

PRESS RELEASE

July 2017

Report to the Flemish Parliament

The Court of Audit publishes its report on the public accounts for 2016

On 30 June 2017, the Belgian Court of Audit sent its report on the 2016 general and fiscal accounts to the Flemish Parliament. It also examined the Flemish government's ESA consolidation in a wider European context. The Court concludes that the general accounts are better than last year regarding some aspects, but many shortcomings still distort the true picture of the economic and fiscal accounts. As last year, the lack of comments about the provided figures, the use of the budget appropriations and the policy implementation remain a thorn.

General

Some aspects of the general account for 2016 have been improved in comparison with 2015. For example, the Department of Mobility and Public Works has charged the expenditure more precisely to the correct fiscal year and interest for late payment has decreased, although the Flemish government less often paid invoices on time in 2016. The 2016 budget outcome was also better than what the adjusted budget had anticipated. Furthermore, the central financing of legal entities was working at cruising speed in 2016, resulting in lower interest charges on loans contracted by these legal entities. Due to the better fiscal result, Flanders also resorted less frequently on external financing. Finally, the incorporation of the Fund for debt reduction and one-off investment expenses (Financieringsfonds voor schuldafbouw en eenmalige investeringsuitgaven – FFEU) into the regular credits has increased the transparency of the Flemish accounts.

ESA-consolidated account and Flemish financing balance

The ESA-consolidated account, which determines the financing balance to be submitted to the European authorities, includes the results of the departments as well as of the legal entities, i.e. bodies with legal personality that independently perform public tasks, such as the public transport company De Lijn, the Dutch-speaking broadcasting corporation VRT, the public employment service VDAB, the agency Kind en Gezin with responsibility for young children and families in Flanders, etc.

When it adjusted the budget 2016, the Flemish government estimated its financing balance at -464,6 million euro. After a few extra-accounting corrections, the ESA consolidated account 2016 finally showed a deficit of only 82,6 million euro.

The main reasons for this improvement are: a more significant under-use of funds than previously estimated (+247,7 million euro) and the ESA corrections related to the hospital infrastructure (+79,8 million euro) as well as high schools and universities (+74 million euro).

The financing balance is calculated on the basis of information contained in the accounts of the Flemish Community as a legal entity and the institutions that shall be consolidated. The scope of this consolidation amounts to +435 million euro. Other ESA corrections amounting to -517,6 million euro are further made. The main ESA correction is related to

the Schools of Tomorrow programme, a public-private partnership between the Flemish government and credit institutions to carry out school infrastructure projects (528 million euro).

Since ESA budgeted corrections are no longer posted as extra-accounting corrections in the ESA consolidated account and vice versa, the Flemish government does not provide sufficient insight into the relationship between the calculation of the financing balance and the budgeted balance. Neither in the ESA consolidated account nor in the annual report does Flanders compare the consolidated implementation figures with the consolidated budget figures for 2016.

Consolidated debt

The consolidated debt amounted to 23,8 billion euro at the end of 2016. In comparison with the amount of 19,0 billion euro recorded at the end of 2015, this means that the debt increased by 4,8 billion euro. It is a consequence of the 6th State reform and in particular the incorporation of the hospital infrastructure debt. The Court of Audit noted that the consolidated debt of a few legal entities did not match with the debts mentioned in the 2016 annual accounts. One of the causes of this inconsistency is that internal fundings are not mentioned separately. Moreover, the report on the cash, debt and guarantee management does not show varying interpretations of the debt concept. Nor does it provide an overview of the consolidated cash reserves and investments.

True and fair view of the general account of the Flemish Community as legal entity

Given that it will have to provide an opinion on the true and fair view of the general account of the Flemish Community as legal entity by 2020, the Court of Audit focused its audit of the 2016 accounts on this opinion. It concluded that some shortcomings biased the true and fair view of the Flemish budget implementation and operational management in 2016. In 2016, for example, the Flemish government carried over expenditure (amounting to approximately 573 million euro) and revenue (of about 73 million euro) to the next fiscal year. Moreover, it still has no insight into the significance of the road tax yield and only recorded cash income as claims. As a result, the amount of 269,8 million euro related to the road tax yield is not a true representation of the reality. The balance sheet and income statements are also lacking: the depreciation and removal of assets by the Flemish authorities are not sufficient. They did not book provisions, recorded too few doubtful debtors and did not sufficiently substantiate the registered claims of the Flemish tax department. Lastly, Flanders did not record all taxes to which it is entitled to at the closing date.

Lack of information

According to the Court of Audit, there is a permanent problem in that the Flemish government does not give much comment regarding the figures mentioned in its accounts and annual report. The annual report contains only explanatory notes to the economic balance sheet and the profit and loss statement, but no substantive discussion or analysis of the budget implementation in 2016. The Court therefore concludes that the justification for the use of the budget credits and Flanders' policy implementation to the Flemish Parliament can still be improved.

The innovation in the report on the 2016 annual accounts is the Court of Audit's first attempt to detail the achievement of the important incentives that have been provided for in the 2016 budget. The Court noted the shortfall in kilometre tax income, the rising expenses for the residential care centres, the upward drift of remuneration-related expenditure at the Flemish agency for persons with disabilities (Vlaams Agentschap voor

Personen met een Handicap – VAPH), the under-spending of funds intended for the energy policy and the recording of the revenue and expenditure from the climate fund. The Court also outlined some underspent items of the approved credits, particularly in the Department of Mobility and Public Works, which did not use 109 million euro (21%) for investments in water and road infrastructure and structural maintenance.

The Minister's reaction

On 20 June 2017, the Flemish Minister of Finance and Budget provided clarification as regards some observations of the Court of Audit. He submitted the 2016 adjusted general accounts to the Court as an annex to its response. The adjustment took into account a number of the observations made by the Court as well as the figures received afterwards from the federal operators concerning the transactions carried out within the framework of the transferred powers.

The Flemish minister replied to some selected findings. He promised to make corrective postings in the 2017 general accounts. The remarks on the Flemish legal entities will be answered individually by the Minister when he will be dealing with the audit reports on the annual accounts.

- End of the press release -

Additional information

ESA

The European System of National and Regional Accounts contains the registration rules that have to be applied for a coherent, reliable and comparable quantitative description of the economies of the Member States. It is intended for the institutions of the European Union, for the governments and for those participating in economic and social life, who base their decisions on harmonized and reliable statistics. ESA is an important policy and management tool of and for the European Union.

Information for the press

The Court of Audit exerts an external control on the financial operations of the Federal State, the Communities, the Regions and the provinces. It contributes to improving public governance by transmitting to the parliamentary assemblies, to the managers and to the audited services any useful and reliable information resulting from a contradictory examination. As a collateral body of the Parliament, the Court performs its missions independently of the authorities it controls.

The report on the public accounts of 2016 has been sent to the Flemish Parliament. The full version (in Dutch) and this press release can be found on the Court's website (www.courtofaudit.be).