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**Subject: Classification of entities guidance request
Public Utility Corporation (KEPA) of the Municipality of Veroia**

Reference: Your letter F1-24 of 15/01/2016

Dear Ms. Stavropoulou,

Thank you for your letter requesting Eurostat's opinion on the sector classification of the Public Utility Corporation (KEPA) of the Municipality of Veroia. In accordance to Council Regulation (EC) No 479/2009 article 10, paragraph 1, after examining your request, please find below Eurostat's view on the sectorisation of the above-mentioned unit in the light of ESA 2010.

1. THE ACCOUNTING ISSUE FOR WHICH A CLARIFICATION IS REQUESTED

The issue to be analysed is the sector classification of the Public Utility Corporation (KEPA) of the Municipality of Veroia, a municipal entity whose main purpose is the organisation and the management of cultural activities.

Together with the request for advice, ELSTAT has provided a note with its analysis on this case concluding that the entity should be classified in the government sector in the framework of ESA 2010.

2. METHODOLOGICAL ANALYSIS

2.1. Accounting provisions

Institutional units and groupings of units are defined in ESA 2010 chapter 2. The market/non-market delineation and the market/non-market test are defined in ESA 2010 chapters 3 and 20 (20.19-20.31).

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2.2. Description of the case

The Public Utility Corporation (KEPA) of the Municipality of Veroia is a legal entity of private law whose main aim is the organisation of the cultural life at municipal level. This entails, among others, the organisation of different activities such as concerts, exhibitions, festivals, training activities related to all forms of art (by running conservatory, dance school, art school, etc.), the establishment and operation of libraries, galleries, museums, the organisation of musical and dance groups, activities intended for the youth, etc.

The entity was established in 2010 by merging some pre-existing municipal public utilities corporations (Government Gazette No 1574/B/27-0-2011). The operation of this public utility corporation is governed by the provisions of the following laws:

- Law 3463/2006 (Code of Municipalities and Communes), which sets the framework for municipal public utilities corporations
- Decision No 43254/2007 of the Deputy Minister of Interior

According to Law 3463/2006, setting the general framework for public utilities corporations, the Public Utility Corporation (KEPA) of the Municipality of Veroia is managed by a Board of Directors, which is appointed by the Municipal Council and consists of 11 (or 12) members, as follows:

- Seven elected representatives of the Municipality;
- One representative of the Municipal Community of Veroia;
- Two residents or people registered in the Municipality;
- One representative of a social institution of the region;
- One representative of the employees (if the corporation employs more than 20 employees).

Also, in accordance with Article 256 of the law 3463/2006, the following decisions of the Board of Directors of the corporation need the approval of the municipal council:

- a) the adoption of the budget, the balance sheet and the annual report;
- b) the purchase or sale of property or the creation of a right in rem;
- c) the net profit sharing or making of investments;
- d) the increase of the capital of the corporation;
- e) the merge or the termination of the corporation;
- f) the raising of loans

2.3. Eurostat's analysis

a) Institutional unit

The municipal council has to approve the purchase and sale of property, all investments and borrowing undertaken by the entity. It is therefore constrained in the operations concerning its assets and liabilities.

Following the provisions in ESA 2010 2.12, it is concluded that the Public Utility Corporation (KEPA) of the Municipality of Veroia has no autonomy of decision. It is therefore concluded that it is not an institutional unit and that it should be classified in the same sector as the unit that controls it.

In addition, its Board of Directors has a majority of members that are representatives of the Municipality. This reinforces the argument that the entity has no independence of action and should be allocated to the sector of its controlling body.

b) Control

The Board of Directors of the entity is appointed by the Municipal Council, which in addition approves the budget, the accounts, the merge or the termination of the corporation, profit sharing and borrowing.

Following ESA 20.309, it is concluded that the Public Utility Corporation (KEPA) of the Municipality of Veroia is controlled by the Municipality (local government sector).

c) Market/ non-market nature

Following ESA 2010 20.29, “*to be a market producer a public unit shall cover at least 50% of its costs by its sales over a sustained multi-year period*”.

The sales to production cost ratio calculated by ELSTAT for the Public Utility Corporation (KEPA) of the Municipality of Veroia is well below 50% for the period 2012-2014. Therefore, the entity is a non-market producer.

3. CONCLUSION

- The Public Utility Corporation (KEPA) of the Municipality of Veroia does not have autonomy of decision and, therefore, cannot be considered as an institutional unit. Following ESA 2010 rules, it should be classified in the same sector of the unit that controls it.
- For statistical purposes, the entity is considered to be controlled by the Municipality of Veroia, which is part of the local government sector.

Based on all the elements above, Eurostat considers that the Public Utility Corporation (KEPA) of the Municipality of Veroia should be classified in the general government sector following ESA 2010 rules. The view of Eurostat is in agreement with the conclusion of ELSTAT's letter and applies also to all other Public Utility Corporations based on the same legal framework as the case analyzed.

Notwithstanding the above, even if the entity would be considered an institutional unit, the fact that it is a non-market producer controlled by the local government would point in any case to the classification of the entity in the local government sector.

4. PROCEDURE

This view of Eurostat is based on the information provided by the Greek authorities. If this information turns out to be incomplete, or the implementation of the operation differs in some way from the information currently available and the assumptions made above, Eurostat reserves the right to reconsider its view.

In this context, we would like to remind you that Eurostat is committed to adopt a fully transparent framework for its decisions on debt and deficit matters in line with Council Regulation 479/2009 and the note on ex-ante advice. Eurostat therefore publishes all official methodological advice (ex-ante and ex-post) given to Member States on its website. In case you have objections to the publication of this specific case, we would appreciate if you would let Eurostat know *before 5 April 2016*.

Yours sincerely,

(e-Signed)

Eduardo Barredo Capelot
Director