Accounting rules creating barriers for mobilising energy efficiency investments

Climate Alliance

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Local and regional governments are important players to deliver the huge benefits of a more energy efficient Europe. Accounting rules should help deliver not hinder the creation of climate and security-friendly jobs and growth from this sector.

Energy efficiency is a proven tool to achieve European Union's energy and climate policy goals. It contributes to a structural solution for the 54 million Europeans who are not able to heat their homes properly. Reducing energy consumption will also improve EU's energy security – as for every 1% of additional energy savings gas imports are reduced by 2.6%. The jobs potential in the sector is enormous: realising Europe's full cost-effective energy savings potential would create or maintain over 11 million jobs in the EU[1]. This is equal to half of the people currently unemployed in Europe. And don't get us started on the competitiveness of our companies due to reduced energy bills, health benefits of increased indoor air quality and greenhouse gas cuts that come with it all.

Local and regional governments have multiple projects in the pipeline to implement energy efficiency measures. We are proving it every day by having submitted more than 5,000 sustainable energy action plans in the framework of the Covenant of Mayors. The measures foreseen in these local anchored plans are expected to lead up to 20% reduction of final energy consumption by 2020[2]. An analysis of submitted monitoring reports[3] concludes that signatory cities are well on track to reach their targets, in particular they have reached 14% reduction in final energy consumption.

Cities are helping the Energy Union to meet the energy and climate targets, especially in sectors not covered by the EU ETS (Emission Trading System) such as buildings and transport. However, for the part of investments in our own public buildings, accounting thresholds are creating barriers for local and regional authorities to launch wide-scale investment programs, which is the case with the accounting treatment of Energy Performance Contracting on our public accounts. EU needs its cities to help delivering the Energy Union and Energy Efficiency Directive aspirations, and should therefore reinterpret the accounting rules, as stated in Eurostat's note on EPC impact on public accounts (07/08/2015), for energy efficiency investments.

Cities are ready to help the EU meeting its climate and energy goals, but this requires launching substantial investments.

Energy Efficiency investments require upfront capital. This is capital that the private sector is able to provide – if we can present the projects for investment, such as in our building sector. This sector accounts for 44% of the overall greenhouse gas emissions reductions expected by 2020, by the Covenant of Mayors signatories. The Eurostat rules on accounting treatment of energy performance contracting stand in the way of enabling this to happen on the necessary scale. The rules currently classify such investments by default as government expenditure, despite the fact that projects are being financed wholly or in part by the private sector – who also take the risk (performance guarantee). The direct consequence is that such investments are counted towards public sector debt. In many European countries, where the focus is on reducing public sector debt this is a major disincentive to act because the investment appears on the government's balance sheet. We need to look again at whether the

[1] Energy Savings Coalition, 2016, State of the Energy Savings.

[2] JRC, 2015, *"**The Covenant of Mayors in Figures and Performance Indicators: 6-year Assessment**"*, JRC Science and Policy Reports.

[3] JRC, 2016, *"**Covenant of Mayors: Monitoring indicators – Progress report of monitoring phase as of September 2015**"*, JRC Science and Policy Reports.

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accounting rules are fit for purpose and delivers progress on the Stability Pact objectives, such as halting unnecessary public spending. Energy efficiency projects in our building stock are just about that.

The result of this approach to accounting for energy efficiency investment is either for the investment not to happen at all. Or that we are forced into a situation where we can only deliver off balance sheet financing through using grants schemes, which will never lead to the necessary scale of renovations. This is very inefficient use of public finance – and a situation we are keen to get away from IF the rules enable us. Reinterpreting the accounting rules will enable cities to use the scarce public funding available to much bigger effect – by using it to leverage in the private sector capital that is both needed and available to support our energy efficiency investment programmes.

We need it: in the building sector alone, the current investment level is less than half what it needs to be to meet EU's 2020 target of 20% energy efficiency improvement. The Energy Efficiency Financial Institutions Group report demonstrated that there is no lack of money, neither is there a lack of barriers to access it. Reform of accounting rules is one concrete place where the Commission can start to take down these barriers and we call for a review to take place.

Local and regional governments are committed to the fight against climate change and delivering the Energy Union. But we need to be heard and supported to turn the dream into a day-to-day reality we can deliver.

Example: Province of Liege (BE)

Together with 13 different entities the province of Liege will launch an investment programme of at least 40 million using Energy Performance Contracting (4 tendering procedures) by early 2017. These investments will result to some 35% of energy savings and will mobilise more than 650 jobs. Potential for further investments and energy savings in the province is huge as there are 84 municipalities that could be engaged as a part of the investment programme. If the EPC contracts would be considered "off balance" this potential could be further unleashed.

Province of Liege is a pilot region in the CITYnvest project. See also a comparison report with 24 examples focusing on innovative ways to finance energy efficiency investments released by the project.

This text was a basis for a Euractiv article signed by the city of Ghent (BE), city of Linz (AT) and the Barcelona Provincial Council (ES) and written with a support of Quentin Genard, E3G

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