

## **Frequently asked questions on Public-Private Partnerships (PPPs) and their statistical treatment in national accounts (ESA2010)**

### **Why is Investment important?**

Investment is an important factor fostering economic growth and adding to job creation. Recent studies have pointed out the existence of an investment gap in Europe, where investment has not yet recovered to pre-crisis levels. In the framework of the Investment Plan for Europe (IPE), the European fund for strategic investments (EFSI) was created with the aim of using public funds (EU funds complemented with MS financing) to mobilize private investment.

### **What is ESA 2010?**

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

### **How is investment recorded in ESA 2010?**

In ESA 2010 investment is recorded as gross fixed capital formation (GFCF), which constitutes expenditure having an impact on a unit's deficit/surplus. GFCF consists of acquisitions less disposals of fixed assets plus certain additions to the value of non-produced assets realised by productive activity, such as improvements to land. Fixed assets comprise, for example, dwellings, other buildings and structures (roads, bridges etc.), machinery and equipment, but also intangible assets such as computer software.

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

### **What is a PPP?**

Public-Private Partnerships (PPPs) are long-term contractual arrangements between a government entity (the grantor) and a partner entity (the operator, usually private) generally to build a dedicated asset. The partner is responsible for building, operating and maintaining the asset, designed to render some public services. In exchange for the services received, the government unit pays regular fees to the non-government partner following the construction of the asset.

PPPs are mainly used for infrastructure development.

### **Why are PPPs important in the EDP context?**

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<sup>1</sup> Regulation (EU) No 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European system of national and regional accounts in the European Union Text with EEA relevance, available at: <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32013R0549>

In national accounts, assets constructed under PPP contracts can be recorded on or off government balance sheet.

In the case that the asset is recorded on government balance sheet, GFCF expenditure is recorded for government during the period of construction, with a negative impact on government deficit/surplus. An increase in government debt is also recorded for the same amount.

In the case that the asset is recorded off government balance sheet, the impact on government deficit will be limited to the regular service fees paid to the partner, which are spread over the long-term contract and no debt impact will be recorded.

The possibility of off-balance sheet recording makes the use of PPPs very attractive for undertaking investment while complying with the deficit threshold established in the Maastricht Treaty.

### **Under what conditions could a PPP be recorded off government balance sheet?**

For a PPP to be recorded off government balance sheet, the majority of the risks and rewards have to be borne by the private partner. In the case of PPPs, three main risks: construction, demand and availability are analysed. The analysis also focuses on specific clauses that might distort the risk and reward distribution in a PPP, such as clauses on government financing, the existence of government guarantees, termination clauses and the allocation of the assets at the end of the contract. In addition, it needs to be checked that the partner is, for statistical purposes, classified outside the general government sector.

### **Who decides on the classification of an asset built under a PPP contract?**

The National Statistical Institutes (NSI) analyse PPP contracts and decide on their sector classification following the statistical rules of ESA 2010, the provisions of the Eurostat Manual on Government Deficit and Debt (MGDD) implementing ESA 2010 and Eurostat guidance notes. From 29 September 2016, the provisions in "A Guide to the Statistical Treatment of PPPs", jointly produced by Eurostat and the European PPP Expertise Centre (EPEC) are also applicable.

### **What is Eurostat's role?**

Eurostat's role is to ensure that accounting rules are applied correctly and consistently across all Member States. Eurostat plays no role in the political or economic evaluation of PPPs. Eurostat does not evaluate the feasibility or desirability of the project. Rules and advice are not intended to impact on the time frames for the projects' implementation and the costs of the projects.

If a NSI has doubts on the correct implementation of the ESA 2010 accounting rules in their analysis of a PPP project, the NSI may contact Eurostat for clarification. Eurostat provides "ex-ante advice" in cases when the operation in question has not yet taken place, and "ex-post advice" in cases where there are doubts on the statistical treatment of an already implemented operation. Eurostat provides the advice in the form of a letter to the Member State, which is then published on Eurostat's website in its entirety or in a summarised form.

### **What is the difference between a PPP and a concession for building infrastructure assets?**

In a PPP contract, government is the main source of the revenue received by the partner in relation to the project (for instance, shadow tolls paid by government in a motorway project). In a concession contract, the final users (and not government) are the main source of the revenue received by the partner in relation to the project (for instance, tolls paid by the users in a motorway project).

### **Why have the EIB and Eurostat published a special Guide to the statistical treatment of PPPs?**

The two institutions have worked in close cooperation on a more user friendly guide on how the accounting rules should be applied to PPPs. The Guide is intended to be a useful tool for both PPP practitioners and statisticians in their analysis of the typical PPP contractual provisions and the existing accounting rules.

### **Are the rules in the Guide the same as in the MGDD?**

The Guide to the statistical treatment of PPPs does not change the rules for the statistical recording of PPPs. It complements, interprets and clarifies the existing accounting rules (ESA 2010 and the provisions of the Eurostat Manual on Government Deficit and Debt) and published opinions in a very comprehensive way.