MEMO

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From Marilyn Grima, Senior Manager, Financial Control Unit

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Subject Implementation Guidance 2014 – 2020 on Operations generating net revenues

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Introduction

The purpose of this Memo is to summarize the salient points of *Implementation Guidance 2014 – 2020 on Operations generating net revenues* with the aim of ensuring the most effective use of public resources and avoid the over-financing of operations. The major simplification for the 2014-2020 period is the possibility for the MS to apply net revenue flat rates for operations generating net revenues.

In spite of the fact that **Article 61 CPR** refers to operations generating net revenue after completion, the Article applies to operations which generate net revenue: after their completion only **or** during their implementation and after their completion. **Net revenue** refers to *cash inflows directly paid by users for the goods and 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 service, less any operating costs and replacement costs of short-life equipment incurred during the corresponding period.*

Operating cost-savings generated by the operation shall be included in the net revenue unless they are offset by an equal reduction in operating subsidies.

The potential net revenue shall be determined **in advance**, reducing the eligible expenditure of the operation to be co-financed from EU funds according to one of the following methods:

a. Calculation of the discounted net revenue using the funding gap method
b. Application of a flat rate net revenue percentage
c. Application of a decreased co-financing rate for a chosen priority axis (using the net revenue flat rate)

Methods for determining potential net revenue

<u>Method 1 Calculation of discounted net revenue using the funding gap method</u>

DEE = DIC – DNR = FG where DEE stands for discounted eligible expenditure

DIC is discounted investment cost

DNR is discounted net revenue

In order to establish the decisional amount and the EU contribution, the following standard calculation shall be used:

DA = EC * (1 – DNR / DIC) where DA stands for decisional amount and EC is the eligible cost

<u>Method 2 Flat Rates</u> the advantage of this method is that the MS does not need to calculate the funding gap, instead the decisional amount is directly established as follows:

DA = EC * (1 – FR) where EC stands for eligible cost and FR stands for flat rate %

Sector	Flat Rates
Road	30%
Rail	20%
Urban Transport	20%
Water	25%
Solid Waste	20%

All the net revenues generated during implementation and after completion of the operation are considered to be taken into account by the application of the flat rate and are therefore not deducted subsequently from the eligible expenditure.

<u>Method 3 Decreasing co-financing rate</u> MS may decide that a uniform flat rate as specified under Annex V of the CPR will be applied to all operations under a selected priority, that is, one priority, one sector, 1 flat rate. The given priority maximum co-financing rate will be decreased as follows:

Reduced maxCRpa = maxCRpa * (1-FR) where maxCRpa stands for maximum co-financing rate of the priority axis

Application of this method needs to be done in advance.

Where it is objectively **not possible to establish the revenue in advance** according to one of the methods, the net revenue generated within 3 years of the completion of an operation or by 30 September 2023, whichever is earlier, shall be deducted from the expenditure declared to the Commission.

Exceptions

Provisions on operations generating net revenues after their completion **do not apply** to:

(a) operations or parts of operations supported solely by the ESF;

(b) operations whose total eligible cost before application of paragraphs 1 to 6 **does not exceed EUR 1 000 000;**

(c) repayable assistance subject to an obligation for full repayment and prizes;

(d) technical assistance;

(e) support to or from financial instruments;

(f) operations for which public support takes the form of lump sums or standard scale unit costs;

(g) operations implemented under a joint action plan;

(h) operations for which amounts or rates of support are defined in Annex II to the EAFRD Regulation.

Operations generating revenue during their implementation - Article 65 (8) CPR

All operations which generate revenue during their implementation are covered by Article 65 (8) but there are also some exceptions:

(a) technical assistance;

(b) financial instruments;

(c) repayable assistance subject to an obligation for full repayment;

(d) prizes;

(e) operations subject to the State aid rules;

(f) operations for which public support takes the form of lump sums or standard scale unit costs provided that the net revenue has been taken into account ex ante;

(g) operations implemented under a joint action plan provided that the net revenue has been taken into account ex ante;

(h) operations for which amounts or rates of support are defined in Annex II to the EAFRD Regulation; or

(i) operations for which the total eligible cost does not exceed EUR 50 000.

If there are contractual penalties (payment received by the beneficiary arising from a contractual condition on a breach of contract between the beneficiary and third parties) and deposits (payments received by beneficiaries), these should not be considered as revenues for the purposes of Articles 61 and 65(8) CPR.
