Eurostat clarifies how to record energy performance contracts in national accounts

The revised guidance note clarifies the accounting rules applied to the treatment of energy performance contracts. It follows up on the work already undertaken by Eurostat to clarify the accounting rules for various types of public investment, including the Guide to the Statistical Treatment of Public Private Partnerships published last year.

Marianne **Thyssen**, Commissioner for Employment, Social Affairs, Skills and Labour Mobility, and responsible for Eurostat, said: "*Europe needs investments. With this guidance we show how public authorities can invest in full respect of the principles of public accounting, now also in the energy sector*. *Facilitating investments in energy efficiency measures has also an important social function, as public buildings such as social housing facilities will benefit from it too.*"

Miguel **Arias Cañete**, Commissioner for Climate Action and Energy said: "*Energy efficiency first: from words to action. Thanks to the revised guidance published today, it will be easier for schools, hospitals, and other public buildings – which make up more than 10% of the overall EU building stock – to invest for the purpose of improving energy efficiency. Energy efficiency measures are also an important means to combat energy poverty, which this Commission aims at tackling at the roots.*"

Energy performance contracts in the public sector offer a practical solution to make public buildings and other public infrastructures more energy efficient, as the initial investment can be covered by a private partner and repaid by guaranteed energy savings. However, frequently this type of contract simultaneously contains elements of a rental, service, lease, purchase or loan agreement, making its recording complex. At the request of Member States, Eurostat has worked with National Statistical Institutes (NSIs) to reflect on the most appropriate recording of EPCs in government accounts, resulting in the guidance note published today.

The guidance note is available to download here.

Background

In November 2016 the European Commission put forward the "Clean Energy for All Europeans" package aiming to keep the European Union competitive as the clean energy transition is changing global energy markets. Central elements of this package were ambitious proposals on energy efficiency as our first fuel. Energy efficiency reduces energy bills and the dependency on imports, while creating local jobs. But it also requires significant upfront investment, particularly with regards to the refurbishment of buildings. Energy performance contracts (EPCs) can help the building sector increase the necessary investments in the context of increasing private investor interest and fast developing expertise.

The Eurostat guidance note published today on the accounting treatment of EPCs significantly increases the possibilities for public bodies to use such contracts, by including and clarifying the circumstance in which these contracts can be recorded off government balance sheets. In this way, the updated guidance paper is also in line with the third pillar of the Juncker Plan, which aims at removing regulatory barriers to investment. It also paves the way for the development of a stronger market of EPC providers, involving many SMEs. According to data collected by European PPP Expertise Centre (EPEC), over the last five years 345 new public-private partnership projects concerning energy performance were signed in 16 EU Member States, for the total value of over €65 billion.

The updated guidance note will help Member States' National Statistical Institutes (NSIs) to better understand the impact energy efficiency investments have on government balance sheets. The note provides guidance to statisticians regarding the interpretation of certain ESA 2010 provisions – the European System of Accounts – in the case of EPCs, more specifically those EPCs which require an initial capital expenditure to improve the energy efficiency of a facility. EPCs where the energy efficiency is obtained through energy management measures, without any investment in equipment addition or renewal, are treated as simple service or maintenance contracts. This revised guidance is applied in cases where the EPC-contractor can be considered as the economic owner of the asset.

Technical assistance facilities like the European Investment Advisory Hub set-up by the European Investment Bank (EIB) and the Commission will use this guidance note to assist in any potential request. The note will be backed up by a Practitioner's Guide jointly produced by Eurostat and the European PPP Expertise Centre (EPEC) of the EIB, which will be published by the end of the year.

Eurostat is the Directorate-General of the European Commission providing statistical information to the institutions of the European Union (EU) and promoting the harmonisation of statistical methods across its member states. The organisations in the different countries which actively cooperate with Eurostat are summarised under the concept of the European Statistical System.

For more information

MEMO: Eurostat clarifies how to record energy performance contracts in national accounts – Questions and Answers

Press contacts

European Commission: Christian Wigand, Tel.: +32 229-62253, christian.wigand@ec.europa.eu

Eurostat: Tim Allen, Tel.: +352-4301-33 444 or e-mail eurostat-pressoffice@ec.europa.eu

Eurostat clarifies how to record energy performance contracts in national accounts – Questions and Answers

What is an energy performance contract (EPC) and why is it important?

An energy performance contract (EPC) is a contractual agreement between a private EPC contractor and government or other (private) entities. EPCs are part of the energy transition promoted by the EU Commission with a view to achieve better efficiency in energy use, resulting in possible substantial energy savings in a context of global external dependence of the EU for its energy supply. Governments, as owners of public buildings and other facilities, may be involved in EPCs and contribute to energy savings. Moreover EPCs can also contribute to investment which is a key factor fostering economic growth and job creation.

What is the European System of Accounts (ESA 2010)?

The European System of Accounts (ESA 2010) is a European accounting framework that allows a systematic and detailed description of the economy. The structure of ESA 2010 is consistent with the worldwide guidelines on national accounting set out in the System of National Accounts(2008 SNA). ESA2010 is a legal act (a Regulation [1]) which has been adopted by all Member States. The concepts and definitions of the fiscal indicators (deficit and debt) used in the Excessive Deficit Procedure (EDP) and for the purposes of the Stability and Growth Pact (SGP) are based on the European System of Accounts (ESA 2010).

How is investment recorded in the European System of Accounts (ESA 2010)?

In the European system of national accounts (ESA 2010) investment is recorded as gross fixed capital formation (GFCF), which constitutes expenditure and has an impact on the deficit or surplus of a Member States' budget in case it is recorded on government balance sheet.

It should be noted that, in all other accounting systems, investment is also accounted for as expenditure.

Why are EPCs important in the context of the Excessive Deficit Procedure?

The provision of infrastructure under EPC contracts could create expenditure for government at inception as well as liabilities or debt for a government. However, the expenditure and the related debt can be recorded either on or off government balance sheet, that is, either with or without a direct impact on government deficit and debt.

In case the asset installed or renewed is recorded on government balance sheet, the entire expenditure is recorded for government at inception. This has a negative impact on government deficit or surplus and the government debt will be increased by the same amount.

In case the asset is recorded off government balance sheet, the impact on government deficit will be limited to the regular payments (the EPC fee, linked to the energy savings) undertaken by government to the EPC provider, which are spread over the duration of the contract. Moreover, no debt impact will be recorded at inception.

The possibility of off balance sheet recording can make the use of EPCs more attractive, allowing governments to invest in energy savings while complying with the debt and deficit thresholds established in the Maastricht Treaty.

Under what conditions could an EPC be recorded off government balance sheet?

For an EPC to be recorded off government balance sheet, the EPC contractor must be considered as the economic owner of the assets installed, which means that it will have to be the entity incurring most of the risks and benefitting from most of the rewards related to the EPC contract.

The analysis has also to focus on, amongst other, issues such as the duration of the contract, the existence of factoring operation in the context of the EPC, whether government provides financing or other guarantees to the EPC provider and, more in general, on specific clauses that might distort the distribution of the risks and rewards in an EPC. In addition, it needs to be checked that the EPC contractor is, for statistical purposes, classified outside the general government sector. Eurostat and the EIB will issue in the next months a Guide on the statistical treatment of EPCs, to explain this in considerable detail.

Who decides on the classification of an asset built under the EPC contract?

The National Statistical Institute (NSI) of each Member State analyses EPC contracts and decides on their sector classification following the statistical rules provided by this Eurostat guidance note, which is based on general ESA10 rules.

What is Eurostat’s role?

In case of doubt, NSIs may contact Eurostat for an “ex-ante advice”, in cases when an operation in question has not yet taken place and for “ex-post advice” – in cases when there are doubts on the statistical treatment of the already recorded transactions. Eurostat provides an advice in the form of a letter to the Member State. The advice is then published it its entirety or in summarised form on Eurostat’s website. Eurostat will obviously continue to provide bilateral advice in case of EPCs.

What is the main benefit of the Eurostat guidance note on EPCs for governments facing fiscal constraints but which still need to carry out

energy savings in a way compatible with fiscal constraints?

Certain governments are withholding very much needed energy saving measures in the context of EPCs, due to uncertainties as to whether their EPCs will be on or off government balance sheet and whether they will add or not to their Maastricht deficit and debt figures. This guidance note should allow public authorities to take an informed view ex-ante (i.e. early before the signature of the contract) on whether the EPC will be recorded on or off balance sheet of government. An improved understanding of statistical treatment issues should help taking an informed decision on whether entering into an EPC or not.

Following the publication of this Guidance note and the potential positive implications for EPCs, is it expected that the number of EPC with government will increase?

Although it is difficult to foresee what will be the impact of this Guidance note, some governments which were not signing EPCs due to their possible negative impact on public finance, might be expected now to do so or to make an increased use of such contracts.

When will this Guidance note come into effect?

The Guidance note is immediately applicable.

For more information:

IP/17/3268

Juncker Plan in Sweden: EIB provides EUR 30 million for iZettle's research and development

iZettle, a Swedish financial technology company, will receive **EUR 30 million** in debt funding from the European Investment Bank in the coming three years. The funds are earmarked **for research and development of financial and commercial tools that address the needs of smaller companies**.The transaction with iZettle was made possible by the European Fund for Strategic Investments (EFSI). EFSI is the central pillar of the Investment Plan for Europe, in which the EIB Group and the European Commission as strategic partners aim to boost the competitiveness of the European economy.

iZettle provides services through state-of-the-art technology which allows small companies to take payments, to register sales and to get funding.The EIB financing will support iZettle's research and development programme in four key business areas: **development of next generation payments infrastructure, insights and actions through machine learning and artificial intelligence, digitalisation of commercial processes,** and scaling of legislative and compliance systems.

EIB Vice-President Alexander Stubb said: “This loan is something that the EIB is proud of: it bears testimony to the EIB’s ongoing effort to improve access to funding for European midcap companies. iZettle is a young and innovative company which helps digitalise our economy and improves the business and cost structure of millions of small shops.”

“We’re proud to receive this stamp of approval from the EIB. It’s the type of offer you can’t refuse and it will allow us to further accelerate our growth and continue to level the playing field for small businesses, giving them access to tools to take on the big corporations” said **Jacob de Geer, CEO and co-founder of iZettle**.

European Commission Vice-President Jyrki Katainen, responsible for Jobs, Growth, Investment and Competitiveness, commented: “With the backing of the European Fund for Strategic Investments, the EIB continues to support truly innovative companies and project ideas, such as this one in Sweden with iZettle. I wish the company every success in their research and development programme. I hope other small businesses are inspired to also apply to the EIB’s partners for financing to innovate, expand their activities and create jobs.”

State aid: Commission approves alternative to divestment commitment for Royal Bank of Scotland

Today’s decision follows the agreement in principle reached on 26 July 2017 between Commissioner Vestager and the UK Government.

In April 2017, the Commission opened an in-depth investigation to assess whether the alternative package proposed by the UK authorities could be considered an appropriate replacement for the original commitment to divest part of its UK retail and SME banking operations known as Williams & Glyn (also known as “Rainbow”). This commitment to divest Williams & Glyn was made by the UK authorities as part of RBS’s restructuring plan submitted in 2009 and amended in 2014, to remedy competition concerns in the concentrated UK SME banking sector, where RBS is the leading bank.

The Commission can only accept modifications to existing commitments by Member States and aided banks that were given to obtain approval for restructuring aid (such as the one leading to the existing RBS restructuring decision), if the new commitments can be considered equivalent to those originally provided.

In this context, the opening of the in-depth investigation also gave interested parties the possibility to submit to the Commission their views on the new commitments and the Commission received comments from many parties. The UK authorities proposed amendments to the package to take into account some of those comments and ensure equivalence of the alternative package with the divestment it would replace. In particular, the package targets a transfer of a 3% market share in the UK SME banking market from RBS to challenger banks.

The Commission’s investigation concluded that the improved package is sufficient to replace the divestment commitment and will increase competition in the UK SME banking market:

- The **Capability and Innovation Fund** will be distributed to eligible challengers to develop their capability to compete with RBS in the provision of banking services to SMEs and/or develop and improve their financial products and services available to SMEs.
- The **Incentivised Switching Scheme** will provide funding to eligible challengers to enable them to offer incentives to encourage RBS’s SME banking customers to switch their business current accounts, deposit accounts and loans.

On this basis, the Commission approved the UK’s improved alternative package under EU State aid rules.

Background

RBS is one of Europe’s largest financial services groups and had a balance sheet of £799 billion at the end of 2016. During the financial crisis, in late 2008, RBS was on the verge of collapse and has benefitted from the following state aid measures:

- a recapitalisation of £45.5bn and an (eventually unused) five year contingent recapitalisation of £8bn
- an impaired asset measure covering excess loss (which was terminated with RBS not having received any payments from the State, but instead paid a cumulative fee of £2.5bn for the participation) and
- guarantees and other liquidity measures (now fully repaid).

These aid measures resulted in the UK Government holding the majority of RBS’s shares and were accompanied by the restructuring of RBS approved by the Commission in 2009 and amended in 2014.

As part of this restructuring, the UK committed RBS would undertake a significant balance sheet and risk reduction. RBS has already delivered on those commitments to ensure the bank’s long-term viability, in line with the Commission decision. It also delivered on all its other divestment commitments (sale of RBS insurance, transaction business, commodity trading, US banking subsidiary), which were made to ensure adequate own contribution by the bank to the financing of the restructuring of the core UK banking operations and to limit the distortion of competition. The divestment of Williams & Glyn, to be completed by end-2017 is the last outstanding commitment, with the objective to mitigate the distortion of competition in the UK SME banking market. This commitment has now been replaced with the new commitments from the UK relating to the alternative package.

The non-confidential version of this decision will be made available under the case number SA.47702 in the State Aid Register on the competition website once any confidentiality issues have been resolved. New publications of state aid decisions on the internet and in the Official Journal are listed in the State Aid Weekly e-News.

---

25 September 2017: Commission welcomes stakeholders’ views on the future of EU finances

The news:

As part of the process started with the publication of the Reflection Paper on the Future of EU finances, the Commission is organising on 25 September 2017 a conference on the challenges ahead of the European Union budget and the ways to address them. The event, entitled “The future of EU finances”, will gather stakeholders from different areas of the public– Member States, think tanks, EU institutions – to share their views on how the next multiannual financial framework (“MFF”) should look like. Commissioners Gunther H. Oettinger, in charge of Budget and Human Resources, Corina Creţu, in charge of Regional Policy, and Mariya Gabriel, dealing with Digital Economy, will contribute to the debate.

The background:

On 28 June 2017, the Commission published its fifth and last of a series of reflection papers whose goal is to feed the debate started on 1 March with the Commission’s White Paper on the Future of Europe. The reflection paper maps out possible budgetary implications of the choices we can make.

Following its publication, Commissioner Günther H. Oettinger initiated a series of meetings with stakeholders, whose views are to feed into the next MFF. Commissioner Creţu visited many EU capitals to discuss the future Cohesion Policy.

The third annual conference on the challenges ahead of the EU budget is also a platform to gather feedback from stakeholders, so that the next MFF matches the expectations of the contributors to the EU budget and of its beneficiaries to the greatest extent.

The event:

On 25 September 2017, the European Commission organises the conference “The future of EU finances”.

The sources:

Programme of the conference

More information about the conference

Press release:An EU budget fit for tomorrow: Commission opens debate on future of EU finances

Reflection paper the future of EU finances (28 June 2017)

Previous editions of the conference