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EUROSTAT

Directorate D: Government Finance Statistics (GFS) and quality
Unit D-2: Statistics for Excessive Deficit Procedure I

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FINAL FINDINGS

EDP dialogue visit to Denmark

19-20 September 2016

Executive summary

Eurostat undertook an EDP dialogue visit to Denmark on 19-20 September 2016.

The main objectives of this EDP dialogue visit were (1) to review institutional responsibilities in the field of government finance statistics (GFS) including EDP reporting and to discuss the revision policy for national accounts and GFS, (2) to analyse and clarify technical issues relating to the provisional EDP data provided in the context of the 2016 October notification, (3) to clarify aspects related to the practical implementation of the market-non-market test as well as on the sector classification of some specific units, (4) to discuss the recording of different taxes and the estimation of taxes unlikely to be collected, as well as (5) to clarify the recording of specific government transactions such as capital injections into public corporations, dividends and super-dividends as well as the classification of Private-Public-Partnerships (PPP).

Eurostat reviewed the **institutional responsibilities** with respect to the reporting of data under government finance statistics and EDP. Eurostat briefly discussed with the Danish statistical authorities the division of responsibilities for the compilation of EDP statistics and government accounts and the developments since the latest EDP dialogue visit, which took place on 24-25 of September 2014. As far as the split of responsibilities is concerned, there have been no changes compared to the previous EDP visits: in Denmark, the national accounts for the general government sector, both financial and non-financial (annual and quarterly) are compiled by Statistics Denmark (SD).

The EDP tables and the EDP questionnaire are all compiled by SD for the actual data and by the Ministry of Finance (MoF) for the planned data. The National Central Bank (NCB) is not responsible for any of the EDP tables, but provides some of the source data for the financial accounts.

The existence of several formal agreements between the institutions involved in the compilation of EDP statistics was also shortly discussed. There are Memoranda of Understanding signed between SD and MoF, SD and the Danish National Audit Office as well as between SD and Moderniseringsstyrelsen, the Danish Agency responsible for the central government book-keeping. There is an on-going work in order to finalise a Memorandum of Understanding with the NCB until the end of the year. SD agreed to provide to Eurostat a version of this agreement when available.

Eurostat discussed with the Danish statistical authorities the **revision policy** for national accounts and some other aspects related to the implementation of **new data sources and methods**. SD explained that **new data sources** were implemented mainly on interest payments and trade credits for local government. The collection of data for interest payments for swaps, as well as for trade credits for local government, has become part of the additional information to the annual accounts that the local governments is reporting to the Ministry of the Interior. Eurostat welcomed these new developments which significantly improve data availability for local government. Regarding the **revision policy**, Eurostat extensively discussed with SD the current revision policy as well as

possible changes to the policy. During the discussions it was agreed that it is of major importance to keep consistency between time series and between different sets of data, nevertheless it is also essential to provide correct EDP data and to implement important corrections of data also outside the routine revisions. SD also presented a new proposal on possible changes in the current revision policy which should address problematic aspects related to the differences in the revision timetable between the national and European revision policy. Eurostat welcomed the new proposal which represents an important step in ensuring more consistency between the EDP and GFS data published by Eurostat.

As a **follow-up of the EDP dialogue visit** of 24–25 September 2014, Eurostat welcomed the implementation of all action points from the previous EDP dialogue visit and further discussed the state-of-play of the action points having a continuous deadline implementation.

Regarding the **analysis of EDP provisional data for the October 2016** EDP reporting, the discussions focussed on concrete questions about the figures provided. It was agreed that all the technical changes discussed during the meeting will be implemented in the final version of the October 2016 EDP tables and in the Questionnaires related to EDP tables. Regarding statistical discrepancies, Eurostat appreciated the progress and the reduction of statistical discrepancies in EDP table 3 due to access to new data sources.

The discussions on methodological issues focussed mainly on the delimitation of the government sector, the implementation of the accrual principle, as well as on the recording of specific government transactions.

Concerning the **delimitation of general government sector**, Eurostat discussed the state of play of the implementation of the new Manual on Government Deficit and Debt, changes in sector classification since the September 2014 EDP visit as well as some aspects on the practical implementation of the market/non-market test such as depreciation of assets in general government and negative net interest charges.

Particular attention was also given to the analysis of the government controlled units classified outside general government, notably to some individual entities having results near or under the 50% threshold for the market-non-market test.

In addition, the discussions concentrated on the sector classification of specific units such as the Danish central stockholding entity (FDO) and Metroselskabet. In the light of the clarifications provided during the meeting, Eurostat and SD agreed that both FDO and Metroselskabet could remain classified in the non-financial corporations sector.

Eurostat and the Danish statistical authorities reviewed the **implementation of the accrual principle**. Extensive discussions took place on the recording and estimation of taxes unlikely to be paid and notably on the extraordinary amount of write-offs or depreciation of arrears recorded between 2013 and 2015 of 18 bill DKK. Additional discussions clarified the recording of a possible refunding of land taxes as well as of a possible recording of holiday allowances as a result of a new holiday scheme. In

addition, Eurostat thanked SD for the progress done in relation with the collection of information on interest on swaps for local government.

With regard to the **recording of specific government transactions**, the discussions focused on capital injections into public corporations as well as on the capital injection test for local government corporations. It was agreed that SD will investigate some specific equity injections in order to confirm that these operations are financial transactions.

Eurostat recommended that the PPP contracts related to the construction of the Kalvebod Brygge project should be reanalysed taking into account the new provisions of the MGDD as well as the information included in the technical annexes of the contract.

Eurostat also further discussed with the Danish statistical authorities other topics such as dividends paid by public corporations to government, the super-dividend test as well as the compliance with the Directive 2011/85 on national budgetary frameworks, and in particular the methodological reconciliation table.

The meeting was considered very constructive and Eurostat welcomed the explanations provided by the Danish statistical authorities. Eurostat also thanked the Danish statistical authorities for the documentation provided prior to the dialogue visit.

FINAL FINDINGS

Background

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, Eurostat carried out an EDP standard dialogue visit to Denmark on 19-20 September 2016.

The delegation of Eurostat was headed by Ms Lena Frej Ohlsson, Head of Unit D-2 Excessive Deficit Procedure (EDP) I. Eurostat was also represented by Mr Luca Ascoli, Ms Camelia Jüttner and Ms Corina Niculet. One representative of the Directorate General for Economic and Financial Affairs (DG ECFIN) also participated in the meeting as observer. The Danish statistical authorities were represented by Statistics Denmark (SD), the Ministry of Finance (MoF), the National Central Bank and the Agency for Modernisation of Public Administration (Moderniseringsstyrelsen).

The previous Eurostat EDP dialogue visit to Denmark took place on 24-25 September 2014.

Eurostat carried out this EDP standard dialogue visit in order to review the implementation of the ESA2010 methodology and to ensure that provisions of the Eurostat Manual on Government Deficit and Debt and Eurostat decisions are duly implemented in the Danish EDP and Government Finance Statistics (GFS) data.

The main objectives of this EDP dialogue visit were (1) to review institutional responsibilities in the field of government finance statistics (GFS) including EDP reporting and to discuss the revision policy for national accounts and GFS, (2) to analyse and clarify technical issues relating to the provisional EDP data provided in the context of the 2016 October notification, (3) to clarify aspects related to the practical implementation of the market-non-market test as well as on the sector classification of some specific units, (4) to discuss the recording of different taxes and the estimation of taxes unlikely to be collected, as well as (5) to clarify the recording of specific government transactions such as capital injections into public corporations, dividends and super-dividends as well as the classification of Private-Public-Partnerships (PPP).

In relation to procedural arrangements, Eurostat explained the procedure, in accordance with article 13 of Regulation No 479/2009, indicating that within days the main conclusions and action points would be sent for comments to the Danish statistical authorities. Within months, 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.

Eurostat appreciated the quality of the information provided by the Danish statistical authorities prior to the visit. Eurostat also thanked the Danish statistical authorities for

the excellent co-operation during the meeting and considered that the discussions were transparent and very constructive.

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

In Denmark, the national accounts for the general government sector, both financial and non-financial (annual and quarterly) are compiled by Statistics Denmark (SD). The EDP tables and EDP questionnaire are all compiled by SD for the actual data and by the Ministry of Finance (MoF) for the planned data. The supplementary tables for the financial crisis are compiled by SD in cooperation with the MoF.

There are several cooperation agreements signed between SD and other institutions involved in the EDP compilation. Since 2014, there is a signed Memorandum of Understanding between SD and MoF related to EDP statistics. This co-operation agreement defines the area of responsibility of each of the two institutions and ensures high quality and reliability in the submission of EDP data. Additionally, there is also a cooperation agreement signed with the Danish National Audit Office which stipulates closer cooperation on quality issues and enhancement of the transparency of the accounts for public institutions as well as one with Moderniseringsstyrelsen, the Danish Agency responsible for the central government book-keeping.

Discussions and methodological analysis

Statistics Denmark confirmed during the discussions that there have been no changes in the institutional responsibilities for the compilation of EDP deficit and debt data and EDP tables compared to the last 2014 EDP dialogue visit or as regards the information already provided in the EDP Inventory. This is also the case for other aspects such as the quality management framework and the audit and internal control arrangements.

Eurostat asked during the discussion whether a cooperation agreement exists also with the National Central Bank (NCB). SD explained that there are several areas of cooperation with the NCB such as micro data on health or business registers and that there is an on-going work in order to finalise a Memorandum of Understanding with the NCB until the end of the year. SD agreed to provide to Eurostat a version of this agreement when available.

During the discussions, Eurostat recalled that upstream issues have become an integrated part of the EDP dialogue visits. In this context, Eurostat requested more detailed information on the possible risks due to missing data flows or due to the use of non-harmonized public accounting systems by entities at the various government levels. SD stated that there is a well-functioning flow of data between the upstream providers, and that there are no problematic aspects in this respect. Regarding possible risks indicated

by the use of non-harmonized public accounting systems by entities at the various government levels, SD confirmed that there are no such risks. There is a standardised public accounting system, nevertheless with different standards of reporting between local and central government. SD also explained that, at the local government level, the information on some specific transactions is less detailed and sometimes information is available just at group unit level.

Findings and conclusions

Action point 1:

Eurostat welcomed the forthcoming signature of a Memorandum of Understanding (MoU) between Statistics Denmark and the National Central Bank at the end of 2016. Statistics Denmark agreed to provide to Eurostat a version of the sign cooperation agreement when available.

1.2. Data sources and revision policy in the context of ESA 2010 implementation

1.2.1. EDP Inventory

Statistics Denmark has provided an up-dated version of the EDP Inventory, including an extensive description of EDP processes, sources and compilation methods. The EDP Inventory was published on Eurostat's website at the end of 2015.

1.2.2. Changes in data sources

Introduction

The EDP Inventory includes an extensive description of the data sources used by each sub-sector.

Nevertheless, since the last EDP visit in 2014, SD is using new data sources for the compilation of GFS and EDP data, notably on interest payments for swaps for local government as well as for trade credits for local government.

The new data on interest payments for swaps for local government have been implemented in the 2015 November version of the national accounts and in the April 2016 EDP Notification. The new data have been based on a survey that Statistics Denmark sent to all the municipalities and regions. From 2016, the reporting of interest payments for swaps has become part of the additional information to the annual accounts reported by the local governments to the Ministry of the Interior.

Additionally, since the April 2016 notification, new data on trade credits for local government is available for the period 2012-2015. The data on trade credits for local government is based on the data acquired by the use of a questionnaire, sent by SD to all municipalities and regions. From 2017 onwards, the reporting of trade credits for local

government will also become part of the additional information to the annual accounts to be reported to the Ministry of the Interior by the local government entities.

Discussions and methodological analysis

Eurostat welcomed the new developments in acquiring new data sources for interest payments and trade credits for local government. In this context, Eurostat asked whether other new data source improvements were foreseen for the future. SD explained that for the moment there are no further developments foreseen. Eurostat asked also about the procedure of updating the bridge table¹ and how often this table is updated. SD explained that the bridge table is rather stable and updates are done just when new codes are introduced.

1.2.3. Revision policy

Introduction

The Danish revision process for annual non-financial national accounts data is carried out three times every year: in March, June and November. The revision and the national Danish publication policy creates problems of consistency for the Eurostat data and the EU aggregates, due to the fact that only in November of every year, quarterly and annual data for Danish national accounts, including GDP, are subject to a deep revision and not in October (at the time of the EDP notifications), as it is the case for the other EU Member States. Additionally, the EDP data published by Eurostat at the end of October as a result of the October notification process is often revised at the beginning of November by the Danish Statistical Authorities. This problematic aspect of the revision policy has been discussed several times with SD in order to find possible ways out to adjust the timetable between the national and European revision calendars in order to ensure consistency in the data published. Additionally, in the EDP reporting, the revisions or corrections occurring between the April and October EDP notifications are only partly, i.e. the revisions implemented in the June version, taken into account in the Danish national publication only in November of the year N and therefore implemented just for the April notification of the year n+2 which again creates delays in implementing correction of the data published by Eurostat.

Discussions and methodological analysis

In the framework of the documentation provided prior to the September 2016 EDP visit, SD sent to Eurostat a note on the current revision policy as well as on possible changes of the current policy in order to address the problematic aspects related to the differences in revision timetable between the national and European revision policy. SD explained that the main principle of the current revision policy of the Danish national accounts is based on consistency. SD prioritises consistency between National Accounts (NA),

¹ Depending on the specificity of each country's business accounting, national accountants may apply certain 'bridge tables' that serve to convert business accounting indicators into national accounts aggregates.

Government Finance (GFS) and Balance of Payments (BoP) statistics which implies that when quarterly or yearly data is published, the national accounts statistics should be consistent between GFS and BoP taking into account updated primary statistics of Statistics Denmark and of the Danish National Central Bank. In particular, the GFS and BoP statistics are seen as fully integrated parts of the Danish national accounts system. This is well reflected in Statistics Denmark's publication calendar. The publishing of the GFS and BoP statistics always precedes the publishing of national accounts data, normally with a few weeks delay, which is nevertheless timely enough to ensure the correct integration of the GFS and BoP data into the national accounts. Additionally, SD prioritizes the provision of consistent national accounts time series at detailed level. This implies that systematic errors, potentially affecting the long time series, which at the aggregated level are insignificant, are not corrected for the years not open to revisions. SD underlined during the discussions that due to the fact that major revisions are very resource demanding, such minor corrections are implemented as part of the next major revision. In this context, Eurostat asked about the timing of major revisions. SD explained that major revisions normally occur in an interval of 7-8 years. Nevertheless, occasional so-called "data revisions" could take place in order to include significant new information or to correct significant identified errors. Eurostat asked additional questions on what exactly is meant with significant versus insignificant corrections and whether SD has established materiality thresholds for deciding what is considered a minor and respectively a major correction. SD explained that currently there are no such thresholds established in order to distinguish between minor and major corrections. Eurostat also pointed out that the 7-8 years' time lag is very long and due to the accumulation of issues to be revised, is susceptible to errors. Such a long interval in the implementation of revisions requires a very good coordination and attention from the part of the Statistical Authorities in order not to overlook the multitude of accumulated minor corrections. Therefore, Eurostat asked whether it would not be better to reduce this time break to 4-5 years. This would allow implementing faster the corrections due to methodological changes and/or to detection of errors. Therefore, Eurostat invited the Danish statistical authorities to analyse whether the routine (major) revisions could in the future be implemented more frequently than is currently the case. Additionally, Eurostat asked about the Danish practice in case that a major error or a significant methodological issue occurs and refers to a year which is already closed for routine revisions. SD explained that in this exceptional case they try to implement the corrections despite the fact that the years are closed for revisions. In this context, Eurostat pointed out, that indeed, it is of major importance to keep consistency between time series and between different sets of data, but nevertheless it is also essential to provide correct EDP data. Therefore in case of errors in EDP data, these should be corrected despite some constraints imposed by the consistency principles. Eurostat highlighted that it is preferable to have a temporary inconsistency in the data than to report incorrect EDP data. Eurostat mentioned that according to the replies of the Member States to the questionnaire on revisions, it seems that most of the countries agreed that EDP and GFS data should be consistent, but not necessarily with national accounts data. Eurostat stressed that EDP data has, due to its administrative use, a different status and it is used for the excessive deficit procedure.

Therefore, in order to fulfil this objective, data should and need to be corrected also outside the national account framework.

Furthermore, Eurostat and SD discussed the routine revision practices. The yearly routine revisions of the Danish national accounts take place in connection with the November version of the national accounts. As part of the November version, the year T-3 is finalized and is therefore not open anymore to further changes until the next major revision of the national accounts. In addition to the T-3 data, also T-1 and T-2 data are published. After their publication, these versions are not revised until the following November, one year later. In November, the version of the T-1 data is preceded by two preliminary versions of data in March and in June. The GNI and EDP reporting regarding T-1 is based on the June version, while the reporting of earlier years in both cases relies on the November version of the previous year. Following the November version of the yearly national accounts, the quarterly data and the sector accounts data are revised and published with 2-3 weeks delay.

Eurostat pointed out during the discussions that, according to the conclusions of the expert meeting on revision policy who reported to the DMES task force on benchmark revisions, it is recommended that the open years for routine revisions in national accounts should concern at least 4 years (October T4) and not just three years. SD replied that the Danish Statistical Authorities are actively involved in two task forces, one on major revisions (DMES) and the other on routine revisions (CMFB) and supports the concept of a harmonized European revision policy. Nevertheless, SD is waiting for the reports concluding the results of these two task force meetings. When these conclusions will be available, SD will try to take into account these recommendations and to align to them. Nevertheless, SD highlighted that they already started to elaborate and propose some new changes in the current revision policy. Eurostat welcomed the new proposal on the future revision policy which was sent by SD prior to the mission. Statistics Denmark acknowledged that the November version as a pivotal version in the revision calendar is not in line with the recommendations of the CMFB. Additionally, the current Danish revision policy does not align to the need for EDP and GNI reporting which should be based on up-to-date versions as much as possible. Therefore, Statistics Denmark and the National Central Bank have developed during 2016 a joint proposal, based on the CMFB recommendations. The joint proposal follows the subsequent schedule:

March (end-of) Preliminary version T-1

July (beginning) Preliminary version T-1

Preliminary version T-2

Final version T-3

Furthermore, the proposal recommends that the July version of T-1 and T-2 will be updated in September, primarily with new information on foreign investment income.

Eurostat appreciated the improvements of the new proposals and notably the fact that this proposal will ensure consistency between the EDP and GFS data published by Eurostat at the end of October and the national accounts data published by SD at the beginning of November. SD confirmed that, indeed, the November national publication of the data for T-1 will be in line with the EDP and GFS October data published by Eurostat. Additionally, the national Press Release will be advanced from November to July. This advancement will allow making a compromise between the quality and timeliness aspects. Eurostat asked additionally whether this new proposal will allow updating in March also the data for T-2. SD explained that this will not be possible.

SD also added that this new proposal was considered as satisfactory by the Ministry of Finance, the main user of these data as well as by other professional users. SD mentioned that the needs of the Danish national users must be taken into consideration while elaborating these proposals. Therefore, the decision on the implementation of this proposal will be taken on the basis of a feasibility study which will try to analyze all the necessary deliverables in the production processes of the different macro-economic statistics which, essentially, constitute the national accounts system. In this context, Eurostat asked more details on when the implementation of this new proposal is foreseen. SD answered that they would like to take several aspects into consideration before implementing this new proposal. It was concluded that SD will send on a regular basis reports to Eurostat on the state of play of the project, targeting 2019 as a possible starting point for its implementation.

Findings and conclusions

Action point 2:

Eurostat welcomed the ongoing changes to the revision policy in Denmark and stressed the importance of providing to Eurostat as updated and correct EDP data as possible for both the April and October EDP notifications, also taking into account the outcome of the recent EDP revision expert group and revision task-force meetings. *Deadline: progress reports in April and October 2017.*

Action point 3:

Eurostat invited the Danish statistical authorities to analyse whether the routine (major) revisions could in the future be implemented more frequently than is currently the case, to be in line with the outcome of the DMES revision task-force.

2. Follow up of the previous EDP dialogue visit of 24-25 September 2014

The majority of the action points agreed during the 2014 September EDP dialogue visit have been implemented by the Danish statistical authorities. Due to the fact that several action points had “continuous” deadlines or implied work in progress, Eurostat discussed with SD the state-of-play of their implementation.

Action point 12

Eurostat asked further details on the progress regarding action point 12 of the September 2014 EDP visit, notably on the inclusion of trade credits for local government in EDP table 4.² Prior to the mission, SD sent a note on the status-quo of the implementation of this action point. SD explained that information on trade credits is not available separately in the accounts of municipalities and regions, but is reported as part of “Other accounts payable/receivable” (F89). Therefore the data on trade credits is included in the financial accounts of the units under item F8, without any split between the instruments F81 (trade credits) and F89 (Other accounts payable/receivable). Due to this unavailability of detailed data, a survey was sent by SD to all the municipalities and regions in Denmark in order to obtain separate information on trade credits. As a result of this survey, data on local government trade credits was collected for the years 2014 and 2015. After preliminary quality checks, SD estimated the amount of local government trade credits to 6.2 billion DKK for 2014 and 15.5 billion DKK for 2015. Due to the setup of the data systems in many municipalities, data for the previous years could not be provided. Nevertheless, in order to provide the data as requested in the framework of the April 2016 Notification, SD introduced a data break in 2012. For the years 2012 and 2013, SD estimated the amounts based on the development in trade credits for S.1311 and based on the data for 2014. Additionally, Eurostat asked more details about the method used to estimate the amounts of trade credits for the April notification. SD explained that the estimation done for April is derived from the central governmental data on trade credits from the previous year. Nevertheless, the method used is not very elaborated, therefore SD is open to improve it in case Eurostat has some proposals with best practices from other Member States. Nevertheless, SD also pointed out that with the regular data collection of the Ministry of Social Affairs and Interior starting in 2017, data on trade credits will be already available before the April notification, so that from 2017 onwards, there will be no need to estimate these amounts anymore due to availability of data.

Eurostat welcomed the progress done and asked whether SD envisages improving in the future some aspects related to the quality of the data. SD explained that indeed there are some aspects which could be improved in the future, notably the fact that many of the municipalities and regions have been unable to provide counterpart information on the transactions incurred. Due to this lack of information, the data on trade credits for local government is only partly consolidated, which means that there is a potential overestimation of the amounts of trade credits recorded. Additionally, SD highlighted also the fact that it was a challenge to explain to all the local government units what exactly should be included under trade credits, so it could be that some municipalities included here also data which relate to late payments of taxes or salaries, amounts which should not be included among trade credits. Therefore, for the 2016 data collection -

² The discussion related to action point 12 of the September 2014 EDP visit: "SD will continue the work on improvement of data sources in order to ensure the inclusion in EDP table 4 of trade credits for local government". *Deadline: progress report April 2015 notification, inclusion of data October 2015 notification.*

which refer to the year 2015- SD stressed that additional explanations will be provided to the local municipalities in order not to include tax or salary related data within the amounts of trade credits. Once this aspect is clarified with the local entities, SD expects that the 2016 data collection, as well as the other future data deliveries, will improve. SD reiterates that, from 2017 onwards, these data will be included by the Ministry of Social Affairs and Interior in a special but regular collection of data.

Eurostat welcomed the efforts undertaken by SD in order to improve the data quality on trade credits at the local level and stressed that indeed these future steps are required in order to limit the overestimation of local government trade credits due to non-consolidation as well as due to the potential inclusion of some amounts related to late payment of taxes or salaries. Eurostat asked whether these shortcomings in data quality are restricted to local government. SD confirmed that data on trade credits at central government level is consolidated and do not include amounts which do not relate to trade credits.

Action point 13

Eurostat continued the discussion with action point 13 from the September 2014 EDP visit on possible cases of factoring without recourse³. Prior to the mission, SD sent a note regarding the implementation of this action point. SD pointed out that the Agency for Modernization as well as the Ministry of Finance confirmed that there are no cases of factoring without recourse at central government level. As regards the local municipalities and regions, cases of factoring without recourse could occur, but it is difficult to identify them, as the information on change of counterpart is generally not automatically registered in the data systems. SD explained that in order to detect such cases, they tried to involve also the National Central Bank in order to trace trade credits and advances between the local government level (S.1313) and the financial sector (S.12) via counterpart information. Nevertheless, this approach didn't show any concrete results, due to the fact that it was not possible to obtain such information from the money and banking statistics. SD explained that as an ultimate solution to capture this information, SD intends to use the questionnaire on trade credits and to enlarge it in order to capture information on trade credits and advances from local units (S.1313) with counterpart S.12. SD explained that a large number of municipalities and all five regions replied that they had zero trade credits with counterpart S.12. SD is not sure whether this data relates to actual zeroes or whether the municipalities are unable to extract such data. Nevertheless, from the amounts reported by municipalities with full counterparts, only a small amount (a total of 90 million DKK for 2015) belongs to the financial sector (S.12). SD considered that this is an indication that cases of factoring without recourse are not widespread at the local level. Eurostat furthermore invited SD to contact the national or

³ Action point 13: SD will take concrete steps in order to include possible cases of factoring without recourse to ensure a correct reporting of the Maastricht debt figures according to Eurostat's decision of this issue. *Deadline: progress report April 2015 notification, inclusion of data October 2015 notification.*

European factoring association in order to try to find information on the existence of possible such cases in Denmark.

Action point 14

Eurostat asked further question on action point 14 from the September 2014 EDP visit on the quality of accounts receivable /payable (F8)⁴. In a note sent to Eurostat on 25 August 2015, SD mentioned that they are continuously working on improving “other accounts receivable/payable”. Despite the fact that the net value of F.8 is correct, further work needs to be done to improve the split between F.81 and F.89 for assets and liabilities, as well as for improving the consolidation within and between subsectors. SD pointed out during the discussions that substantial progress was done in improving the split between F.81 and F.89, notably for local government. In addition to the investigation on trade credits for local governments, SD explained that they are working on changing the compilation system for the central government sector from Excel to an Oracle based system. Due to this implementation, SD was thoroughly examining all data, exploring new options of receiving additional information needed for EDP purposes on consolidation and on other change in volume. This additional information could result in further improvements in the quality of F.8.

Action point 19

Regarding action point 19 on the sector classification of Stock Oil Agency (FDO)⁵, Eurostat proposed to discuss it separately under the methodological part on sector classification, point 4.1.5.

Action point 20

Regarding action point 20 on the possible reporting of EU flows on a gross basis⁶, SD explained, prior to the mission, that in the EDP questionnaire table 6 on EU flows, SD is providing the split of inflows in “*Advance payments*” and “*Reimbursement of expenditure*”, and of outflows in “*Expenditure made on the behalf of the EU*” and “*Expenditure financed from advance payments*”, therefore, they considered that the reporting is already on a gross basis. Eurostat explained that, as described in the EDP Inventory, only net figures (net receivables) are available. Additionally, SD had informed Eurostat on several occasions that they are always reporting “net figures” in the Questionnaire relating to EDP tables as well as in the EDP tables 2. In this context, Eurostat highlighted that the reporting on a gross basis, with separate reporting of

⁴ Action point 14: SD will continue to improve the quality of accounts receivable /payable, including the consolidation between sub-sectors. *Deadline: April 2015 notification.*

⁵ Action point 19: SD will analyse the situation of the Stock Oil Agency (FDO) in the light of ESA 2010 and sent a note to Eurostat. Eurostat takes note that the FDO does not have any Maastricht included liabilities. *Deadline: April 2015 notification*

⁶ Action point 20: SD will take steps in order to explore the possibility of reporting the EU flows on a gross basis. *Deadline: progress report April 2015 notification*

receivables and payables on EU revenue and expenditure will allow having a more transparent overview on the EU flow data.

Regarding action points 24⁷ and 25⁸, Eurostat recalled that both action points were implemented by SD and, as a result, both entities, Finansielt Stabilitet A/S and the Deposit Guarantee Fund were reclassified inside general government.

Findings and conclusions

Action point 4:

Eurostat welcomes the inclusion of data on trade credits at the level of local government and invited SD to prepare a progress report on potential further quality improvements in the data. Deadline: progress report for April 2017 and 2018 notifications.

Action point 5:

Eurostat invited SD to launch an investigation for the five biggest municipalities in order to capture possible cases of factoring operations. Eurostat furthermore invited SD to contact the national or European factoring association in order to seek information on the existence of such cases in Denmark. Deadline: April 2017.

Action point 6:

Eurostat invited SD to investigate the possibility of providing data for EU flows on a gross basis and to include separate data on receivables and payables. Deadline: progress report for April 2017 notification.

3. Analysis of EDP provisional data for the October 2016 notification

3.1. Examination of the EDP tables and the Questionnaire relating to EDP tables of the October 2016 notification

Introduction

Due to the fact that Eurostat's dialogue visit was organized shortly before the October 2016 EDP notification, SD had sent in advance to Eurostat the provisional EDP tables and the Questionnaire of the EDP notification. These data were closely assessed during the visit.

Discussions and methodological analysis

⁷ Action point 24: SD will analyse the classification of Finansielt Stabilitet A/S in the light of ESA 2010 provisions and send a note to Eurostat. *Deadline: end of December 2014.*

⁸ Action point 25: SD, in cooperation with the National Bank, will analyse the features of the Deposit Guarantee Fund in the light of ESA 2010 and send a note to Eurostat. The note should also include the possible impact on government deficit and debt figures. *Deadline: 6 October 2014.*

The discussions focussed on the figures provided in the provisional EDP tables. It was agreed that all the technical changes agreed during the meeting will be implemented in the final version of the October 2016 EDP tables and in the Questionnaire related to EDP tables.

3.1.1. EDP Table

EDP Table 1

No specific issue.

EDP Tables 2A-D

EDP Table 2A

Eurostat mentioned during the analysis of the EDP tables that it noticed a significant improvement of the net lending/net borrowing (B9) in table 2A, mainly due to updated data on taxes on personal income and corporation taxes of 3.5 bill DKK and 2.9 bill DKK respectively. SD confirmed the improvement in central government B9 and explained that this was due to the availability of new updated source data. Eurostat also mentioned the significant revision for 2015 compared to the April 2016 notification for the amounts included under "consolidation adjustments for transfers inside sub-sector". SD explained that the large adjustment is due to some atypical asymmetries in the municipality accounts for 2015 in transactions between municipalities. Nevertheless, SD agreed to further scrutinize this issue. However, due to the fact that such an investigation would involve several municipalities, this could require some additional time. SD agreed to keep Eurostat informed about the outcome of their analysis.

Eurostat also raised some questions on the reduction compared to the April 2016 Notification of more than 1 bill DKK in other accounts payable, due to taxes. SD explained that the reason for this reduction was the municipal income tax and notably the fact that there was a difference between the municipal income tax recorded in the government accounts and the estimate used for the national account recording.

EDP Tables 3A-E

Eurostat asked some detailed information on the significant decrease in receivables of almost 5 bill DKK in 2015 for extra-budgetary units. SD explained that almost the whole decrease in receivables was related to one unit: Finansielt Stabilitet. It was agreed that all the technical questions raised during the discussion will be sent by Eurostat after the EDP mission in the framework of the request for clarification of the forthcoming October 2016 notification.

Statistical discrepancies

Additionally, Eurostat raised the issue of statistical discrepancies as well as of the progress realized by the Danish Authorities in order to reduce the statistical discrepancy in EDP table 3B. SD explained that, as a result of the major revision in 2014 following

ESA 2010, the statistical discrepancy in EDP table 3 was reduced. In the past, the statistical discrepancies had been an issue of concern. SD has improved the adjustment items, so the statistical discrepancies in EDP tables 3 became less problematic. Nevertheless, Eurostat mentioned that, in the framework of the EU contract financed by the European Commission in order to improve data quality, one of the objectives mentioned by SD was to improve the consistency between the non-financial and the financial accounts of general government. Eurostat welcomed very much the efforts done by SD to develop direct data sources for financial transactions in the financial accounts and to accurately distinguish other flows from transactions. Regarding these improvements, Eurostat mentioned that, due to the fact that the differences between the capital and the financial account are not shown in EDP Tables 3 or in ESA table 27, it is difficult to assess the progress done in the framework of this project. Therefore, Eurostat invited SD to investigate whether it would be possible to materialize the work already undertaken in the framework of the project and provide in the future a split in EDP tables 3 of the information on statistical discrepancies between "other statistical discrepancies" and "statistical discrepancies between capital and financial accounts".

EDP Table 4

Eurostat noted that the figures for trade credits have been significantly revised for 2015. SD recalled that the increase of 11 bill. DKK in trade credits in 2015 was mainly due to the inclusion of trade credits from the local government.

3.1.2. EDP related questionnaire

Eurostat discussed in detail some technical aspects of the presentation in the different tables in the EDP related questionnaire. In the EDP related questionnaire table 3 on the "Adjustments for sector delimitation in EDP tables 2A-D", Eurostat asked about the method of estimation of B9 of some of the central government bodies such as those included in the general secondary education, technical and vocational education, tertiary education and social institutions. Additional questions referred to the breakdown of other accounts receivable/payable (F.8) reported in EDP related questionnaire table 4.1.1. Eurostat asked about the significant decrease in receivables by -5 bill DKK in 2015 for extra-budgetary units as well as on the big amount included in other receivables for the local government sector of (-5, 7 bill DKK) in 2015. Several other detailed questions on the figures referred to table 10 on "Capital injections in public corporations, distributions and privatizations". The questions referred to the amounts included and to the consistency with other ESA or EDP tables. SD provided explanations to all the detailed questions. Nevertheless, it was agreed that all the questions discussed will be included in the request for clarification, so that all the answers provided to these technical questions should be found in the document related to the EDP notification. Regarding the EDP related questionnaire table 11, Eurostat mentioned that it would be very useful to complete it also with annual data on investments, instead of only providing data on the total contractual value. SD agreed to investigate whether such data is available and could be further provided in the EDP questionnaire.

Findings and conclusions

Action point 7:

In relation to the provisional EDP notification tables analysed and discussed during the meeting, SD will provide the missing information and implement the corrections as agreed during the discussion. Deadline: October 2016 notification⁹.

Action point 8:

SD will investigate if further steps can be taken in order to complete table 11 of the EDP related questionnaire with annual data on investments instead of only providing data on the total contractual value. Deadline: End of January 2017¹⁰.

Action point 9:

SD will investigate the possibility of providing in the future a split in EDP tables 3 of the information on statistical discrepancies in "other statistical discrepancies" and "statistical discrepancies between capital and financial accounts". Deadline: April 2017 notification¹¹.

4. Methodological issues and recording of specific government transactions

4.1. Delimitation of general government sector

4.1.1. Implementation of the new MGDD (2016 edition). State of play

Introduction

Eurostat published in 2016 a new edition of the Manual on Government Deficit and Debt (MGDD). During the April 2016 notification, Eurostat asked SD about the state of play of the implementation of the new provisions of the new MGDD version. In the context of the April 2016 Notification, Statistics Denmark confirmed that no changes were necessary in order to implement the new MGDD.

Discussions and methodological analysis

Eurostat and SD have made an overview of the implementation of the chapters which were updated in the new version of the manual. Eurostat asked some questions about the implementation of the chapter I.2.4.4 "Public units in liquidation". From the documentation sent by SD prior to the EDP visit, it seemed that in Denmark there are no public companies in liquidation. Eurostat asked whether there are really no such cases or whether public companies do not go into liquidation process as a matter of principle. SD

⁹ Action point implemented.

¹⁰ Action point implemented.

¹¹ Action point implemented. SD will provide a split in EDP tables 3 of the information on statistical discrepancies in "other statistical discrepancies" and "statistical discrepancies between capital and financial accounts" starting with the April 2017 notification.

confirmed that, in Denmark, public companies do not go into liquidation due to national practices in place.

Regarding the parts which are totally new in the MGDD, such as chapter III.7 on the impact on government accounts of the transfer of decommissioning costs, SD confirmed that there are currently no decommissioning operations in Denmark. On the sub-section I.2.4.5 on Rearranged transactions or re-routing, SD explained that there are some re-routing transactions, without impact on government deficit and debt figures.

Regarding the changes in the chapter VI.4 Public-Private-Partnership, Eurostat highlighted that there are some new provisions on the risks and rewards conditions which in the future should be taken into account when analysing the new PPP projects. Additionally, the new MGDD brings also additional clarifications on some concepts such as "force majeure", which also should be taken into account while assessing the distribution of risks between the private and public partners.

Findings and conclusions

Eurostat took note that no changes to the data were necessary in order to implement the new MGDD.

4.1.2. Practical implementation of the market/non-market test:

Depreciation of assets in general government

Introduction

Prior to the mission, SD sent to Eurostat a note describing the methods used by SD for the calculation of the depreciation of assets, as well as on how depreciation is treated in the market/non-market test. One of the reasons why Eurostat required such a note was that there were some uncertainties about how depreciation is reflected in the market test, notably in the case of public corporations disposing of important infrastructure assets.

Discussions and methodological analysis

SD explained in their note that, prior to the introduction of ESA2010, Winfrey curves and straight line depreciation was applied. The straight line depreciation implies that the value of an asset diminishes by a fixed amount during the lifetime of the asset until the net value is zero. After the ESA2010 implementation, the geometric depreciation method was incorporated into the calculations, meaning that the asset is depreciated by a fixed percentage of its value for the duration of its life. In this scheme, the remaining value of an asset decreases exponentially resulting at the end of the depreciation period in a value which is higher than zero. The depreciation factor used for estimating consumption of fixed capital by the geometric depreciation approach was derived by using the old service lives and values. These calculations were compiled by Statistics Denmark's National Accounts division and distributed to individual units/group of units in general government in relation to the average level of gross fixed capital formation. Eurostat

highlighted that, despite the fact that depreciation and consumption of fixed capital do not have an impact on net lending/borrowing, it is important to ensure a correct application of the methods as recommended by ESA 2010, such as the perpetual inventory method (PIM) for calculating the consumption of fixed capital. The perpetual inventory method (PIM) is the most widely used approach toward measuring stocks and flows of fixed assets. According to ESA 2010, 3.141, for the calculation of the stock of fixed assets, the perpetual inventory method (PIM) is applied whenever direct information on the stock of fixed assets is missing. The stock of fixed assets is valued at the purchasers' prices of the current period. SD confirmed that they are using the PIM method; nevertheless, the consumption of fixed capital is not calculated at the level of individual company but at the level of group of companies having common features. Eurostat stressed that in case of companies having large fixed assets, it would be preferable to calculate the consumption of fixed capital at the level of individual company. Eurostat further asked whether market prices or rather historical prices are used while valuating the stock of assets. SD replied that the calculation of consumption of fixed capital is done by the department of national accounts so they are not sure whether market prices are used and that basically the figures provided by the department responsible for calculating these indicators are taken into account without further calculation from their side. Eurostat asked whether, while calculating the depreciation, the service life of the assets is updated on a regularly basis. SD confirmed that indeed this is the case. Eurostat then raised another aspect on depreciation, notably how depreciation is taken into account in the calculation of the market/non-market test. While performing the test for public companies according to the MGDD manual, production cost must include consumption of fixed capital. However, in Denmark, consumption of fixed capital is only available on an aggregated level and the approximate value of consumption of fixed capital has to be distributed via investments. When performing the market test on public companies, SD explained that, in cases when the units are rather small and are not having a steady investment flow, data from annual reports are used. These data are collected via a survey where all units classified as public corporations outside general government are obliged to transmit annual report data in a standardized way. In this context, Eurostat asked whether, in case of small units, the consumption of fixed capital is not adjusted but instead the depreciation from the business account is used as a proxy. SD explained that depreciation is not calculated by Statistics Denmark but calculated directly in the central government accounts as having an effect on the working balance. For each central government unit only the depreciation and not the full investment is taken into account. However, when compiling national accounts, SD is using the amounts of the full investments which are also included in the central government accounts but which have no effect on the working balance. The result of this adjustment is presented in EDP table 2A as the difference between the investments and the depreciations as calculated in the central government accounts. Nevertheless, neither of the variables are calculated by Statistics Denmark.

Furthermore, Eurostat mentioned that as indicated prior to the mission, it would be relevant to go more in depth and see how depreciation is reflected in the market/ non-market test of Metroselskabet and of the Oil Stock Agency, two units having both significant fixed assets. SD explained that for Metroselskabet, the results of the market/

non-market test look very different when including or excluding the depreciation of the assets. The market/non-market test including depreciation costs shows that the unit is non-market for the last two years due to the high depreciation costs which SD considers that it should be rather considered as extraordinary write-offs. Eurostat and SD further discussed the figures provided in the calculations. It was agreed that, for companies which are in a phase of building up significant assets, the costs linked to depreciation of assets could be very high. Therefore, in the light of the investments done by some infrastructure companies, it was agreed that, for such units, the reclassification of the units having results below 50% due to high depreciation costs, should not necessarily follow the general three years rule as recommended in the MGDD.

Interest paid and negative net interest charges

Introduction

SD sent to Eurostat, prior to the mission, a note regarding the impact of the negative net interest charges in the 50 % test. In the context of the current EDP mission, SD reanalysed all the entities having negative interest charges in order to see whether Eurostat's decision to set the negative net interest charge to zero had an effect on the classification of some units.

Discussions and methodological analysis

The analysis undertaken by SD showed that 321 units recorded negative net interest charges from 2012 to 2014. Most of these units were classified under NACE division 64 and 65, notably as units involved in financial service activities and as insurance and pension funding. For these units, according to the MGDD manual, the 50% test should not be applied and therefore the decision on negative net interest would not have any relevance. Eurostat thanked SD for the extensive list including all the units concerned by the negative net interest. Eurostat further discussed the case of the ten other companies not involved in financial activities which recorded negative net interest charges in 2014. SD confirmed that the new decision was implemented for these cases but none of the units needed to be reclassified.

Findings and conclusions

Eurostat took note that that Eurostat decision on negative net interest charges was implemented by SD but none of the units was reclassified as a result of this implementation.

4.1.3. Changes in sector classification since the September 2014 EDP visit

Introduction

During the last 2014 EDP visit and in the context of the ESA 2010 implementation, several units, such as private schools (approx. 800 entities), humanitarian organizations, Danmarks Radio, Banedanmark, National IT and Telecom Agency were reclassified. Additionally, as a consequence of the discussions after the 2014 EDP mission with SD,

two other financial entities were reclassified inside general government, notably Finansielt Stabilitet (FS) and the Deposit Guarantee Fund.

Discussions and methodological analysis

In a note sent on 1 December 2015 to Eurostat, SD explained that as a result of their analysis and in the light of the action points 24 and 25 resulting from the 2014 EDP visit, the Deposit Guarantee Fund was reclassified inside general government. The reclassification was implemented backwards starting with the year 2013, which was still open for revisions. Additionally to the reclassification of Deposit Guarantee Fund, Finansielt Stabilitet (FS) was also reclassified inside general government as a result of the changes in its legislation in 2015, which basically increased government's control on the activities undertaken by the unit. The reclassification concerned the year 2015 and the following years. In the context of the reclassification of these units, Eurostat asked whether all the Finansielt Stabilitet subsidiaries were also reclassified inside general government or whether FS Finans II A/S, FS Finans III A/S and FS Finans IV were still classified in the financial sector. SD explained that these subsidiaries were not analysed by SD therefore they were still kept in the financial sector. Eurostat pointed out that all the subsidiaries should be reanalysed as fast as possible in order to ensure an appropriate classification of these units. In the same context, Eurostat pointed also out that additionally to the analysis of FS subsidiaries, SD should also analyse the classification of the Export Credit Fund (ECF) in the light of the revised manuals ESA2010 and Manual on Government Deficit and Debt. The main objective of ECF is to promote the export of Danish companies worldwide and generate new markets through internationally competitive financing and risk coverage. In principle, EFC insures Danish companies against the risk of financing export projects in uncertain markets. ECF operates on commercial terms and conditions and is covered by an unspecified guarantee of the Danish State. The Export Credit Fund is classified as a financial corporation, nevertheless as the statute of the entity specifies, there is an important government control exercised by the Danish State through the Ministry of Business and Growth. Eurostat indicated that the analysis should focus on elements such as the autonomy of decision of the unit, its risk exposure as well as on government control on the entity in matters such as general export credit policy of the unit. SD agreed to analyse in depth the feature and characteristics of the unit and to provide to Eurostat the result of its analysis. Eurostat recalled also the classification of some other specific units such as the resolution fund and the Danish Financial Supervisory Authority. SD confirmed that the resolution fund is classified in general government sector (S.13) while the Danish Financial Supervisory Authority is in the financial sector (S.12). Furthermore, Eurostat asked whether SD is aware of the existence in Denmark of so called national promotional banks. The national promotional bank is defined as a legal entity carrying out financial activities on a professional basis with a mandate given by a Member State to carry out development project at central or regional level, basically by facilitating access to finance for start-ups and small and medium enterprises that face obstacles to raising financing from the market. SD agreed to investigate this issue and to provide to Eurostat an analysis of the appropriate classification of such an entity, in case this would exist.

Findings and conclusions

Action point 10:

SD will investigate whether a so called national promotional bank already exists in Denmark and if yes, to provide an analysis of the appropriate classification. Deadline: October 2016 notification¹².

Action point 11 (previous action point 13):

SD will analyse the correct classification of the subsidiaries of Finansielt Stabilitet (Finans II, III and IV) and classify these entities as appropriate. Deadline: End of November 2016¹³.

Action point 12 (previous action point 25):

SD will analyse the classification of the Export guarantee fund (in the light of the rules on captive financial institutions) and report back to Eurostat on the results of the analysis. Deadline: Mid- November 2016¹⁴.

- 4.1.4. Questionnaire on government controlled entities classified outside the general government sector.

Introduction

During the 2014 EDP visit, Eurostat enquired about a number of public corporations, which were near to the 50% threshold for the market-non-market test or having inconsistent results between years. The case of DONG Energy was also extensively discussed due to the fact that the unit had the highest liabilities of all the Danish non-financial entities classified outside general government and because the market results of the parent company were below 50%. DONG Energy A/S is a Danish energy group with activities in Northern Europe involved in distributing and trading energy. The energy group is mainly owned by the Danish central government (58.8%) while the rest is owned by private investors. DONG Energy and all its subsidiaries are currently classified in the non-financial corporation sector (S.11) as public corporations.

Discussions and methodological analysis

Eurostat thanked SD for the documentation provided prior to the mission and explained that, based on the questionnaire for government controlled entities classified outside general government for the reference year 2014, Dong Energy was under the threshold of 50% for the years 2013 and 2012. For the year 2014, the market/non-market test showed a questionable result. SD agreed that indeed the result for 2014 looked like an outlier

¹² Action point implemented. There was no such unit created in Denmark.

¹³ Action point implemented. All Finansielt subsidiaries were reclassified inside general government.

¹⁴ SD provided the analysis of the case; nevertheless further investigations and clarifications are on-going.

compared to the previous years and agreed to further check the results. Eurostat pointed also out that, in 2014, some subsidiaries of the group were also under the 50 % threshold. Additionally, Eurostat highlighted the fact that several subsidiaries of Dong Energy have zero employees which could be indicative that these units could be ancillary units or holdings. Eurostat explained that, according to the ESA 2010 definition regarding holdings (§2.14), it seems that Dong Energy has rather the feature of a head office. SD agreed that the parent company exercises managerial control over its subsidiaries and that the parent company had non-financial as well as financial subsidiaries. It was agreed that Dong Energy A/S had the feature of a head office and should therefore be classified in the financial corporations sector (S.12). Nevertheless, Eurostat also proposed to SD to analyse all enterprises belonging to the DONG group, in particular to see whether some of the units should not be regarded as ancillary units and therefore be classified together with the controlling entity.

Additionally, Eurostat mentioned that the questionnaire for government controlled entities classified outside general government was analysed in detail and the results showed that the market test for some units was incomplete, negative or showing inconsistent results from one year to another. Eurostat exemplified for each category some relevant cases included in the questionnaire. It was also stated that several units were having results under 50% for three years consecutively (for 2010, 2011 and 2012) but suddenly recorded results over 100% in 2013 and 2014, such as the units Trafikselskabet Movia, Regionstog A/S. SD agreed to investigate these cases. Additionally, Eurostat stressed that the units with the NACE code 8413 (NACE 84 – public administration and defence, compulsory social security) should be considered as units fulfilling public activities on behalf of government and therefore be included in S13. Regarding the 50% test for the units classified in S12, it was agreed that the 50% test is relevant just for the units classified in S.126.

Findings and conclusions

Action point 13 (previous action point 14):

In relation to the questionnaire of government controlled entities classified outside government, SD was invited to investigate and reclassify if needed the following cases: all entities having a market non-market test below 50% or showing irregular patterns in the test results as well as all entities with the NACE code 6420 and/or with 0 employees in order to see whether these entities are not holding companies which should be classified inside government. Deadline: December 2016¹⁵.

Action point 14 (previous action point 15):

SD and Eurostat agreed that Dong Energy A/S had the feature of a head office and could therefore be classified in the financial corporations sector (S.12). SD was also invited to analyse all enterprises belonging to the DONG group, in particular to see whether some

¹⁵ A note was provided by SD in January 2017, nevertheless the discussion on its implementation is still on-going.

of the units should not be regarded as ancillary units, to be classified together with the controlling entity. Deadline: Progress reports for the April and October 2017 notification.

4.1.5. Discussion of specific cases

Oil Stock Agency (FDO)

FDO was established in 1964 with the objective to provide security of oil supply in case of emergency due to oil crises or war. The unit cooperates closely with the oil industry and the energy authorities. FDO is classified in the non-financial corporations sector (S.11) due to the fact that the entity is organized as a private association which can choose to end its arrangement with government at its own will. Nevertheless, the task of FDO to maintain the oil stocks has been established by the government. Eurostat discussed extensively with the Danish authorities since the 2014 EDP mission the classification of the Danish central stockholding entity and its possible reclassification inside general government, notably in the light of the guidance "Classification of central stock-holding entities" (published by Eurostat in August 2014) and the MGDD part 1.6.7. on Central stock-holding entities (CSE). The guidance note and the MGDD offer clear guidance on the appropriate classification of these units across Member States. The central stockholding entities show different features and a different degree of government control in different Member States. The majority of such agencies have been classified inside general government due to the fact that they fulfil a public policy mission and are controlled by government. In the context of the 2014 EDP mission, the Danish authorities agreed to investigate more in detail the control criteria regarding FDO and to inform Eurostat about the result of their analysis.

Discussions and methodological analysis

Eurostat pointed out that since the 2014 EDP mission, several open questions in relation to FDO were clarified with SD. Prior to the mission, SD sent to Eurostat an additional note, analysing the different criteria of government control over the agency such as the right to appoint officers or key personnel, contractual agreements, other obligations of the agency towards government as stipulated in the statute, government's degree of financing and government's risk exposure. SD considered nevertheless that despite the fact that the agency fulfils public policy, this criterion is not sufficient to reclassify this unit as a public entity. Eurostat brought up some issues regarding the aspects of control as specified in the MGDD. Indeed, in the case of FDO, the government does not have the majority of voting rights or veto rights. Nevertheless, Eurostat pointed out that as the MGDD states, if the predominant activity of such units is to comply with the obligation imposed by government to fulfil a public objective, the unit should be seen as acting de facto as an agent of government and in such cases it should be classified within the general government. However, if the unit undertakes other activities than just to comply with the stockholding requirements imposed by government, it could be concluded that government does not determine the general policy of the unit. In this particular case, the unit could be classified outside the general government sector. Eurostat pointed out that this relevant aspect was raised in several exchanges of e-mails with SD. SD confirmed that all the revenues of FDO are currently resulting from market oriented activities and

that there are no revenues from the management of the oil stock reserves. Eurostat further asked how, despite the fact that the main activity of the Stock Oil Agency is the management of the oil stock reserves, these activities do not bring any revenues but on the contrary incur just costs. SD stressed that indeed there are costs resulting from this activity, nevertheless FDO has significant financial assets which are placed in bonds, shares and other securities. These assets generate sufficient financial income to finance the activities related to the management of the oil stock reserve. Nevertheless, in case the gains from the financial assets will be exhausted in the future, FDO could envisage charging a fee for the storage by companies in order to further finance its activities.

Eurostat further mentioned that, as stipulated in the Statute of the association¹⁶, §24, in case of termination of the co-operation between government and FDO, government have the right to take over a substantial part of FDO's assets and liabilities. This clause could indicate the fact that the assets and liabilities of FDO are implicitly government assets. SD explained that this clause is rather technical without any real indication on the government control over the entity. Moreover, as discussed with the agency itself, it is difficult to determine which assets and liabilities the government would be entitled to keep in case of termination of the agreement between government and the private association. SD highlighted also the fact that the agency is a market unit, without debt and with a small deficit (B9), therefore in case of reclassification this would have an insignificant effect on either B.9 or gross debt.

It was concluded that, taking into account the different aspects relevant for establishing possible government's control over the entity, FDO is a borderline case; the agency fulfills a public policy, nevertheless is a market unit which has some autonomy of decision.

Findings and conclusions

Action point 15 (previous action point 16):

In the light of the clarifications provided during the meeting, Eurostat and SD agreed that FDO (the Danish oil stock agency) could remain classified in the non-financial corporations sector (S.11).

Metroselskabet

Introduction

Eurostat has discussed the sector classification of Metroselskabet on several occasions since the Eurostat dialogue visit in 2012. In 2012, Eurostat analysed the accounts of the company in the context of a possible reclassification of the unit inside general government due to the fact that its market/non-market test was close to 50%. Metroselskabet was founded in 2007 and is owned jointly by the central government (42%) and two municipalities (58%). The main activity of Metroselskabet is to undertake

¹⁶ The Statute of the association from November 2012 as available on its website

the operation and maintenance of the overall metro system in Copenhagen as well as to manage the project design and construction of new metro lines such as Cityringen, Nordhavn and Sydhavn.

Discussions and methodological analysis

Eurostat mentioned that, as pointed out by SD in the note provided to Eurostat prior to the mission, the construction of three additional new metro lines by the company implies a significant impact on its accounts. SD explained that, indeed, the big investment will have a negative impact on the market/non-market test; nevertheless, overtime Metroselskabet could expect a positive cash flow as well as a positive operating profit starting with 2027 according to its business plan. SD further detailed that, taking into account Metroselskabet's short term business plan, the market test for Metroselskabet could be below the 50% for the next years due to the high costs of investment. Nevertheless, Metroselskabet's long-term budget perspective shows that once the investment phase is finished, the company could become profitable. Eurostat further asked whether the interest costs were included in the 50% test. SD confirmed that the costs related to interest payments were reflected as expenditure in the 50% test. Additionally, Eurostat also underlined that the depreciation costs as well as the so called extraordinary write-offs or depreciations due to extraordinary investments should be mirrored in the 50% test. Eurostat also recalled that, for the units having results below the 50% test due to high depreciation cost resulting from significant new investments, a certain flexibility should be allowed in the application of the three years rule as recommended in the MGDD (see also the discussion under item 4.1.2).

Findings and conclusions

Eurostat agreed that, for the units having results below the 50% test due to high depreciation cost resulting from significant new investments, certain flexibility should be allowed in the application of the three years general rule as recommended in the MGDD.

4.2. Implementation of the accrual principle

4.2.1. Accrual taxes. Recording and estimation of taxes unlikely to be paid

4.2.1.1. Accrual taxes

Introduction

In 2014, ninety different taxes contributed to the revenue of the Danish Government. The taxes are recorded in Denmark on accrual basis in the year in which they accrue. The same accrual recording is applied also in the case of tax reimbursements or tax refunds. In the last years, there were significant revisions to taxes between the April and the October Notifications. Eurostat discussed this aspect on several occasions with SD. During the April 2016 notification, SD explained that the main reason for the revisions to taxes between the April and the October notifications is that new and better data sources becomes available for the October notification. These differences are due to different recording principles in government accounts compared to the national accounts.

Discussions and methodological analysis

Eurostat thanked SD for the documentation on taxes sent prior to the mission including the time series on receivable net taxes as recorded in the government accounts and in national accounts. Eurostat mentioned that the time series have been carefully analyzed and it was noticed that the stock of unpaid taxes as recorded in national accounts constantly increased over time. Eurostat further asked about the significant differences between national accounts and government accounts calculations and whether SD envisaged future changes in order to align the recording. SD answered that the differences in the recording between national and government accounts will persist also in the future due to differences in recording of some specific transactions such as voluntary payments of taxes, etc. Nevertheless, Eurostat pointed out that in the last years there was a significant increase in the difference between GA and NA taxes. SD explained that, indeed, the differences have increased in the last years; nevertheless no special reason was identified for this trend. Additionally, Eurostat highlighted the fact that it is difficult to have an overview over the evolution of taxes, due to the fact that the data for financial accounts are provided just on a net basis. Eurostat mentioned that it is aware that the data on transactions is currently available just in net receivable (F.89) relating to total taxes due to the fact that SKAT, the agency responsible for general government book-keeping and assessment concerning taxes, only reports the net amounts for receivables and payables for each unit. The representative of SKAT, which was present at the meeting, confirmed that, indeed, there is no separate information on the financial transaction on receivables and payables for individual units. Eurostat asked the SKAT representative whether it could be envisaged for the future to introduce two separate lines for the information related to financial transactions, one on receivables and another one for payables. Eurostat pointed out that such separate information is available in almost all the Member States. The SKAT representative mentioned that, indeed, it could be foreseen for the future to integrate in the tax request two separate lines requiring distinct information on the amounts to be received and those to be paid. Eurostat asked when such changes could be implemented. The SKAT representative pointed out that the current tax request could be modified at the earliest starting with 2018.

Eurostat asked some further questions about the significant revisions for taxes not just between the notifications but also for the previous years and reviewed with SD the availability of data sources for the April and October notifications. For the April notification, the first national account calculation of ordinary income taxes is based on the information on taxes provided by the Danish Ministry of Taxation. While previously prepaid taxes from SKAT were used for estimating the tax revenue, starting with 2012 preliminary assessments from SKAT were used as source data. Eurostat asked whether better results are achieved with the current source data compared to the previous one, based on prepaid taxes. SD confirmed that the current source is better due to the fact that the figures reported are closer to the final ones. Nevertheless, the revisions for taxes are not unusual for Denmark due to the fact the compilation of ordinary income taxes is final and based on the final tax statement only in November (T+3), so that the final statement of taxes is published in November three years after the accrued year. Eurostat also asked whether there have been any changes in the tax burden since the last 2014 EDP visit. In

2014, the tax burden had been revised downwards, due to reclassification of some taxes into fees, such as the church tax, the subscription to unemployment funds and the early retirement pension, the hydrocarbon tax and the oil pipeline fees. SD confirmed that there were no such changes linked to taxes since 2014. Eurostat pointed out that in the latest version of the Questionnaire on taxes and social contributions provided to Eurostat, SD had mentioned that the classification of some government revenues had changed and that some better estimation procedures were implemented for taxes. In the questionnaire it was also stated that there were no fundamental changes in the method used for tax calculation, except for the single payable tax credit. Previously, the part of the tax credit which was not paid, was subtracted from the aggregated tax revenue. Nevertheless, currently SD follows the MGDD provisions for payable tax credit. Eurostat further asked which better estimation procedures were introduced recently and for which taxes. SD explained that they will take a look at the comments provided in the questionnaire and provide a feed-back to Eurostat. In addition, Eurostat asked some further details on the information provided in the questionnaire on tax amnesties, notably on whether there have recently been tax amnesties in Denmark. SD confirmed that there had been tax amnesties but only several years ago.

4.2.1.2. Recording and estimation of taxes unlikely to be paid

Introduction

In September 2015, SD informed Eurostat about an exceptional increase in receivables of taxes for the last years, due to the introduction of the new method of calculating taxes implemented by the Danish tax authorities. The new method based on "milder evaluation principles" reclassified some taxes unlikely to be collected into taxes likely to be collected, which caused a significant accumulation of unlikely to be collected receivables (so-called "bad arrears") for 2013, 2014 and 2015. The first preliminary estimates of SD regarding these so called "bad arrears" or extraordinary depreciation of taxes unlikely to be collected were estimated to be approx. 15 bill DKK in total. SD proposed at that time to distribute evenly this amount on the three years 2013, 2014 and 2015 according to Danish normal practice for recording unpaid taxes. In the context of the October 2015, Eurostat requested additional information on the method used by SD in order to calculate these estimates.

Discussions and methodological analysis

SD explained in a document sent prior to the mission that, from the amounts of taxes expected to be collected in a given year, SD does not have any information about how much of these amounts will eventually not be paid. Nevertheless, each year some so-called tax arrears are written-off in the government accounts. These write-offs represent a correction of the public revenue coming from taxes with the amounts estimated to be unlikely to be collected. In order to estimate the amounts unlikely to be collected, SD is using a 3-year running average method. For instance, for year t , SD uses the average of the government accounts for year t , $t+1$ and $t+2$, because they consider that one-third of the write-offs for these years are arrears accrued in year t . During the discussion, Eurostat pointed out that with the method used by SD, while estimating the amounts for taxes

unlikely to be collected for the year 2015 for example, SD will use the estimated amounts for taxes for the year 2016 and 2017, so basically the calculation of these estimated amounts is based on some other estimates. SD confirmed this fact and asked whether a better method could be recommended by Eurostat. Nevertheless, SD considered that the estimated amounts are however substituted in time by the actual amounts; therefore the method should provide basically indicative amounts. Eurostat pointed out that in a majority of the Member States, the time adjusted cash or the assessment method is used for the calculation of taxes. So the accrual recording method as used in Denmark is an exception and despite being very accurate when tax assessments are final, also has some significant shortcomings. Additionally, Eurostat asked whether in the method of estimation used by SD a mathematical formula is applied in order to take into account also the business cycle and whether, while estimating the write-offs, a different formula for each tax groups is used in order to consider the particularities of each group of taxes. SD explained that neither the business cycle nor different formulas for different tax groups are applied. In this context, Eurostat mentioned that, during the April 2016 notification, SD informed Eurostat that the extraordinary depreciation of arrears increased from 15 bill DKK as previously estimated in October 2015 to 18 bill DKK, notably 1 bill more for each year. At that time, SD explained that the differences between the two estimated amounts (15 bill DKK in October 2015 and 18 bill DKK in April 2016) was due to the fact that, in October 2015, only some rough estimates were provided by the Danish tax authorities. These first estimations were based on the numbers of arrears instead of the volume, so the aspect of the enforceability was not taken into account. SD explained that indeed, after analysing the amounts estimated in October 2015, SD considered that the amounts estimated were not certain due to the fact that the degree of enforceability was not taken into account by the tax authorities . Nevertheless, after additional information on the volumes of the extraordinary arrears was available, SD evaluated this new information and reconsidered the amounts. Eurostat further asked SD to elaborate more on the degree of enforceability while calculating the taxes unlikely to be collected as well as on which other dimensions are taken into account by the tax authorities while calculating the estimates for write-offs. SD explained that the extraordinary amount of write-offs was an exceptional event and was a consequence of a failed IT-system of the Danish tax authorities. As a consequence the IT-system did not provide accurate information about the nature of arrears (if they were enforceable or not) and/or about their number and volume. When this technical problem was discovered, the tax authorities tried to estimate the amounts due to this failure. SD also explained that, the tax authorities were estimating these tax arrears and SD was using the amounts provided by the tax authorities. In addition, SD informed Eurostat that an additional amount of so called grey arrears could be subject to further write-offs which could potentially reach a total amount of 4-5 bill. DKK. Nevertheless, the Danish Parliament is going to pass a separate law on this issue. SD explained that, for the moment, neither the grey arrears nor the extraordinary write-off of 18 bill. DKK have yet been recorded in the central government accounts. Eurostat pointed out that the failure of the IT system and the whole accumulation of extraordinary arrears is very worrying, notably due to the fact that the amounts concerned are extremely high and impact the deficit figures by around 0,3% of GDP for 2013, 2014 and 2015. Additionally, the estimations provided were

subject to different revisions so that this creates uncertainty in general about the correctness of the figures provided. Tax revenues constitute the most important source of revenue for government so the figures on the taxes collected or unlikely to be collected should be of the highest quality. In addition, Eurostat mentioned also that in the first quarter of 2013, in the quarterly government accounts, an amount of 31 bill. DKK was recorded in the June 2013 transmission. In the information provided in the metadata file the amount was considered as re-evaluation or extraordinary appreciation of taxes. This huge amount, approx. 2% of GDP, raised Eurostat's attention and an investigation was requested. Nevertheless, this amount was afterwards not anymore included in the EDP related questionnaire neither signalled during the EDP Notification. Therefore, Eurostat asked whether the extraordinary appreciation of arrears of 31 bill. DKK which appeared at that time in the quarterly financial data was somehow related to the extraordinary depreciation of arrears of 18 bill which was discovered in 2015. SD answered that there was no relation between these transactions. Nevertheless, the SKAT representative explained that the amount recorded in the quarterly data in 2013 of 31 bill DKK is however related to the implementation of the - at that time - new method based on "milder evaluation principles" introduced in 2013. The method was nevertheless replaced in the meantime with the old one due to the unfortunate results generated.

During the discussions, Eurostat asked also some clarification about the terminology used in the documents sent prior to the mission, notably on the so called enforceable arrears or grey arrears. Eurostat pointed out that, in its understanding, the extraordinary arrears or extraordinary depreciation of arrears referred to the amounts of taxes unlikely to be collected due to the exceptional failure of the IT system and of the method based on "milder evaluation principles" and that these arrears are to be considered as an exceptional one-off event, while the enforceable arrears or grey arrears are rather ordinary taxes unlikely to be collected. The last ones basically occur in the process of tax collection. SD confirmed the correct understanding. In addition, Eurostat asked some further information on the so called grey arrears which could potentially reach 4-5 bill. DKK and to which year/years these write-offs should refer. SD explained that, for the moment, there is some uncertainty about the amounts and that a new law should be issued in order to provide more details. Eurostat required to be informed about further developments on this topic. Eurostat also stressed that the development of the tax arrears should be seriously monitored by SD, which should inform Eurostat immediately in case of further write-offs by government.

Findings and conclusions

Action point 16 (previous action point 17):

SD will monitor on a continuous basis and in cooperation with the tax authorities, the development of the tax arrears in order to ensure a correct recording of the amounts unlikely to be collected including extraordinary arrears, and report regularly to Eurostat. SD will inform Eurostat immediately in case of further write-offs by government. Deadline: With each EDP notification.

4.2.2. Recording of possible refunding of land taxes

Introduction

In June 2016, SD contacted Eurostat in order to discuss the recording of a possible refund of land taxes. SD explained that the tax authorities were working on a new system, which is not implemented yet, but could be implemented starting with 2018. According to the new method under discussion, the value of land will be lower than the value taken into account by the current method; therefore taxpayers could expect to get back some tax amounts which they paid between 2011 and 2019. Due to the fact that the Danish Ministry of Finance was working on the future budget drafts, they required some information from Statistics Denmark on how these proposed changes and a possible refunding of land taxes could impact government accounts.

Discussions and methodological analysis

Eurostat explained that before providing a view on the appropriate recording, additional information was requested from SD. Based on the information provided by SD in the meeting, Eurostat concluded that, due to the fact that there is no tax law or irrevocable commitment available which attests these changes in the land tax scheme and due to the fact that there are neither reliable estimates on the impact of these changes, the impact of the new recording should be considered at the moment when an irrevocable commitment to refund will officially take place. In addition, due to the fact that it will be the central government which will be responsible for refunding the taxes, the amounts should be recorded as expenditure of central government (S.1311) at the moment when these refunds will occur as D.99, other capital transfers, and not as a reduction in tax revenue. Eurostat considered also that the amounts should not be netted from future tax revenues because they don't have the nature of a tax refund. Eurostat highlighted that this case had some similarities in recording with cases involving a court decision and therefore any possible refunding of the land tax should be recorded at the moment in which the official decision will be taken and the amounts for reimbursement will be determined. Eurostat asked whether SD have additional questions on the suggested proposal. SD agreed with the proposed recording and proposed to inform Eurostat about future developments.

Findings and conclusions

Action point 17 (previous action point 11):

SD will monitor the development in relation to potential changes to the land tax in Denmark and report to Eurostat. Eurostat and SD agreed that any possible refunding of the land tax will be recorded at the moment in which the official decision will be taken and the amounts for reimbursement will be determined. Deadline: when available.

4.2.3. Social contributions. Recording of compensation of employees and holiday allowances

Introduction

The Danish authorities explained that they are considering introducing a new holiday scheme. The existing Danish holiday scheme is based on a principle of non-simultaneity between earning and spending, therefore the employees are basically receiving “holiday spending” one year after they retire or leave the labor market for other reasons.

Discussions and methodological analysis

Eurostat thanked for the document sent prior to the mission where SD extensively explained the current and the new proposed scheme. The Danish authorities are considering introducing a new holiday scheme based on simultaneity, where holiday earnings and spending are symmetric over time. Nevertheless, if a new holiday scheme - based on simultaneity – will be introduced, an excess of earned holiday compensation will occur. This reflects the holiday compensation that employees have earned in the previous year in the old holiday scheme and should be supplemented by earnings (and spending) in the new holiday scheme. Thus, public and private employers would have one year of earned holiday in excess. SD explained that it has not yet been decided how to treat the excess of earned holiday, but a transfer into an existing Employees Capital Pension Fund or in a new created Fund has been considered. Eurostat mentioned that when the excess payments will be transferred to a Fund, this Fund would then pay back to the employees, when they retire or leave the labor market for other reasons than the earned holiday. Eurostat pointed out that the recording of a double expenditure must be avoided. Therefore, Eurostat considered that the cash flow towards the Fund or towards the employees can be considered as a redemption of F.89L. The only way to adequately reflect the claims of employees on holiday allowance is to accrue them. Therefore the holiday allowance should be recorded when it is earned, in year t, something which is implied also by the gradual accumulation of allowances during the year. Alternatively, Eurostat considered that SD could continue to record D1 based on payments on a cash basis, as well as the compensations of the holiday allowances. Nevertheless, in this case, the consistency of the time series should be ensured and an appropriate adjustment should be recorded in EDP table 2A, in order to avoid double counting, until the next benchmark revision.

Findings and conclusions

Action point 18:

In relation with the possible recording of holiday allowances, SD will ensure the appropriate adjustment in EDP table 2A, in order to avoid double accounting, until the next benchmark revision. Deadline: when available.

4.2.4. Accrued Interest and Interest on swaps.

Introduction

The EDP Inventory provides extensive information on the recording of interest expenditure, interest revenue, and interest on swaps as well as on the consolidation of interest at central governmental level and between sub-sectors. During the 2014 EDP visit, Eurostat pointed out that there is no information available on the amount of interest split by financial instruments. As explained in the EDP Inventory, the National Central Bank has this information for the central government. Therefore, it was agreed during the 2014 mission to provide data on interest split by financial instrument for the whole general government sector, including data for local government accounts, social security funds and extra budgetary units.

Discussions and methodological analysis

Eurostat mentioned that the interest split on financial instruments for 2013 was provided for central government in the framework of the follow-up of the 2014 EDP mission. SD explained that the split of interest by instruments is not necessary in their compilation due to the fact that interest in the government accounts is on an accrual basis and is available at sub sector levels. Regarding the interest on swaps, SD sent a note prior to the mission, on the data sources for the calculation of interest payments. SD explained that they implemented new data on local government interest payments from swaps in the November 2015 version of the national accounts and in the April 2016 EDP notification. These new data have been available since August 2015, due to a questionnaire sent by Statistics Denmark to all the municipalities and regions to collect information on interest payments from swaps. The interest payments from swaps amounted to about 0.7 bill DKK in 2015. From 2016, the reporting of interest payments from swaps for local government has become part of the additional information on the annual accounts that the local governments report to the Ministry of Interior. In addition, the National Central Bank provides the data used for the correction for SWAPs in the central government sector. Eurostat thanked SD for the progress done in relation with the collection of information on interest on swaps for local government. In addition, Eurostat asked which types of derivatives are used by central government. SD explained that, at central government level, interest-rate swaps, currency swaps, cross currency swaps and forward transactions are used, while at local government level only basic interest rate swaps and exchange rate swaps are used.

4.3. Recording of specific government transactions

4.3.1. Government operations relating to government intervention to support financial institutions

Introduction

Following Eurostat's decision of 15th of July 2009, Eurostat collects a set of supplementary data on government interventions to support financial institutions. The individual tables for EU Member States (where there were reportable interventions) are

published twice per years as well as a summary table with the aggregated data for the EU28 and the euro area. The aim of the supplementary table is to show a complete picture of the actual and potential impacts on government deficit and debt due to government interventions directly relating to the support for financial institutions.

Discussions and methodological analysis

Eurostat thanked SD for completing the supplementary table on government interventions to support financial institutions. Eurostat mentioned that the figures in the table do not differ from the past reporting despite the fact that, since April 2016, the table changed from the reporting of operations only related to the financial crisis to the reporting of all government interventions to support financial institutions. In this context, Eurostat asked whether all government interventions to support financial institutions have been reported in the past (and not only those interventions related to the financial crisis) or whether no support to any financial institution, other than that related to the financial crisis was provided before. SD confirmed that all government support to financial institutions has been reported in the past and that there was no support to any financial institution, other than those related to the financial crisis.

Findings and conclusions

Eurostat took note of the explanations provided by SD.

4.3.2. Capital injections in public corporations

Introduction

Prior to the mission, SD provided an extensive list on capital injections for the period 2012-2015, by year and by beneficiary as well as by their recording in national accounts. Capital injections can be recorded either as non-financial transactions (expenditure) with impact on government deficit or as acquisition of equity without impact on government deficit.

Discussions and methodological analysis

During the discussions, Eurostat requested some additional information on some specific transactions such as capital injections into quasi corporations. In the note sent prior to the visit, SD mentioned that quasi corporations normally record surpluses, but there are also cases when they record losses. In case such entities are recording losses for a period of five year consecutively, these units are reclassified inside general government. Eurostat recalled that according to MGDD rules, a three year period of losses is already a sufficient condition to reclassify the units inside general government and SD should not wait five years until they reclassify a unit.

Eurostat further discussed some specific other operations presented in the table provided prior to the mission such as the capital injection recorded into Dong Energy of 942 mill in 2014. Eurostat recalled that this operation was extensively discussed in the April 2016 Notification. As presented in the annual report for 2014, the company recorded in 2014

important losses of 5,6 billion DKK and therefore, according to the capital injection test, this capital injection had rather the features of a capital transfer. Nevertheless, at that time, it was explained, that central government owns 58,8% of DONG's shares while the remaining shares are owned by private shareholders. The shares amounting to 942 mill DKK acquired by central government in 2014 were part of a total issuance of shares amounting to 13 billion DKK. In this context, Eurostat pointed out that despite the losses recorded by the company, the amounts injected by government could be considered as acquisition of equity due to the fact that the government participated in the acquisition under the same conditions as the private partners, which injected 12 bill DKK in the company. SD confirmed that, indeed, the private shareholders as well as the government expect a positive return on their capital invested despite the temporary losses of the company. Furthermore, DONG Energy A/S is planning to seek quotation on the stock exchange before the end of the first quarter of 2017. Eurostat also mentioned that in the table provided prior to the mission, the 556 million injected by government in 2014 into Metroselskabet are still presented as a capital injection. In 2014, Metroselskabet was a loss making company and this is reflected in the negative equity of the company as shown in the financial report. According to the MGDD rules, in case a company records losses, if government injects equity, this should be recorded as a capital transfer. Eurostat considered that the injected capital of 556 million from central government as well as the additional 660 million injected into Metroselskabet by the municipality of Copenhagen should be recorded as capital transfers. SD confirmed that they reclassified both injections into Metroselskabet as capital transfers with impact on government deficit. In the table provided, the transaction from 2014 was still kept as a capital injections because the reclassification was not yet implemented due to the national constraints of the revision policy, but this will be implemented in the November 2016 version of GFS used for the April 2017 EDP notification.

In the second part of the discussion, Eurostat focused on the capital injection test for local government. SD explained that, for local government, they do not perform the capital injection test due to the fact that there is no sufficient information on the transactions and not enough human resources for such a task. Therefore, the capital injection test is done at a more aggregated level, taking into account the characteristics of groups of entities. The equity injections are based on local government accounting standards for 98 municipalities and 5 regions, where the transactions are defined as “purchase/sale of shares” in the local government accounting system. As a consequence, all the capital injections at local government are considered financial transactions without any impact on deficit figures. In the accounts of municipalities there is some information provided on the branch of activity in which the transaction occurred. For instance, it can be identified whether the equity was injected in branches such as heating, hot water supply, renovation, etc. Eurostat stressed that in a note sent on 11 January 2016, SD explained that the main data source for capital injections is accounting data from the 98 municipalities, which is collected in a standardized format. Eurostat asked whether it could be possible in the future to perform the capital injection test at least for the sizeable transactions in order to see whether these are financial or non-financial. SD stressed that this will not be possible because to analyse each transaction for local government will require too much time and the amounts concerned are not significant. Furthermore,

Eurostat required additional information on the equity injection into “Vækstfonden” of 545 million DKK in 2015 as well as on the conversion of hybrid capital into shares in Aarhus Lokalbank in 2014 and other recent years.

Findings and conclusions

Action point 19 (previous action point 20):

SD will analyse the conversion of loans into shares, amounting to around 2 bill DKK, taken place in the recent years in relation to bank recapitalisations while applying the existing capital injection rules. Deadline: April 2017 notification¹⁷.

Action point 20 (previous action point 21):

SD will investigate the equity injection made by government into Vækstfonden in 2015, in order to confirm that this operation should be recorded as a financial transaction. Deadline: October 2016 notification¹⁸.

4.3.3. Public Private Partnerships and concessions

Introduction

Prior to the mission, SD sent to Eurostat an updated list of all the PPP-projects in Denmark. There were about 12 PPP projects which all relate to construction of public buildings such as public schools, city courts, police stations or office buildings. The contractual capital value of these projects is rather small, except for Kalvebod Brygge which relates to the construction of office buildings and have capital value of approx. 1.900 million DKK (around 0,1% GDP). All the PPPs in Denmark are currently recorded off balance sheet.

Discussions and methodological analysis

Prior to the mission, SD sent a note on the Kalvebod Brygge project as well as an analysis of the risk distribution between the public and the private partners. The construction phase of the project runs until 1st of June 2018 and the operation phase ends 1st of June 2038. Eurostat asked about the rationale for this PPP as well as for the other PPPs projects to be classified off government’s balance sheet. SD explained that they had analysed the risk distribution between the public and the private partners and concluded that the PPP projects should be recorded off balance sheet due to the fact that most of the risks are borne by the private partner and not by government or any other public entity. Before analysing in detail the distribution of risks, Eurostat asked whether all PPPs contracts in Denmark have similar features. SD confirmed that indeed a kind of standardised contract is used for all the PPPs, therefore the distribution of risks as well as

¹⁷ Action point implemented. The central government loans converted to shares in Vestjysk Bank were reclassified as capital transfers.

¹⁸ Action point implemented. SD’s investigations confirm that the equity injection made by government into Vækstfonden in 2015 remains classified as a financial transaction.

other aspects included in the different contracts are similar. Eurostat asked whether the projects were analysed taking into account the information included in the annexes of the contract. Eurostat mentioned that, prior to the mission, Eurostat required a copy of the contract in order to better analyse the provisions stipulated in the contract. SD provided to Eurostat the contract, nevertheless without the annexes which are essential for analysing the technical details such as penalties in case of default, early termination clauses, etc. SD explained that the annexes were not provided by the company and they were not aware that the technical details included in the annexes are relevant for the risk analysis. Eurostat highlighted that the annexes are essential because they better describe the actual risks including concrete information on the calculation of potential penalties, while the contract stipulates rather general rules. Eurostat agreed with SD that the new PPPs projects will be reanalysed taking into accounts the recent MGDD updates as well as the technical information included in the annexes of the contract.

Findings and conclusions

Action point 21 (previous action point 22):

In relation to the PPP project Kalvebod brygge, SD will provide Eurostat with Annex 3 and 7 of the above-mentioned contract as well as with a new analyse of the project in the light of the information included in these annexes. Deadline: End of February 2017¹⁹.

4.3.4. Financial derivatives

The item was already discussed under point 4.2.4 Interest on swaps. No other relevant aspects were discussed on financial derivatives.

4.3.5. Guarantees

Eurostat thanked SD for the progress regarding the data for guarantees for local government, which are now integrated in the EDP questionnaire and available since 2013 onwards. Nevertheless, Eurostat also pointed out that regarding the publication of data on contingent liabilities on guarantees, Denmark fulfils just partially the requirements, due to the fact that there are no data available for standardised guarantees of local government. Eurostat asked whether it might be possible for the future to have such data. SD confirmed that for the moment such data are not available and no progress in this respect is envisaged.

4.3.6. Debt assumptions, debt cancellations and debt write-off

SD confirmed that currently there are no such operations.

¹⁹ A note was provided by SD in January 2017, nevertheless the discussion on its implementation is still on-going.

4.3.7. Dividends, Super dividend, Privatization.

Introduction

Prior to the mission, Eurostat requested a note on the dividends paid by individual companies to government for the period 2012-2015 as well as on the super-dividend test for 2015.

Discussions and methodological analysis

Eurostat thanked for the detailed tables on dividends and mentioned that some problematic aspects were noticed while comparing the amounts of dividends paid by some companies to government. Notably, Eurostat raised the issue on the significant amount of dividends paid in 2013 by Nordsøfonden. Eurostat pointed out that the annual report of the company showed for 2012 a profit of 2,054 bill DKK, nevertheless the company paid in 2013 an amount of 3300 mil of dividends. Eurostat asked whether this case was analysed by SD as it looks like a clear case of super dividend. Eurostat stressed during the discussions that in line with the rule stated in the MGDD the dividends paid to government in a year N should be strictly compared to the profits/losses of the previous year (N-1) and should not be the result of a cumulated profit from the previous years (N-3 and/or N-2). The dividends which exceed the profits of year N-1 should be recorded as super-dividends and treated as a financial transaction without impact on deficit (withdrawal of equity F.5). SD never recorded a superdividend. There are cases in the Member States when public companies are paying dividends to government which are exceeding their profit using some own reserves or sometimes there are upfront payments or interim dividends. These payments should usually be recorded as super-dividends. SD explained that they did not analyze such cases because there are national legal acts which stipulate that companies are not allowed to pay out dividends to general government without a sufficient surplus. Eurostat mentioned that sometimes corporations may choose to pay dividends for example by using reserves, but in national accounts this should be considered as super-dividends and therefore should be recorded as financial transactions. Corporations and government can agree on flows on payments between years, but according to national accounts rules such payments are financial in case the operating profit is less than the dividend.

Eurostat pointed out that not just Nordsøfonden seems to be in this situation, but also some other units such as Sund og Bælt. While checking the annual report of the company for 2014, the profit of the company was around 200 mill DKK, nevertheless the company paid 900 mil DKK dividends in 2015. SD explained that for Sund og Bælt Holding A/S the operational cost was quite low compared to the dividends, but this is due to the particularity of the unit. The unit operates as a holding company, thus receiving huge dividends from the other units in the group. Nevertheless, when looking at the operational cost of the unit, this does not include the financial income. Therefore, looking at the isolated operational costs, the results could be misleading. Looking at the operational costs for the group as a whole, the company recorded a significant profit.

It was agreed during the discussions that SD will examine the amounts of dividends paid in 2012-2015, comparing their amounts with the operational profit of the concerned companies in order to identify possible super-dividends. In this context, SD explained that there are some uncertainties about what should be the concept used for the calculation of the super-dividend test and whether it should be the operating profit, the entrepreneurial income or distributable income. Eurostat agreed to come back to SD with some additional clarifications on several aspects concerning the super-dividend test. Furthermore, Eurostat asked some details on the significant amount of dividends paid to local government in 2012 and whether SD investigated these amounts. SD explained that the super dividend test is not performed at local government level and it is difficult to determine the dividend payments by individual company. Finally, Eurostat also mentioned that it noticed that, in 2013, the National Central Bank recorded significant losses, nevertheless, in 2014, 1, 400 bill DKK dividends were paid to the government. SD agreed to investigate this issue and to provide a feed-back on its analysis to Eurostat.

Findings and conclusions

Action point 22 (previous action point 23):

SD will examine the amounts of dividends paid in 2012-2015, comparing their amounts with the operational profit of the concerned companies in order to identify possible superdividends, which should be recorded as financial transactions. Deadline: Mid-November 2016²⁰.

Action point 23 (previous action point 24):

SD will analyse the amounts of dividends paid by the National Central Bank to government in 2014 in order to determine whether there is a super-dividend component. Deadline: Mid- November 2016²¹.

- 4.3.8. Disposals of non-financial assets by general government. Sale and leaseback operations. UMTS.

No issue under discussion.

- 4.3.9. Re-routing of transactions, assets and liabilities through government accounts

No issue under discussion.

- 4.3.10. Carbon trading rights

Prior to the mission, SD sent a note on the recording of carbon trading rights explaining that the method recommended by the Manual on Government Deficit and Debt could be

²⁰ Action point implemented.

²¹ Action point implemented.

applied by SD only by the end of May or beginning of June each year. The problem with applying the method is that Statistics Denmark cannot distinguish, from the amount of the surrendered permits, those allowances issued for free and those allocated through auctions. Instead, the “first-in-first-out” method, as described in the MGDD 2016, is applied. Eurostat agreed with this treatment and additionally asked whether the revenue issued from the sale of permits is included in the working balance. SD confirmed that this revenue is included in the working balance.

4.3.11. Others: EU flows, military expenditure, securitisation and pension issues

No issue under discussion.

4.4. Important issues relevant for the October 2016 EDP Notification

SD informed Eurostat, prior to the mission, about a possible fraud with reimbursed dividend taxes to non-residents. SD explained that, according to the latest information, a total of 12.3 billion DKK had been wrongfully reimbursed to non-residents during the period 2012-2015. SD stressed that there is not much information available for the moment because the case is being investigated by the State Prosecutor for Serious Economic and International Crime. However, it is known that requests of reimbursement were not backed by actual holdings of stocks or bonds. Furthermore, it is known that around 2.1 billion of the 12.3 billion DKK has been traced, and part of this amount may be transferred back to the Danish government. SD stressed that, as a consequence of the wrongful reimbursements, the net taxes calculated have been underestimated in the national accounts for the years 2012-2015, which led to an underestimation of the tax burden. SD explained that the recording of these reimbursed dividend taxes will be implemented in November 2016. Eurostat asked when the rest of the potential recovery will be recorded. SD explained that the amounts should be recorded in the year of retrieval, i.e. 2016 or later. Eurostat agreed with the proposed recording.

Findings and conclusions

Action point 24 (previous action point 12):

Eurostat and SD agreed that, if part of the 12.3 bn DKK tax on dividends, incorrectly reimbursed to non-residents during the period 2012-2015, will be repaid to government, the amounts will be recorded on a cash basis at the moment of recovery and recorded as "other capital transfer" to government.

5. Other issues

5.1. ESA2010 Transmission Programme relating to the GFS tables

No issue.

5.2. Compliance with Council Directive 2011/85

Concerning the compliance with Directive 2011/85 on national budgetary frameworks, in particular in the field of statistics, it has been mentioned during the discussions that an assessment of the compliance with the directive was already performed by Eurostat. Eurostat checked the information provided in the methodological reconciliation table as well as the monthly fiscal data for central government and social security funds and the quarterly fiscal data for local government. In Denmark, the Agency for Modernization of Public Administration (part of the Ministry of Finance) collects and publishes the relevant fiscal data on a dedicated website²². During the discussions, Eurostat pointed out that the methodological reconciliation table does not really fulfil the requirements recommended by the task force on the implications of Council Directive 2011/85 on the collection and dissemination of fiscal data. The table published nationally does not explain the transition between cash-based data and data based on the ESA 2010. Regarding the publication of data for contingent liabilities, notably for liabilities of government controlled entities classified outside general government, Eurostat pointed out that there are some inconsistencies between the data published at national and European level. The data published nationally include also the liabilities of the National Central Bank while Eurostat data does not include the liabilities of National Central Banks. It was agreed that SD and Moderniseringsstyrelsen will consider the presentation of the methodological reconciliation table and ensure that all requested data are published according to the task force recommendations. In addition, Moderniseringsstyrelsen also agree to check the data on liabilities of public corporations published nationally and try to find a way to present this data which ensure consistency between the European and national publication.

Findings and conclusions

Action point 25 (previous action point 19):

In relation to the Directive 2011/85, SD and Moderniseringsstyrelsen will agree on the presentation of the methodological reconciliation table and ensure that all requested data are published accordingly. Deadline: December 2016.

5.3. Any other business

At the end of the discussions, Eurostat asked about the existence of concessions or Energy Performance contracts (EPCs). SD confirmed that there were no such contracts in Denmark.

²² <http://www.modst.dk/Regnskab/Regnskabstal/Statslige-regnskabstal>

Agenda

Statistical capacity issues

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

1.1.1. Institutional cooperation and EDP processes

1.1.2. Upstream issues. Audit and internal control arrangements

1.2. Data sources and revision policy

1.2.1. Data sources for central (extra-budgetary accounts), local government and social security funds

1.2.2. Revision policy

1.2.3. EDP inventory

Follow-up of the EDP dialogue visit of 24-25 September 2014

Follow-up of the April 2016 EDP reporting – analysis of EDP tables

3.1. EDP tables

3.2. Depreciation of tax arrears

Methodological issues and recording of specific government transactions

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

4.1.1. Implementation of the new MGDD (2016 edition). State of play

4.1.2. Practical implementation of the market/non-market test:

-Depreciation of assets

-Interest paid

4.1.3. Changes in sector classification since the September 2014 EDP visit

4.1.4. Questionnaire on government controlled entities classified outside the general government sector

4.1.5. Discussion of specific cases

Stock Oil Agency

Metroselskabet

4.2. Implementation of the accrual principle

4.2.1. Accrual taxes. Recording and estimation of taxes unlikely to be paid

- 4.2.2. Recording of possible refunding of land taxes
- 4.2.3. Social contributions
- 4.2.4. Recording of compensation of employees and holiday allowances
- 4.2.5. Accrued Interest. Interest on swaps.

4.3. Recording of specific government transactions

- 4.3.1 Government transactions supporting financial institutions
- 4.3.2 Capital injections in public corporations. Capital injection test at central and local level
- 4.3.3 Public Private Partnerships and concessions
- 4.3.4 Financial derivatives
- 4.3.5 Guarantees
- 4.3.6 Debt assumptions, debt cancellations and debt write-offs
- 4.3.7 Dividends, Super dividend, Privatization
- 4.3.8 Disposals of non-financial assets by general government. Sale and leaseback operations. UMTS
- 4.3.9 Re-routing of transactions, assets and liabilities through government accounts
- 4.3.10 Carbon trading rights
- 4.3.11 Others: EU flows, military expenditure, securitisation and pension issues

4.4. Important issues relevant for the October 2016 EDP Notification

5. OTHER ISSUES

5.1. ESA2010 Transmission Programme relating to the GFS tables

5.2. Compliance with Council Directive 2011/85

5.3. Any other business

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