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EUROPEAN COMMISSION
EUROSTAT

Directorate D: Government Finance Statistics (GFS) and quality
Unit D-2: Excessive deficit procedure (EDP) 1

Luxembourg,

FINAL FINDINGS

<u>EDP dialogue visit to Lithuania</u>

17-18 May 2018

Executive Summary

Eurostat carried out an EDP dialogue visit to Lithuania on 17 and 18 May 2018. The purpose of the visit was to review institutional responsibilities in the field of government finance statistics (GFS) including EDP reporting and data sources for the EDP data compilation. In addition, Eurostat also reviewed the implementation of the ESA2010 methodology, in particular for the delimitation of general government as well as in the recording of specific government transactions and the application of the accrual principle.

First, the institutional arrangements currently in place were reviewed. There have been important legislative changes, most notably a new Law on Statistics. Eurostat was informed of the upcoming entry of Lithuania as Member of the Organisation for Economic Co-operation and Development (OECD) which will bring some impact on the work of Statistics Lithuania.

During the discussion of technical matters, Eurostat followed-up the results of the 2016 EDP dialogue visit and the April 2018 EDP notification. As a result, Eurostat invited Statistics Lithuania to reclassify or re-route some transactions. Eurostat also discussed in detail transactions related to the railway company, including new investment projects. A major point discussed was the sector classification of the Public Investment Development Agency (VIPA), an outstanding point from the 2016 EDP dialogue visit. Eurostat agreed to maintain the current classification but invited Statistics Lithuania to re-route transactions done by VIPA on behalf of government.

The EDP dialogue visit was also used by Eurostat to highlight certain aspects related to the market/non-market test and the super-dividend test, including the impact of EU grants, transactions with related parties and revaluation gains or losses. Standard items of EDP dialogue visits were also discussed. Among these, the participants discussed the recording of taxes and social contributions, interest and derivatives, among others.

Eurostat thanked the Lithuanian statistical authorities for the co-operation prior and during the mission.

Provisional findings

Introduction

In accordance with article 11(1) of Council Regulation (EC) No 479/2009, as regards the quality of statistical data in the context of the Excessive Deficit Procedure (EDP), Eurostat carried out an EDP dialogue visit to Lithuania on 17 and 18 May 2018.

The delegation of Eurostat was headed by Ms. Lena Frej Ohlsson, Head of the Excessive Deficit Procedure I Unit. Eurostat was also represented by Mr Luca Ascoli and Mr Francisco de Miguel. The Lithuanian authorities were represented by Statistics Lithuania (SL), the Ministry of Finance (MoF) and the Bank of Lithuania (BoL). Representatives of the DG ECFIN and the European Central Bank (ECB) also participated in the meeting as observers.

The previous Eurostat EDP dialogue visit to Lithuania took place on 19 and 20 May 2016.

Eurostat carried out this EDP dialogue visit in order to review institutional responsibilities in the field of government finance statistics (GFS) including EDP reporting and data sources for the EDP data compilation. In addition, Eurostat also reviewed the implementation of the ESA2010 methodology, in particular for the delimitation of general government as well as for the recording of specific government transactions and the application of the accrual principle.

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 SL. 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 information provided by the Lithuanian authorities prior to the EDP dialogue visit. Eurostat also thanked the Lithuanian authorities for the co-operation shown during the mission and consider that the discussions were transparent and constructive.

1. Statistical capacity issues

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

Introduction

SL is a government agency assigned to the Ministry of Finance (MoF) and is responsible for preparing the EDP notification tables. There is no single EDP unit in Lithuania. EDP data are compiled by the Government Finance Statistics (GFS) Division of the SL alongside the Fiscal Surveillance Division of the Financial Policy Department of the MoF. The Bank of Lithuania (BoL) is not directly involved in the compilation of EDP figures.

SL, the MoF and the BoL meet regularly in the Working Group on Sectorization to discuss the sector classification of units. Although there is no separate working group for EDP and GFS matters as such, methodological issues may be raised in the Inter-institutional Macroeconomic Statistics Experts group which is chaired by SL and includes representatives for the NSI, the MoF, the NCB, the Ministry of Economy and some other institutions.

The GFS Division of the SL was established on 3 December 2012. It counts with 7 staff (previously 8). From 1 March 2018 the Ministry of Finance (MoF) has a new structure, without any impact on the number of specialists working with EDP tables.

Discussion and methodological analysis

SL did a presentation on some recent events which had influenced SL's work, in particular a new Law on Statistics which should strengthen the coordinating role of SL and which would enter into force on 1 June. This legal text makes it clear that national guidelines are considered as regulations and covers the work both of SL and the BoL, including the right of free access to administrative records. SL also referred to other events such as the upcoming entry into the OECD by end of May and changes to the territorial units for statistical purposes (NUTS-2 level). As a result, the work on social statistics will increase. Other two new legal texts with influence over SL are the Law on civil service and the Law on public administration.

The impact of all these changes will also be reflected in a new organisational structure to be defined in the coming months.

Eurostat thanked the presentation and asked some questions about the influence of the new legal texts in strengthening the role of SL and guaranteeing its access to necessary data. SL explained that these two aspects are well covered by the new law.

After this presentation, Eurostat discussed the division of labour as regards EDP statistics. SL confirmed that the MoF is responsible for all actual and planned data in EDP Notification tables 2 A-D with the exception in respect of B.9 of public corporations, public health care and public higher education institutions for subsectors S.1311 and S.1313. For these units, B.9 is calculated by the SL and provided to the MoF which includes them in the calculations of EDP tables 2A and 2C.

SL confirmed the information submitted to Eurostat prior to the mission as regards interinstitutional cooperation arrangements.

- The agreement with the MoF ("the Schedule for the provision of Statistical information on the General Government Deficit, Debt and other Macroeconomic Statistics") was updated on 5 December 2016. SL is responsible for compiling government debt statistics according to IMF requirements and public debt statistics according to OECD requirements. In addition, SL confirmed that the agreement will be modified to reflect the recent changes to the structure of the MoF.

- The cooperation with the BoL is regulated by the Agreement for the Provision of Statistical Information and Data (approved on 8 December 2009 and updated on 21 December 2016).

- S.1314: Cooperation with State Social Insurance Board (SODRA) is regulated by the Agreement for the Provision of Statistical Information and Data (approved on 16 April 2014 and updated on 20 December 2017). The last update addressed the availability of data of the Guarantee Fund and the Long-term Work Benefit Fund.

Eurostat and SL discussed the situation with other public institutions. SL confirmed that there is no formal agreement with the Court of Auditors. Nevertheless SL receives information from audits which can have impact on GFS, usually via MoF. Most of the data which SL and MoF use for EDP purposes are audited.

Eurostat also enquired about the staffing arrangements. SL confirmed that it considers that the new law on statistics has strengthened its role and improved the guarantees over access to administrative data. Thus, SL considered that the number of staff (6 during the visit) is adequate and did not anticipate further reductions once the new organisational structure is approved. The MoF expressed the same view. Both SL and MoF agreed that rather that the number of staff, the main challenge was the training of newcomers. Eurostat reminded SL and MoF of the EDP training offer included in the ETSP program. SL indicated that it was also using the training offer of the IMF which presents some cost advantages over ETSP training courses. SL and Eurostat agreed on the need to stress the relevance of national staff dedicated to GFS in higher political fora such as the EFC. SL considered that this recognition goes hand in hand with the public interest on fines on national authorities for failing to comply with their reporting obligations.

Findings and conclusions

Action Point 1: Eurostat takes note that the Order of MoF and Director General of SL (the Schedule for the provision of Statistical information on the General Government Deficit, Debt and other Macroeconomic Statistics) is regularly updated. SL will send to Eurostat a copy of the forthcoming order once available.[1]

1.2 Data sources and revision policy, EDP inventory

Introduction

Generally, "public accounts" are basic source data for GFS compilation (EDP tables as well as annual and quarterly accounts for general government). Public accounts are used by public units and refer to accounting records and related accounting outputs (e.g. financial statements) based on the accounting framework defined by the national legislation.

[1] Action point completed on 29 June.

From January 2010, all budgetary entities apply the **Public Sector Accounting and Financial Reporting Standards (PSAFRS)**. PSAFRS are based on International Public Sector Accounting Standards (IPSAS). The scope of the public sector is not the same as in the general government sector. The accounting system provides accrual based financial statements. The standards foresee that financial statements are produced on a quarterly basis by the entities of the public sector. The MoF prepares annual State and National consolidated financial statements. The MoF is responsible for bookkeeping standards and monitors quality (internal quality, consistency checks and validation of the financial statements). The MoF uses the Public sector accounting and reports consolidation information system (VSAKIS) database.

Public corporations use the accrual bookkeeping system according to the Business Accounting Standards (BAS). There are no significant differences in accounting standards used by state and municipal enterprises, and joint stock and limited companies.

Quarterly and annual financial statements of state enterprises and other central government controlled companies and annual financial statements of local government controlled companies are collected by the state register.

Discussion and methodological analysis

SL presented its new quality policy which also applies to MoF and BoL. The three institutions approve an annual working plan. SL described that there was a mutual understanding between the three institutions and that changes were adopted when necessary without major incidences. For instance, the MoF and SL recently agreed that the compilation of public debt figures for OECD and GFS statistics for the IMF would be taken over by SL from MoF. This cooperation at technical level is reflected in experts meetings where observers are invited when necessary. Minutes of these meetings are shared among participants and published on the intranet of SL.

SL emphasised the work of two meeting groups, one on sectorisation issues and one on macroeconomic statistics (which meets on a quarterly basis). The latter is considered very relevant by SL as an additional source of information.

In addition to these meeting fora, SL also organised intra-SL weekly meetings which are used to assign responsibilities and to share relevant information among services.

Eurostat asked SL whether it has full access to the public sector accounting and report consolidation information system – VSAKIS. SL confirmed that it has full access. SL also explained that this was particularly useful to calculate B.9 of public health care and public education institutions.

SL noted that it also has access to individual financial statements of public corporations which are obtained from a database maintained by the state register ("Registrų centras"). The SL also collects financial statements of public institution Lithuanian Radio and Television on request.

Eurostat and SL discussed the possible use of IPSAS data for compiling government sector statistics. Eurostat recalled that during the 2016 EDP DV visit, SL had explained that even though IPSAS data was available for S.1311 and S.1313 it had concluded that using IPSAS data for compiling government sector statistics was not feasible. SL confirmed that this was still its assessment. Eurostat reminded SL that if it decided to change it in the future, SL should alert Eurostat with sufficient time to prepare the change and discuss together the impact on the information disclosed in EDP notification tables (as done for example when Estonia implemented it for central government during the April 2018 EDP notification).

Eurostat and SL discussed the revision policy. SL explained that there were no changes in revision policy since last EDP dialogue visit. In the April EDP Notification the deficit of general government sector is revised for the year t-2. In the October EDP Notification the deficit of general government sector is revised for the years t-1 and t-2. The debt is revised only in the cases of reclassification of units in general government sector or updated data sources. SL confirmed that, in any case, its policy is to consider that all years included in a notification are open for correction when necessary.

The timetable for finalising and revising of non-financial and financial accounts is September – October for the years t-2.

Eurostat enquired about the next benchmark revision. SL explained that it intends to do it in two steps. Firstly, in 2018 it will launch the review of some data series. Secondly, in 2020 it intends to finish the revision of GNI (series 1995-2010). There was an intense discussion about the impact of the two steps approach. SL explained it aims to facilitate the exercise and that it will soon clarify which items (data series) are to be revised. SL explained that it was considering a materiality approach (e.g. less than 0.1% correction can be neglected) but insisted that its final analysis was not yet completed.

SL confirmed that the first step should be completed by 2019.

Eurostat and SL discussed the impact on the consistency of national accounts data and EDP data due to different reporting deadlines. For example, ESA tables 2, 8 and 25 and quarterly table 1. Eurostat emphasised the importance of paying sufficient attention to the special nature of EDP data (e.g. used for surveillance purposes), but also to the consistency among different tables.

In this regard, Eurostat insisted on the need to ensure full consistency between EDP table 2 and ESA table 25. SL replied that there is a need to introduce some time tolerance to achieve consistency between EDP and national accounts data (e.g. 2-3 months). SL also wondered whether different reporting dates are really needed and thus, whether an alignment of the transmission programs may facilitate consistency.

Eurostat noted that transmission deadlines are often the result of compromises among Member States and that some relevant users need the most recent data (e.g. ECFIN to monitor the compliance with the Stability and Growth Pact ceilings).

Eurostat and SL also discussed the national publication of fiscal data in accordance with the requirements set by Council Directive 2011/85. Eurostat noted that the information published at national level was consistent with the EDP information except for the 'Information about participation of general government in the Capital of corporations'. The value reported for the total of participations for 2016 amounted to 8,355 million euro while the value of holdings of equity and investment fund shares in questionnaire table 10.1B is 6,139 million euro for 2016. Eurostat enquired about the main sources of differences and SL confirmed that it will investigate the difference. As regards the information on PPPs included in questionnaire table 11.1, the MoF publishes data of one off balance sheet PPP contract as the other two PPP contracts are on balance sheet in national public accounts.

Findings and conclusions

Action Point 2: SL will send to Eurostat a copy of the minutes of the last meeting of the Interinstitutional Macroeconomic Statistics Group which includes representatives for the SL, the MoF and the BoL. Deadline: End of May 2018[2]*.*

Action Point 18: Eurostat takes note that SL will do its next benchmark revision in 2019. In this context, SL will review the sector classification of all government controlled entities. Deadline: June 2019.

Action Point 22. SL will review the main sources of difference between the information published at national level on the value of general government participation in the capital of corporations in year 2016 and the figure reported in EDP questionnaire table 10.1B. Deadline: October 2018 EDP notification.

2. Follow-up of the EDP dialogue visit of 19-20 May 2016

Introduction

Following the 2016 EDP DV, Eurostat issued 15 action points, all were implemented by the time the final report was published except for:

(2016) Action Point 4: Statistics Lithuania will analyse the need to re-route some specific transactions that took place between the Lithuanian Railway company (Lietuvos Geležinkeliai) and the Lithuanian Shipping Company (Lietuvos jūrų laivininkystė) and between the Vilnius Heating municipal enterprise (Vilniaus Silumos Tinklai) and Air Lituanica and report back to Eurostat. Deadline: October 2016.

SL informed by email on 30/09/2016 that it did not consider any rerouting was necessary.

(2016) Action Point 6: Eurostat considers that, according to its current structure, VIPA should be classified in the general government sector as, amongst other elements, the majority of the Board is composed of government employees. However, given the ongoing plans to change the management and role of VIPA, Eurostat will make a final decision on the sector classification after having analysed the impact of the future changes. Deadline: end of December 2016.

The sector classification of VIPA will be covered under section 4.1.4 Sector classification of specific units.

(2016) Action Point 13: Eurostat takes note that the acquisition of military equipment is at present basically recorded on a cash basis in Lithuania. Statistics Lithuania will make efforts to improve access to the necessary source data needed for recording government military expenditure on an accrual basis. A progress report will be submitted to Eurostat. Deadline: end of December 2016.

SL replied in December 2016 that SL and the MoF had started collaboration with the Ministry of Defence (MoD) and that MoD agreed to provide the data on the purchases of the military equipment on an accrual basis.

[2] Action point completed on time.

Discussion and methodological analysis

Eurostat recalled the circumstances underlying the 2016 Action Point 4. Lithuanian Railway Company (Lietuvos Geležinkeliai) had granted a 3 million euro loan to the Lithuanian Shipping Company (Lietuvos jūrų laivininkystė) in August 2015. SL was informed that the loan was granted at commercial terms and with real guarantees (a ship).

Eurostat enquired whether the terms of the loan were being honoured by the Lithuanian Shipping Company. A representative of the Lithuanian Railway Company confirmed that the loan had been written off.

Eurostat also recalled the circumstances underlying the 2016 Action Point 6. The municipal enterprise Vilnius Heating Company (Vilniaus šilumos tinklai) had granted loans for a total of 2.1 million euro to the bankrupt municipal enterprise Air Lituanica. These decisions were taken by the previous management team. In 2015 these loans were written-off. Auditors of Vilnius municipality concluded, that these transactions are inconsistent with the law (Civil Code of the Republic of Lithuania). Thus, in 2016 Vilnius šilumos tinklai initiated legal proceedings against the individuals who approved the loans.

Eurostat enquired about the outcome of the legal proceedings. SL did not have additional information about these proceedings and whether the amounts have been recovered.

Following these discussions, Eurostat recommended SL to timely assess the recording of loans between public companies, notably when the companies operate in different business and one of them is under financial distress. In these circumstances, Eurostat considers that a prudent approach is to consider the loan as being done on behalf of government unless it can be proven that this is not the case.

As regards military expenditure, Eurostat enquired about some differences observed between military expenditure on equipment reported on EDP tables and its own estimates based on information obtained from the latest available statistical reporting from NATO on military expenditure. Eurostat enquired whether SL receives the data submitted to NATO for statistical reporting. SL confirmed that it does not receive it. Once some methodological differences between the two data sets were detected and corrected, SL was able to explain Eurostat how the two data sets are largely coincident.

Eurostat and SL also discussed why P.51g reported for all years under COFOG 0201 is significantly higher than deliveries in EDP questionnaire table 7. SL confirmed that COFOG 0201 includes not only machinery and equipment, but also buildings and intangible assets. SL has limited access to raw data but Eurostat enquired about the significantly increase in intangible assets from 2013 and some inconsistencies in the information provided to Eurostat as regards the State budget subtotals for 2013 and 2014 which were explained by the impact of LTL/EUR conversion.

Findings and conclusions

Action Point 3: SL will reclassify the capital injections into AB Lietuvos Geležinkeliai (the railway company) as non-financial transactions impacting B.9 by about 0.7 million per year for the 2014-2017 period. Deadline: October 2018 EDP notification.

Action Point 4: SL will review the market/non-market test for AB Lietuvos Geležinkeliai (the railway company) in order to ensure that the depreciation costs are fully included in the calculation. Deadline: October 2018 EDP notification.

Action Point 5: SL will re-route the loan of 3 million euro from AB Lietuvos Geležinkeliai to the Lietuvos jūrų laivininkystė (Lithuanian Shipping Company), granted in August 2015, as a government loan to be followed by debt cancellation in 2015. Deadline: October 2018 notification.

Action Point 6: SL will re-route the loans from Vilniaus Silumos Tinklai (Vilnius Heating Company) to Air Lituanica, granted in the period 2013-2015 for a total of 2.1 million euro, as government loans to be followed by debt cancellation in 2015. Deadline: October 2018 notification.

Action Point 7: Eurostat recalled the principle that in general, if a public company classified in S.11 is providing loans to another public company in difficulties which operates in a different sector, it can be presumed that this is done on behalf of government. Deadline: ongoing.

3. Analysis of EDP tables - follow-up of the April 2017 EDP reporting

Introduction

During the April 2018 notification, Eurostat had some minor points which proposed to include in the agenda of the 2018 EDP DV visit. These points were the recording of EU flows, the recording of interest and a transaction in the capital of a company.

Discussion and methodological analysis

a) EU flows

In EDP table 2A there is an item line within the block 'non-financial transactions not included in the working balance" which includes the money recovered from final beneficiaries of EU grants.

SL confirmed Eurostat the recording of EU flows. The amounts recovered from beneficiaries are the result of irregularities or unused funds. These amounts are then re-used to finance projects in the same programming period.

SL explained that in order not to have any impact on B.9 there is an adjustment done in EDP table 2A. SL confirmed that the recovered amounts are not included in the working balance of State budget.

b) Table 3A, recording of interest

In EDP table 3A there is an adjustment due to "different between interest (D.41) accrued(-) and paid(+)". The adjustment is positive for the years 2013-2017 which implies that for all these years the paid interest has exceeded the accrued interest by 199 million euro.

SL and Eurostat discussed the reasonability of this adjustment. Eurostat agreed with SL that in a context of reduction in interest expenditure, it is not surprising to have positive adjustments. However, Eurostat noted that the adjustments from 2015 are relatively high (44, 60 and 47 million euro for 2015, 2016 and 2017). For the sake of clarity, SL proposed to discuss this issue within the sub-section in interest recording under section 4. Eurostat agreed.

c) *Acquisition of shares of the Lithuanian Central Credit Union (LCCU).*

Eurostat enquired about the characteristics of the capital increase of LCCU. MoF confirmed that shortly after the subscription of the shares, LCCU and the government had signed a redemption agreement with states when the shares will be bought back by LCCU. This agreement also states the remuneration (fixed) and other covenants. Eurostat enquired further details to determine whether the two events should be considered as a single transaction. After analysing different characteristics, Eurostat shared its opinion that the capital increase and the redemption agreement should be assessed as a single transaction.

Considering that the remuneration and the duration are fixed, Eurostat confirmed that the instrument has the characteristics of a loan rather than these of equity. Therefore, Eurostat confirmed the assessment made by SL and confirmed that the operation should be recorded as F.4 (loans) rather than F.5 (equity).

Findings and conclusions

Action Point 15: Eurostat agrees with the SL that the injection by government into the Lithuanian Central Credit Union should be classified as a loan (F.4) and not as equity (F.5).

4. Methodological issues and recording of specific government transactions

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

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

Introduction

Eurostat published a new MGDD (2016 edition) on 4 March 2016. Several chapters were significantly affected. Prior to the mission, Eurostat requested SL an update on the implementation of the changes.

Change		Comments
Part I	I.2.3 Concept of a government-controlled institutional unit	*Implemented*
	I.2.4.3 The quantitative market/non-market test	*Implemented.*
	I.2.4.4 Public units in liquidation	*Implemented*
	I.2.4.5 Rearranged transactions	*Implemented*

Change		Comments
	I.2.4.7 Specific case of public TV and radio broadcasting	*Not relevant. Mandatory payments does not exist in Lithuania.*
Part II	II.5.2. Treatment in national accounts (military expenditure)	*Implemented with ESA2010.*
Part III	III.3 Capital injections into public quasi-corporations	*We have no public quasi-corporations in Lithuania .*
	III.7 Impact on government accounts of transfer of decommissioning costs	*Implemented with ESA2010.*
Part VI	VI.3 Contracts with non-government units related to fixed assets	*Implemented*
	VI.4 Public-Private-Partnerships	*No new PPP contracts signed.*
	VI.5 Emission trading allowances	*No final decision on recording of Emission trading allowances. It is still unclear how to record ETL on accrual basis.*
Part VII + Part IV	VII.4. Government guarantees (VII.4.1 and VII.4.2) + IV.5.2.4 Treatments followed when government is only involved by its guarantee	*Implemented with ESA2010.*
Part VIII	VIII.3 Recording of swap	*Implemented with ESA2010.*

Discussion and methodological analysis

Eurostat took note of the current status and welcomed the work done by SL in this respect. As regards the recording of emission trading allowances, Eurostat and SL agreed to discuss this point under item 4.3.5 of the agenda.

4.1.2. Application of the market/non-market test in the context of ESA2010

Introduction

SL submits a Questionnaire on government controlled entities every year. The content of this questionnaire was analysed prior to the mission by Eurostat which proposed to discuss some companies.

Discussion and methodological analysis

<u>Baltic Post</u>

Eurostat enquired SL about Baltic Post, a subsidiary of AB Lietuvos pastas, the national post company. According to the information included in the public corporations questionnaire, Baltic Post has passed the market test during the last three exercises (102%, 87% and 68%).

However, Eurostat noted that the financial statements for AB Lietuvos pastas for 2016 included a reformulation of the 2015 accounts due to the deterioration of the financial situation of its subsidiary Baltic Post. The reformulation of the accounts was supported by an independent valuation of the recoverable value of investment and loan granted to UAB Baltic Post. The reformulated accounts included impairment charges for a total of 12.3 million euro (4.7 million euro for non-tangible assets and 7.6 million euro for an outstanding loan). As a result of the reformulation, AB Lietuvos pastas incurred in a net loss of 10.7 million euro after tax for 2015 (-47% ROE).

The financial statements of AB Lietuvos pastas show that the equity of Baltic Post is negative as of 31.12.2016.

The losses of AB Lietuvos pastas for 2015 have not been included in the relevant section of EDP Questionnaire table 10.2.

Eurostat enquired whether SL uses qualitative criteria to reclassify public companies which pass the market test. Eurostat noted that Baltic Post has negative equity and Eurostat questioned why it was not reclassified. Eurostat also asked SL why the losses of AB Lietuvos pastas for 2015 were not reported in questionnaire table 10.2. SL answered to both questions that it was not aware of the reformulation of the financial accounts and of the financial situation of Baltic Post and asked for some time to verify the situation.

Findings and conclusions

Action Point 14: Eurostat recalled the importance of disclosing public companies reporting large losses in table 10.2 of the EDP questionnaire. Deadline: ongoing.

4.1.3. Changes in sector classification

Introduction

Prior to the visit, SL informed Eurostat that there were only two changes in sector classification since the last EDP DV: Regitra and the Gurantee Fund. SL also informed about the new social security fund – Long term Work Benefit Fund.

Following the 2016 DV visit (Action point 8), the public company Regitra was reclassified to general government in 2016. Payments for registration of motor vehicles are recorded as taxes.

The Guarantee Fund was reclassified from S.1311 to S.1314 in 2017. The administration of the Guarantee Fund was transferred from the Ministry of Economy to the State Social Insurance Fund (SODRA). The new social security fund – Long-term Work Benefit Fund was also classified in S.1314. These two funds are closely linked to social security.

While contributions to Guarantee Fund were previously recorded as taxes; from 2017 they are recorded as social contributions.

Discussion and methodological analysis

Eurostat took note of the changes in the sector classification. Eurostat enquired SL about the possible existence of ancillary units of S.1313 and whether SL has implemented a systematic review of the sector classification of all units. SL confirmed that it regularly reviews possible ancillary units but noted that for S.1313 it is sometimes difficult to get all the necessary information.

4.1.4. Sector classification of specific units (including AB Lietuvos Geležinkeliai and VIPA)

Introduction

Eurostat included in the proposed agenda of the visit a review of the sector classification of AB Lietuvos Geležinkeliai and VIPA.

In the case of AB Lietuvos Geležinkeliai, Lithuanian's railway company, Eurostat explained that it was conducting an EU-wide review of railway companies. As regards VIPA, Eurostat and SL had already discussed its sector classification during the 2016 visit but no decision was taken in view of the proposed changes to the governance structure of VIPA.

Discussion and methodological analysis

<u>AB Lietuvos Glezinkeliai</u>

SL confirmed that the public company Lietuvos Geležinkeliai is classified in S.11. All members of the board are independent. The main activities of the company are freight and passenger transport. It has always passed the market-non market test.

Eurostat and SL discussed the details of the market/non-market test. SL confirmed that the test is performed as described in EDP Inventory: revenue from sales of the unit is divided by its production costs. The sales include the revenue from the sale of goods (from the profit and loss statements). Production costs include: costs of goods sold (cost of sales), other operating expenses (selling, general and administrative expenses) and net interest charges. Other subsidies on production (D.39) are not deducted.

The results of market-non market tests done by both Eurostat and SL for 2014-2016 are consistently around 100%. Eurostat explained that in its calculations, it had adjusted subsidies for public sector obligations. SL confirmed that it also excludes such subsidies from the calculation and noted that the amounts were relatively low.

Eurostat also enquired the representatives of the company about the nature of a regular financial transaction included in the EDP questionnaire table 2.1. According to this table, the government has acquired equities in AB Lietuvos Geležinkeliai for a value of approximately 0.7 million euro annually in the period 2014-2017. The representatives of the company confirmed that the purpose of these transactions was not to increase share ownership, but rather to compensate expenses incurred by the company in the management of the Rail Baltica project on behalf of government[3].

After a brief analysis of this information, Eurostat and SL agreed that these transactions are not financial transactions.

Eurostat also discussed the impact of EU funds as AB Lietuvos Glezinkeliai is an important beneficiary of EU grants, mainly in support of investments in railway infrastructure. For example, in 2016 the company received 31,4 million euro from EU structural funds to finance public railway infrastructure projects. EU funding comes from different instruments including Neighbourhood, Framework Program, Ten-T, Cohesion fund or the Internal Safety Fund. According to local legislation, the legal owner of most of the railway infrastructure is the State but Eurostat and SL agreed that AB Lietuvos Geležinkeliai is the economic owner of these assets in the sense of ESA2010.

Representatives of AB Lietuvos Geležinkeliai explained that the depreciation expenses were presented in the financial statements as net of investment grants. Eurostat reminded SL that the market/non-market test should be done after correcting anomalies due to investment grants by, for example, including gross depreciation expenses instead of net depreciation expenses. SL agreed with Eurostat.

Eurostat noted that the value of EU grants may increase in the future depending on who is the owner, and thus beneficiary, of the assets built in Lithuania for the Rail Baltica project. The project is beneficiary of the EU TEN-T programme (for 2014-2020 TEN-T was replaced by Connecting Europe Facility (CEF)). Eurostat noted that the expected investment and the volume of grants can be so significant as to alter the result of the market/non-market tests of AB Lietuvos Geležinkeliai if it is found to be the economic owner of the assets.

The Ministry of Transport and Communications and AB Lietuvos Geležinkeliai explained that the design the Lithuanian part of the project is not final (basically the project is still at the design stage) and that it is still unclear who will be the owner of the funded assets. Eurostat also enquired about the debt incurred by Rail Baltica, The representatives of AB Lietuvos Geležinkeliai explained that the debt of Rail Baltica was around 255 million euro, mainly loans from the EIB and the Nordic Bank. SL confirmed that this debt is considered debt of the Rail Baltica holding company, a Latvian legal entity.

Lastly, Eurostat reminded SL that if AB Lietuvos Geležinkeliai pays a dividend in the future, SL should correct the impact of the investment grants before performing the super-dividend test.

VIPA

Following the publication on 21 July 2017 of the final findings of the EDP dialogue visit to Lithuania on 19-20 May 2016, the sector classification of the Public Investment Development Agency (VIPA) was left pending further analysis (see Action Points 6 and 7). VIPA is one of the three national institutions engaged in financial support (the other two, Invega and the Agricultural Credit Guarantee Fund are classified within S.13).

[3] Lithuania participates together with Estonia and Latvia in the implementation of the international transport project Rail Baltica which aims at connecting Warsaw, Kaunas, Riga, Tallinn and Helsinki by European gauge railway line, a priority project of the Trans-European transport network (TEN-T).

VIPA is fully owned by the government (100%) and the representation of the shareholder's rights is done by the Ministry of Finance. It became operational in April 2013. VIPA is currently classified in sector S.126 as a financial auxiliary and the Lithuanian statistical authorities considered that this classification should remain.

During the 2016 visit, SL and Eurostat expressed different views on the sector classification of VIPA. Eurostat was of the opinion that VIPA should be reclassified inside general government but agreed to postpone a final decision in view of the envisaged changes on the governance structure of the company.

Representatives of VIPA explained to Eurostat the current situation. From January 2018, civil servants do not hold the majority of the supervisory board. The management board does not include any civil servants, only VIPA staff. The MoF confirmed that the selection of the new independent member of the supervisory board is ongoing.

Eurostat considered that the changes are relevant for the sector classification and that once finally implemented will strengthen VIPA's autonomy of decision.

Eurostat, thus, proposed to analyse the genuine nature of VIPA activities, and notably who are its 'clients'. Eurostat noted that according to its 2016 annual report, VIPA's income consists of the management fees received for its functions as 'financial intermediary' (52%) and as a fund manager (48%):

- The business of VIPA as 'financial intermediary' is associated to two JESSICA funded activities corresponding to the 2007-2013 structural funds financing period, the multi apartment building renovation (modernization) programme and the renovation (modernization) of dormitories of schools of higher education and vocational training institutions.

- The business of VIPA as fund manager comes from the role of VIPA as manager of two funds which were established using the allocations of the 2014-2020 structural funds: the Fund for Modernisation of Multi-apartment buildings (DNMF) and the Energy Efficiency Fund (ENEF).

Thus, Eurostat recalled that 2016 **VIPA's revenues are explained by its role in the implementation of structural funds initiatives, in particular financial instruments, in Lithuania.** It is also worth noting that the fees are not paid by the final recipients of the financial instruments (loans, guarantees, equity), but are billed against the funds provided by the EU: de facto, the fees are thus paid by the EU.

Eurostat also noted that a similar conclusion is reached by analysing VIPA's assets and liabilities. For example, whereas the balance sheet of VIPA shows as financial assets the loans granted for the renovation of multi apartment buildings and the dormitories (the two JESSICA funded activities), note 3 to the financial statements clearly states that these are not the property of VIPA, that VIPA's role is limited to the administration of the loans and that VIPA is obliged to transfer to the EIB the amounts received from these loans.

In addition, VIPA is also evaluating grants on behalf of government, an activity funded by the government which covers the costs of two staff dedicated to this activity.

Eurostat enquired VIPA about its role as fund manager of DNMF and ENEF. This was found to be potentially relevant for the statistical analysis, **as these two contracts were awarded to VIPA following an exceptional procedure which permits entrust implementation tasks to "financial institutions established in a Member State aiming at the achievement of public interest under the control of a public authority"** (EU Regulation 1303/2013, Article 38.4).

This exception is allowed if the contracting authority (MoF) exercises a control over the legal person concerned (VIPA) similar to that which it exercises over its own departments and if the controlled legal person carries out more than 80 % of its activities in the performance of tasks entrusted to it by the controlling contracting authority, as stated in the Directive 2014/24/EU (Article 32). The Commission has detailed in its 'Guidance for Member States on the selection of bodies implementing financial instruments' (2016/C 276/01) that this control has to be effective and that it is not enough to be the majority shareholder.

Prior to the mission, SL indicated that due to changes to the Law on public procurement in 2017, from July, 2017 VIPA no longer meets the criteria to be selected through the in-house procedure. Therefore, in any future possible establishments of the financial instruments, the in-house procedure will no longer be possible.

Eurostat noted that at the time of the 2016 EDP dialogue visit VIPA fulfilled all the conditions to be classified within S.13 but that in view of the ongoing transformation of VIPA, Eurostat considered prudent to postpone a decision. In May 2018, some of the changes have been implemented but the business transformation of VIPA has not yet taken place, with most of the current business of VIPA being related with activities conducted on behalf of government.

SL emphasised that the analysis should consider that VIPA is doing new activities which have not been fully reflected in VIPA's financial statements:

- In May, 2017 VIPA obtained a loan from the European Bank for Reconstruction and Development (EBRD) to finance (provide sub-loans) modernization of multi-apartment buildings. VIPA has no state guarantee for this loan.

- In addition, VIPA is in the process to establish an investment platform for energy efficiency project financing in the private sector (encompassing energy efficiency and renewable energy projects). The investment platform is an initiative developed by VIPA with no inclusion of any ministry or the government. The investment platform is going to be financed from private resources only. VIPA is taking the risks as a General Partner in the Limited Partnership Fund. Because the investment platform is going to be financed by private resources only, the financing conditions are going to be market conditions. Neither European structural funds nor national budget is going to finance the platform. VIPA has selected the first investor to the platform and is in the process to negotiate the agreement of investment.

Eurostat took note of the new business and asked some questions to clarify the nature of the new business. As regards the loan from the EBRD, Eurostat noted that the press release issued by the EBRD indicated that the loan is also linked to structural funds as the aim was to leverage available EU structural financing. According to this design, VIPA will only be exposed to losses on this loan if these exceed the amounts received from the structural funds.

As regards the investment platform, Eurostat noted that it is too early to assess a platform still on the negotiation and design state and noted that all EFSI investment platforms will be reviewed in due time by Eurostat. It also reminded that structural funds may be channelled through investment platforms.

Finally, SL indicated that the proposal for the Law on National Promotional Institutions has been submitted to the Parliament. According to this legislative proposal, VIPA would receive the status of a national promotional institution and would fall under the supervision of the independent supervisory institution, i.e. VIPA will be supervised by the Bank of Lithuania.

SL indicated that this status should facilitate its objective of attracting private financing, minimizing the use of national budget resources and encouraging synergies between market players. VIPA representatives also expressed confidence that the new businesses should materialise soon.

On the basis of these arguments and on the basis of the recently recent stated developments, Eurostat considered that the best approach for the moment was to maintain VIPA outside general government but re-route all activities conducted on behalf of government.

Findings and conclusions

Action Point 8: SL will monitor the development and coordinate the statistical recording of the construction works of the new rail transport infrastructure project (Rail Baltica) with Statistics Estonia and Statistics Latvia. Deadline: progress report April 2019.

Action Point 19: Eurostat agrees that, taking into account the recent changes to its corporate governance and business activities, VIPA could remain classified in the financial sector. However, given the nature of some activities, a re-routing should be done for those activities undertaken on behalf of government. Eurostat will make a proposal on the activities to be re-routed. Deadline: August 2018.

4.1.5. Questionnaire on government controlled entities classified outside general government

Introduction

The discussion on this point was based on the latest "Questionnaire on government controlled entities" provided by SL to Eurostat.

Discussion and methodological analysis

Eurostat enquired SL about some of the entities included in the questionnaire. The discussion revealed that some missing values were explained by the dormant/inactive status of some entities. SL and Eurostat discussed the possible actions when assessing dormant companies. While the MGDD call for a reclassification depending on the results of the market-test, Eurostat considered that in some cases, for example bankruptcy procedures, SL should anticipate the reclassification and not wait for new data to perform the market test.

Findings and conclusions

Action Point 13: Eurostat recalled that public companies which are either dormant or in liquidation should be reclassified in government immediately, as they do not comply anymore with the 50% market/non-market test. Deadline: ongoing

4.2. Implementation of the accrual principle

4.2.1 Accrual taxes and social contributions

Introduction

SL obtains the information on national taxes and other revenue from MoF. Administrative data sources are on cash basis. **For value added tax and excises, a time adjusted method is applied** (one month time lag). For the taxes paid once a year and irregular taxes, it is assumed that cash is equal to the amounts accrued. Reimbursements and refunds as well as interest on late payments are recorded together with the corresponding tax, when it is paid. Fines and penalties are recorded separately from taxes as other revenue.

Employer's actual social contributions, employees' social contributions, social contributions by self-employed and non-employed persons recorded in the State Social Insurance Fund (SODRA) accounts are based on **assessments**.

Discussion and methodological analysis

Eurostat and SL discussed the evolution of the stocks and flows related to social contributions and taxes in the EDP questionnaire tables 4.1.1, 4.1.2, 4.2.1, 4.2.2 and 5. Eurostat enquired about the relatively high amounts of receivables which do not seem to be fully explained by the payment schedule, at least as described in the EDP Inventory.

MoF and SL explained some of the characteristics of the payment schedule and requested some more time to verify the consistency of the changes in stocks with the payment schedule. SL also agreed to verify the increase in social contributions receivables between 2014 and 2015.

Eurostat also enquired about the methodology for estimating amounts unlikely to be collected. In particular it enquired about the administrative burden of estimating these amounts at individual level and whether the methodology is adjusted following the economic cycle (i.e. it is more likely to collect past-due taxes during periods of strong economic growth as the current one). MoF and SL requested some time to review the methodology.

Eurostat and SL also discussed the timing of a one-off debt cancellation between central government and social sector. The debt-cancellation was stated in the 2018 Budget Law which entered into force on 1 January. The transaction is neutral at the level of general government.

Eurostat and SL discussed whether the debt cancellation should have been recorded as of 31 December. SL explained that the MGDD requires that the recording of a debt cancellation has to done when the liability is actually removed from the debtor's balance sheet. As the liability was effectively removed from SODRA's balance sheets on the 1st of January 2018, SL considered that the debt cancellation in the national accounts should be recorded in the 1Q 2018. Eurostat indicated that an asset (a loan) is considered an asset when it entitles economic rights to its owner and that, in this case, it is doubtful the loan could be considered as an asset as of 31 December. Both Eurostat and SL agreed that there are arguments in favour of the two possible time recordings and Eurostat agreed that the recording of the debt cancellation as of 1Q 2018 is consistent with the recording in Lithuania's financial statements.

SL and Eurostat also discussed the recording in 2017 of a new transaction by which the central government was transferring money to the social security sector to compensate a reduction on the employers' social contributions. Eurostat had indicated in 2017 that as the reduction was general and not targeted, it considered that the recording should reflect lower contributions and thus, lower revenues. Consequently, SL and Eurostat agreed that the transfers from the State Budget to the Social Security Fund should be recorded as current transfers (as these transfers are consolidated there is no impact at general government figures, but only at sub-sector level).

Findings and conclusions

Action Point 16: SL will verify whether the relatively high amounts of receivables for social contributions are explained by the payment schedule. Furthermore, SL will also investigate the underlying reasons for the significant increase in receivables for social contributions between 2014 and 2015. Finally, SL will verify that the amounts considered unlikely to be collected are correctly recorded and whether the underlying methodology for estimating these has been changed. Deadline: October 2018.

Action Point 17: SL will confirm that the recording of taxes adequately reflect the economic reality. In particular, for corporate income taxes, SL will assess the proportion of pre-payments and the final assessment after submission of annual corporate income tax returns by 15 June (t+1). Deadline: October 2018 EDP notification.

4.2.2. Accrued interest, consolidation

Introduction

The MoF provides SL with the data on interest expenditure on state debt securities and loans for S.1311. Data for local government are not directly available and SL relies on estimations. Data for social security funds are obtained from financial reports of the State Social Insurance Fund (SODRA). Data on interest revenue are obtained from the MoF. Information on interest received on deposits (only cash), loans and debt securities is available.

In EDP tables 2 adjustments for accrued interests reported under the item “Difference between interest paid and accrued” only refer to interest expenditure. In EDP tables 2 and 3 accrued interest adjustments recorded in the lines “Difference between interest paid and accrued” are consistent and no adjustments are necessary in order to reconcile figures.

Discussion and methodological analysis

Eurostat enquired about the consolidation of interest revenue and expenditure. SL confirmed that interest revenue and expenditure on loans granted from central government are consolidated. Interest revenue and expenditure on government debt securities held by central government bodies are also consolidated. Data obtained from the MoF are used for consolidation of all subsectors.

Eurostat and SL discussed the recording of discounts and premiums on government securities and the impact on EDP table 2. SL confirmed that discounts and premiums are recorded on cash basis and these flows in EDP table 2 are neutralised in the line "Difference between interest paid (+) and accrued (EDP D.41)(-)". Discount/premium is spread over the life of the instrument. It is possible to identify the discount payment from the repayment of debt in debt management system. In national accounts premiums are recoded as negative expenditure.

Eurostat asked SL about some differences observed between a detailed table on interest recording provided prior to the visit (general government) and EDP table 3A. SL recognised that there were some differences in stock and flows of discounts/coupons and requested some time to review and modify, if necessary, these tables. After discussion with Treasury officials, the MoF and SL indicated that there is a risk that the figures of coupons sold were duplicated and requested some time to review the data. Eurostat encouraged SL to finalise the review on time for the October 2018 EDP notification.

Findings and conclusions

Action Point 9: SL will review the consistency of the recording of interest in EDP tables and questionnaire tables and will verify that information on coupons (stock and transactions) is adequately reflected in EDP tables. Deadline: October 2018 EDP notification.

4.3 Recording of specific government transactions

4.3.1. Guarantees

Introduction

After some changes during the April 2018 EDP notification, the questionnaire tables on guarantees are fully consistent. The total stock of guarantees as of 31.12.2017 is 408.4 million euro. Most are standardised guarantees (300.7 million euro) which include guarantees for student loans and guarantees issued by public corporations Agricultural Credit Guarantee Fund and INVEGA.

Discussion and methodological analysis

SL provided prior to the mission the list of one-off guarantees. Eurostat and SL discussed the nature of the some of the guarantees included in the list.

4.3.2. Capital injections in public corporations, dividends, privatisations

Introduction

Prior to the visit, Eurostat requested the list of capital injections for the last three years and updated information on dividends.

Discussion and methodological analysis

During the period under review, the most important capital injections by central government were done in VIPA (F.5) and AB Lietuvos Geležinkeliai (F.5). The list of capital injections by local government shows a different pattern as virtually all are considered capital transfer (D.9). Eurostat considered that recognising as D.9 capital injections for which SL did not have sufficient information even to identify the beneficiary was adequate and a prudent measure.

Eurostat enquired SL about some differences between the **dividend** figures provided by SL prior to the mission and the ones provided for the April 2018 notification. For 2015, EDP questionnaire table 10.2 states that dividends were 93 million euro but SL detailed 89 million euro. For 2016, the EDP questionnaire table 10.2 includes 132.3 million euro but SL detailed only 139.6 million euro. SL explained that the difference between the dividends received and the data used for the super-dividend test is mostly explained by the effect of the distribution of interim dividends.

UAB Lietuvos Energija

Eurostat and SL discussed the super -dividend of UAB Lietuvos Energija included in the April 2018 EDP notification. SL confirmed that it used individual financial statements for the calculation, deciding not to use consolidated financial statements (an opportunity proposed by Eurostat during the February 2018 Task Force and agreed by Member States).

Eurostat and SL discussed the impact of using individual financial statements for the super-dividend test. In particular, Eurostat recalled the importance of analysing the nature of the company's income when doing a super –dividend test. Using the specific case of UAB Lietuvos Energija, Eurostat noted that subsidiaries having paid dividends to UAB Lietuvos Energija in 2017 may have done revaluations or disposal of business in 2016. This was, for example, the case of one company which Eurostat and SL discussed with some detail. Although the overall result of the super-dividend test was not affected, Eurostat and SL agreed on the importance of taking into account the impact of any other source of income which should be adjusted for the calculation of the entrepreneurial income.

For example, Eurostat noted that, in this case, the subsidiary had sold part of its business to another company of the group in 2016. In other words, the transaction was done between entities of the same group. Eurostat noted that this type of transactions requires further analysis as in some cases this may permit the seller to book a gain and pay a larger dividend. Eurostat recalled the importance of analysing the transactions with related parties.

Eurostat noted that the company was also the beneficiary of EU grants and recalled that the impact on individual accounts of EU grants should be considered when doing the super-dividend test. As the impact of EU grants on the B9 for general governement should be neutral, the impact of EU grants should be carefully assessed when performing the super-dividend test.

Findings and conclusions

Action Point 21: Eurostat recalled that the super-dividend test should consider the impact of transactions with related parties, the source of received dividends and other potential adjustments to the declared income. Deadline: ongoing.

4.3.3. Debt assumptions, debt cancellations, debt write-offs and government claims

Introduction

Prior to the mission, Eurostat requested some information about government's claims, debt cancellations and debt write-offs.

Discussion and methodological analysis

Eurostat enquired SL about some government claims included in the list provided prior to the mission. Eurostat enquired SL and the MoF about the situation of non-performing loans. The MoF indicated that it had to confirm whether interest on non-performing loans continues to be accrued until a decision is taken to cancel the debt, when both outstanding principal and unpaid interest are cancelled[4]. In national accounts, the debt cancellation is recorded as capital transfer.

Findings and conclusions

Action Point 12: Eurostat recalled that, if a public company is not paying interest on government loans and it is unlikely that it will do so in the future, interest should not be accrued. If interest was recognised in the past, a capital transfer should be recorded for both outstanding principal and outstanding interest at the moment of the debt cancellation or at the moment in which it becomes clear that it will not be paid. Deadline: ongoing.

4.3.4. Military expenditure recording

Military expenditure recording was discussed under section 2.1.

4.3.5. Other: derivatives, payment for the use of roads, emission permits.

Introduction

Prior to the mission, Eurostat requested some information on, among others, PPP and concession contracts and emission permits. Eurostat also included in this section other topics which were not addressed in previous sections and that were considered relevant for the objectives of the mission: derivatives, payment of the use of roads and energy performance contracts (a joint request by SL and VIPA).

Discussion and methodological analysis

<u>Derivatives</u>

According to the information published by the MoF, approximately one third (34.5% as of 31.12.2016) of the central government debt is in foreign currency. The MoF also states that the limit for 2017 established by the government was that 100% of the debt should be in euro, after financial derivatives. In all the EDP notifications there were no operations announced with derivatives except for April 2017, when Lithuania reported swap cancellations.

The EDP inventory states that all swaps were in line with the market rates at the moment of trade (market values were zero) and that in public accounts interest payments from swaps are recorded as expense. It also details that there is no adjustment in the EDP table 2A and that in national accounts interest payments from swaps and FRAs are recorded on cash basis.

[4] After its review, the MoF informed SL that interest on non-performing loans is not accrued. The MoF also indicated that this issue only affects a few companies.

Eurostat noted that for the years 2014-2017, the item of net incurrence of liabilities in financial derivatives in table 3A has a zero value. For the same period the item net acquisition of financial assets / financial derivatives have values of -11, -335, -111 and -95 million euro.

SL confirmed that in national accounts interest related flows are recorded on a net basis under asset side. The difference between stocks, which are obtained from the NCB, and transactions, which are provided by the MoF, is recorded in revaluation account. There have not been thresholds applied for swap operations.

Payments for the use of roads

Lithuania has a road tax system since 2007. It works via vignettes which can be electronic or in paper. There are annual, monthly, weekly or daily rates. According to the EDP inventory, the payments for the use of roads will generally be classified as a sale of a service in the case of tolls. They will also be classified as a sale of a service in the case of vignettes whenever users have sufficient choice both in terms of selecting specific roads and of choosing a determined length of time for the vignette.

Eurostat and SL discussed the recording of the road vignettes. SL confirmed that income from the vignettes is recorded as payments for other non-market output (P.131) in the central government sub-sector (S.1311). It also confirmed that collected revenue is ring-fenced for maintenance of this type of roads (highest category).

Emission permits

During the April 2017 EDP notification, SL informed Eurostat that it was still unclear how to record emission trading allowances (ETL) on accrual basis.

Lithuania is an exporter of ETL. In other words, the number of permits issued by Lithuania is too large to be consumed internally. From 2005 to 2017 Lithuania has issued 105.320 ETL for free and it has sold 24.927 ETL. During the same period, companies have surrendered only 82.738 ETL permits.

The recording approach stated in MGDD 2016 (VI.5 Emission trading allowances) aims to record the payments related to emission allowances only in the year of surrender of the permits. As in Lithuania the number of permits given for free exceeds the number of permits sold, this would have implied no revenue recorded in national accounts.

Instead, Lithuania has received 144 million euro from the sale of ETL permits since 2011. SL has consistently recorded these transactions as sales of non-produced assets.

Eurostat acknowledged that the existing recording approach is not suitable as it does not consider that permits are fungible and may be used in other Member States. Eurostat recognised that the approach is not neutral when a Member State is structurally an importer or an exporter of ETL. That is the case of Lithuania, which is clearly a net exporter.

Eurostat acknowledged that the cash proceeds from the auction of emission permits are recorded as sales of non-produced assets and reminded SL that this recording does not comply with the MGDD 2016. Eurostat invited SL to be more active in the discussions at the EDPS WG on the change of the recording system. Eurostat recalled the diagnosis of the state of play of ETL recording among Member States in the December 2017 EDPS WG and in the

February 2018 methodological task force and invited SL to be active in the discussion to be held during the June 2018 EDPS WG.

Public Private Partnerships and Concessions

SL and Eurostat discussed a list of foreseen PPP and concession contracts provided by SL prior to the mission.

Eurostat enquired about some of the foreseen PPP and concession contracts. After a first presentation of all contracts, Eurostat enquired about one concession contract which involved a municipality and expressed some doubts about the wide scope and design. SL and the MoF explained that the contract was still at a very early stage and that they considered that it was not likely to be implemented after the municipality was alerted of some flaws in the design.

As regards an ex-ante request sent to Eurostat on 14 May 2018, the Lithuanian national authorities explained the purpose of the contract which was based on a PPP contract already assessed by Eurostat. Eurostat noted that, after a very preliminary reading, it had found that the provision on force majeure was not exhaustive. SL agreed to prepare an analysis comparing the proposed contract with the previous one in order to facilitate a speedy analysis.

Eurostat reminded that the last assessment of a PPP contract was done in 2017 and referred to a contract signed before the publication of the latest guidance on PPP contracts. Thus, Eurostat recommended considering the proposed contracts under the new guidance, even when assessing contracts very similar to ones which have been found to be off-balance sheet by Eurostat in the past. SL confirmed that this was already the case.

Eurostat and SL also discussed the list of concession contracts. Eurostat reminded SL of three important points to consider when assessing these contracts, the nature of the concessionaire, whether there is any government's financing (or guarantees) and the existence or not a minimum revenue guarantee. Eurostat and SL discussed how these points should be considered for the contracts in the list. Eurostat recalled that SL can demand ex-ante advice when necessary.

Energy performance contracts

Lithuanian authorities introduced models of *new energy service company* (ESCO) contracts to be used by VIPA. Eurostat asked VIPA representatives about these contracts. After an exchange of views on the contracts, Eurostat noted that the drafting of these contracts did not seem to have considered the latest available guidance.

Eurostat recalled national authorities that the 'Guidance note on the revised treatment of Energy Performance Contracts in government accounts' issued in September 2017 has been followed by a "Practitioner's Guide" published on 8 May 2018.

VIPA representatives thanked Eurostat for the advice received and confirmed that they will work on the contracts and, likely, request advice from Eurostat once finalised.

Findings and conclusions

Action Point 10: The MoF will send to Eurostat a note detailing the changes between the latest PPP contract assessed by Eurostat (PPP Vilnius County Headquarter and Custody *infrastructure) and the forthcoming PPP contract (PPP Panevezys County Police Headquarters) in order to facilitate a speedy analysis. Deadline: Beginning June 2018*[5].

Action Point 11: Eurostat will analyse the proposed PPP contract (PPP Panevezys County Police Headquarters) and provide its ex-ante advice. Deadline: 15 July 2018[6].

Action Point 20: VIPA will send the new energy service company (ESCO) contract model to SL to seek confirmation from Eurostat on its alignment with the recently published Eurostat/EIB Guide on statistical treatment of Energy Performance Contracts (EPCs). Deadline: December 2018.

5. Other issues

5.1. ESA2010 Transmission Programme relating to the GFS tables

Eurostat and SE agreed to follow-up bilaterally any outstanding GFS issue if necessary. Eurostat thanked SL for its efforts to regularly provide GFS voluntary information.

[5] Information received by email on 1 June 2018.
[6] Information sent by email on 5 July 2018.