

D7: Government Debt and Deficit

Methodology and Guidance for Identification and
Calculation of PPP Impact on Government Debt and
Deficit

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ABBREVIATIONS

EDP	Excessive Deficit Procedure
EIB	European Investment Bank
EPC	Energy Performance Contract
EPEC	European PPP Expertise Centre
ESA	The European System of Accounts
EU	European Union
GFCF	Gross Fixed Capital Formation
MGDD	Manual on Government Deficit and Debt
NSI	National Statistical Institute
PIMU	Public Investment Management Unit
PPP	Public-Private Partnership
SPV	Special Purpose Vehicle

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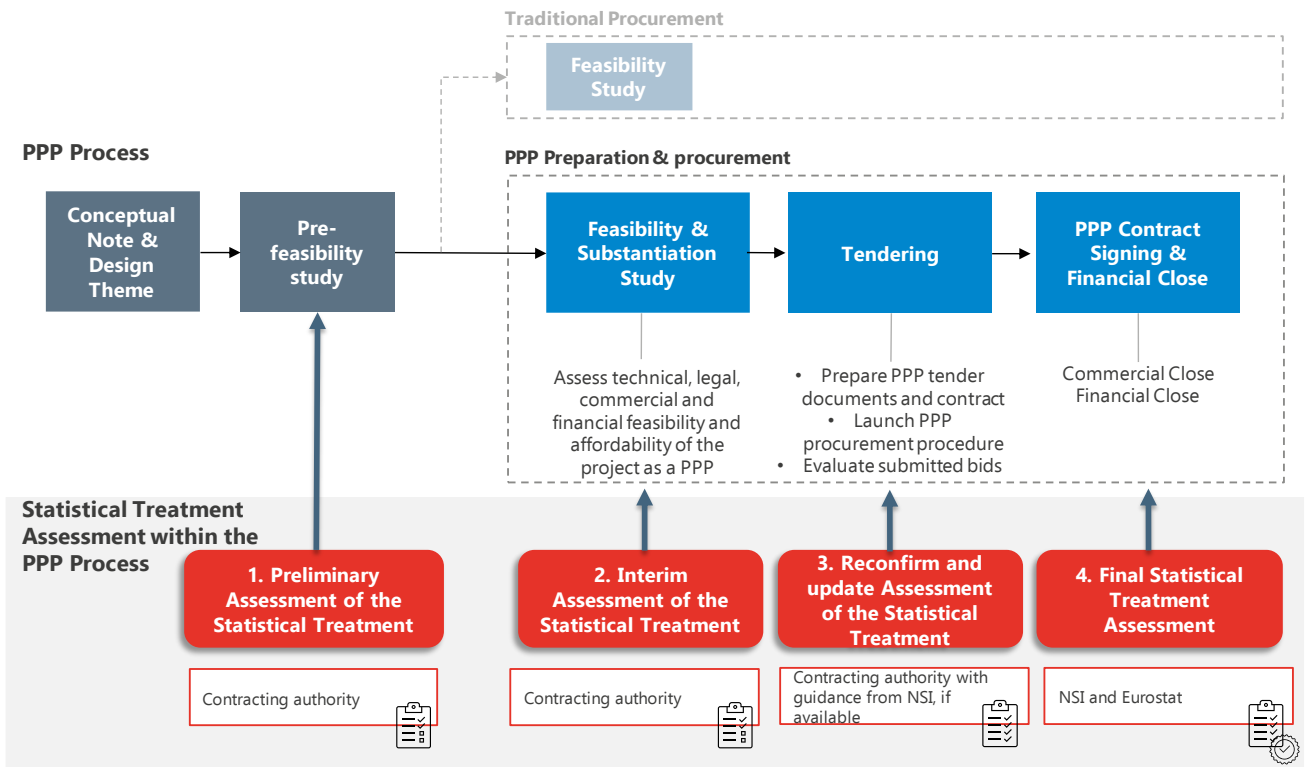


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1. PURPOSE OF THIS DOCUMENT

1.1 Aim of this Guidance

This Guidance aims to provide public authorities and PPP practitioners in Romania with a concrete approach and methodology for defining and assessing the impact of PPP and Concession projects on government debt and deficit. The framework prescribed by this Guidance is informed by government debt and deficit impact assessment practices in mature PPP markets in Europe and provides guidance on how these may be applied in the Romanian PPP context. In particular, this framework is built upon:

- the national accounting rules of the European System of National and Regional Accounts (ESA 2010),
- *Manual on Government Deficit and Debt, 2022 edition* (MGDD), which implements the ESA 2010 accounting rules to the government sector,
- *A Guide to the Statistical Treatment of PPPs* (2016), jointly published in 2016 by Eurostat and EPEC, which provides more detailed guidance on the application of the national accounting and MGDD rules for PPP arrangements, as well as the *Clarification on the Application of a Guide to the Statistical Treatment of PPPs: Responses to Frequently Asked Questions* published in 2022, and
- *A Guide to the Statistical Treatment of Energy Performance Contracts* (2018), jointly published by Eurostat and the EIB, which provides guidance on the assessment of the statistical treatment for EPC arrangements.

These documents are closely interrelated and must be read in conjunction with each other. As such, Eurostat/EPEC Guide builds upon the ESA/MGDD rules and are intended to explain how these rules should be applied in the context of PPPs.

This Guidance complements the Emergency Ordinance No. 39/2018 on Public-Private Partnerships (“the PPP law”) and the Law 100/2016 on works concessions and service concessions (“the Concessions law”) and must be followed when assessing the statistical treatment of a PPP or a Concession project during project preparation and after the signature of the PPP or Concession agreement. This Guidance addresses the following topics:

- The methodology for determination of the statistical treatment for PPP and Concession projects;
- The process for the determination of the statistical treatment of PPP and Concession projects in the context of PPP and Concession project preparation and procurement in Romania, including designation of the parties responsible for each step in the process; and
- The impact of the statistical treatment of PPP and Concession projects for the project impact on government debt and deficit.

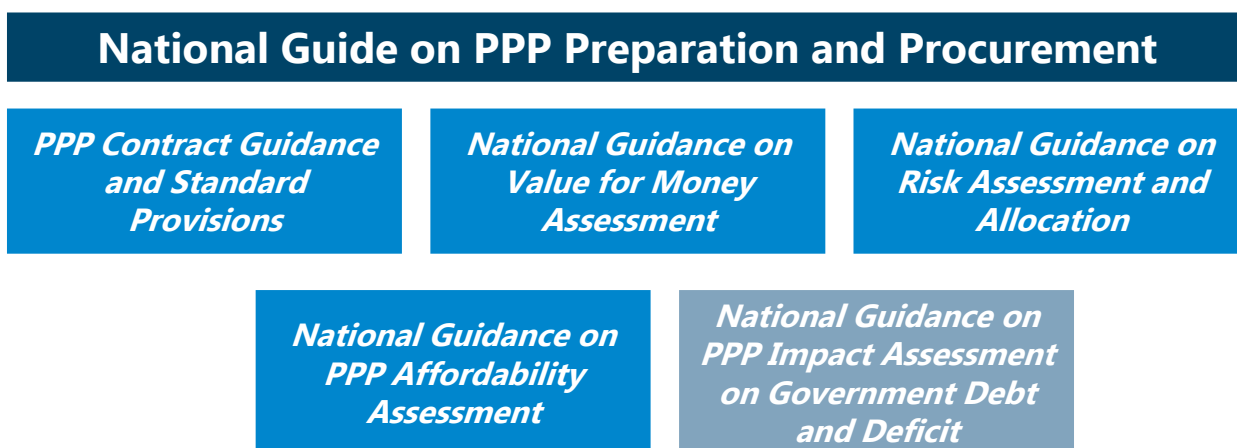
1.2 Reading guide

Chapter 2 describes the concept and purpose of the statistical treatment of PPP and Concession projects, as well as the process during PPP and Concession project preparation and procurement for determining and implementing the statistical treatment.

Chapter 3 describes the impact of the statistical treatment of a PPP and Concession projects on government debt and deficit outcomes during the PPP and Concession contract period.

This guide is part of the National Guidance on PPP Preparation and Procurement and should be read in close conjunction with the procedures and methodology provided by the set of documents that are part of this Guidance (see Figure 1).

Figure 1: All guidance documentation as part of the National Guide on PPP Preparation and Procurement



1.3 Definition

The term **Public Private Partnership (PPP)** in this document means: *“A long-term contract between a public authority and a private sector company for the procurement of a public infrastructure or service that is under the responsibility of a state agency which transfers substantial risk to the private party, includes the provision of private financing and includes a focus on the specifications of project outputs rather than project inputs, linked with a payment system based on performance.”*¹

The Romanian legislation distinguishes between: (i) **PPPs** and: (ii) other long-term (i.e., over 5 years) contracts involving either the performance of works and the operation of the asset(s) resulting from such works, or the provision of services. Such other long-term contracts are classified as either **Public Procurements** or **Concessions**, depending on whether a substantial portion of the operational risk is transferred to the private partner. PPPs are defined in and governed by Emergency Ordinance No. 39/2018 on Public-Private Partnerships (“the PPP law”), Public Procurement contracts are governed by Law No. 98/2016 on public procurement (or by Law no. 99/2016 on sectoral procurement) and Concessions are governed by Law No. 100/2016 on works concessions and service concessions (“the Concessions law”). PPP contracts are awarded according to Law No. 98/2016 (or Law No. 99/2016) or according to Law No. 100/2016.

Whereas traditionally in other countries in Europe, no distinction is made between PPPs and Concessions (as Concessions are considered a form of PPP), the PPP Law specifically distinguishes between PPPs and other long-term contracts (such as Concessions). In order to determine if the PPP Law is applicable, the PPP law requires the Substantiation study to demonstrate that *“...more than half of the revenues to be obtained by the project company from the use of the good / goods or operation of the public service that is the object of the project come from payments made by the public partner or other public entities for the benefit of the partner public.”*² The Substantiation study that determines whether a given project qualifies as a PPP or not should also determine whether the project involves the transfer of a substantial portion of the operational risk to the private partner.

If half or more of the revenue comes from payments made by users and all other conditions as set by the Concessions law are met (notably, the condition that a substantial portion of the operational risk is transferred to the private partner), the project will be defined as a Concession.

Therefore, according to both Eurostat and the PPP law, a project cannot be a PPP if more than half (50%) of the revenue comes from payments made by users of the public good(s) or service(s). Moreover, the project cannot be considered a PPP, if the revenues received by the public partner from the users exceed 50% of the value of

¹ Definition based on the definition of a PPP by EPEC.

² PPP Law, Article 2

the payments made by the public partner to the private contractor. However, it must be noted, that the fact that a project is contracted for under a particular law is not in itself relevant to determining whether the project can be defined as a PPP or a Concession for statistical purposes under Eurostat rules.

The term Energy Performance Contract (EPC) in this document means: *“A contractual arrangement between a public authority and a partner for the provision of energy efficiency measures (involving capital expenditure in construction works and/or equipment and/or the delivery of related services).”*³ An EPC may be treated as a PPP if the level of capital expenditure for the provision of energy efficiency measures represents more than half (50%) of the value of the asset under contract after completion of works and the contractor is remunerated on the basis of the availability or demand for the existing infrastructure. If this condition is met, the PPP rules on statistical treatment apply for the project. Otherwise, one shall refer to the Guide to the Statistical Treatment of EPCs.

This Guidance on impact assessment on government debt and deficit is applicable for PPPs and Concessions.

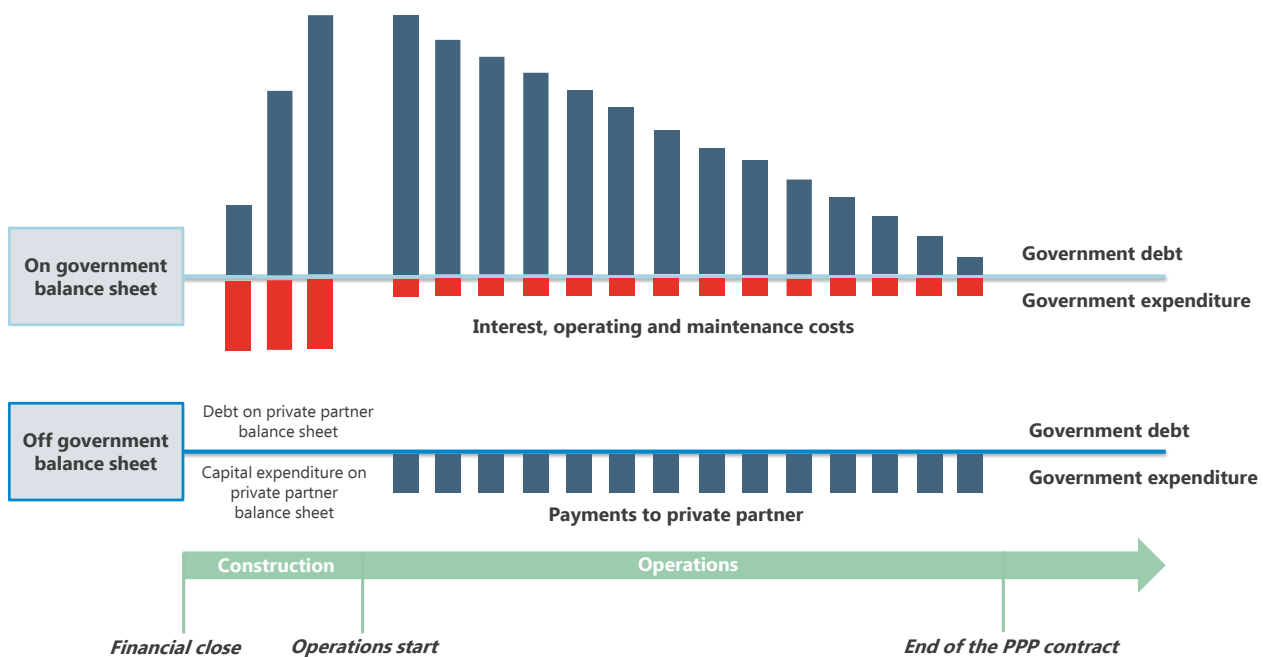
³ Definition based on the definition of an EPC by EPEC.

2. STATISTICAL TREATMENT OF THE PROJECTS

2.1 Methodology for the determination of the statistical treatment of PPP and Concession projects

In national accounts, both a PPP and a Concession project (or assets constructed under the PPP or Concession contracts) can be recorded on or off the government's balance sheet, i.e. allocated to the balance sheet of either the public or private partner in the PPP or Concession arrangement. This is called the statistical treatment of a PPP or Concession project. For statistical purposes, if the project meets the criteria of a PPP project defined by the Eurostat and therefore follows the rules of the Guide to the Statistical Treatment of PPPs, it implies that it is statistically treated as a PPP. The figure below illustrates the differences between the impact of the project's statistical treatment on government debt and deficit.

Figure 2: Impact of statistical treatment of the PPP project on government debt and deficit



It must be noted that the statistical treatment of a PPP or Concession project is separate from and must not be confused with the budgeting and accounting treatment of the project from the perspective of the contracting authority.

For more detail on the affordability and budgeting of the projects, please refer to the *National Guidance on Affordability Assessment*.

2.1.1 Determination of the type of contract and entities:

Given that the rules for determining the statistical treatment are different for different types of projects, prior to determining the impact of the project on government debt and deficit, it is necessary to:

- 1) Determine the type of contract – if it is a PPP or Concession for the purposes of statistical treatment. Please refer to Chapter 2 of the Eurostat/EPEC Guide to the Statistical Treatment of PPPs which describes the features of a PPP project and section 6.3.1.5 of the MGDD (2022) which describes the features of a Concession according to Eurostat;

- 2) Determine the statistical sector classification of both parties to the contract. For the purpose of determining the statistical treatment, the parties to the contract should be classified whether they are inside or outside of the general government sector.
- According to the Eurostat/EPEC Guidance, for a project to be statistically treated as a PPP⁴ and the rules of the Guidance to apply, assuming that the project has the other features of a PPP, **the contracting authority** is required to be classified inside the general government sector. This classification is usually performed by the NSI, which publishes the list of units classified in the general government sector in the Annex to its Inventory of the methods, procedures and sources used for the compilation of deficit and debt data and the underlying government sector accounts according to ESA 2010⁵. It is expected that this list is to be updated annually.
 - As for **the private partner**, in order for a project to be treated as a PPP, it is required to be outside of the general government sector.
 - As a general rule, if an SPV is the contracting party to the PPP contract and the SPV is controlled by private entities or public entities classified outside of the general government sector and not acting on an express or implied instruction of the government in the context of this project, the project may follow the rules of statistical treatment of the PPP projects, assuming that the project has the other features of a PPP. On the other hand, if the SPV is controlled by the government, the contractor (the SPV) will be classified inside the general government sector, the project cannot be considered a PPP for the purpose of statistical treatment and will be on the balance sheet of the government⁶.
 - In case the entity signing the contract is not an SPV, if the contractor is not controlled by the government, the contractor is classified outside the general government sector and the project may be treated statistically as a PPP⁵. If, however, the contractor is controlled by the government entity, which is not considered a ‘market producer’ in statistical terms (i.e. an establishment or enterprise whose output is mostly or all marketed)⁷, the contractor is classified inside the government sector and project will not be considered a PPP and will be on the balance sheet of the government.⁸

As a result of this exercise, it becomes clear if the project is a PPP or a Concession for statistical purposes, and therefore which rules for the determination of the statistical treatment should apply, and the process may start.

2.1.2 Determination of the statistical treatment:

According to the ESA rules, the economic ownership of a PPP or Concession asset cannot be split between the government and the private contractor and has to be recorded either as a government asset or a non-government asset. Therefore, if the PPP or Concession asset is recorded on the government’s balance sheet, the full value of the PPP or Concession asset and the liabilities related to it must be recorded on the government balance sheet.

⁴ Even if the project is classified as a PPP and therefore the Eurostat PPP rules apply, the project may still be determined to be on or off the government balance sheet depending on the analysis in accordance with the Eurostat rules for PPPs.

⁵ Please refer to <https://ec.europa.eu/eurostat/web/government-finance-statistics/excessive-deficit-procedure/edp-inventories> for the latest Inventory.

⁶ The decision on how to determine what is the party controlling the contractor (including the case of an SPV) is based on a number of factors and the particular circumstances of the project. Please refer to pages 20-21 of the Eurostat/EPEC Guide for further detail.

⁷ Please refer to pages 19-20 of the Eurostat/EPEC Guide for further detail.

⁸ Please refer to Chapter 2 of the Guide to the Statistical Treatment of PPPs (2016) and Guide to the Statistical Treatment of EPCs (2018) for a full description of statistical sector classification of the contractor.

Given that, according to the above-mentioned rules, the PPP or Concession project should be allocated to the balance sheet of the economic owner of the PPP or Concession asset, i.e. the party that in substance has substantially all the risks and rewards attached to a fixed asset (even if in legal form it might be otherwise). The decision on the economic ownership and therefore the statistical treatment of the PPP or Concession project is based mainly on the allocation of risks and rewards associated with the asset. Where the allocation of risks and rewards is not conclusive, the economic ownership would lie with the party who holds the economic control over the asset under the contract, i.e. controls its specifications, exploitation and services delivered from its use, and has control over the asset after the end of contract duration. Thus, the economic ownership should be assigned to the party that will get most of the rewards and bear most of the risks associated with the asset. As a basic rule, the PPP and Concession assets can be considered non-governmental (i.e. recorded off government balance sheet) if there is strong evidence that the private contractor bears most of the risks and receives most of the rewards associated with these assets. There are precise rules for doing this, as described further below.

2.1.2.1 Determination of the statistical treatment of PPP projects:

For PPP projects, the process of determination of the statistical treatment is comprehensively explained in and should follow the Eurostat/EPEC Guide to the Statistical Treatment of PPPs.

In order to determine which party carries the majority of the risk in the project, the assessment should analyse the provisions in the PPP contract in terms of the risk and rewards distribution, such as provisions on government financing, government guarantees, termination clauses and allocation of the assets at the end of the PPP contract. Hence the determination of the statistical treatment of the PPP project will depend on many specific characteristics of the PPP arrangement, and in particular the detailed risk allocation defined by the PPP contract. The Eurostat/EPEC guidance cited above describes specifically and in great detail, using the structure of a typical PPP contract, which PPP contract provisions or their combinations might influence the statistical treatment of the PPP project and bring it on- or off-balance sheet of the government when estimating the government debt and deficit.

The statistical treatment is determined in three steps as outlined in the Eurostat/EPEC Guide:

- 1) Identify the provisions in the PPP contract that can influence the statistical treatment of the project. The most typical contract provisions that affect the statistical treatment of a PPP project are presented in Chapter 3 of the Eurostat/EPEC Guide. For each of the typical contract provisions, the Guide determines whether this provision affects the statistical treatment (i.e. increases the chances of the PPP project being on the balance sheet of the government) or not. In addition, the Guide provides an indication of the magnitude of the influence of each provision on the statistical treatment, allocating them according to the category of importance: automatically on balance sheet, very high, high or moderate. The list of most commonly used PPP contract provisions that affect the statistical treatment is summarised and categorised in the table in the Annex of a Guide, which should be read in conjunction with the main body of the Eurostat/EPEC Guide.
- 2) Analyse the magnitude at which each of these provisions has an economic impact on the project. Once the relevant provisions are identified and categorised according to their importance for the statistical treatment, it is important to analyse whether some of these provisions can be re-categorised due to the features of the specific project under consideration. For instance, say the results of step 1 demonstrate that the contract provisions for Compensation Events are categorised as an issue of high importance following Chapter 3 of the Eurostat/EPEC Guide. However, in this particular project under consideration, the compensation relates to an event that has a very low likelihood of occurrence and economic impact. Therefore, these provisions could be re-categorised as an issue of moderate importance⁹ and allow the

⁹ Please refer to pages 139-140 of Eurostat/EPEC Guide for further detail.

project to be classified (after taking into account all the other relevant factors) within the threshold to be considered for off-balance sheet treatment;

- 3) Conclude the assessment of the statistical treatment, which includes scoring the project on a number of these influential provisions. Chapter 4 of the Eurostat/EPEC Guide provides an indication of thresholds, within which the PPP project should score in order to be considered for off-balance sheet treatment.

2.1.2.2 Determination of the statistical treatment of Concession projects:

In Concession projects, the majority of the private contractor's revenue comes from user fees and government payments constitute the minority (if any) of the contractor's revenue. Hence, in this case the concessionaire usually bears most of the commercial risk, and thus the economic ownership, and therefore the Concession liabilities, is most frequently allocated to the private contractor.

The following conditions should be met for the Concession project off the balance sheet of the government:

- Concessionaire should be a private company or an autonomous public company, i.e. a public concessionaire that has the autonomy of decision in respect to its principal function;
- Payments from the users of the asset to the concessionaire comprise the majority (more than 50%) of the private contractor's revenue under the Concession contract, either directly or indirectly;
- The majority of construction (or refurbishment) costs under the contract are borne by the concessionaire. If there is a government guarantee, it should cover less than 50% of the debt raised by the concessionaire for financing the asset under the Concession contract;
- The government does not provide any minimum revenue guarantee or a minimum level of profitability to the concessionaire;
- There is no risk transfer to the government, except for well-defined cases of force majeure, where the support from the government is temporary and limited.

These conditions are described and explained in detail in Section 6.3.1.5 of the ESA Manual on Government Debt and Deficit 2022.

If these conditions are not met, it is considered that the government bears the majority of economic risks, and therefore the assets under the Concession contract should be recorded on the balance sheet of the government.

2.2 Process for the determination of the statistical treatment of PPP or Concession projects

2.2.1 Preliminary statistical treatment assessment at Stage 1: PPP project identification and selection

It is good practice to start a preliminary assessment of the project's statistical treatment early during the project preparation stage to get a greater understanding of the impact that the PPP or Concession project can have on government's fiscal position before launching the full feasibility assessment process, i.e., at pre-Feasibility study stage. Assessing a project at an early stage will also yield insights into how the intended risk allocation (and subsequent changes to the risk allocation) may impact the statistical treatment.

For more information and guidance on risk assessment and allocation, refer to the *National Guidance on Risk Assessment and Allocation*

First, the contracting authority should determine whether the statistical treatment of the PPP or Concession project is a critical issue and whether the final decision to proceed with the project depends on it being recorded off government balance sheet. In case the decision to proceed with the project is conditional on its statistical treatment, it is recommended to start the preliminary assessment of project's statistical treatment as early as possible, i.e., during the pre-feasibility study stage.

Given that this is an early stage of project preparation process and the contract is not developed yet, the assessment will be performed at a very high level, based on the project features that are known at the time. First, the contract type (i.e., whether it is a PPP or a Concession project) and statistical sector classification of both parties should be identified (as described in Section 2.1.1). Once these are determined and the rules to follow the statistical treatment assessment are known, the next step is to proceed with the initial assessment. For this purpose, it is recommended for the contracting authority to include the table presented in Appendix 1 in pre-feasibility study and fill it in initially to the extent possible. At this stage, attention should be given to project features that fall under the category 'Automatically ON BALANCE SHEET' – if any of such features are present, this may affect the decision to proceed with the project. Gradually, as the project is structured and more information becomes available, the table will be completed further, and other categories will be added or removed.

What	Preliminary statistical treatment assessment at Stage 1: PPP project identification and selection
When	As part of the pre-Feasibility study.
Objective	Conduct a high-level assessment and determine whether the project already has features that would affect the government debt and deficit.
How	<ol style="list-style-type: none"> 1. Determine the type of contract and statistical sector classification of the contract parties. 2. Formulate an initial list of the most relevant typical contract provisions (based on on ESA 2010, MGDD 2022 and Eurostat/EPEC Guidance, see Appendix 1 for reference). 3. Form an initial view on whether any of the project features fall under the category 'Automatically ON BALANCE SHEET' and identify which features are most likely to influence the statistical treatment (based on the information available at hand during pre-feasibility study stage).
Who is responsible	<p>Contracting Authority.</p> <p>It is optional although recommended for PIMU to verify if the Contracting Authority has performed the preliminary statistical treatment assessment according to the rules and information available. At this stage the verification is not compulsory but is important at the early stage in the interest of the contracting authority to have some initial positive affirmation regarding the potential statistical treatment. Note that PIMU cannot give any definitive decision regarding the statistical treatment of the project, but rather check whether the necessary assessment has been properly conducted by the Contracting Authority.</p> <p>Note that at this stage, too little information about the future contract provisions is known, and the National Statistical Institute (NSI) of Romania may only give its formal approval after the contract is signed. However, once the project proceeds to the Substantiation</p>

	<p>Study stage and draft contract provisions are prepared (Step 3), it is recommended that the representatives of the NSI are included in the working group of the project in order for them to be available for consultation during the project preparation stage to ensure that the presumed statistical treatment of the project is known prior to contract signature. It must be clarified that, at all stages prior to contract signature, the NSI cannot provide a definitive answer on the statistical treatment of the project, but may only provide guidance to the Contracting Authority.</p> <p>In addition, note that at this stage, the decision to proceed with a project through PPP has not yet been made and as such, it might be that the advisors are not yet hired. Advisors are likely to be onboard from Step 2 onwards.</p>
Result	<p>Together with the PPP Potential Scan, preliminary risk and affordability assessment, this will help inform the decision to support further assessment and development of the project as a potential PPP.</p> <p>If the project proceeds to the next phase, the hypothetical statistical treatment assessment will be revisited and reassessed in further detail during the Feasibility & Substantiation study phase.</p>

2.2.2 Interim statistical treatment assessment at Stage 2: Preparation of a Feasibility & Substantiation study

The second step in assessing the statistical treatment of the project occurs within the context of the Feasibility & Substantiation study. The PPP law requires the substantiation study to demonstrate that *"...to what extent the obligations to be assumed by the public partner under the public-private partnership contract affect the limits of public debt and budget deficit, calculated according to the methodology applicable under European Union law."*¹⁰ The other components of the Feasibility & Substantiation study (and the activities undertaken in the process of this study) shall inform the statistical treatment assessment. In turn, the statistical treatment assessment will also form one component of the Feasibility & Substantiation study.

This guidance describes all requirements for the statistical treatment assessment of a project during the Feasibility & Substantiation study.

For all other requirements of the Feasibility & Substantiation study (not directly related to statistical treatment assessment), please refer to Appendix 2 of the *PPP Preparation and Procurement Guide*.

The starting point for the statistical treatment assessment in Stage 2 is the output from the Preliminary statistical treatment assessment at Stage 1: PPP project identification and selection. During this stage more and more project information becomes known and the proposed project risk allocation is developed, which in turn influences the economic ownership and therefore the statistical treatment of the project. In case the final decision to proceed with the project depends on it being recorded off government balance sheet, this will be an iterative process as the proposed risk allocation is being built up and the relevant project features affecting the statistical treatment may be added, modified or removed depending on the overall impact on the treatment. However, it is important to make sure that the impact of any of such changes made in order to achieve off balance sheet treatment on project's scope continuing to meet the identified needs, economic viability, value-for-money, affordability, bankability and market acceptance is checked.

¹⁰ PPP law, Article 22

What	Interim statistical treatment assessment at Stage 2: Preparation of a Feasibility & Substantiation study
When	<p>As part of the Feasibility & Substantiation study, based on the recommended risk allocation and payment mechanism and/or the standard contract model provisions adjusted for project-specific features, if applicable.</p> <p>For more information and guidance on risk assessment and allocation, the payment mechanism and the standard contract model provisions, refer to the <i>National Guidance on Risk Assessment and Allocation, the National Guidance on Affordability Assessment and the National PPP Contract Guidance.</i></p>
Objective	Determine whether and how the project would affect the government debt and deficit and have the ability to make corrections in the project structuring (if necessary).
How	<ol style="list-style-type: none"> 1. Review the output from the Preliminary statistical treatment assessment at Stage 1: PPP project identification and selection. Are there any new project features that were not initially considered, but are now relevant to the statistical treatment of the project (based on other substantiation study components and the proposed risk allocation)? Update the list to include new information / findings about the project arising from the substantiation study that will more clearly define project features potentially affecting the statistical treatment. 2. Reassess the initial assessment from the Preliminary statistical treatment assessment at Stage 1: PPP project identification and selection and categorise the project features. Are there any features that fall under the 'Automatically ON BALANCE SHEET' or 'VERY HIGH' category? Check whether these features may be revisited in the proposed risk allocation. This assessment can be based on the recommended risk allocation and payment mechanism and the standard contract model provisions adjusted for project-specific features, if applicable
Who is responsible	<p>Contracting Authority with the assistance of advisors.</p> <p>As part of the endorsement process, PIMU should verify if the Contracting Authority has performed the interim statistical treatment assessment according to the rules and information available. Note that PIMU cannot give any definitive decision regarding the statistical treatment of the project, but rather check whether the necessary assessment has been properly conducted by the Contracting Authority.</p> <p>Note that at this stage, the draft contract is not developed yet, and the NSI cannot give its formal approval or advice. However, once the project proceeds to the Feasibility & Substantiation study stage and draft contract provisions are prepared (Step 1 of Stage 3: PPP Procurement), it is recommended that the representatives of the NSI are included in the working group of the project in order for them to be available for consultation during the project preparation stage to ensure that the presumed statistical treatment of the project is known prior to contract signature. It must be clarified that, at all stages prior to contract signature, the NSI cannot provide a definitive answer on the statistical treatment of the project, but may only provide guidance to the Contracting Authority.</p>

Result	Together with other components of the Feasibility & Substantiation study this will help inform the decision to move to Stage 3: PPP Procurement, including launching the tender process, and the presumed future impact of the project on government debt and deficit.
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2.2.3 Reconfirm and update Assessment of the Statistical Treatment at Step 1 of Stage 3: PPP Procurement

Once the draft PPP or Concession contract is developed, a more thorough assessment of the impact of the PPP or Concession project on government debt and deficit should be conducted on its basis prior to the decision to launch the tender process.

If, during further development of the PPP or Concession project, the PPP or Concession arrangement and contract terms are modified with respect to any of the issues (e.g. risk allocation) that may have an impact on the statistical treatment of the project, the assessment must be revalidated or revised.

Obtaining the assessment of the statistical treatment prior to the decision to launch the tender is the responsibility of the contracting authority, and at this stage the assessment for each PPP or Concession project may be undertaken with the assistance of advisors. It is recommended that the NSI is available to provide consultation on the presumed statistical treatment of the project at this stage based on the draft PPP or Concession contract. It must be noted, however, that at this stage the NSI may only provide guidance to the Contracting Authority, as the NSI may only give its formal approval after contract signature.

What	Reconfirm and update Assessment of the Statistical Treatment at Step 1 of Stage 3: PPP Procurement
When	Prior to the decision to launch the tender, once the draft tender documentation is ready.
Objective	Determine whether and how the project would affect the government debt and deficit and have the ability to make corrections in the project structuring (if necessary) prior to launching the tender process.
How	<ol style="list-style-type: none"> 1. Review the output from the Interim statistical treatment assessment at Stage 2: Preparation of a Feasibility & Substantiation study. As the draft PPP or Concession contract is ready, update and recategorize the list to include the analysis of draft contract provisions based on ESA 2010, MGDD 2022 for the Concession contract and a Guide to the Statistical Treatment of PPPs (2016) for the PPP contract. 2. It is recommended to inform and share the information about the project with the NSI for their optional advice and guidance. No definitive approval from the NSI can be made at this stage.
Who is responsible	<p>Contracting Authority with the assistance of advisors and guidance from NSI.</p> <p>It is optional although recommended for PIMU to verify if the Contracting Authority has performed the statistical treatment assessment according to the rules and information available. Note that PIMU cannot give any definitive decision regarding the statistical treatment of the project, but rather check whether the necessary assessment has been properly conducted by the Contracting Authority.</p>

Result	Together with other components of the substantiation study this will help inform the decision to launch the tender process and the presumed future impact of the project on government debt and deficit.
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2.2.4 Reconfirm and update Assessment of the Statistical Treatment at Step 4 of Stage 3: PPP Procurement

Once the Feasibility & Substantiation study is completed, the draft PPP or Concession contract is developed and the decision to proceed to procurement stage is made, the draft PPP or Concession contract is made available to prospective bidders as part of the bid documents. As during this stage, the contracting authority is engaging with prospective bidders and certain changes to the proposed risk allocation may be made, any changes should be further revalidated on their impact on the provisions of the draft PPP or Concession contract and statistical treatment of the project. If any of the modifications affect the statistical treatment adversely, this should help inform further dialogue with prospective bidders.

The outcome of this process of (re)validating the resulting expected statistical treatment during the awarding procedure will be a final verification prior to the decision to sign the PPP or Concession contract.

What	Reconfirm and update Assessment of the Statistical Treatment at Step 4 of Stage 3: PPP Procurement
When	During the dialogue and tender phase.
Objective	Update and finalize the assessment of expected effect of the project on government debt and deficit.
How	<ol style="list-style-type: none"> 1. Update statistical treatment assessment (Step 1 of Stage 3) based on the dialogue with the tenderers. 2. Verify the expected statistical treatment prior to proceeding to the PPP or Concession contract close.
Who is responsible	Contracting Authority with the assistance of advisers and guidance from NSI.
Result	Statistical treatment of the project.

2.2.5 Final statistical treatment assessment at Step 5 of Stage 3: PPP Procurement

The final decision on the statistical treatment of the project is made by the NSI, and ultimately Eurostat, if the NSI decides to defer to it for its opinion, on the basis of the concluded PPP or Concession contract.¹¹ The contracting authority has the obligation to provide the copy of the signed PPP or Concession contract to the NSI within 30 days from the contract signature. The NSI should analyse the PPP or Concession documentation and decide whether the PPP or Concession project shall be classified as on- or off-balance sheet project following the above-mentioned statistical rules and guidance notes.

However, since the contract is already closed, at that point it is too late to modify the provisions of the PPP or Concession contract in order to alter its statistical treatment. Therefore, it is crucial to perform the final internal

¹¹ Eurostat may change the accounting treatment of a project if the initial qualification of the project is found to be wrong.

assessment of the expected statistical treatment before taking the decision to close the PPP or Concession contract.

However, as highlighted earlier, given that the statistical treatment is likely to be a determining factor for the Romanian government in its decision to start the PPP and Concession procurement and enter into a PPP or Concession contract, early consultation with the NSI is recommended. Furthermore, given that the statistical treatment will ultimately be verified by Eurostat, which is the final arbiter on this topic, NSI has the ability to inquire the ex-ante advice of Eurostat in case there are uncertainties regarding the statistical treatment for the PPP or Concession contract that it is not able to resolve in either the project preparation or final stages. It must be noted that if the NSI decides to request the advice of Eurostat, this should be factored into the project timetable, as receiving the response from Eurostat might take up to two months, while according to the Concession and Purchasing Law, the time available for evaluation might be limited. Note, however, that even an NSI/Eurostat opinion at the pre-contract stage is not binding; this can only be given after contract signature.

Normally, the final decision on the statistical treatment holds for the entire duration of the PPP or Concession contract. However, if there are changes to the PPP or Concession contract after it has been signed, it is important to consider whether the original statistical treatment of the project has been affected by these changes, and if so, the statistical treatment must be reassessed in order to reflect these changes. Therefore, the issue of statistical treatment should also be a factor in deciding on any variations to the PPP or Concession contract.

What	Final statistical treatment assessment Step 5 of Stage 3: PPP Procurement
When	After the PPP or Concession contract is concluded.
Objective	Update and finalize the assessment of expected effect of the project on government debt and deficit.
How	Submit the copy of the signed PPP or Concession contract to the NSI for the final assessment of the statistical treatment.
Who is responsible	NSI and Eurostat.
Result	Statistical treatment of the project.

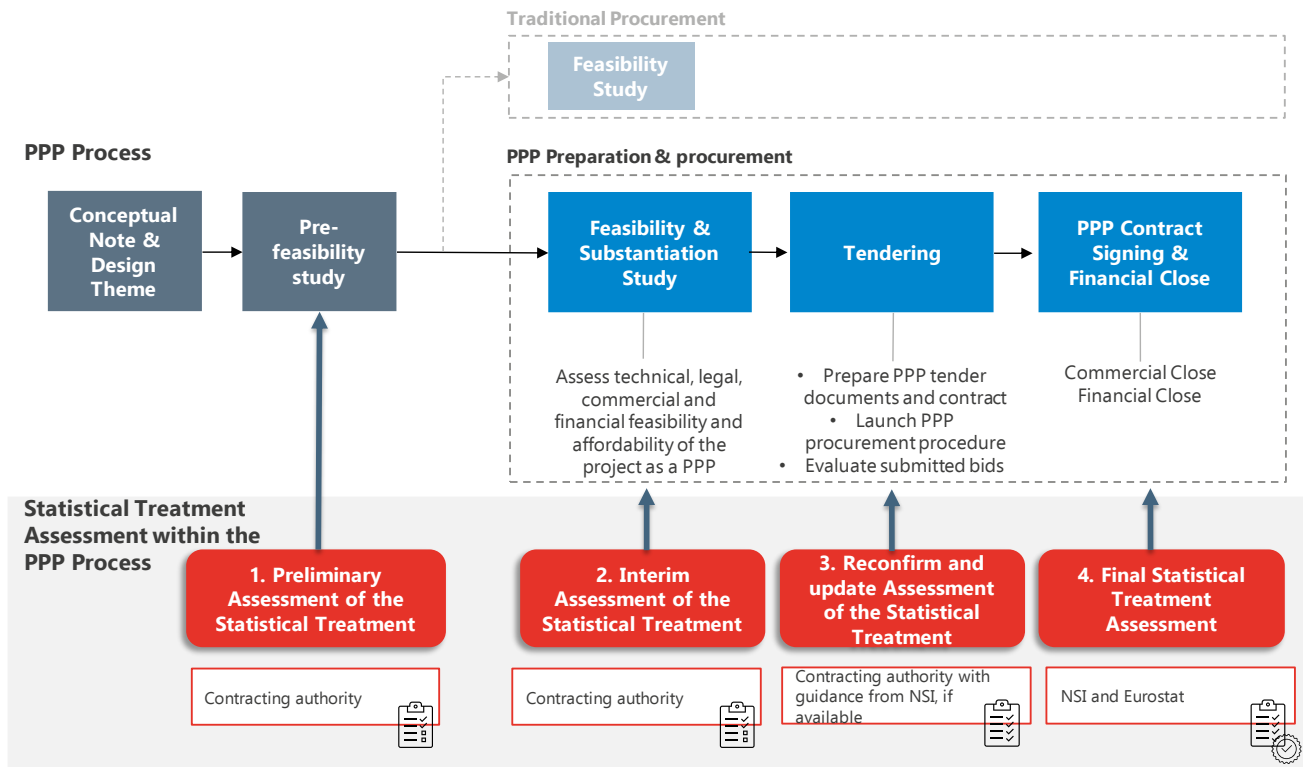


Figure 3: Statistical treatment assessment in the PPP preparation and procurement process

To summarize, in the PPP or Concession project preparation and procurement process statistical treatment should be assessed:

- 1) Preliminarily as part of the pre-feasibility study based on the initial project information available (by the contracting authority with guidance from the NSI);
- 2) As part of Substantiation Study based on more detailed project information and proposed risk allocation at first, and once the draft PPP or Concession contract is prepared before the decision to move to the Procurement Stage and before launch of the tender (by the contracting authority with the support of advisors and guidance from the NSI); and
- 3) During the tender process prior to contract signature if any changes to the contract provisions are made during the engagement with prospective bidders (by the Contracting Authority with the support of advisors and guidance from the NSI) and after the final version of the PPP or Concession contract is signed (this final step is the assessment and final opinion issued by the NSI and, if requested by NSI, Eurostat).

2.3 Consequences for PPP and Concession project preparation

Focussing excessively on ensuring that the project stays off government balance sheet may harm project preparation and lead the government to use the PPP or Concession approach where traditional procurement would have been more appropriate. In some cases, there may not be sufficient value in bringing in the private sector, or a project may offer poor value for money if procured through the PPP or Concession route, among other reasons. Finally, and most importantly, excessive focus on off-balance sheet recording may create the illusion of affordability. It must be stressed that irrespective of a project's statistical treatment, a PPP or Concession project involves long-term financial commitments, which inevitably affect the budget of the government.

For more information and guidance on affordability analysis, refer to the *National Guidance on Affordability Assessment*

Appendix 1: List of typical PPP contract provisions that influence the statistical treatment¹²

In performing the preliminary and interim assessment of the statistical treatment of the PPP and Concession projects and creating the initial list of project features that may influence this, the table provided in the Annex to the Eurostat/EPEC guidance is a great starting point. It should be used by the contracting authority (with some guidance from NSI) during the project preparation stage in order to get sense of what rules will apply to assessing the statistical treatment, what the presumed statistical treatment of the project will be and make necessary adjustments to project features, if necessary.

Determination of the type of contract and entities

Given that the rules for determining the statistical treatment are different for different types of projects, prior to determining the impact of the project on government debt and deficit, it is necessary to determine the type of contract, the statistical sector classification of the parties to the contract, and therefore the relevant rules to follow for the assessment of the statistical treatment.

Table 1: List of questions to determine if the contract is a PPP or not (Source: Eurostat/EPEC)

Question	Reference to the Eurostat/EPEC Guide for further details
1. Statistical sector classification of the parties to the contract	
Is the Contracting Authority classified inside or outside the general government sector?	Statistical sector classification of the Authority (p.19)
Is the private partner an SPV controlled by private entities or, if it is not an SPV, is it either controlled by private entities or controlled by government and assessed a "market producer" according to Eurostat regulation?	Statistical sector classification of the Private Partner (pp.19-22)
2. The source of the private partner's revenues	
Is a government entity the direct source of the majority of the revenues that the private partner will be entitled to receive under the contract?	PPP or concession (pp.22-23)
3. Type of asset to be provided by the private partner under the contract	
Does the contract involve investment in a clearly identifiable and specifically-designed asset?	Type of asset (p.23)
4. The nature of works to be carried out by the private partner under the contract	
Does the contract involve expenditure by the Partner either (a) in the construction of a new asset or (b) in the renovation, upgrade or refurbishment of an existing asset, with, in this latter case, an amount of capital expenditure of the Partner under the contract representing at least 50% of the value of the asset after completion of the works?	Refurbishment, renovation or upgrade of existing assets (pp.23-24)
5. The economic life of the asset and the duration of the contract	
Does the contract have an operational phase of 10 years or more that covers a meaningful part of the asset's economic life and at least one cycle of major maintenance or replacement of significant components of the asset?	Economic life of the asset/PPP contract duration (pp.24-25)

¹² Based on the Annex to Eurostat/EPEC Guide to the Statistical Treatment of PPPs

6. The scope of services to be provided by the private partner under the contract	
Does the asset require ongoing maintenance and is the Partner obliged to carry out such maintenance for the duration of the contract with a view to making it available to the Public Authority or other end-users?	Scope of services to be provided by the Partner (p.25)
7. Revenues received by government from the project	
Are the revenues that the Public Authority is forecast to receive from users of the asset less than 50% of the total value of payments that the Public Authority is forecast to make to the Partner over the life of the contract (both amounts compared on a net present value basis, at financial close)?	Revenues received by government from the project (pp.25-26)

Preliminary statistical treatment assessment

Once the expected contract is determined as likely to fall under the rules that apply to PPPs, then the Eurostat rules on determining the balance treatment of the provisions of the contract can be applied. During the preliminary assessment, even though the provisions of the PPP or Concession contract are not developed yet, it might be useful to already go through each of the provisions in the table below and verify whether any of the issues presented in the first column are already present in the project structure based on the initial project information available at the time.

At this stage, particular attention should be paid to the features that are marked in the column 'Automatically ON BALANCE SHEET', as these are the issues that certainly impact the statistical treatment and therefore might affect the decision to proceed with the project development further.

To perform the preliminary assessment, the contracting authority should take the following steps:

- 1) In the table below, look for the project features that are marked with colour in the column 'Automatically ON BALANCE SHEET';
- 2) Check the relevant paragraphs, indicated in column 'Eurostat/EPEC guide Chapter 3 reference', related to these features;
- 3) If this feature is present in the preliminary project structure, mark it a '✓' in the column;
- 4) After verifying all project features that may put the project automatically on the balance sheet of the government, check if any of the features marked with colour in the column 'VERY HIGH importance' are present in the project structure, and if so, mark it a '✓' in that column;
- 5) After going through all relevant project features known at the time, count the number of '✓' in each column.

Eurostat/EPEC Guide describes in detail the scoring system that guides the decision on the statistical treatment of the PPP project (please refer to Chapter 4 of Eurostat/EPEC Guide). A similar approach but following the ESA/MGDD rules for the statistical treatment of Concession projects may be followed for Concessions.

Interim statistical treatment assessment

At the stage of interim statistical treatment assessment, review and reassess the initial assessment from the preliminary assessment. Repeat the steps from the previous stage, also including the rest of the columns (HIGH and MODERATE issues) in the assessment. If the proposed risk allocation changes, repeat the process for the project features affected by that change.

Reconfirm and update Assessment of the Statistical Treatment

Once the draft PPP or Concession contract is ready, repeat these steps, but at this stage for the relevant project provisions from the draft PPP or Concession contract.

Final statistical treatment assessment

During the tendering process, as the contracting authority is engaging with the prospective bidders and potentially certain changes to the proposed risk allocation are made, these should be further revalidated on their impact on the statistical treatment of the project. Therefore, the provisions of the draft contract have to be verified, following the steps described above, until the final verification prior to the decision to sign the PPP or Concession contract.

In below table, reference is made to the PPP Standard Provisions. For more information on the PPP Standard Provisions, refer to the *National PPP Contract Guidance*.

Table 2: Table of Typical PPP Contract Provisions that Influence the Statistical Treatment (Source: Eurostat/EPEC)

Project features	Eurostat/EPEC guide Chapter 3 reference	Reference to PPP Standard Provisions	Automatically ON BALANCE SHEET	VERY HIGH importance	HIGH importance	MODERATE importance
Theme 2: Design and construction of the asset						
Responsibility for design: issues with Authority taking risk as described in Theme 2.1	2.1	4.1, 4.6, 12.1, 12.2, 12.3, 14, 15, 16.5, 19.4, 20, 29, 33, 37			✓	
Construction completion: issues with completion criteria as described in Theme 2.3	2.3	18			✓	
Construction completion: issues with phased completion and phased Operational Payments as described in Theme 2.3	2.3	18, 19, 33			✓	
Snagging works: issues described in Theme 2.4	2.4	18			✓	
Reimbursement of Authority costs: issues described in Theme 2.5	2.5	2, 10, 11, 16, 17			✓	
Theme 3: Operation and maintenance of the asset						
Responsibility for operation and maintenance: issues with Authority responsibility for maintenance as described in Theme 3.1	3.1	20.2			✓	
Operation and maintenance standards: issues described in Theme 3.2	3.2	22, 26	✓			

Maintenance plan: issues with Authority approval reducing Partner risk as described in Theme 3.3	3.3	20.2			✓	
Maintenance plan: issues with requiring Partner to incur costs as described in Theme 3.3	3.3	20.2, 23.2.4, 23.2.5				✓
Maintenance funds: issues with the Authority taking risk on a maintenance fund as described in Theme 3.4	3.4	20.2, 23.2.4, 23.2.5			✓	
Maintenance fund: issues with the Authority taking reward on a maintenance fund as described in Theme 3.4	3.4	20.2, 23.2.4, 23.2.5	✓			
Maintenance: issues with the Authority taking benefit of maintenance cost savings as described in Theme 3.4	3.4	20.2	✓			
Theme 4: The Payment Mechanism						
Adjustments for unavailability and poor service performance: issues described in Theme 4.2	4.2	29.2, 29.3	✓			
Defining availability / unavailability: provisions that fail to define availability / unavailability as described in Theme 4.3	4.3	1, 29.3	✓			
Measuring availability and performance: issue described in Theme 4.5	4.5	29	✓			
Unavailability deductions: failure to apply the principle of proportionality as described in Theme 4.6.1	4.6.1	29	✓			
Unavailability deductions: inappropriate use of area and time weightings as described in Theme 4.6.1	4.6.1	29.2			✓	
Rectification periods: provision for unreasonably long repair or rectification periods as described in Theme 4.6.3	4.6.3	29				✓
Unavailable but used: provisions that reduce deductions by more than 50% as described in Theme 4.6.6	4.6.6	29				✓
Excusing causes: issues with provisions for excusing causes as described in Theme 4.7.1	4.7.1	33.2, 33.4			✓	
Grace periods: provision for unreasonably long grace periods as described in Theme 4.7.2	4.7.2	29.2, 33				✓
Tolerances / de minimis exceptions: provision for tolerances with a	4.7.3	29.2, 33			✓	

nonnegligible impact as described in Theme 4.7.3						
Caps on deductions: provisions that undermine the proportionality principle as described in Theme 4.7.4	4.7.4	29.2	✓			
Adjustments for use: provision for downward adjustment of Operational Payments as described in Theme 4.8	4.8	33.1, Schedule Payment Mechanism			✓	
Banding of demand-based Operational Payments: highest-use band unit price set at zero or close to it as described in Theme 4.10.2	4.10.2	33.1, Schedule Payment Mechanism	✓			
Banding of demand-based Operational Payments: issues with upper-use and lower-use bands as described in Theme 4.10.2	4.10.2	33.1, Schedule Payment Mechanism			✓	
Minimum use or minimum revenue guarantees as described in Themes 4.10.2 and 4.10.3	4.10.2 and 4.10.3	4.1.4	✓			
Theme 5: Other payment arrangements						
Commencement of Operational Payments: provision for payments to commence before completion of the asset as described in Theme 5.1	5.1	32.1, 33.1, 34.1.1, Schedule Payment Mechanism	✓			
Benchmarking and market testing: provisions that apply to maintenance services as described in Theme 5.2	5.2	33.1, 51.3.3, Schedule Payment Mechanism	✓			
Benchmarking and market testing: provisions that do not meet the second and third conditions described in Theme 5.2	5.2	33.1, 51.3.3, Schedule Payment Mechanism			✓	
Utilities costs: issues with provisions for risk sharing as described in Theme 5.3	5.3	33.1, Schedule Payment Mechanism				✓

Indexation: issues described in Theme 5.4	5.4	33.1, Schedule Payment Mechanism				✓
Third party revenues: Authority revenues equal or exceed the 20% threshold as described in Theme 5.5	5.5	33.1, Schedule Payment Mechanism				✓
Third party revenues: Authority revenues equal or exceed the 5% threshold as described in Theme 5.5	5.5	33.1, Schedule Payment Mechanism				✓
Payment mechanism reviews designed to change the risk and reward allocation under the PPP contract	5.10	33.1, Schedule Payment Mechanism				Specific analysis required
Theme 6: Compensation, relief and force majeure events						
Scope and nature of events: provisions that do not meet the conditions described in Theme 6.1	6.1	37, 38				✓
Quantifying compensation/relief: provisions that do not meet the conditions described in Theme 6.1.4	6.1.4	37, 38, Schedule Financial Adjustments				✓
Compensation, relief and force majeure events that are dealt with through public law provisions as described in Theme 6.2	6.2	37, 38				Specific analysis required
Theme 7: Changes to the PPP contract						
Authority changes: issues with Partner compensation/relief as described in Theme 7.1	7.1	35.1				✓
Partner changes: obligation on the Authority to accept changes as described in Theme 7.2	7.2	35.2				✓
Theme 8: Changes in law						
Change in law: issues with Authority taking change in law risk as described in Theme 8	8	36				✓

Theme 10: Warranties and indemnities						
Warranties: warranties that relate to risks and rewards as described in Theme 10.1	10.1	40				Specific analysis required
Indemnities given by the Partner: limits or exclusions on indemnities that do not meet the conditions described in Theme 10.2	10.2	41			✓	
Indemnities given by the Authority: indemnities for risks other than those described in Theme 10.3	10.3	41			✓	
Theme 11: Early termination of the PPP contract						
Authority default termination: issues with Authority default termination triggers as described in Theme 11.2	11.2	43			✓	
Theme 12: Compensation on early termination						
Provisions that do not preserve pretermination liabilities as described in Theme 12	12	46			✓	
Partner default termination compensation: issues with no contract provision as described in Approach 2 of Theme 12.1	12.1	46.2				Specific analysis required
Partner default termination compensation: re-tendering provisions that do not take into account the Partner's performance of the project as described in Approach 3 in Theme 12.1 (first condition listed)	12.1	46.2	✓			
Partner default termination compensation: issues with the methodology for estimating the market value of the contract not meeting the conditions described in Approach 3 in Theme 12.1 (second condition listed)	12.1	46.2	✓			
Partner default compensation: provisions that do not meet the remaining conditions listed in Approach 3 in Theme 12.1	12.1	46.2			✓	
Partner default termination compensation: provisions that do not take into account the Partner's performance of the project as described in Approach 4 in Theme 12.1	12.1	46.2	✓			

Partner default termination compensation: provisions that only partially take into account the Partner's performance of the project as described in Approach 4 in Theme 12.1	12.1	46.2			✓	
Force majeure termination compensation: issue of compensation calculation as described in Theme 12.4	12.4	46.3				✓
Theme 13: Expiry of the PPP contract						
Allocation of the asset on expiry: allocation of the asset to the Authority (with or without payment) where the conditions described in Theme 13.2 are not met	13.2	45, 1.1, 1.4				✓
Condition of the asset on expiry: issue described in Theme 13.3	13.3	23, 45.1			✓	
Theme 14: Financing arrangements						
Interest rate adjustments: issues described in Theme 14.2	14.2	33.1, Schedule Payment Mechanism, Schedule Financial Adjustments			✓	
Authority/government financing at or above the 50% threshold as described in Theme 14.4	14.4	Financing Agreements	✓			
Authority/government financing above the one third threshold as described in Theme 14.4	14.4	Financing Agreements		✓		
Authority/government financing above the 10% threshold as described in Theme 14.4	14.4	Financing Agreements			✓	
Authority/government financing up to (and including) the 10% threshold as described in Theme 14.4	14.4	Financing Agreements				✓
Provision of minimum revenue/minimum use guarantees as described in Theme 14.5	14.5	33.1, Schedule Payment Mechanism	✓			
Refinancing: Authority's right to withhold approval for proposed refinancing on unlimited grounds as described in Theme 14.6.1	14.6.1	3.4			✓	

Refinancing: provisions that allow a refinancing to increase the Authority's liabilities under the PPP contract without its consent as described in Theme 14.6.1	14.6.1	3.4			✓	
Refinancing: a right for the Authority to require the Partner to proceed with a refinancing as described in Theme 14.6.1	14.6.1	3.4	✓			
Refinancing: gain-sharing provisions that do not align with either approach as described in Theme 14.6.2	14.6.2	3.4	✓			
Lenders' step-in rights: issues with liabilities as described in Theme 14.8	14.8	Financing Agreements				✓
Theme 15: Government influence						
Authority/government entitlement to a share of profit at or above the 50% threshold as described in Theme 15.1	15.1	Financing Agreements, Schedule Payment Mechanism	✓			
Authority/government entitlement to a share of profit above the one third threshold as described in Theme 15.1	15.1	Financing Agreements, Schedule Payment Mechanism		✓		
Authority/government entitlement to a share of profit above the 20% threshold (up to and including a one third share) as described in Theme 15.1	15.1	Financing Agreements, Schedule Payment Mechanism			✓	
Authority/government entitlement to a share of profit above the 10% threshold (up to and including 20%) as described in Theme 15.1	15.1	Financing Agreements, Schedule Payment Mechanism				✓
Authority step-in rights: issues described in Theme 15.3	15.3	29.6				✓

Caps on Partner profit or revenue: provisions that cap Partner profit or revenue as described in Theme 15.4	15.4	Schedule Payment Mechanism	✓			
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Appendix 2: Impact on government debt and deficit

Recording the PPP or Concession project on or off the balance sheet of the government has an impact on government net lending or borrowing and government debt. The two cases for both the PPP and Concession projects are described below.

PPP project off government balance sheet

If the assets of the PPP project are treated as off government balance sheet, construction costs of such projects will not affect the government balance, capital formation and debt upfront, but rather the impact will be spread over the PPP contract period.

After the construction period, during the operations period, the payments of the government to the private contractor are recorded as purchases of services (ESA category P.2 – intermediate consumption) with the frequency with which they are incurred and are treated as current expenditure of the government.

Example

Consider a PPP project with investment expenditures of 1,000 mln euro, split equally over a 2-year construction period.

During the operations period of 20 years, the private contractor receives annual service payments from the government equal to 80 mln euro, consisting of 50 mln euro in repayments of the invested capital, 15 mln of financing costs (interest and dividends) and 15 mln of services. The table below shows the impact on the government accounts.

Table 3: Example of the impact on the government accounts for a PPP project off balance sheet

Years	Construction		Operations				Total
	1	2	1	2	3	4-20	
Current expenditures (purchase of services – P.2)			-80	-80	-80	-80	-1,600
Net lending/ Borrowing (B.9)			-80	-80	-80	-80	-1,600

Note that even if the PPP project is off government balance, PPP commitments and capital expenditures by the private contractor must be reported to Eurostat under the Excessive Deficit Procedure (EDP) process. EU directives require Member States to report data on particular types of contingent liabilities, including the outstanding value of off-balance PPP assets:

- During the construction period, the expenses on design and construction must be reported, not including financing costs (ESA category P.51g - gross fixed capital formation (GFCF)).
- During the operations period, the capital value is progressively reduced over time by the amount of the economic depreciation (ESA category P.51c - consumption of fixed capital), which is calculated based on estimates or actual data. The adjusted capital value reflects the current value of the asset at the time of reporting. The amount is deemed to reflect the GFCF and debt impact in case that government would have to take over the assets during the life of the contract.

PPP project on government balance sheet

If the assets of the PPP project are treated as on government balance sheet, construction costs financed by the private contractor, including the VAT and capitalised interest, impact the government balance upfront over the construction period, and are deemed to be government spending.

- During the construction period, the construction costs are recorded as government capital formation (ESA category P.51g - GFCF) expenditures, with a corresponding impact on government net lending (ESA category B.9) and government debt (ESA category AF.4). The construction costs are considered as an imputed loan from the PPP contractor. GFCF consists of acquisitions minus disposals of fixed assets plus additions to the value of non-produced assets realised by productive activity, e.g. improvements to land. Fixed assets can be buildings, structures and equipment, but also intangible assets, such as computer software. These costs are recorded on an accrual basis as the works proceed over the construction period pro rata the value of work completed. Phased instalments may be used as a basis for the time of recording.
- During the operations period, the availability payment is broken down into three components that must be recorded separately in the national accounts:
 - (i) reimbursement of the capital (repayment of the imputed loan ESA category AF.4);
 - (ii) interest payment (ESA category D.41); and
 - (iii) service fee, recorded as intermediate consumption (ESA category P.2).

Example

Considering the same example as above, the table below shows the impact on the government accounts when the PPP project is recorded on the government's balance sheet:

Table 4: Example of the impact on the government accounts for a PPP project on balance sheet

Years	Construction		Operations				Total
	1	2	1	2	3	4-20	
Government GFCF (P.51g)	-500	-500					-1,000
Service fee (P.2)			-15	-15	-15	-15	-300
Interest payment (D.41)			-15	-15	-15	-15	-300
Net lending/ Borrowing (B.9)	-500	-500	-30	-30	-30	-30	-1,600
Changes in debt (AF.4)	+500	+500	-50	-50	-50	-50	0
Government cash flow			-80	-80	-80	-80	-1600

The figure below illustrates the differences between the two cases.

Concession project off government balance sheet

If the assets of the Concession project are treated as off government balance sheet, construction costs of such projects will not affect the government balance, capital formation and debt upfront, and assets under the contract will be usually transferred to the government at the end of the contract.

- During the construction and operations period, payments from the concessionaire to the government (in case there are any under the contract) are recorded as rent (ESA category D.45) if the government provides the land, as rental payments (ESA category P.1) if the government provides a produced asset, or as other taxes on production (ESA category D.29) if the government does not provide anything in return for the payment. These are recorded initially or regularly over the contract duration, and on accrual basis.
- At the end of the operations period, if the asset under the contract is transferred to the government, it enters the government balance sheet through government capital formation (ESA category P.51g – GFCF) at the market value and a capital transfer (ESA category D.99), with no impact on net lending/borrowing (ESA category B.9) if the government gains the ownership and control of the asset for free.

Example

Consider a Concession project with investment expenditures of 1,000 mln euro, split equally over a 2-year construction period. During the operations period of 20 years, the private contractor pays rent to the government equal to 10 mln euro. At the end of the contract the project's assets with the market value of 200 mln are transferred to the government for free. The table below shows the impact on the government accounts.

Table 5: Example of the impact on the government accounts for a Concession project off balance sheet

	Construction		Operations				Total
Years	1	2	1	2	3-19	20	
Rent (D.45)			+10	+10	+10	+10	+200
Government GFCF (P.51g)						+200	+200
Capital transfer (D.99)						-200	-200

Concession project on government balance sheet

If the government is considered as the economic owner of the asset, for example, if the government finances the majority of the construction costs, provides an explicit guarantee covering a major part of debt (more than 50%) or provides a minimum revenue guarantee, thus bearing the majority of economic risks, the assets of the Concession project are treated as on government balance sheet and construction costs impact the government balance upfront over the construction period, and are deemed to be government spending (the Manual on Government Debt and Deficit 2019 describes in detail what may cause the Concession project to be recorded on government balance sheet).

- During the construction period, asset under the contract is recorded in the government balance sheet at its market value as government capital formation (ESA category P.51g - GFCF), with a corresponding impact on government net lending (ESA category B.9) and government debt (ESA category AF.4).
- During the operations period (in case of minimum revenue or profitability guarantee), revenue received by the private contractor is rerouted to the government net of management fees paid to the private contractor that are recorded as a purchase of services (ESA category P.2).

Example

Considering the same example as above, but when the government provides a grant of 500 mln euro to cover the part of initial investment expenditures, split equally over a 2-year construction period and provides a minimum revenue guarantee of 15 mln in the first 2 years of operations. The table below shows the impact on the government accounts when the Concession project is recorded on the government's balance sheet:

Table 6: Example of the impact on the government accounts for a Concession project on balance sheet

Years	Construction		Operations				Total
	1	2	1	2	3-19	20	
Government GFCF (P.51g)	-250	-250					-1,000
Service fee (P.2)			-15	-15			-30
Net lending/ Borrowing (B.9)	-250	-250	-15	-15			-530
Changes in debt (AF.4)	+250	+250	-25	-25	-25	-25	0