Gníomhaireacht Bainistíochta an Chisteáin Náisiúnta
National Treasury Management Agency

RÉnua
NewERA

NewERA

New Eurostat EPC guidance -

Some practical project implications from a financial perspective

11 October 2018

Strictly Confidential and Commercially Sensitive for the Purposes of the Freedom of Information Act

Overview

1) New rules on EPC classification offer possibility of achieving 'off balance sheet' treatment for public energy efficiency investments;
   - What does 'off balance sheet' mean and why does it matter?
   - Key features of an off balance sheet EPC

2) But, non-budgetary factors can be perceived to outweigh the advantages of off balance sheet treatment;
   - Examples from National Public Lighting project experience

3) Some thoughts on possible ways of mitigating such barriers

What 'off balance sheet' means & why it matters

- 'Off balance sheet' means a project is recorded on the balance sheet of the EPC contractor rather than on the Government's balance sheet

- For such projects, the capital expenditure incurred and related debt do not affect Government accounts, rather it is the annual payments to the EPC contractor during the operating period that are recorded

What ‘off balance sheet’ means & why it matters

- This means that the impact of a project on a public body’s capital and/or current budget can be spread over the duration of the EPC contract

- Big advantage where many competing demands for capital budget allocation

- Ability of capital and/or current budgets to accommodate project <u>expenditure</u> is distinct from question of whether public body has access to cash (e.g. via borrowings) to fund the project

Strictly Confidential and Commercially Sensitive for the Purposes of the Freedom of Information Act

Key features of an off balance sheet EPC

- EPCs can now be classified off balance sheet as long as the EPC contractor is the 'economic owner' of the asset
- Economic owner is the party that bears the majority of the risks and rewards associated with owning the asset
- Performance and maintenance risks must be transferred to the EPC contractor
- Duration of contract must cover a meaningful portion of economic life of EPC assets – minimum of 8 years specified in detailed guidance
- Risks transferred to EPC contractor must include financing risk
  - A government commitment to finance any portion of project capex will influence the statistical classification

Strictly Confidential and Commercially Sensitive for the Purposes of the Freedom of Information Act

Non-budgetary considerations – experience from Public Lighting project

- Implications of rules regarding financing arrangements;
  - Disadvantages in terms of cost of funding – higher for private entities than for public bodies
  - Advantages where cash and/or borrowing powers are constrained

- Procurement complexity

- Impact of procurement complexity on project timelines

- Medium/long term transfer of responsibility for delivery of a public service can be politically sensitive

Strictly Confidential and Commercially Sensitive for the Purposes of the Freedom of Information Act

Possible ways of mitigating such barriers

- Establish at outset whether project has capacity to sustain the higher funding costs associated with EPC;
  - Importance of setting out a well-founded business case as first step

- Socialise concept of EPC early on in project preparation
  - Advantages take time to understand
  - Budgetary implications can be considered in context of preparation of actual budgets