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### Control and economically significant prices (ESA95 manual on government deficit and debt)

Control: The ESA95 manual on government deficit and debt has analysed the circumstances in which general government controls a non-profit institution. Due to the practical difficulties, the ESA95 manual on deficit and debt (page 12) refers that whenever the criteria set in national accounts is not formally satisfied or when special legislation is lacking, one should use a more operational definition of control. Public intervention in the form of general regulations applicable to all units working in the same activity should not be considered as relevant when deciding whether the government holds control over an individual unit.

The ESA95 manual states that: 'government secures the control of a unit when it influences its management of this specific unit, independently of general supervision exercised on all similar units'. The example of schools is given: GG controls it if its approval is needed for creating new classes, making significant investments in gross fixed capital formation or borrowing; or if it can prevent the school from ending its relationship with government. GG does not control the unit if it just finances the school or supervises the quality of education the school has to provide (example: by fixing general programmes or the maximum number of pupils per class).

This conclusion coming from experts meetings illustrates the need of further guidance.

'Economically significant prices': one could argue that the main advantage of ESA95 having a '50% criteria' is the possibility of applying an operational rule. Furthermore, it's easy to check if this rule has been applied in a consistent way among countries. The criterion is based on information which is available on profit and loss accounts (although there's the need of using a proxy for consumption of fixed capital).

According to ESA95 rule, if more than 50% of production costs are covered by sales, the unit is a market producer. This criterion is supposed to be applied to a range of year and minor fluctuations in the sales do not imply a re-classification of the unit.

In this assessment it has become more and more relevant the concept of **sales**. In the ESA95 manual on government deficit and debt it is understood that sales by general government are those payments related with the issuance of licences to organise a regulatory function and if they are clearly in proportion to the cost of providing services. Again, the idea of the manual is that if a given unit is mainly financed by general government according to its costs or a global budget negotiations focussing on factors such as output, maintenance of buildings, compensation of employees, the public unit has to be classified inside general government because these payments do not correspond to sales.

The proportionality to the service provided is relevant and one first main idea is that it has to be checked the nature of payments done by general government as they can be mostly devoted to cover the deficit of a given public unit. The nature of the 'sales' is related to the existence of an economically significant price.

In conclusion, the ESA95 manual on government deficit and debt establishes the following conditions for a payment being treated as a sale in the implementation of the 50% rule when prices are economically significant (pages 15-16):

- “When prices paid by the general government to public producers in respect to actual services provided are also applied to similar services (of the same quality) provided by private producers, who accept to sell services to general government on the basis of these prices.

The rationale is the following: the existence of private producers guarantees that prices are economically significant and, hence, prices applied to services provided by public producers are also economically significant.

- When, in the absence of private producers in the same kind of activity, the general government pays public units for actual services (rather than through a coverage of costs) in order to have a significant economic influence on the supply and on the demand.

For example, the general government can want, through prices paid for the different services, to incite public units to develop specific services that correspond to public priorities.

The price received from the general government is economically significant from the public producer's point of view if this public producer is only financed according to the volume of output it provides. Then the public producer is acting as a business subject to market forces: its remaining deficit should not be automatically covered and the logic of this situation is to close public units which can not survive on these terms.

Payments from general government to public institutional units in respect to actual services provided are not to be treated as corresponding to sales in the implementation of 50% rule when prices are not economically significant, e.g. in the following two cases:

- When prices paid by the general government to public producers for actual services provided cannot be applied to similar services provided by private producers (because private producers are discriminated against receiving such payments or do not accept to provide services on these terms, and therefore, for the same service and the same quality), prices paid by general government to private producers are totally different from prices paid to public producers.
- When, in the absence of private producers in the same kind of activity, a public unit is not placed vis-à-vis the market in a position similar to what could be the position of a private unit, because the general government tends anyway to cover its remaining deficit. Therefore, the global amount of payments from the general government to the public unit remains in fact linked to the costs. In this situation, the general government decides to finance the public units in respect to actual services provided for purely administrative reasons, in order to allocate the financing, to control and to compare the costs and to improve the internal productivity of the public units.”

In addition, the ESA95 manual has analysed its application to hospitals (page 16):

“Eurostat 1999 “Survey on the sector classification of public hospitals and homes for elderly in ESA95” revealed important differences among Member States concerning the way the payments are made by the general government to public hospitals:

- i) according to their costs;
- ii) according to a negotiation (global budget) between general government and each hospital. These negotiations focus on several factors (final output, maintenance of building, investment in technical equipment, payments for compensation of employees);
- iii) according to a system of pricing applied only to public hospitals;
- iv) according to a system of pricing applied to both public and private hospitals.

Only payments made under iv) can be considered as sales."

One final remark and one possible input for other issues is analysing if the main activity of a unit can influence delimitation on public/private. Is this reasonable or not? For instance, the ESA95 manual excludes financial intermediaries for being classified inside general government as they should be included in the financial corporations sector.

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