

18 OCTOBER 2005

**ADMINISTRATIVE ARRANGEMENTS IN RELATION TO DRAFT COUNCIL REGULATION
AMENDING REGULATION 3605/93 AS REGARDS THE QUALITY OF THE DATA IN THE CONTEXT
OF THE EXCESSIVE DEFICIT PROCEDURE**

1 Introduction

Article 104 of the Treaty on European Community establishes that Member States shall avoid excessive government deficits, and that the Commission shall monitor the development of the budgetary situation and of the stock of government debt in the Member States. The Protocol on the Excessive Deficit Procedure (EDP), annexed to the Treaty, establishes *inter alia* that the statistical data for the implementation of the EDP shall be provided by the Commission. It also states that Member States should report on their planned and actual deficits and the levels of their debt. The Commission does not directly compile these data but relies on data compiled and reported by the national authorities.

The detailed rules of the Protocol are specified in Council Regulation n° 3605/93. The terms used in the Protocol and in the Regulation, notably those of government, deficit and debt, are defined in accordance with ESA95, established also by a Council Regulation (2223/96), which is the statistical reference system. Council Regulation 3605/93 organises the notification procedure by the Member States to the Commission of the budgetary figures within a specific and regular time framework, described in the section 2 below. As a compendium of practical cases and of interpretative decisions, the Eurostat's Manual on Government Deficit and Debt also contains relevant definitions and accounting rules as a complement to the ESA95 accounting rules.

The ECOFIN Council of 18 February 2003, following an initiative from the Commission, adopted a Code of Best Practice for the compilation, the transmission and publication of data for the purposes of the EDP (hereafter the Code of Best Practice), in order to clarify the procedures at the level of the Member States and of the Commission.

The Commission adopted on 22 December 2004 a Communication to the European Parliament and the Council "Towards a European strategy for fiscal statistics governance" in order to improve the quality of fiscal statistics. The three lines of action included in this Communication are completing the legal framework, developing the operational capacity, and work towards minimum European standards.

In order to follow the first line of action, the Commission adopted on 2 March 2005 a proposal for a Council Regulation amending Council Regulation 3605/93 as regards the quality of the statistical data in the context of the EDP. In essence, the proposed Regulation is about securing from a legal point of view existing good practices (as laid down in the Code of Best Practice), aiming at a more systematic approach for the dialogue with Member States, and bringing more transparency and accountability to the whole process through the publication of the data reported by Member States, the inventories, and the mission reports. The measures proposed in the Council Regulation also allow for methodological visits in addition to the dialogue visits which are currently carried out, and for the mobilisation of all of the existing expertise in this field in order to assist the Commission in the fulfilment of the tasks enshrined both in the Treaty and in the Protocol on the EDP.

The proposal has already been extensively discussed by the Council Working Group Statistics. Moreover, it has been the object of an opinion of the European Parliament, and it has incorporated in its latest version the conclusions of the ECOFIN Council in June 2005. The current UK Presidency has decided to bring the proposal to the ECOFIN Council in November 2005, as part of the so-called “statistical package”.

In the conclusions on EU statistical governance adopted on 7 June 2005, the ECOFIN Council expressed the view that further precisions for the conduct of possible methodological visits were expected in an upcoming Commission document on these visits, and that the practical modalities would have to be discussed with the relevant fora. Finally, the Council concluded that these modalities would be made public when the Council regulation is adopted.

This document is the response to the invitation by the Council. These administrative arrangements describe how Eurostat plans to implement Council Regulation 3605/93, as amended, in particular sections 3 and 4 (quality of data and provision of data). The document has benefited from comments provided by the members of the CMFB.

These arrangements are an administrative document. Since this document only describes how a legal act adopted by the Council will be implemented, it is not the subject of any further approval by the Member States or by the Council. It does not constitute a legal act. However, in case experience shows that this document needs to be revised, Eurostat will discuss any possible revision with Member States and duly take into account their comments.

After this introduction, the second section of this document covers the rules and coverage of reporting of data by Member States. The third section is devoted to quality assessment, and deals with the provision of inventories, dialogue visits and the treatment of complex methodological cases. The fourth section relates to the provision of data by Eurostat and describes those conditions where Eurostat might express a reservation on the quality of the data transmitted by Member States. The fifth section describes the methodological visits in the framework of a process improvement plan where a reservation on the quality of the reported data has been introduced. Sections six and seven deal with the role of Member States in the process, and on legal acts related to Council Regulation 3605/93.

2 Rules and coverage of reporting of data by Member States

2.1 Schedule of reporting

Member States shall report to the Commission their planned and actual government deficits and levels of government debt twice a year, the first time before 1 April of the current year (year n) and the second time before 1 October of year n. These deadlines have been revised in the amending Regulation in order to ensure consistency with the deadlines for ESA transmission programme and other government-related legislation. They will imply in the future some amendments in the ESA95 transmission programme.

2.2 Template for data reporting

Member States transmit the data required by Regulation 3605/93 according to a pre-defined set of reporting tables. These tables were established by the Commission services (DG ECFIN and Eurostat) after comments by the CMFB. The latest revision dates of June 2003. The

request for the data transmission is made by DG ECFIN, which transmits to the correspondents in Member States a cover note together with the set of reporting tables. These tables are sent by Member States back to the relevant services in DG ECFIN, which coordinate with Eurostat.

The Commission has the intention to consult the Member States and duly take into account their views before any significant change to the layout of these tables.

2.3 Issues on data reporting

It is essential for the data assessment carried out by Eurostat that Member States adhere to the notification dates, that the tables are filled completely, and that the data notified are internally consistent and also consistent with other ESA-related data. This assessment should take into account possible different criteria and sources that might be used to provide ESA-related data.

Where the notifications are not reported in time according to the Regulation, the tables are not complete, or the data reported are not internally consistent or consistent with other ESA government-related data, Eurostat will inform the Economic and Financial Committee. If these problems seriously hinder the assessment of the quality of the data reported Eurostat might eventually introduce a reservation in its data provision (see section 4.2 below). Moreover, the Commission (Eurostat) might take further action in case these problems are continuously detected over time.

2.4 Revisions

Member States will inform the Commission, as soon as they are available, of any major revision in their actual and planned government deficit and debt figures already reported. Major revisions in the actual figures already reported shall be properly documented. In any case, revisions which result in the reference values as specified in the relevant Treaty Protocol being exceeded, or revisions which mean that a Member State's data no longer exceeds the reference values, must be reported and properly documented. This is already envisaged in the Code of Best Practice.

While the initiative of transmitting a revised set of reporting tables (or of those tables covered by the ESA transmission programme) belongs to the Member States, the Commission services may invite Member States to transmit revised tables in the context of the data assessment.

2.5 Publicity

According to Article 8 of the draft Council Regulation amending Regulation 3605/93, Member States will make public the actual deficit and debt data and other data for past years reported to the Commission in accordance with the Regulation.

The Commission understands that such a provision implies the publication of data and information in the reporting tables for past years and relevant accompanying materials, and not only the headline figures, in order to foster transparency and accountability into the system. Moreover, this obligation implies that the Commission services have the possibility of publishing the data for past years.

3 Quality of data

3.1 Inventories

Detailed inventories on the methods, procedures and sources used for the compilation of actual deficit and debt data and the underlying government sector accounts have to be provided to the Commission. They will be prepared in accordance with guidelines adopted by Eurostat after consultation of the CMFB.

The inventories shall be updated following revisions in the methods, procedures and sources adopted by Member States to compile their statistical data. Member States will make their inventories public. The inventories constitute an essential element in the assessment by Eurostat of the quality of the data reported by Member States (see section 4.2 below).

3.2 Dialogue visits

In order to ensure a permanent dialogue with the Member States statistical authorities Eurostat carries out in all Member States regular dialogue visits, and envisages to undertake methodological visits in those cases where the regular visits and the assessment have identified substantial risks or potential problems in the data reported. The methodological visits are described in section 5.1 below.

Eurostat has been organising meetings in Member States to discuss the quality of reported data and methodological issues for at least ten years. The dialogue visits described in this section continue the tradition and main features of the visits carried out until now.

3.2.1 Aim

The regular dialogue visits are designed to review reported data, to examine methodological issues, to discuss statistical sources and processes described in the inventories, and to assess compliance with the accounting rules on areas such as the delimitation of the general government sector, the classification of government transactions and liabilities, and the time of recording.

They have proven to be a critical element to assess the quality of the reported data and to identify those issues which may require further methodological analysis. They also serve to check the implementation by the Member States of the accounting provisions defined in the ESA95 Manual on Government Deficit and Debt. This Manual is produced by Eurostat and updated whenever there is a need to complement the conventions of the ESA95 after a well established consultation process. These dialogue missions are conducted in all Member States, which are visited at least once every two years.

3.2.2 Participants

The delegation of the Commission is composed of staff from Eurostat; representatives of the European Central Bank and of other Commission departments attend as observers. It is chaired by the most senior member of the Eurostat's delegates.

The national delegation is usually composed of representatives from the statistical authorities in charge of the EDP data reporting, i.e. the National Statistical Institute, the National Central Bank, and the Ministry of Finance. It is however up to the national statistical authorities to set up the national delegation in the most appropriate way to discuss the object of the visit and to give assurance to Eurostat that the accounting provisions are being correctly applied.

3.2.3 Preparation of dialogue visits

In order to announce the visit, Eurostat informs the Member State in advance of the object of the visit, as well as of the identity and capacity of the officials or other agents appointed to take part in the visits. The communication is addressed to the President of the National Statistical Institute of the country concerned. The agenda for the meeting is decided by Eurostat and announced in this communication. However, Eurostat takes into account the views of the Member State concerned.

As far as possible, written questions or requests for documentation are transmitted by Eurostat in good time in advance of the visit in order to enable the Member State to prepare a reply, and the answers should also be provided by the Member State concerned in advance in order to prepare the mission.

3.2.4 Conduct of dialogue visits

According to the Regulation, the dialogue visits should not go beyond the purely statistical domain, and they will not deal with the choice of any economic policy. This means that the main purposes of the visit are:

- to check the quality of the reported figures through the review of reported data,
- to discuss methodological issues and statistical sources and processes, on matters such as the delimitation of the government sector, the classification of government transactions and liabilities, and the time of recording,
- to assess the completeness of the inventories,
- to verify the implementation of recent Eurostat's decisions, when applicable,
- and more generally to identify risks or potential problems about the quality of the reported data.

In general, the dialogue visits take two working days, but may be extended if necessary.

3.2.5 Report on findings

According to Article 14 of the amended Regulation, Eurostat will prepare a report on main findings of the dialogue visits, which will be transmitted to the Member State concerned for comments. Eurostat will report to the Economic and Financial Committee on the findings of the dialogue visits, including possible comments made by the concerned Member State on these findings. These reports, after having been transmitted to the Economic and Financial Committee, will be made public without prejudice to the provisions related to statistical confidentiality of Council Regulation (EC) No 322/97.

3.3 Treatment of complex methodological cases

In case of a doubt regarding the correct implementation of the ESA95 accounting rules, the Member State concerned shall request clarification from Eurostat, which shall examine the issue and communicate its clarification to the Member State concerned.

As mentioned in the Code of Best Practice, Member States are strongly advised at the earliest stage to organise consultations at national level between the statistical authorities in charge of the EDP reporting. All requests for clarification should come in written form from the National Statistical Institute of the Member State concerned to Eurostat, in order to ensure national co-ordination, and the clarification will be provided by Eurostat to the National Statistical Institute as promptly as possible depending on the complexity of the case.

The Member State should provide to Eurostat all relevant information for the analysis, which may include elements such as the accounts of government-related units according to accounting standards other than ESA, contracts, or other documents in case they have direct link with the issues in question. The clarification on the accounting treatment provided by Eurostat will depend on the information made available by the Member State concerned and on the time when this information is provided. Eurostat's clarification is no longer valid if new information comes to light subsequently which modify substantially the treatment in national accounts of the operation that is object of the clarification.

For cases which are either complex or of general interest in the view of the Commission or of the Member State concerned, Eurostat takes a decision after consultation of the CMFB. The practical modalities of these consultations are put forward in the CMFB document "Procedures for the consultation of the CMFB about the statistics underlying the EDP". Eurostat makes decisions public, together with the opinion of the CMFB. The decisions of Eurostat are presented in the ESA95 Manual on Government Deficit and Debt, which is regularly updated and which may lead to amendments of ESA95 in case of substantial clarifications. They represent the common understanding of the statistical community, and should be applied by Member States.

4 Provision of data

Given the Protocol provision, the Commission fulfils the role of statistical authority for the EDP. It provides the statistical data to be used in the implementation of the EDP, after assessing the quality of the data reported by Member States. In the internal organisation of the Commission, these tasks of assessing the quality of the reported data and of interpreting the accounting rules are carried out by Eurostat. By assigning this task to Eurostat, the Commission ensures that the accounting and statistical issues are treated independently, according to objective criteria.

4.1 Provision of deficit and debt figures

Eurostat will provide the actual government deficit and debt data for the application of the Protocol on the excessive deficit procedure within three weeks after the reporting deadlines. This data provision shall be effected through publication.

Eurostat will not delay the provision of the actual government deficit and debt data where a Member State has not reported its own data.

4.2 Reservations on the quality of data and amendments

Eurostat may publicly express reservations on the reported data and introduce changes to them when publishing the actual deficit and debt figures. This will arise in those cases where Eurostat cannot give a reasonable assurance on the quality of the data reported when conducting its assessment. In these cases, the Member State concerned and the President of the Economic and Financial Committee will be informed no later than three working days before the publication date.

The assessment by Eurostat of the data reported by the Member States consists of checking compliance with the accounting rules, completeness, reliability, timeliness, and consistency of reported data, as defined in Article 9 of the amended Regulation. The main elements to base this assessment are:

- the tables reported by all Member States in the current notification,
- the tables reported by all Member States in previous notifications,
- the answers to pre-notification questionnaires transmitted by Eurostat to all Member States,
- the inventories on sources and methods provided by Member States,
- consistency of the reported data with related data transmitted by Member States in the framework of the ESA95 transmission programme or other related legislation,
- questions and answers derived from the analysis of the tables reported in the current and previous notifications, the pre-notification questionnaires, the inventories, and other related data,
- information obtained in the context of visits to Member States.

The format of the pre-notification questionnaires will be consulted with the CMFB. Eurostat will report to the Economic and Financial Committee and to the European Parliament on the assessment of the quality of the reported data. Eurostat may publicly express a reservation on the reported data when there are reasoned and serious doubts on the compliance with the accounting rules, completeness, reliability, timeliness and consistency of reported data. Moreover, the Commission (Eurostat) might take further action where the problems recur over time.

5 Process improvement plan

In case Eurostat publicly expresses a reservation on the quality of the reported data, it will launch a process improvement plan. An assessment resulting in a reservation entailing serious problems or substantial risks will give rise to the immediate establishment of a working programme for the removal of the reservation and the organisation of a methodological visit to the Member State concerned for this purpose.

5.1 Methodological visits

The methodological visits are foreseen in the draft Regulation amending Regulation 3605/93, and some elements are already envisaged in the Code of Best Practice. In a number of

countries, Eurostat has already undertaken during the last years, in co-operation with Member States, more detailed and specific meetings than the usual dialogue visits.

5.1.1 Aim

The main objective of the methodological visits is to prepare and follow-up a working programme, together with the Member State concerned, with the objective to lift as promptly as possible the reservation identified in the data assessment carried out by Eurostat. This working programme will be agreed between Eurostat and the national statistical authorities during the first methodological visit.

According to Article 12 of the draft Regulation amending Reg. 3605/93, the methodological visits are designed to monitor the processes and the government accounts which justify the reported actual data and to draw detailed conclusions as to the quality of reported data. Given that these methodological visits will take place only if substantial risks or potential problems about the reported data have been identified in the data assessment process, methodological visits will generally concentrate on a limited number of topics, which will be considered in depth.

5.1.2 Participants

Article 13 of the abovementioned draft Regulation specifies the participants in the Eurostat delegation. Besides Eurostat officials, national accounts experts from other Member States and officials from other Commission departments may also participate to assist Eurostat, under the responsibility of Eurostat.

As for the dialogue visits, it is the responsibility of the national statistical authorities in charge of the EDP data reporting to set up the national delegation in such a way that it can provide assurance on the correct application of the accounting rules on the matters relevant to the methodological visit. Member States should take all measures required to facilitate the methodological visits. This implies that all national statistical authorities in charge of the EDP reporting in those areas object of the visit should be represented, and that their services directly or indirectly involved in the production of government accounts and debt, and when necessary their national authorities who have a functional responsibility for the control of the public accounts, provide the officials of the Commission or national experts with the assistance necessary to carry out their duties.

5.1.3 Preparation of the methodological visits

Eurostat will launch a methodological visit in the context of the process improvement plan when serious problems or risks have been detected in the data assessment, and will inform the concerned Member State, the CMFB and the EFC of this visit. The communication will be addressed to the President of the National Statistical Institute of the country concerned.

As far as possible, written questions or requests for documentation will be sent in good time in advance of the meeting, and the answers should also be provided in advance. These requests would relate to the relevant information necessary to assess the correct implementation of the ESA accounting rules.

5.1.4 Conduct of methodological visits

As in the case of dialogue visits, the methodological visits will be chaired by the most senior member of the Eurostat delegation. They should not go beyond the purely statistical domain and will concentrate on the issues previously identified as problematic in the data assessment..

The length of the visits would depend on the importance and complexity of the risk or the potential problem identified, and Eurostat will ensure that the proportionality principle is respected. They will not deal with any economic policy choice.

5.1.5 Issues related to national experts

The experts from other Member States mentioned in section 5.1.2 above may participate as advisers to the Commission and would not represent their national institutions: their role is to assist the Commission on the assessment of the correct application of the accounting rules. This assistance is already foreseen in the Code of Best Practice as it states that Eurostat may request the assistance of other parties when monitoring the quality of the reported data. Eurostat plans to contact in each Member State the statistical authorities in charge of the EDP reporting in order to nominate experts who would be available to take part in these methodological visits. The list would be updated on a regular basis. Eurostat would finance the participation of these national experts in these visits, as well as the preparatory work involved.

Regarding the protection of confidential information, it has to be recalled that, according to Council Regulation (EEC, Euratom) No 1588/90 of 11 June 1990 on the transmission of data subject to statistical confidentiality to the Statistical Office of the European Communities, confidential statistical data transmitted to Eurostat shall be accessible only to officials of Eurostat and may be used by them exclusively for statistical purposes (Article 5(2)). Accordingly, national accounts experts and officials from other Commission departments will not participate when the discussion concerns data covered by statistical confidentiality as mentioned above.

5.1.6 Reporting of findings

Eurostat will prepare a report on main findings of the methodological visits, which will be transmitted to the Member State concerned for comments. Eurostat will report to the Economic and Financial Committee on the findings of the methodological visits, including possible comments made by the concerned Member State on these findings. These reports, after having been transmitted to the Economic and Financial Committee, will be made public without prejudice to the provisions related to statistical confidentiality of Council Regulation (EC) No 322/97.

5.2 Lifting the reservation

Where the outstanding issues identified in the data assessment and leading to a reservation on the quality of the reported data have been solved, Eurostat will publicly announce the lifting of the reservation.

6 Role of the Member States

Overall, the Member States have the obligation to facilitate the achievement of the mission of the Community, as laid down in Article 10 of the Treaty. They have to take all general or individual measures designed to ensure the implementation of the obligations arising from the Treaty. They will ensure that the services involved in the production of the data related to the EDP provide the officials of the Commission or other agents with the assistance necessary to carry out their duties. They shall take all appropriate measures required to provide the information requested by Eurostat for the data quality assessment, and they will facilitate the visits. The interlocutors of Eurostat for the methodological visits are the services responsible for the EDP reporting.

As mentioned above, the quality of the reported data involves, initially, each Member State. The assessment of the reported data by Eurostat cannot exonerate the countries from their own responsibility. In particular, the responsibility of National Statistical Institutes is to ensure compliance of reported data with the ESA95 accounting rules. The Code of Best Practice specifies that the National Statistical Institutes have to act in full scientific independence, with a strict respect of the accounting standards defined in Regulations 3605/93 and ESA95. Similar provisions have been introduced in the proposal for a Council Regulation amending Regulation 3605/93.

7 Legal acts in relation to Council Regulation (EC) N° 3605/93

7.1 Legal acts in relation to the excessive deficit procedure and the Stability and Growth Pact

- Protocol on the excessive deficit procedure, annexed to the Treaty establishing the European Community
- Resolution of the European Council of 17 June 1997 on the Stability and Growth Pact (OJ C 236, 2.8.1997, p.1)
- Council Regulation (EC) N° 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (OJ L 209, 2.8.1997, p.1), amended by Council Regulation (EC) N° 1055/2005 (OJ L 174, 7.7.2005, p.1)
- Council Regulation (EC) N° 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p.6), amended by Council Regulation (EC) N° 1055/2005 (OJ L 174, 7.7.2005, p.5)

7.2 Legal acts in relation to the compilation and transmission of government accounts

- Council Regulation (EC) N° 2223/96 of 25 June 1996 on the European system of national and regional accounts in the Community (OJ L 310, 30.11.1996, p.1)
- Commission Regulation (EC) N° 264/2000 of 3 February 2000 on the implementation of Council Regulation (EC) N° 2223/96 with respect to short term public finance statistics (OJ L 29, 4.2.2000, p.4)
- Commission Regulation (EC) N° 1500/2000 of 10 July 2000 implementing Council Regulation (EC) N° 2223/96 with respect to general government expenditure and revenue (OJ L 172, 12.7.2000, p.3)

- Regulation (EC) N° 1221/2002 of the European Parliament and the Council of 10 June 2002 on quarterly non-financial accounts for general government (OJ L 179, 9.7.2002, p.1)
- Regulation (EC) N° 501/2004 of the European Parliament and the Council of 10 March 2004 on quarterly financial accounts for general government (OJ L 81, 19.3.2004, p.1)
- Council Regulation (EC) N° 1222/2004 of 28 June 2004 concerning the compilation and transmission of data on the quarterly government debt (OJ L 233, 2.7.2004, p.1).