Factsheet N°10

Focus on Revenue-generating projects

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I. The legal framework

The following articles of EU regulations are the legal basis to be taken into account as far as revenues are concerned:

- Articles 61 and 65(8) and Annex V of Regulation (EU) No 1303/2013
- Articles 15 to 19 of Delegated Regulation (EU) No 480/2014
- Revised Guidance Note on Article 55 for ERDF and Cohesion Funds of Council Regulation (EU) No 1083/2006: Revenue-Generating Projects, Final version of 30 Nov. 2010, COCOF 07/0074/09.

The Regulation (EU) No 1303/2013 makes a distinction between projects generating net revenue after completion (and possibly during implementation as well), which are covered by Article 61, and projects generating net revenue during their implementation and to which paragraphs 1 to 6 of Article 61 do not apply, which are covered by Article 65(8).

The Interreg 2 Seas Programme has developed the following guidance on the calculation and management of revenues generated by projects. The position adopted by the 2 Seas Programme aims to fulfil the following three key principles of European cross-border cooperation:

1. **Additionality**: the use of ERDF must be additional to the national resources available to reach a specific objective. If additional financial means are available to reach the same objective, the use of ERDF funds should be limited to fill in the gap between total eligible costs and contribution.
2. **Durability**: projects must ensure a durability of their outputs and results in compliance with the provisions of Article 71 of Regulation (EU) No 1303/2013.
3. **No profit generation**: ERDF funding shall not generate financial profit to project's beneficiaries.

Following the adoption of Regulation (EU) No 2018/1046, (Article 272 (26)(e) modifying Article 61(8) of Regulation n°1303/2013), **project applicants and partners that are state aid relevant are not concerned by the deduction of net revenues generated during the project implementation and/or after implementation and will not have to comply with the procedures detailed in this factsheet.** More information for State aid relevant partners is available under Factsheet 11 of the Programme Manual.

In addition, paragraphs 1 to 6 of Article 61 of Regulation n°1303/2013 shall not apply to projects whose total eligible costs do not exceed 1 million EUR.

In compliance with Regulation (EU) No 2018/1046, (Article 272 (27)(a) modifying Article 65 (8)(i) of Regulation n°1303/2013), Paragraph 8 (i) of Article 65 does not apply to operations subject to the State aid rules and to operations for which the total eligible cost does not exceed EUR 100 000.

II. Definitions

Following the adoption of Regulation (EU) No 2018/1046, Article 272 (26) (a), amending Article 61(1) of Regulation (EU) No 1303/2013, "net revenue" means **cash in-flows** directly paid by users for the goods or services provided by the operation, such as charges borne directly by users for the use of infrastructure, sale or rent of land or buildings, or payments for services less any operating costs and replacement costs of short-life equipment incurred during the corresponding period. Operating cost-savings generated by the operation, with the exception of cost-savings resulting from the implementation of energy efficiency measures, shall be treated as net revenue unless they are offset by an equal reduction in operating subsidies.

As a consequence of this statement, it is assumed that among the elements to take into consideration for the calculation of the maximum eligible budget the following values should be considered:

- the current value of the infrastructure and/or
- the current value of the sold or rented land/building and/or
- the current value of the provided service.

A. The Cost of the Activity (CA)

In order to simplify any further explanation, from now reference will be made to the above mentioned three values as the **Costs of the Activity (CA)[1]**. The activity can consist in one or more of the above mentioned three values and can lead to a project's output of certain durability beyond the project's life time.

B. The Running Costs (RC)

According with Article 71 of Regulation (EU) No 1303/2013, projects must ensure a durability of their outputs and results. In order to comply with this requirement, certain types of project's results might generate revenues (such as in the form of a fee to be paid by the users) to match the running costs necessary for sustainable results. Therefore, we can define **Running Costs (RC)[2]** as the costs necessary for the durability of project's results after the project's completion. Article 17 of Delegated Regulation (EU) No 480/2014 states the following:

"For the purposes of the calculation of discounted net revenue, the following costs occurring during the reference period referred to in Article 15(2) shall be taken into consideration:

(a) replacement costs of short-life equipment ensuring the technical functioning of the operation;
(b) fixed operating costs, including maintenance costs, such as staff, maintenance and repair, general management and administration, and insurance;
(c) variable operating costs, including maintenance costs, such as consumption of raw materials, energy, other process consumables, and any maintenance and repair needed to extend the lifetime of the operation."

[1] This definition has been formulated by the Interreg 2 Seas Mers Zeeën Programme and does not exist in any European Regulation or Guidance.
[2] *Ibidem* – see note 1. In the revised guidance note on article 55 running costs are mentioned as "operating costs".

C. The Net Revenue (NR)

Article 61 requires net revenue generated by projects to be deducted from the total eligible costs. For a given project, the value of **Net Revenue (NR)**[3] corresponds to the difference between the gross revenue and the running costs necessary for the durability of the project's output.

NR = GR – RC

D. The "Funding-gap"

The **"Funding-gap" (FG)** is the amount of maximum eligible expenditure that can be co-funded by ERDF after reduction of the net revenue. The Funding-gap corresponds to the difference between Costs of the Activity (CA) and Net Revenue (NR):

FG = CA – NR

The eligible ERDF funding results by applying the project's ERDF rate on the Funding gap.

[3] *Ibidem* – see note 1

III. How to deal with net revenues?

A. Projects generating net revenue after completion (and possibly during implementation as well)

Article 61.1 applies for projects generating net revenue mainly after their completion. Particularly, Article 61.1 focuses on net revenues generated from the use of the **project's infrastructure, from the sale or rent of lands and buildings or from the provision of a service**.

Only revenues defined as cash in-flows directly paid by users have to be taken into account in the determination of net revenue. Consequently, the calculation of net revenue must exclude private and public contributions and/or financial gains that do not stem from tariffs, tolls, fees, rents or any other form of charge directly borne by the users.

According to Article 61.2, the eligible expenditure of the project to be co-financed from ERDF shall be reduced in advance taking into account the potential of the project to generate net revenue over a specific reference period that covers both implementation of the project and the period after its completion.

For calculating the potential of the project to generate net revenue, the Interreg 2 Seas Programme has decided to apply the methodology provided by Article 61.3(b), that is:

"Calculation of the discounted net revenue of the operation, taking into account the reference period appropriate to the sector or subsector applicable to the operation, the profitability normally expected of the category of investment concerned, the application of the polluter-pays principle and, if appropriate, considerations of equity linked to the relative prosperity of the Member State or region concerned."

Depending from the sector in which the project generating net revenue is inscribed, the duration of the reference period for the calculation of the discounted net revenue shall be applied in compliance with Article 15 and Annex I of the Delegated Regulation (EU) No 480/2014, as follows:

Reference periods as referred to in Article 15(2)	
Sector	**Reference period (years)**
Railways	30
Water supply/sanitation	30
Roads	25-30
Waste management	25-30
Ports and airports	25
Urban transport	25-30
Energy	15-25
Research and innovation	15-25
Broadband	15-20
Business infrastructure	10-15
Other sectors	10-15

The Commission requires the application of a discounting rate in the estimation of the annual values of the cash in-flow and out-flow.

1. CASE 1 / Projects capable to estimate net revenue generated after project completion only

Projects generating net revenue only after their completion shall identify in advance the amount of net revenue that will be generated over a specific period of time, and deduct it from the original project budget. **Therefore, the budget that will be inscribed in the project Application Form shall be already net of revenues**.

The estimated amount of net revenue shall be based on a “Net revenue analysis” (template provided by the Programme) that will be assessed during the project selection phase. The “Net revenue analysis” shall be also assessed in detail by the First Level Controller of the beneficiary concerned in the framework of the management verifications on its first financial claim.

The amount of net revenue to be taken into account corresponds to the difference between the estimated gross revenues and the running costs necessary to ensure the durability of the project’s outputs that generates the revenues:

NR = GR – RC

❖ Example

A project contributes in the funding of an infrastructure for cross-border needs. The cost of the infrastructure is 10 million € (partly funded by the project). Only 40% of the infrastructure’s cost is claimed in the project. The estimated gross revenue that will be generated from the use of the infrastructure after project completion corresponds to 2 million €. The running costs necessary for the durability of the infrastructure after the project completion are estimated to 1 million €.
The project is funded at 60% by ERDF.

The deductible net revenue must be calculated as follows:

NR = GR – RC = (2.000.000 *40%) – (1.000.000 * 40%) = 400.000 €
FG = CA – NR = (10.000.000*40%) – 400.000 = 3.600.000 €
Eligible ERDF = FG*ERDF% = 3.600.000 * 60% = 2.160.000 €

The eligible project budget will therefore be 3,6 million € (Total Eligible Costs) funded at 60% by ERDF (2.160.000 €). The total deducted revenue will be 400.000 € (generated after the project completion).

N.B. In compliance with Article 61.3(b), the values of GR, NR and RC shall be discounted.

Before the project closure, the beneficiary concerned may need to **revise its original “Net revenue analysis”** and update its estimation of net revenues to be generated after project completion (for instance, a change in the estimated running costs incurred that leads to a revision of the estimated amount of net revenue).

In case the updated amount of net-revenue is higher than the one originally deducted, the difference shall be deducted, at once, from the last financial claim submitted by the concerned beneficiary.

In case a project foresees **only after its approval** to generate net revenues after its completion, the “Net revenue analysis” shall be submitted to the Joint Secretariat as soon as possible or, at the latest, before the submission of the last financial claim of the beneficiary concerned. The estimated amount of net revenue based on the “Net revenue analysis” shall be deducted from the costs claimed by the concerned beneficiary before the project closure.

2. CASE 2 / Projects capable to estimate net revenue generated after project completion and during its implementation

In case of a project estimating to generate net revenue **both during its implementation and after its completion**, the overall net revenue shall be identified and deducted in advance. Any additional revenue generated during the project implementation shall be reported and deducted from the costs claimed by the beneficiary concerned.

However, concerning the revenue generated during the project implementation the net revenue corresponds to the gross revenue (in fact, no running costs can be taken into account, as explained above).

Concerning the revenue generated after the project completion, the net revenue will have to be calculated by application of the discounted method and on the basis of a specific period of time in relation with the sector concerned. The discounted net revenue will correspond to the difference between the discounted gross revenue and the discounted running costs necessary for the durability of the output.

❖ Example

A project contributes in the funding of an infrastructure for cross-border needs. The cost of the infrastructure is 10 million € (partly funded by the project). Only 40% of the infrastructure's cost is claimed in the project. The estimated revenue, coming from the users of the infrastructure, corresponds to 2 million €. In addition, 50% of the revenues will be generated during the project implementation and 50% after the project completion. The running costs necessary for the durability of the infrastructure after the project completion, amount to 1 million €.
The project is funded at 60% by ERDF.

The deductible net revenue must be calculated through the 2 following steps:

STEP 1 / revenue generated during the project implementation

NR = GR = (2.000.000 *50%) = 1.000.000 €
FG = CA – NR = (10.000.000*40%) – (1.000.000*40%) = 3.600.000 €
Eligible ERDF = FG*ERDF% = 3.600.000 * 60% = 2.160.000 €

STEP 2 / revenue generated after the project completion

NR = GR – RC = (2.000.000 *50%) – (1.000.000 * 40%) = 600.000 €
FG = CA – NR = 3.600.000 – 600.000 = 3.000.000 €
Eligible ERDF = FG*ERDF% = 3.000.000 * 60% = 1.800.000 €

The eligible project budget will therefore be 3 million € (Total Eligible Costs) funded at 60% by ERDF (1.800.000 €). The total deducted revenue will be 400.000 € (generated during the project implementation) plus 600.000 € (generated after the project completion).

N.B. In compliance with Article 61.3(b), the values of GR, NR and RC shall be discounted.

B. Projects generating net revenue during their implementation only

In case of projects generating net revenue during their implementation only, Article 61 does not apply. Such projects have to comply with the provisions of Article 65.8 of Regulation (EU) No 1303/2014 which states the following:

"The eligible expenditure of the operation to be co-financed from the ESI Funds shall be reduced by the net revenue not taken into account at the time of approval of the operation directly generated only during its implementation, not later than at the final payment claim submitted by the beneficiary. Where not all the costs are eligible for co-financing, the net revenue shall be allocated pro rata to the eligible and non-eligible parts of the cost."

Projects generating net revenue during their implementation only, shall report the generated revenue in their financial claims. The reported revenue will be automatically deducted from the eligible costs in order to comply with the provisions set by Article 65.8. There is no need to deduct the estimated revenue in advance before the submission of the Application Form.

All revenue reported in the partner financial claims will be deducted from the reported costs. The deductible revenue generated during the project implementation **corresponds to the gross revenue** (since running costs necessary for the durability of outputs cannot be taken into account before the project closure).

❖ Example

A project organizes a fair addressed to SMEs. The costs of the fair are fully claimed in the project budget that is funded at 60% by ERDF. Participants have to pay an entrance fee to attend the fair. The cost of one ticket is 5 € and the estimated n° of participants to the fair is 1.000. The estimated amount of gross revenue is then 5.000 €. The cost of the fair is 100.000 €.

In order to calculate the amount of net revenue we should make the difference between gross revenue and running costs. However, if we assume that the Costs of the Activity (CA) correspond to the costs of the fair claimed in the project budget, running costs (RC) corresponds to 0 € (in fact there are no additional costs to ensure the durability of the event after the project's end).

For this reason,

NR = GR = 5.000 €

FG = CA – NR = 100.000 - 5.000 = 95.000 €

Eligible ERDF = FG*ERDF% = 95.000 * 60% = 57.000 €

❖ Example

A project decides during its implementation to collect some best practices into a book. The costs of the book are fully claimed in the project budget that is funded at 60% by ERDF. External users can buy the book at a price of 10 € each. The projects manage to sell 100 copies of the book and to generate an unforeseen revenue of 1.000 € in total. The cost to publish the book is 5.000 €.

In order to calculate the amount of net revenue we should make the difference between gross revenue and running costs. However, if we assume that the Costs of the Activity (CA) correspond to the costs incurred for the publication of the book as claimed in the project budget, running costs (RC) corresponds to 0 € (in fact there are no additional costs to ensure the durability of the book after the project's end). The gross revenue generated by selling the book funded by the project needs to be deducted from the beneficiary's claims as follows:

NR = GR = 1.000 €

FG = CA – NR = 5.000 – 1.000 = 4.000 €

Eligible ERDF = FG*ERDF% = 4.000 * 60% = 2.400 €

C. Revenue that is not possible to estimate in advance

Pursuant to paragraph 6 of Article 61 of Regulation (EU) No 1303/2013, **where it is objectively not possible to estimate the revenue in advance**, the net revenue generated within three years of the completion of the project or by the Programme closure deadline, whichever is earlier, shall be deducted from the expenditure declared to the Commission.

For projects falling under the scope of Article 61.6 of Regulation (EU) n° 1303/2013, the beneficiary concerned is required to report to the Managing Authority all generated net revenue within three years of the completion of the project, or by the Programme closure deadline (whichever is earlier).

The reported net revenue will be deducted from the expenditure declared to the Commission. If necessary, a procedure of recovery of unduly paid ERDF will be undertaken by the Managing and Certifying Authorities towards the beneficiary concerned.

In the framework of the management verifications, the Programme will adopt specific procedures to verify the accuracy of the net revenue that beneficiaries have reported.