attention to a big debt cancellation to Nigeria, which was made in the framework of the Paris Club in 2005-2006, and which might lead to significant government expenditure for Spain. The Spanish authorities asserted that Spain is not affected by this debt cancellation.

### *Findings and conclusions*

The Spanish authorities were asked to provide data on the breakdown of debt cancellation towards third countries (Paris Club) for 2005 and 2006 in the table IV of the questionnaire related to EDP tables.

## **6.2 Military equipment expenditure**

### *Introduction*

The Spanish authorities stated that the recording of military equipment follows the Eurostat rules. Amounts are being recorded on a delivery basis from direct sources.

### *Discussion and methodological analysis*

A discussion took place about the significant amounts that are being recorded as advances for the acquisition of military equipment. The Spanish statistical authorities explained that, in some cases, government is providing cash in anticipation to constructors of military equipment and that the stock of receivables is mainly related with the equipment that is being built over many years.

Eurostat noted that the large stock of receivables, about two years of deliveries, implied a significant increase in deliveries in the future.

### *Findings and conclusions*

Eurostat took note of the explanations on the military expenditure. The Spanish authorities were invited to cross-check the above-mentioned amounts.

## **6.3 Capital injections in public corporations, dividends and privatisations: analysis of specific case ADIF**

### *Introduction*

The Spanish authorities provided the business plan of ADIF for the years 2006 - 2025 as requested by Eurostat. The profit and loss accounts and balance sheets of the predecessor of ADIF (GIF) had been also provided, at Eurostat's request, for the years 2004 and 2005.

In the context of the restructuring of the railways, government assumed a large part of RENFE debt in 2004 and the amounts were recorded as follows in national accounts: assumption of the historical debt of RENFE of 3659 million Euro as "other capital transfer" (D99) and debt associated with the conventional railways of 1800 million Euro as "gross fixed capital formation" (P51), for a total impact on government deficit of 5459 million EUR in 2004.

### *Discussion and methodological analysis*

#### Organization of Railway operations

During the meeting, the new Spanish railways organisation was explained. It involves three bodies: RENFE-Operadora as railway operator, a new unit called ADIF as owner of all profitable high speed infrastructures, and the State as owner of all conventional infrastructures and unprofitable high speed links. One of the main goals of this reorganisation is that the new body - ADIF - will be a profitable corporation. As regards RENFE-Operadora, it will be mainly involved in the sale of tickets (and user of the infrastructure railways).

The main objective of ADIF is to:

- build, own and manage new high speed railway infrastructures; and,
- build on behalf of the State, manage and maintain existing railway infrastructure owned by the State.

So ADIF will be responsible for the construction of both the high-speed and the conventional infrastructure (notably on behalf of the State for the state-owned infrastructure). The Spanish authorities explained that the construction itself is not made directly by ADIF, but by private construction enterprises. ADIF will be negotiating conditions with private construction enterprises. These investments "on behalf of the State" are treated as expenditure of government and included in EDP tables (as adjustment lines), and are not going to be profitable.

On the basis of the information provided during the meeting, one of the revenues of ADIF is related with a contract that was signed with the State. In this contract ("Contrato-Programa"), the price has been defined based on the cost of production plus a service (small margin) which was determined by the enterprise and approved by the Cabinet.

RENFE-Operadora and other transporters will be charged per km travelled, depending on speed and on time of travel.

The contract between ADIF and government on the maintenance of conventional lines is global and not per line. It is also important to underline that according to the law, ADIF will be obliged to maintain conventional infrastructure.

The new high speed lines that are not profitable and are built and managed on behalf of the State by ADIF are:

- Santiago - Orense
- Navalmoral - Caceresa
- Calatayud - Soria

From 1997 until now, ADIF received 11 billion EUR from government as capital injections classified as financial transactions. It is foreseen that ADIF will have received from government a total of 14 billion EUR by 2010.

Apart from government injections, ADIF is also receiving funding from the EU for building high speed train links. In total, the financing scheme of ADIF is as follows:

- 14 billion of government financing
- 9 billion from EU funds
- 5 billion borrowing
- 4 billion from selling of land and from profit before amortisation

The total value amounts to 33 billion EUR, of which around 17 billion EUR has already been spent: 5 billion already received from EU funds, 11 billion EUR from government, and 2 billion EUR in borrowing.

#### Accounting treatment

Eurostat said that the construction of the high-speed railway is clearly partially being financed by government with capital injections. Eurostat raised the issue on how those amounts should be recorded. The Spanish authorities pointed out that the State was acting as a private investor (equity to profitable company).

The concern of Eurostat is that the projected long-term rate of profitability seems to be very low - about 1-2 %, and the question is whether a private investor would have invested in

projects with such a small profitability. This rate seemed very low by market standards.

Eurostat also noted that ADIF was expected to continue making losses for many years, and was deemed to turn profitable only in the distant future. Thus, the second concern of Eurostat is what would happen if ADIF would not be profitable in the future and if the government would make a capital injection in order to make it profitable. The issue is also what could happen to the lines that would prove non-profitable in the future.

When analysing the issue, and in order for the capital injections to be considered as financial transactions, the Eurostat rules have to be respected:

- the company must be profitable; and
- government must behave as a private investor.

Moreover Eurostat pointed out that the project is co-financed by the EU. In similar cases in other Member States, the amounts paid by government had been considered as government expenditures and not as acquisition of shares.

The Spanish authorities claimed that according to the ESA 95, ADIF should be classified outside government. They pointed out that during the Eurostat EDP mission to Spain in 2004, it had been stated that the nature of the capital injections was to be re-thought if ADIF was not profitable. According to the business plan, ADIF is showing profitability and the Spanish Authorities objected to the Eurostat reasoning of too low profitability. It was also stressed that ADIF has little debt, i.e. the financing of the railway infrastructure investment was already (mainly) in government debt.

Eurostat pointed out that the ESA 95 rules have to be respected, and that the EDP mission to Spain in 2004 had concluded that the reorganisation of the railway system needed to be closely monitored, and no final conclusion had been made at that time.

Eurostat asked to receive the above referred contract programme between the State and ADIF, which will be closely analysed. Eurostat also asked to receive information on the amounts that RENFE pays to government as "canones".

There is also a need for additional information on the Business plan provided by Spanish authorities on the relationship between the various (three) sections of the Business plan: high speed lines, maintenance contract with the State, other own activities. The various business lines corresponding to these sections seemed not completely clear during the meeting, and it was important that any cross-subsidization between those sections be properly reflected. The Spanish authorities explained that the Business plan had been prepared by ADIF.

The Spanish authorities will provide to Eurostat all the additional documentation required. The Spanish authorities proposed to Eurostat to meet the financial director of ADIF, if further explanations were needed. Eurostat took note of the proposal made.

### *Findings and conclusions*

Eurostat concluded that the issue regarding ADIF is open and at this stage no conclusion can be made pending further and thorough investigation of the issue.

Eurostat acknowledged the transparent behaviour of the Spanish authorities, which provided to Eurostat all the documentation requested for analysing the reorganisation of the railway system. Eurostat will closely examine the documentation provided by the Spanish authorities in order to reach some conclusions on the treatment of the operation. This conclusion will be communicated to the Spanish authorities by means of a letter, setting out the Eurostat's opinion and a calendar for implementing it in the framework of the EDP notifications

The possibility of organising a further meeting on this subject with the Financial Director of ADIF and the other Spanish statistical authorities will be also assessed.

## **6.4 Guarantees (ICO)**

### *Introduction and discussion and methodological analysis*

The discussion concerned the accounting treatment of guarantee calls on a loan to Argentina. The loan had been previously acquired from the International Monetary Fund by ICO (Official Credit Institute, included in the Financial Institutions Sector) but with the guarantee of the State. As the first maturity of the loan had not been paid in 2004, ICO called on the State's guarantee.

As a consequence, an amount has been recorded in the 2004 accounts as a capital transfer from the State to the Rest-of-the-world sector, with a matching entry as redemption of loan (and interest) from the rest of the World to the ICO. A similar recording was reported in 2005.

The Spanish authorities explained that it had just been announced, some days before this EDP dialogue visit, that Argentina will pay part or the entire loan. The recovered amount will be recorded as a capital transfer from the RoW sector to the State.

### *Findings and conclusions*

Eurostat took note of the explanations on the guarantees provided by the Spanish authorities.

## **6.5 EU flows**

### *Introduction and discussion and methodological analysis*

The Spanish authorities explained that EU flows transit through an account at the Bank of Spain with no impact on the budget. This bank account is deemed to be owned by the Rest of the World, in national accounts. The only impact on the budget is when the government is the final beneficiary.

These flows are said to be recorded according to Eurostat rules in the public accounts for the State government. For local government, amounts are being recorded on a cash basis.

The Spanish statistical authorities stated that it is not practical to ask to all the local communities an exact reporting of these amounts, and that the time differences will neutralize over time (two to three years).



Regarding the EDP related questionnaire table 2b, it was explained that data are available in the public accounts on an accrual basis, from 2004 onwards, when the Eurostat decision on the treatment of transfers from the EU budget was taken. At that time, the public accounting was adjusted in line with the Eurostat decision.

#### *Findings and conclusions*

Eurostat took note that the treatment of transfers from the EU budget is in line with the Eurostat decision from 2004 onwards.

### **6.6 Carbon trading rights**

#### *Introduction*

Eurostat informed the Spanish authorities about the ongoing discussion on the carbon trading rights at the FAWG.

#### *Discussion and methodological analysis*

The Spanish authorities explained that in 2006, the State had paid an amount of 100 million EUR and 60 million EUR in 2005. This expenditure has been recorded as Capital transfer (D.9), increasing the government deficit. These acquisitions are related with quotas acquired by the Spanish government, some from a fund created by the World Bank, and some from other international institutions. Spain decided to acquire such quotas in order to have a right to pollute more.

#### *Findings and conclusions*

The accounting treatment of such rights needs to be further analysed by Eurostat.

### **6.7 Other (swaps, securitisation, UMTS)**

#### *Introduction and discussion and methodological analysis*

The Spanish authorities confirmed there are no securitisation operations. Eurostat noted that the adjustment for swaps were systematically positive in Spain as well as in the majority of Member States.

#### *Findings and conclusions*

Eurostat took note that there are not securitisation operations in Spain and that the adjustments for swaps are systematically positive.