The Eurostat treatment of PPPs

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Eurostat statistical rules: why is the subject important?

- EU limits for government deficit and debt: Maastricht criteria
- Key questions: who should "record" PPP/concession projects and how?
- Issue becomes more critical in an era of fiscal constraints
- Much discussed topic but relatively poor understanding
- Confusion over three different dimensions: budgeting, public accounting and statistical Eurostat treatment

Overview of the Eurostat rules on PPPs and concessions

Where to find the rules?

- New overarching methodology for EU economic statistics European System of Accounts (ESA10) since September 2014, replacing ESA95
- Revised Eurostat Manual on Government Deficit and Debt (latest edition dated August 2014)
  - sector classification of government-owned bodies
  - updated chapters on PPPs and concessions under ESA10
- Eurostat advice on individual cases – government transactions / projects from Member States

Moving target: continuous addition of interpretations

What do the rules imply?

If government ‘owns’ the project asset:

the totality of the capital investment expenditure of a PPP/concession → impacting **deficit/surplus**

the total value of the asset and liabilities financing the investment → impacting **value of fixed assets** and **debt level**

If not, only the payments for services are taken into account

An assessment in three stages

type of long-term contract:
concession or PPP (**Eurostat definitions)**

the partner:
independent from government or not

assessment of the economic ownership
of the asset: **risks and rewards**

A professional judgment, not a science…

Concessions vs. PPPs (according to Eurostat)

Concessions	PPPs
• Long-term contract	• Long-term contract
• <u>New or existing asset</u>	• <u>New or significantly refurbished asset</u>
• Delivery of services from the asset	• Delivery of services from the asset
• Quality or volume standards	• Quality or volume standards
• <u>Major part of the partner's revenue from the final users</u>	• <u>Major part of the partner's revenue from government</u>
• <u>General Eurostat rules</u> for statistical classification	• <u>Specific Eurostat rules</u> for statistical classification
User-pay models (e.g. tolled motorway)	**Government-pay models: demand or availability schemes**

Statistical classification of concessions

Concessions

• General principles of risks and rewards
• By default, off balance sheet for government, unless government provides:
  • financing, or
  • guarantees, or
  • generous termination provisions

…but new / innovative projects add new elements of rules

Statistical classification of PPPs

PPPs

- Specific rules based on interpretation of ESA10
- Analysis of:
  - 3 types of risk: construction and demand or availability risks must be borne by the private partner
  - government financing
  - government guarantees (e.g. debt, demand, revenue)
  - termination provisions
  - revenue streams from the asset

Recent developments

Current PPP topics on Eurostat agenda

- Equity financing
  - Government stakes
  - Caps on rates of return of private partner
- Proceeds from refinancing post-construction
- Subordination of government financing tranche

Next revision of the Eurostat Manual expected in Q1 2016

Important messages to stress

- A focus on the off-balance sheet treatment can be at the expense of sound project preparation (e.g. value for money, bankability, efficiency for the public sector)
- A focus on the off-balance sheet treatment may push procuring authorities to use PPPs where this is not adequate
- PPPs create an 'affordability illusion', which is exacerbated when a project is found to be off-balance-sheet
- When a project is off-balance sheet, there is a risk that the fiscal risks that arise from it are not managed properly (e.g. recognition of government financial commitments - firm or contingent, explicit or implicit)

But some PPPs are properly prepared (VfM, affordabilty) and still need to be off-balance sheet for them to happen

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