European Commission

Revenue-generating projects, the Performance Framework, workshops

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Revenue Generating Projects

Revenue generating projects: 2007-2013

2007-2013: Article 55: revenue generating project - any operation...

- …involving an investment in infrastructure the use of which is subject to charges borne directly by users
  - eg. toll road, toll bridge, waste water collection and treatment
- …involving the sale or rent of land or buildings
  - eg. business space, business park; decontamination and sale brownfield site
- …involving any other provision of services against payment
  - e.g. Commercialisation of results of R&D projects (exploitation rights, intellectual property rights…)

Revenue generating projects 2007-2013: calculating the grant

Maximum contribution from the Funds – funding-gap method:

1. If revenues, then discounted cash flow calculation
   - funding-gap is present value of total investment costs less present value of net revenues (PVC-PVNR)
   - funding-gap rate is funding-gap as % of present value of total investment costs
   - apply funding-gap rate to eligible costs only, to get eligible expenditure
   - apply co-finance rate of priority to this eligible expenditure to get EU contribution
2. Eligible expenditure is called the « Decision Amount » for major projects
3. Where revenues not covering operating costs, do not use funding-gap method; but still check financial viability

Revenue generating projects: 2014-2020

Article 61, CPR: ...generating net revenues <u>after</u> their completion (and potentially also during implementation) (CF/ERDF)

(See also Arts. 15 to 19 of Delegated Regulation (EU) No 480/2014)

Article 65.8, CPR: ...generating net revenues <u>during</u> their implementation (ERDF/CF/ESF)

(But not where total eligible costs under €50,000)

Revenue generating projects: 2014-2020

Where Art.61 rules do NOT apply (see Art. 61.7)

- *Operations or parts of operations supported solely by the ESF;*
- *Operations whose total eligible costs does not exceed €1m*
- *Repayable assistance subject to an obligation for full repayment and prices;*
- *Technical assistance;*
- *Support to or from financial instruments;*
- *Operations for which public support takes the form of lump sums or standard scale unit costs;*
- *Operations implemented under joint action plan;*
- *Operations for which amounts or rates of support are defined in Annex II to the EAFRD Regulation.*

and Art. 61.8: where support constitutes state aid (company support / investments)

Revenue generating projects, 2014-2020: 3 methods for determining revenue

1) Calculation of discounted net revenue of the operation (essentially the funding-gap method), OR

2) Application of a flat-rate net revenue percentage for the sector or subsector, OR

3) Reduce the maximum co-financing rate for all operations of the priority/measure

(Art. 61, paras. 2-5)

Revenue generating projects, 2014-2020

- 2014-2020: can assume an average revenue, according to sector, and calculate grant (Art.61, CPR) →
- Subtract assumed revenues from (undiscounted) total (eligible) investment costs (pro rata calculation applies if not all investment costs are eligible)

- or, where all such operations, alter co-finance rate of priority/ measure to provide no higher a grant than the flat-rate method produces....
- ...by reducing the co-finance rate by a minimum of MAX. CO-FINANCE RATE x FLAT RATE for sector

- with these methods - all net revenues then generated are assumed to be taken into account

Flat rates by sector (Annex V, CPR)*

Sector	Flat rate
Road	30%
Rail	20%
Urban transport	20%
Water	25%
Solid waste	20%

*NB: flat rates for RD&Innovation, ITC, and energy efficiency sectors to be developed by Commission

Revenue generating projects, 2014-2020

- 2007-2013: where revenues can not be estimated in advance – deduct revenues from payment claim within 5 years of completion of project or submission of OP closure documents

- 2014-2020: where revenues can not be estimated in advance, payment claim adjusted within 3 years after completion, or submission of OP closure documents, whichever is earlier

Revenue generating projects – discounting costs and revenues

New indicative discount rate of 4% real terms (was 5%)

Net revenue = revenue - operating costs

Discounted net revenue, DNR = DR-DOC *(+ discounted residual value where DNR is positive)*

record:

Revenues and costs in new investment scenario

Revenues and costs in scenario without investment ...(business-as-usual)

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Revenue generating projects – what costs?

YES:

- Replacement costs (equipment during operation)
- Fixed operating costs (staff, maintenance, repair etc.)
- Variable operating costs (raw materials, energy, consumables etc.)

NO:

- financing costs (e.g. loan interest payments)
- depreciation
- contingency reserves (for future replacement costs etc.)
- recoverable VAT

Revenue generating projects – what revenues?

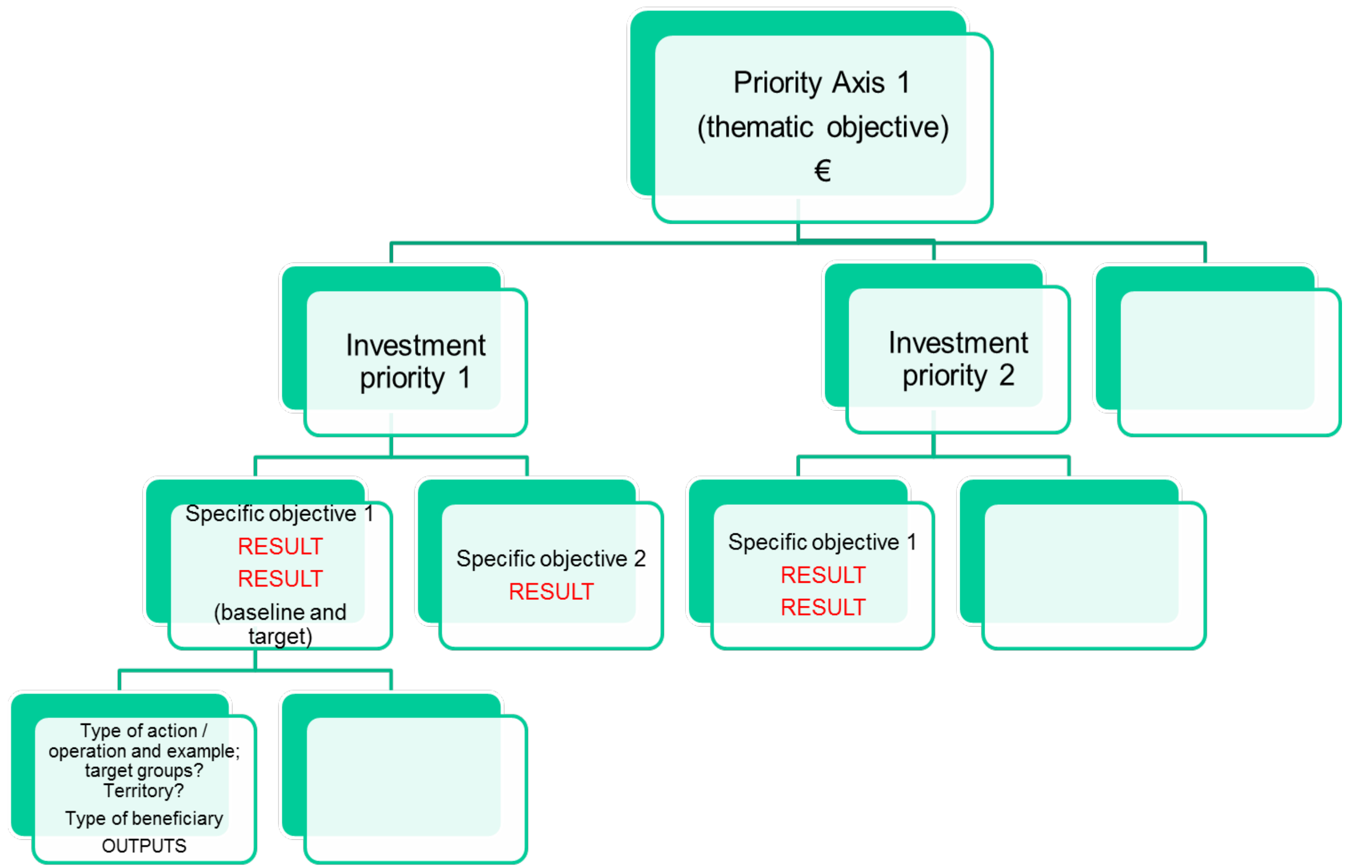
- add residual value if revenues > costs
- to exclude any availability payments (PPP) / transfers

- polluter-pays principle should be applied
  - charging the units who make waste
  - users of energy

- charges should take into account "affordability" or "equity" factors in that Member State/region
  - examine the proportion of average household expenditure allocated to the service (eg 4% for water supply and sewage)
  - but limit tariffs where proportion is relatively high, such as % of spending of lowest decile income group

Performance Framework

Priorities/objectives in terms of results... but outputs contribute (Article 96, CPR)



Performance framework uses outputs

Priority	Indicators (and unit of measurement)	Milestones for 2018	Targets for 2023
ERDF: P1	eg. Spend (€)* New companies assisted (no.) (New companies surviving (no.))	Financial; Output; *(Key implementation step)* (Result)	Financial; Output; (Result)
P2			
P3			

Priority	Indicators	Milestones 2018	Targets 2023
ESF: P1	Spend (€)* No. of trainees (by age group etc.) No. with qualifications No. with jobs	Financial; Output; (Result)	Financial; Output; Result
P2	(NB: *Spend = total certified eligible expenditure)		

Indicators

OUTPUT

- measures units of activity of an operation
- goods or services purchased by expenditure
- first concrete effect of expenditure

Examples:

- No. of training courses
- No. of participants
- Km of road
- No. of companies assisted
- No. of projects

RESULT

- measures the change sought by the specific objective
- measures the ability to achieve the specific objective
- the knock-on effect, enabled by outputs

Examples:

- no. of course completions with qualifications
- no. active in labour market
- no. into employment
- travel time-saved
- accident rates
- No. of companies expanding into new markets
- No. of new company-research links

Performance framework

- measuring progress and success – indicators
  - where 1 or 2 indicators per priority, all must reach 85% of milestone or target
  - where more than 2 indicators per priority, all but one must reach 85% (the other must reach 75%)
- measuring progress and "serious failure" – indicators
  - where 1 or 2 indicators per priority, where either fails to reach 65% of milestone or target
  - where more than 2 indicators per priority, at least 2 do not reach 65% of milestone or target