

# 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 in 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](#)