



**EU Twinning Project  
IS12/ENP-APFI/o8**

**Support to the Israeli Central Bureau of Statistics  
in the development of National Accounts, Education Statistics,  
Survey Methodology, ICBS Website and  
Coordination of Israel National Statistical System**

Component A  
**National Accounts**

Sub-component  
**Government Accounts**

Activity A.3  
**Cooperation with the Ministry of Finance**

*Implemented by:*

Martin Rasmussen  
Chief Adviser  
Statistics Denmark

Martin Ausker  
Chief Adviser  
Statistics Denmark

**Jerusalem**

16 June – 19 June 2014



## **Authors' names, addresses, e-mails**

*Martin Ausker*  
*Statistics Denmark*  
*Sejrøgade 11*  
*2100 Copenhagen Ø*  
*Denmark*  
*Tel. +45 39173479*  
[mau@dst.dk](mailto:mau@dst.dk)

*Martin Rasmussen*  
*Statistics Denmark*  
*Sejrøgade 11*  
*2100 Copenhagen Ø*  
*Denmark*  
*Tel. +45 39173529*  
[mra@dst.dk](mailto:mra@dst.dk)

## Table of contents

|  |   |
|--|---|
| 1. General comments.....   | 4 |
| 2. Assessment and results .....  | 4 |
| 2.1. The general classification and source data used in the compilation of government finance..... | 4 |
| 2.2. Cooperation with the Ministry of Finance .....  | 4 |
| 2.3. COFOG classification methods and borderline cases .....                                       | 5 |
| 2.4. Business register and sector classification.....  | 5 |
| 2.5. Public private partnerships.....  | 5 |
| 2.6. Unfunded defined benefit pension systems.....   | 5 |
| 3. Conclusions, recommendations and work plan .....  | 6 |
| 3.1. Cooperation with the Ministry of Finance .....  | 6 |
| 3.2. Liabilities for the unfunded defined benefit pension schemes.....                             | 6 |
| 3.3. Imputed pension contributions for the local government.....                                   | 6 |
| 3.4. Second level COFOG classification of general government expenditures.....                     | 7 |
| 3.5. From cash to accrual basis .....  | 8 |
| 3.6. Public Private Partnerships (PPP) .....   | 8 |

## Annexes in the report

|            |                                  |    |
|------------|----------------------------------|----|
| Annex A3.1 | Terms of Reference.....          | 8  |
| Annex A3.2 | Agenda (meeting programme) ..... | 9  |
| Annex A3.3 | Persons met .....                | 10 |

## Other annexes produced for the mission (external to the report)

|             |   |
|-------------|---|
| Annex A3.4  | Cooperation agreement between the Ministry of Finance and Statistics Denmark (Word) |
| Annex A3.5  | Cooperative agreements between government entities (Power Point)                    |
| Annex A3.6  | Central Government Accounts (Power Point)   |
| Annex A3.7  | Danish GFS compilation system (Power Point)   |
| Annex A3.8  | Data on municipalities and regions in Denmark (Power Point)                         |
| Annex A3.9  | Public Private Partnerships in Denmark (Power Point)                                |
| Annex A3.10 | Sector classification in Denmark (Power Point)                                      |
| Annex A3.11 | The pension system in Denmark (Power Point)   |
| Annex A3.12 | Technical compilation guide for pension data (pdf)                                  |

## List of Abbreviations

|     |                                       |
|-----|---------------------------------------|
| BC  | Beneficiary Country (Israel)          |
| CBS | Central Bureau of Statistics (Israel) |
| DST | Statistics Denmark                    |
| ESA | European System of Accounts           |
| GFS | Government Finance Statistics         |
| MoF | Ministry of Finance                   |
| MoI | Ministry of Interior                  |
| MoU | Memorandum of Understanding           |
| MS  | Member State                          |
| OFI | Other Financial Intermediaries        |
| SNA | System of National Accounts           |

## **1. General comments**

This mission report was prepared within the EU Twinning Project between the Israeli Central Bureau of Statistics and Statistics Denmark. It was the third activity devoted to the subcomponent on Government Accounts within the general National Accounts component A: National Accounts.

The purposes of the A.3 mission were to present experience with the cooperation with the Ministry of Finance and discuss this issue and discuss sources and methods to improve data.

The MS Experts would like to express their thanks to all officials and individuals met for the kind support and valuable information which they received during the stay in Israel, and which highly facilitated their work.

The views and observations stated in this report are those of the MS Experts and do not necessarily correspond to the views of EU or Statistics Denmark.

## **2. Assessment and results**

During the visit of the MS experts different topics related to government finance were presented by both CBS and the MS experts and discussed:

1. The general classification and source data used in the compilation of government finance
2. Cooperation with the Ministry of Finance (MoF)
3. COFOG classification methods and borderline cases
4. Business register and sector classification
5. Public private partnerships
6. Unfunded defined benefit pension schemes

### **2.1 The general classification and source data used in the compilation of government finance**

Both CBS and DST gave several presentations of their work and statistics within the area of government finance. Many topics were discussed among others: time adjustments, consolidation and classification within social contributions in kind.

Furthermore the issue of cash vs. accrual was debated. At this time CBS make use of cash based data but work has started on investigation the possibilities of an introduction of accrual based data. Together with MoF an investigation of the data available has started in order to provide accrual based figures in the future. The first focus area is interest on an accrual basis.

Finally CBS has in cooperation with the Ministry of Interior begun the work of analyzing the new quarterly account data to be used for the compilation of quarterly government finance statistics for the local government. In relation to this a working group has been established with the next meeting to be held in end June 2014. When the data problems are solved CBS will start publish quarterly financial statistics based on account data for the local government.

### **2.2 Cooperation with the Ministry of Finance**

CBS rely heavily on data from the Ministry of Finance and it is therefore essential that both CBS and MoF have great awareness of the needs and deadlines in the two institutions. Both CBS, MoF and the MS experts presented views and ideas on how to strengthen the cooperation between CBS and MoF.

Currently, CBS receives data from the following departments inside the Ministry of Finance (in relation to government finance):

- Budget department
- Accountant General department (including debt management unit)
- Capital Market, Insurance and Savings department
- Wage and Labour Agreements department
- Israeli Tax Authority
- Economic, Research and Revenue department

Drafting documents with information on deliveries to/from each department including a short description of the data, contact persons and deadlines would help establish a consistent flow of data and information between the two institutions. These documents could then be used as annexes to the Memorandum of Understanding already planned under Component C in this Twinning project.

### **2.3 COFOG classification methods and borderline cases**

CBS presented the result of their project on the compilation of second level COFOG data for the general government for the years 2011 and 2012, with 2013 data soon to come. Data seems to be of high quality. DST also presented their work with the COFOG classification.

Some borderline cases were discussed and the need to look at the aim of the scheme/transaction in question. In relation to this task it could be useful to read the text information in the budget/account and the underlying laws.

### **2.4 Business register and sector classification**

The sector classification processes for both CBS and DST were presented and some specific issues were discussed in detail. Both institutions make use of a sector algorithm which leaves some entities un-classified for manual treatment.

Especially the distinguishing between market and non-market entities was discussed. The MS experts made reference to the 50-percent criterion which is well defined in ESA2010 and also in SNA2008, §22.29. The criterion states that if the income (market sales) covers 50 percent or more of the production cost, then an entity can be said to be market (production cost = compensation of employees, intermediate consumption, consumption of fixed capital, net interest and other taxes on production).

Statistics Denmark will send documents with Eurostat opinions on the classification of schools and hospitals, since these two groups of entities are special in relation to the market test.

### **2.5 Public private partnerships**

The issue of public private partnerships (PPP) was discussed, and the MS experts gave a presentation on the situation on this matter in Denmark and also on the national accounts classification issues related to the classification of the assets either inside or outside of general government. The important element when classifying these PPP's is the assessment of the risk allocation – who carries most of the risk, government or the private partner?

Statistics Denmark will submit more background information on this issue – including definitions from the Eurostat manual “Manual on Government Deficit and Debt” (MGDD).

### **2.6 Unfunded defined benefit pension systems**

CBS shall in the near future produce a supplementary pension table including figures for liabilities for the unfunded defined benefit pension schemes in Israel. At this time CBS don't

have any estimates on these liabilities. The Ministry of Finance produces some aggregates for these liabilities but the underlying methods and data is not known.

Statistics Denmark presented some information on a similar Danish pension scheme, and CBS and the MS experts discussed the issues of how to make estimations of the imputed pension contribution and the underlying liabilities.

In the Danish case a model from the University of Freiburg has been used with success and it was agreed that the MS experts should send information on the input data used in the Danish case and other information related to the Freiburg model. Furthermore the MS experts will send a Technical compilation guide from Eurostat and a report on the Polish use of the Freiburg model (the Danish report will be submitted when possible).

### **3. Conclusions, recommendations and work plan**

#### **3.1 Cooperation with the Ministry of Finance**

CBS relies on many different data deliveries from MoF and it is therefore essential to establish a formal agreement between CBS and MoF. It is recommended that CBS and MoF in the close future signs a Memorandum of Understanding (MoU) to establish a cooperation between the two institutions where the responsibilities and requirements between CBS and MoF is clearly stated. This will strengthen the quality of the statistics because this agreement will strengthen the understanding and knowledge of the data supplied. The MoU should include annexes for each department (data delivery). The Memorandum of Understanding is already an item under component C is the Twinning project as part of the National Statistical System.

It is recommended that CBS starts with a draft annex for the cooperation with the Accountant General department at MoF. This annex should include a short description of the data, delivery deadlines and contact persons.

Plan: Drafting of the annex before August 2014, followed by discussions between CBS and the MoF on this annex before end October 2014.

#### **3.2 Liabilities for the unfunded defined benefit pension schemes**

CBS shall in the near future produce a supplementary table including figures for liabilities for the unfunded defined benefit pension schemes in Israel. Currently, CBS doesn't have any estimates on these liabilities. Therefore it is recommended that CBS follows a two-stage plan in order to be able to fulfill this requirement concerning the supplementary pension table:

1. Investigate the possibilities of using the Freiburg model for the estimation of the liabilities for these unfunded pension schemes.
2. If 1. is not possible, then the MoF estimate of the liabilities must be used – maybe with adjustments if access to the detailed data from MoF is possible.

Plan: DST will send relevant information to CBS regarding contact information to the University of Freiburg and input data used in the estimation of the Danish liabilities for these unfunded pension schemes. CBS will decide whether or not the Freiburg model can be used based on the information from DST, contact to the University of Freiburg and on the possibility of getting the input data needed (from MoF).

#### **3.3 Imputed pension contributions for the local government**

The estimation of the imputed pension contributions for the local government (S.1313) should be analyzed and the model used for central government should probably be used for the local government. Data availabilities from MoI should be investigated, and also the possibility of receiving data directly from the municipalities should be analyzed.

Plan: CBS and MoI will meet before end June 2014 where this issue will be discussed. CBS expect to finalize the investigation within a year from now (June 2015).

### **3.4 Second level COFOG classification of general government expenditures**

CBS has succeeded in compiling second level COFOG data for the general government for the years 2011 and 2012, with 2013 data soon to come. Since data seems to be of high quality it is recommended that CBS starts to produce second level COFOG data on a regular basis and include the second level COFOG data in the general government data published by CBS.

Plan: First publication of second level COFOG data for the period 2011-2013 in 2015. Furthermore, the MS Experts recommend that CBS make use of the legal papers (information from the budgets) in order to establish firm knowledge of the underlying motivation behind the law, scheme or transfer to be COFOG classified.

### **3.5 From cash to accrual basis**

Work has started with the transition from cash based data to accrual based data. CBS is in cooperation with MoF (Accountant General department) on the issue of solving the data problems. It is recommended to allocate resources into this issue so the Israeli government finance statistics is in compliance with SNA2008.

### **3.6 Public Private Partnerships (PPP)**

CBS should investigate the public private partnerships to ensure a correct classification, both in relation to allocation of the majority of risk and to distinguish between PPPs and other cooperation projects between government and private entities.

## **Annex A3.1 Terms of reference**

### **Component A: National Accounts**

#### **Sub-component: Government Accounts**

#### **Activity A.3: Cooperation with the Ministry of Finance**

##### **Description in the contract of the sub-component**

The scope of Government Accounts needs to be broadened. At present, full non-financial accounts are prepared for the General Government, while the financial accounts cover only central government. In addition, not all the transactions are recorded on accrual basis and need to be improved. The accounts need to cover also local government.

ICBS needs to decide how to collect and integrate information for these additional sectors in order to produce General Government Accounts. In addition, while the expenditure side of the accounts is well covered, there is a need to improve information on the revenue side.

For financial accounts, recommendation for improvement of data coverage, especially as regards commercial banks will be made. Therefore, data reporting channels need to be developed, and methods of treating data quality and coverage problems need to be selected.

The project will assist ICBS in optimizing the inter-institutional arrangements with the Ministry of Finance.

##### **Mandatory results (MR) related to the mission**

MR1: Definition of the structure of improved government finance accounts crossclassified by subsectors and COFOG functions

MR2: Presentation of EU experience on inter-institutional arrangements between National Statistics Offices and Ministries of Finance with regard to cooperation and data exchange

### **Terms of Reference (draft 1)**

#### **Subjects and purpose of the A.3 activity**

1. Presentation of the Danish and European experience with cooperation with the Ministry of Finance. 2. Discussion of how to cooperate with the Ministry of Finance in the future, including upcoming projects (e.g. revenue accounts, interest payment). 3. Sources and methods to improve revenue data.

#### **Expected output of the A.3 activity**

Mission report with recommendations on how to improve the cooperation with the Ministry of Finance based on European experience.



## Annex A3.2 Programme, 16-19 June 2014

| Date        | Place   | Time        | Event   |       |   |
|-------------|---|-------------|---|-------|---|
| Mon<br>16/6 | CBS   | 09:00       | Welcome and introduction to CBS and this part of component A  |       |   |
|             |   | 09:15       | CBS: Introduction to Macroeconomic Department and National Accounts division                                      |       |   |
|             |   | 09:30       | CBS: General Government accounts in Israel in the SNA and GFS frameworks and cooperation with Ministry of Finance |       |   |
|             |   | 10:00       | CBS: The government budget data in the General Government Accounts  |       |   |
|             |   | 10:15       | Coffee break  |       |   |
|             |   | 10:45       | MoF: Management information system of Accountant General Department   |       |   |
|             |   | 11:15       | DST: Government Accounts in Denmark (incl. quarterly balance sheets) and cooperation with Ministry of Finance     |       |   |
|             |   | 12:00       | Lunch break   |       |   |
|             |   | 13:30       | CBS: Business register and classification by industry and sector in Israel  |       |   |
|             |   | 14:00       | DST: Business register and classification by industry and sector in Denmark                                       |       |   |
|             |   | 14:30       | Coffee break  |       |   |
|             |   | 14:45       | DST: Public-Private Partnerships (PPPs) in Denmark  |       |   |
|             |   | Tue<br>17/6 | CBS   | 09:00 | CBS: Presentation of the General Government expenditure data by second level of COFOG |
|             |   |             |   | 09:30 | DST: Second level COFOG classification in Denmark                                     |
| 10:30       | Coffee break  |             |   |       |   |
| 11:00       | Discussion about the COFOG classification issues  |             |   |       |   |
| 12:00       | Lunch break   |             |   |       |   |
| 13:30       | CBS: Using the new preliminary quarterly data on local authorities in National Accounts |             |   |       |   |
| 14:30       | Coffee break  |             |   |       |   |
| 15:30       | End of the day  |             |   |       |   |
| Wed<br>18/6 | CBS   | 09:00       | DST: The pension system in Denmark  |       |   |
|             |   | 09:30       | CBS: The pension system in Israel   |       |   |
|             |   | 10:30       | Coffee break  |       |   |
|             |   | 11:00       | Discussion  |       |   |
|             |   | 12:00       | Lunch break   |       |   |
|             |   | 13:30       | Conclusions and preliminary work plan for Government Accounts   |       |   |
|             |   | 14:30       | MS Experts preparing debriefing and mission report  |       |   |
| Thu<br>19/6 | CBS   | 09:00       | Debriefing and discussion on working plans with respect to the MoF  |       |   |
|             |   | 10:00       | 4 <sup>th</sup> meeting of the Steering Committee   |       |   |
|             |   | 12:00       | Lunch break   |       |   |
|             |   | 13:30       | Debriefing and discussion on working plans with respect to the MoF  |       |   |

## **Annex A3.3 Persons met**

### *From the Ministry of Finance:*

Danya Marinov – system analyst

Dotan Tzur - statistician

### *From the Central Bureau of Statistics:*

Galina Braverman, Director, Government Accounts Sector

Noemi Frish Tsekhman, Senior Director, National Accounts

Oz Shimony, Senior Director, Macroeconomic Statistics Department

Rivka Cohen, Macroeconomic Statistics Department

Meital Peretz, Macroeconomic Statistics Department

Malka (Yulia) Levinger, Macroeconomic Statistics Department

Ohad Mezman, Macroeconomic Statistics Department

Ram Ben David, Macroeconomic Statistics Department

Avigail Levi, Business and Economy Department, Senior Director

Shachar Barasofsky, Business and Economy Department, Business Register