Factsheet N°10

Focus on Revenue-generating projects

Version N°8 of 31 January 2020

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I. The legal framework & definitions

A. 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) of Regulation (EU) No 1303/2013
- Articles 15 to 19 and annex I 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).

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.

B. Definition of 'net revenue' as per EU Regulation

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[1], 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.

C. What to consider 'net revenue' as an applicant or project partner?

Following from the formal definition above, from the moment there is a cash in-flow, one speaks about 'revenue'.
The question is, however, what is to be considered '<u>net</u> revenue' as that is the amount that is to be deducted from the eligible project expenditure?

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[1] Typical examples of cash in-flow directly paid by users for goods or services provided by a project could be: selling a book / guide written by the partnership, entrance fee charged to participate in a project event such as an SME fair, developing a museum which will open at project closure and for which an entry fee will be charged, et cetera.

To answer this question, one needs to consider when the cash in-flow occurs or will occur:

- During project implementation;
- After project closure.

Essentially, the difference between both basically comes down to whether or not the 'operating costs' can be deducted from the gross revenue or cash in-flow.

1. 'Net revenue' DURING project implementation

During project implementation, the **net revenue** to be deducted from the eligible expenditure **equals the gross revenue or cash-inflow**.

This is because of the fact that the 'operating costs', or the expenditure incurred to provide the goods or services that generate the revenue in the first place, will be declared as project expenditure.

In other words, concerned beneficiaries will receive ERDF reimbursements for the incurred 'operating costs' Consequently, it is impossible to deduct them from the gross revenue on top of the ERDF reimbursements that will already be received by concerned beneficiaries.

2. 'Net revenue' AFTER project closure

After project closure, the **net revenue** to be deducted from the eligible expenditure **equals the difference between the gross revenue or cash-inflow and the 'operating costs' required to keep on providing** the goods or services that generate the cash in-flow in the absence of the ERDF subsidy.
This is to be calculated for a set duration, as explained below.

In the case of revenue generation after project closure, concerned beneficiaries are allowed to deduct the 'operating costs' from the gross revenue or cash in-flow, because there will be no more ERDF reimbursements anymore to financially support the concerned beneficiary.

Consequently, two situations may occur:

- The net revenue is positive (gross cash in-flow > operating costs across the set duration): this amount will have to be deducted from the beneficiary's eligible expenditure;
- The net revenue is negative (gross cash in-flow < operating costs across the set duration): no amounts to be deducted from the beneficiary's eligible expenditure.

II. How to deal with net revenues at different project stages?

A. Organisations foreseeing to generate net revenue after completion which CAN be objectively estimated in advance

These beneficiaries have indicated 'Yes' as the answer to both revenue-related questions in the Application Form:

B.3.1 Revenue generation

Does the partner organization foresee to generate net revenue after the project implementation?	Yes
Is it objectively possible to estimate the revenue in advance?	Yes

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 on 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. What to do before project approval?

Projects generating net revenue 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 for the concerned applicants**.
Thus, in case of a project estimating to generate net revenue **after its completion**, the overall net revenue shall be identified and deducted in advance by the concerned applicants.

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 operating costs necessary to ensure the durability of the project's outputs that generates the revenues.
The "Net Revenue Analysis" template contains further guidance on how to identify the relevant amounts.

2. What to do during project implementation?

Should the beneficiary, during project implementation, generate more cash in-flow directly paid by users for the goods or services provided by the operation, then this additional revenue shall be reported and deducted from the costs claimed by the beneficiary concerned.
In other words, this surplus cash in-flow had not yet been accounted for in the Net Revenue Analysis and therefore yet been deducted from the eligible budget before project approval.

The deductible additional revenue generated during the project implementation **corresponds to the gross revenue** (since operating costs necessary for the durability of outputs cannot be taken into account before the project closure).

All revenue reported in the partner financial claims will be deducted from the reported costs.

The concerned beneficiaries' First Level Controllers will verify during their administrative checks on declared expenditure that the generated cumulative revenue does not exceed the amount identified in the Net Revenue Analysis.

Beneficiaries are responsible for keeping proper accounts of all generated revenue and keeping these available (e.g. for control purposes).

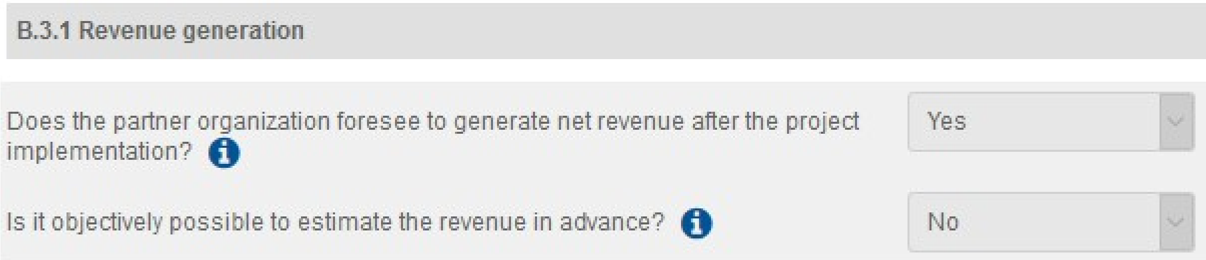
3. What to do after project implementation / at project closure?

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 operating 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 or the Programme may impose a recovery of undue ERDF should there not be such a claim at disposal anymore.

B. Organisations foreseeing to generate net revenue after completion which CANNOT be objectively estimated in advance

These beneficiaries have indicated 'Yes' as the answer to the first revenue-related question and 'No' to the second one in the Application Form:


B.3.1 Revenue generation

Does the partner organization foresee to generate net revenue after the project implementation?	Yes
Is it objectively possible to estimate the revenue in advance?	No

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.

1. What to do before project approval?

Given that the anticipated net revenues cannot be estimated, nothing needs to be done at application stage. There are no budgetary restrictions.

2. What to do during project implementation?

Should the beneficiary generate a cash inflow directly paid by users for the goods or services provided by the operation during project implementation, then this revenue shall be reported and deducted from the costs claimed by the beneficiary concerned.

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

This will also be verified by concerned beneficiaries' First Level Controllers during their administrative checks on declared expenditure.

Beneficiaries are responsible for keeping proper accounts of all generated revenue and keeping these available (e.g. for control purposes).

3. What to do after project implementation / at project closure?

For projects falling under the scope of Article 61.6 of Regulation (EU) n° 1303/2013, the beneficiary concerned is required to submit a "Net Revenue Action Plan" 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 Action Plan" shall be deducted from the costs claimed by the concerned beneficiary before the project closure. It concerns all generated net revenue within three years of the completion of the project, or by the Programme closure deadline (whichever is earlier). In case this is not possible anymore due to the last financial claim having been processed already, a recovery order for unduly received ERDF will be issued.

The "Net Revenue Action Plan" template will be provided by the Joint Secretariat upon request and contains further guidance on how to identify the relevant amounts.

Beneficiaries are responsible for keeping proper accounts of all the generated revenues and keeping these available (e.g. for control purposes).

C. Organisations 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."

1. What to do before project approval?

Given that the beneficiary does not anticipate to generate net revenues after project completion, nothing needs to be done at application stage.
There is no need to deduct the estimated revenue in advance before the submission of the Application Form.
There are no budgetary restrictions.

2. What to do during project implementation?

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.

Thus, should the beneficiary generate a cash inflow directly paid by users for the goods or services provided by the operation during project implementation, then this revenue shall be reported and deducted from the costs claimed by the beneficiary concerned.

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

This will also be verified by concerned beneficiaries' First Level Controllers during their administrative checks on declared expenditure.

Beneficiaries are responsible for keeping proper accounts of all generated revenue and keeping these available (e.g. for control purposes).

3. What to do after project implementation / at project closure?

Theoretically speaking, beneficiaries generating net revenue during project implementation only do not have to do anything at project closure as this scenario implies that no revenue after project completion will be generated.

However, should the concerned beneficiary realise that, unexpectedly, cash in-flow will occur after project completion too, then they are to follow scenario II.B highlighted above (submit a "Net Revenue Action Plan" to the Joint Secretariat).

In that case, beneficiaries are responsible for keeping proper accounts of all the generated revenues and keeping these available (e.g. for control purposes).