

# **Treatment of PPP in National Accounts**

The Eurostat decision on public  
deficit and debt

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### **EXECUTIVE BRIEFING**

#### **Practical impacts of EU frame conditions on PPP**

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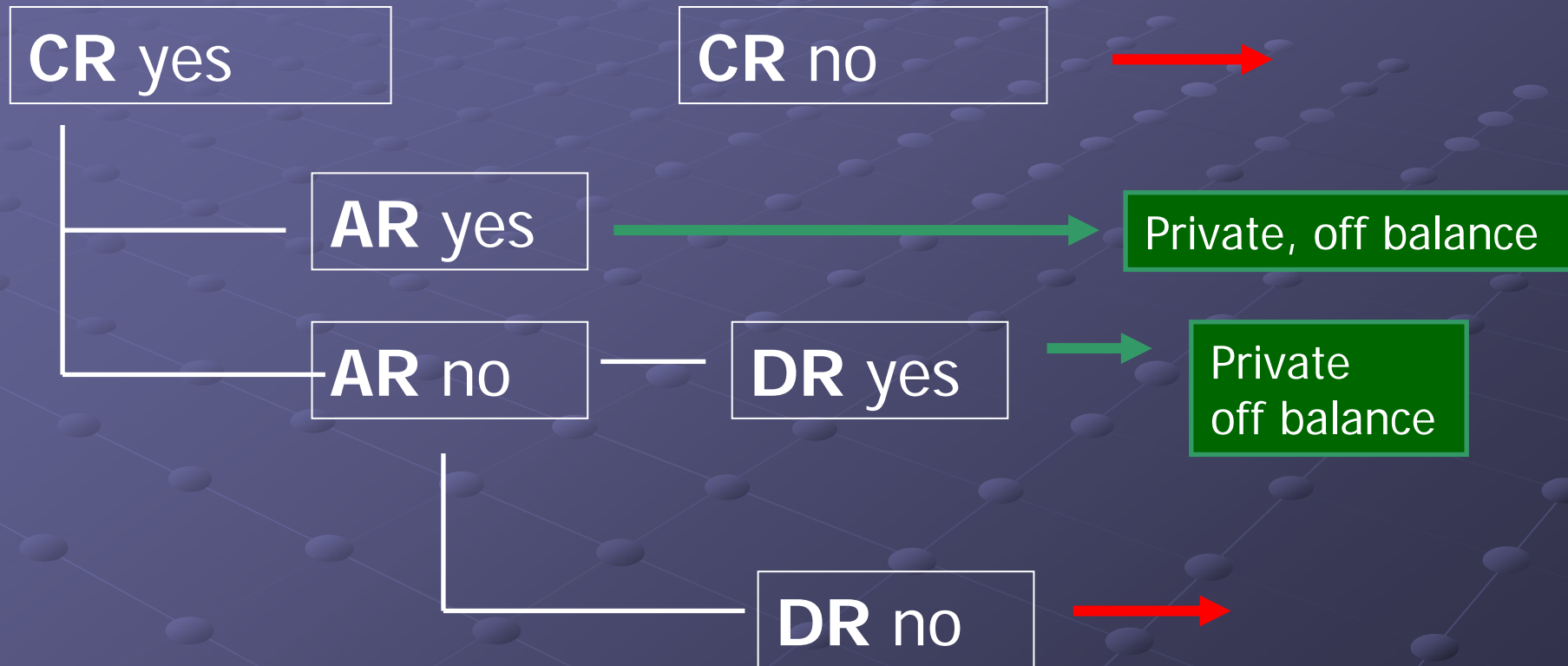
# Eurostat Decision

Assets involved in a PPP should be classified as non-government (**off balance**) if **both** of the following conditions are met

- the **private** partner bears the construction risk (CR) and
- at least one or either availability (AR) or demand risk (DR)

# Eurostat Decision (chart)

(Simplified Flow Chart, Decision Dec. 2003 and rev. ESA Manual)



# Definition of Risks

## and indicators of private partner taking the risk

<b>CR</b> Baurisiko <b>Construction</b>	<b>AR</b> Verfügbarkeitsrisiko (performance) <b>Availability</b>	<b>DR</b> Nachfragerisiko <b>Demand</b>
Late delivery, non-respect of specified standards, additional costs, technical deficiency	Contractually agreed volume, quality standards etc. not met	Demand is higher or lower than expected (shift <u>not</u> resulting from in-adequacy of service)
No regular payments of Gov. irrespective of the effective state of the asset	Gov. is entitled to reduce significantly its periodic payment; automatic penalty	Gov. not obliged to ensure a given (constant) level of payment to the partner

# Implementation of the decision

- Risk evaluation under the responsibility of the National Statistical Offices (data requirements for the NSO; risk analysis can well be inconclusive)
- In case of doubt
  - additional elements in a partnership contract can be taken into account (who is primarily financing the asset, are there government guarantees, provisions for the final allocation of the assets)
  - German NSO decides in favour of government asset (to be on the safe side concerning Maastricht)
- Complex borderline cases should be closely examined according to the agreed procedure (including at a first stage the assistance of Eurostat)

# Eurostat Decision: Assumptions

"Eurostat is of the opinion that information about such risks can easily be obtained by statisticians and that the burden of the different risks is generally identifiable in the contracts. Eurostat is also of the opinion that the assessment of risk ... will allow for straightforward classification of the assets either "on" or "off" government balance sheets in most cases."

**The assumptions are clearly not realistic**



# Eurostat Decision Criticism (1)

## (IMF Paper on PPP)

- "... the Eurostat decision is problematic. Since the private sector typically bears most construction risk and availability risk, the decision is likely to result in the majority of PPP assets being classified as private sector assets even though government will bear most demand risk."
- " A concern is that the decision could open door to PPPs that are intended mainly to circumvent the SGP."

## Eurostat Decision Criticism (2) (IMF Paper on PPP)

- "... the legal complexity of PPP contracts means that they will always be hard to interpret, and this will complicate assets being classified as private sector assessment of risk transfer ..."
- "Moreover, the PPP contract may not tell the whole story ... Political pressure for government to bail out large projects ..., may mean that the government in fact bears more risk than the contract suggests."

# What remains to be done in Financial Statistics (1)

- Transition from cash based to resource based (accrual) reporting, implement balance sheets
- Classifying assets as either government or private is questionable; quantify risk sharing
- Gauge the risk to which government is exposed under each PPP contract, and assess fiscal consequences (*potential* fiscal impact)
- Stream of future payments under agreed PPP contracts should be reported (UK)
- Disclosure of guarantees

## What remains to be done in Financial Statistics (2)

- USA publish estimates of the potential costs of loan, pension guarantees, contingent liabilities
- Adding (estimated) expected liability to debt
- General aim: Transition to an all-embracing System of National Accounts
  - Making fiscal consequences of PPPs fully transparent
  - "generational accounting"
  - assessment of "debt sustainability"

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Simplification, standardisation and disclosure of PPP contracts

# EUROSTAT Beschluss Februar 2004

## Flußdiagramm in deutscher Sprache

