Revenue-generating projects, the Performance Framework, workshops

Trainer: Robin Smail
Independent Consultant & Visiting Expert, EIPA

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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

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Revenue generating projects: 2014-2020

Article 61, CPR: ...generating net revenues after 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 during 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 $\text{MAX. CO-FINANCE RATE} \times \text{FLAT RATE}$ for sector

- with these methods - all net revenues then generated are assumed to be taken into account
## Flat rates by sector (Annex V, CPR)*

<table>
<thead>
<tr>
<th>Sector</th>
<th>Flat rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Road</td>
<td>30%</td>
</tr>
<tr>
<td>Rail</td>
<td>20%</td>
</tr>
<tr>
<td>Urban transport</td>
<td>20%</td>
</tr>
<tr>
<td>Water</td>
<td>25%</td>
</tr>
<tr>
<td>Solid waste</td>
<td>20%</td>
</tr>
</tbody>
</table>

*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)
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 (e.g. 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)

Priority Axis 1
(Thematic objective)

€

Investment priority 1

Specific objective 1
RESULT
RESULT (baseline and target)

Type of action / operation and example; target groups? Territory? Type of beneficiary
OUTPUTS

Investment priority 2

Specific objective 2
RESULT

Specific objective 1
RESULT
RESULT

1
5

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## Performance framework uses outputs

<table>
<thead>
<tr>
<th>Priority</th>
<th>Indicators (and unit of measurement)</th>
<th>Milestones for 2018</th>
<th>Targets for 2023</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ERDF:</strong> P1</td>
<td>eg. <em>Spend (€)</em>&lt;br&gt;New companies assisted (no.)&lt;br&gt;(New companies surviving (no.))</td>
<td>Financial; Output;&lt;br&gt;(Key implementation step)&lt;br&gt;(Result)</td>
<td>Financial; Output;&lt;br&gt;(Result)</td>
</tr>
<tr>
<td>P2</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>P3</td>
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<td><strong>ESF:</strong> P1</td>
<td><em>Spend (€)</em>&lt;br&gt;No. of trainees (by age group etc.)&lt;br&gt;No. with qualifications&lt;br&gt;No. with jobs</td>
<td>Financial; Output;&lt;br&gt;(Result)</td>
<td>Financial; Output; Result</td>
</tr>
<tr>
<td>P2</td>
<td>(NB: <em>Spend = total certified eligible expenditure</em>)</td>
<td></td>
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*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

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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