



Approved by the Head of Managing Authority
on 7 July 2016
Sandis Cakuls

Interreg V-A Latvia-Lithuania Cross Border
Cooperation Programme 2014-2020

**Methodology on calculation of
discounted net revenue and net
revenue**

July 2016

Contents

1. Summary	3
2. Legal background	3
3. What is net revenue and revenue generating projects?	4
4. Revenue generating projects within the de minimis aid	6
5. Revenue generating projects with total eligible costs less 50 000 EUR.....	6
6. Revenue generating investment projects with total eligible costs below 1 000 000 EUR.....	7
6.1. Basic assumptions	8
6.2. Revenue.....	9
6.3. Costs	9
7. Revenue generating investment projects with total eligible costs exceeding 1 000 000 EUR.....	10
7.1. Methodology on preparation of full calculation	11
7.2. Basic assumptions	12
7.3. Eligible project investments (initial investments)	13
7.4. Revenue.....	14
7.4.1. Revenue of culture institutions	16
7.4.2. Revenue of educational institutions	17
7.4.3. Revenue from sport infrastructure	17
7.4.4. Revenue from health care infrastructure	18
7.4.5. Revenue from tourism infrastructure	18
7.4.6. Revenue from traffic infrastructure	18
7.5. Costs	19
7.6. Residual value of investments	21
8. Revenue generating non-investment projects.....	22
9. Annexes	23

1. Summary

Methodology on calculation of discounted net revenue or net revenue (hereinafter – methodology) sets common requirements for simplified calculations of net revenue (hereinafter - simplified calculation) and full calculation of the discounted net revenue (hereinafter – full calculation) of revenue generating projects approved within the Interreg V-A Latvia–Lithuania Cross Border Cooperation Programme 2014–2020 (hereinafter – the Programme), providing project partners (hereinafter – PP) with necessary information for calculations, as well as listing documents to be submitted.

Methodology includes:

- legal background for simplified calculation and full calculation;
- explanation - which projects should prepare simplified calculation and full calculation according to requirements set in this methodology;
- basic assumptions for preparation of simplified calculation and full calculation;
- explanations for preparation of simplified calculation and full calculation, as well as model forms for calculations.

Simplified calculation and full calculation prepared by PPs shall be in line with requirements set in this methodology and respective model forms shall be filled in.

2. Legal background

The Article 61 of the Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 (hereinafter – General Regulation) states that *„the eligible expenditure of the operation to be co-financed from the ESI Funds shall be reduced in advance taking into account the potential of the operation to generate net revenue over a specific reference period that covers both implementation of the operation¹ and the period after its completion”*. Article 61 applies to projects which generate net revenue during and after their completion and are with total eligible cost over 1 000 000 EUR.

The Article 65 of the General Regulation states that *“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”*. Article 65 is applied to projects which generate net revenue during their implementation and whose total eligible cost does not exceed 1 000 000 EUR.

The Article 61 and 65 does not apply to projects for which public support takes the form of lump sums or standard scale unit costs. Also, it does not apply to projects which receive support under de minimis or state aid and to projects with total eligible costs not exceeding 50 000 EUR.

¹ “Operation” is understood as “project”.

Methodology has been developed for ensuring application of the Article 61 and Article 65 of the General Regulation for projects approved within the Programme that are generating or could generate revenue during the project implementation and after its completion according to the legal acts of the European Commission (hereinafter – EC), rules set in the Programme and member states national legal acts.

When preparing project full calculation, PPs shall observe requirements set in legal acts and guidelines listed in this section:

European Union legal acts:

- ▶ General Regulation;
- ▶ Commission Delegated Regulation (EU) No 480/2014 of 3 March 2014 supplementing Regulation (EU) No 1303/2013 of the European Parliament and of the Council laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund (hereinafter – Delegated Regulation);
- ▶ Commission Regulation (EC) No 1628/2006 of 24 October, 2006 on the application of Articles 87 and 88 of the Treaty to national investment aid;
- ▶ Programme Document approved by the EC on 30 November 2015;
- ▶ Programme Manual for each call for proposals.

3. What is net revenue and revenue generating projects?

In this methodology “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 shall be treated as net revenue unless they are offset by an equal reduction in operating subsidies.

There is a difference between terms “revenue” (incoming cash flow for the services provided or goods sold) and “net revenue” that is equal to term “profit” (difference between revenue for services provided and goods sold and costs required for production of goods or services rendering). Although the use of project outputs (or benefits derived) generates revenue, it is unknown whether these will be high enough to generate net revenue. Simplified calculation or full calculation for projects has to be prepared in order to define amount of revenue and costs and the amount to be accordingly deducted from the eligible project costs.

Revenue-generating project is any project involving an investment in infrastructure/soft investments the use of which is subject to charges borne directly by users, involving the sale or rent of land or buildings or any other provision of services and or goods against payment.

There are two types of projects that could generate revenue:

- ▶ **Non-investment projects** implementing “soft” project activities that generate revenue (e.g., during the project implementation it is planned to organize event (e.g., training, conference, seminar, forum, culture event etc.) and in order to

take part in the project event fee has to be paid by participants considered as revenue). The project is considered as non-investment project also in case if project includes "soft" project activities that generates revenue and investments in fixed assets that do not generate revenue.

► **Investment projects** having investments in fixed assets in which use of fixed assets generates or can generate revenue during the project implementation and after it. If the investment project also includes "soft" project activities that generates revenue then project is still considered as investment project and calculation of discounted net revenue should be made as described further for investment projects.

Use of fixed assets means lease of fixed assets for fee, its displaying for fee, direct or indirect use in production or service provision against payments from final users.

Fixed assets are all kinds of investments that after their acquisition or creation are included in the balance sheet of the PP defining term for their use, during which the depreciation is calculated – buildings, constructions, equipment, vehicles, intangible investment (computer software, licences, etc.), long-term plants.

Even if the investment or purchased (or created) fixed asset cannot be used for service provision or goods production, it is an integral part of any other already existing or previously created fixed asset or it is used together with another fixed asset in order to ensure production or provide service, which is paid by user, then such revenue is also applied towards the use of project output (or deriving benefits), therefore project is considered as a revenue generating project.

Any payment received by the PP arising from contractual penalties as a result of a breach of contract between the PP and a third party or third parties or that has occurred as a result of the withdrawal of an offer by a third party chosen under public procurement rules (the 'deposit') shall not be considered as revenue and shall not be deducted from the eligible expenditure of the project.

In case if project is considered as revenue generating project, then simplified calculation or full calculation has to be prepared as described under Chapters 6, 7 and 8 and submitted to the Joint Secretariat as a part of the Project Application when applying for Programme funds (exceptions please see under Chapters 4 and 5).

Projects, which are not considered as revenue generating projects, do not have to prepare simplified calculation or full calculation.

In general, all revenue to be generated during or after the project implementation can be foreseen and calculated in advance that means that already in stage of project preparation it is possible to foresee and identify wheather project will be or will not be considered as revenue generating project. However, in case if project is not considered as revenue generating project according to project description provided in the Project Application but during the project implementation or after implementation² revenue is generated then within the 3 years following the end payment of the co-financing of the European Regional Development Fund (hereinafter – ERDF) which is directly associated with use of benefits created as a result of project implementation or by the deadline for the submission of documents for Programme closure, whichever is the earlier, net

² Depends on type of project as described under Chapters 6, 7 and 8.

revenue or discounted net revenue (see Chapters 6, 7 and 8) shall be deducted from the expenditure declared to the EC and reimbursed from the PP by the Programme Managing Authority according to rules for recovery of funds set in the Programme Manual.

In such a case when project was determined as revenue generating project during project implementation respective PP that generates revenue that wasn't foreseen before approval of the project has to prepare simplified calculation or full calculation as described in the methodology. Prepared simplified calculation or full calculation should be submitted to the Joint Secretariat of the Programme preferably together with the final project progress report or later in case if project is considered as investment project with total eligible costs exceeding 1 000 000 EUR (depending on when the revenue generation is identified but no later than by the deadline for the submission of documents to EC on Programme closure).

In case if the project is considered as revenue generating project and simplified calculation or full calculation was made before the project approval then updated simplified calculation or full calculation should be prepared and submitted to the Joint Secretariat of the Programme together with the final project progress report in case if additional type of revenue is generated that was not identified in the initial simplified calculation or full calculation.

4. Revenue generating projects within the de minimis aid

Where a partner of a revenue-generating project is subject to the de minimis aid, the partner is not regarded as subject to the rules of implementation of revenue generating projects.

PP or potential applicant, who is funded by the Programme according to de minimis rules is not obliged to apply the revenue generation rules, as described above:

- ▶ during project preparation phase these PPs or potential applicants are not obliged to calculate any revenue or net revenue that will be generated during or after the project implementation;
- ▶ these PPs do not have to report any revenue or net revenue during the project implementation period;
- ▶ these PPs do not have to report on any net revenue that will be generated after project completion.

However, in case if project consists from de minimis activities and activities generating revenue not falling under de minimis rules, simplified calculation or full calculation should be provided for activities generating revenue and not falling under de minimis rules as described under Chapters 6, 7 and 8.

5. Revenue generating projects with total eligible costs less 50 000 EUR

According to rules set in Article 65 of the General Regulation obligations of PPs that are funded by the Programme within the projects with total eligible costs not exceeding 50 000 EUR:

- ▶ during project preparation phase these PPs or potential applicants are not obliged to calculate any revenue or net revenue that will be generated during or after the project implementation;
- ▶ PPs of these projects do not have to report any revenue or net revenue during the project implementation period;

- PPs of these projects do not have to report on any net revenue that will be generated after project completion.

6. Revenue generating investment projects with total eligible costs below 1 000 000 EUR

The Article 65 of the General Regulation states that *“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”*.

The following chapter describes the preparation of simplified calculation of revenue generating projects having investments in fixed assets and “soft” activities (if applicable) with total project costs below 1 000 000 EUR which are foreseen to generate net revenue and that net revenue can be estimated in advance.

The aim of simplified calculation preparation is identification of the net revenue generated by the project during its implementation that should be deducted from the eligible project costs.

Simplified calculation for projects is prepared for the reference period that is equal to project duration in years (e.g. if the project starts in April 2017 and ends on March 2019, then simplified calculation should be made from April 2017 till March 2019).

Revenue generated during the project implementation can be reflected only in the case if such revenue is directly associated with use of created output within the project, e.g., a new training programme was elaborated within the project and also necessary equipment was purchased in order to ensure implementation of training programmes. Even if investments in building (construction works) will be implemented in the second year in order to ensure more qualitative service, revenue from implemented training programmes can be generated and is eligible already during the project implementation period.

If one PP implements two or more projects within the Programme, which are carried out in the same location and which are similar in nature or by their idea, the cash flow of the PP as well as estimates of net revenue shall be done for both projects together. As a result of simplified calculation net revenue to be deducted from the eligible project costs in both projects is calculated thus proportionally to amount of investment costs in each of project should be deducted from each of project eligible costs (during preparation of the Project Application).

If the investment is made in various sectors and various places, simplified calculation shall be done for each project separately.

If the above described situation is faced during the project implementation (e.g. revenue generating project is under implementation and other project that will be carried out by the same partner in the same location and with similar nature or idea considered as revenue generating project is being prepared) then PP has to prepare simplified calculation for both projects and submit it as a part of new project application (hereinafter – 2nd project). If as the result of simplified calculation any net revenue identified (point 4 of the worksheet II of the Annex No 1 “Simplified calculation of net revenue”), then only difference (point 6 of the worksheet II of the Annex No 1 “Simplified calculation of net revenue”) between the total amount of net revenue and amount of net revenue already deducted in

the approved project (point 5 of the worksheet II of the Annex No 1 "Simplified calculation of net revenue") should be deducted from the 2nd project budget.

In cases of investments in pre-existing infrastructure is made in both directly related projects, it is recommended to carry out simplified calculation based on historical data of the PP (at least three previous years starting from the year when the latest simplified calculation is prepared) as a basis for preparation of planned revenue and costs.

Simplified calculation of the project shall be prepared in accordance with this methodology by submitting financial estimates and explanations (assessment of revenue and costs by indicating information sources as well as estimates of respective investment).

Prepared project simplified calculation must contain calculation of revenue generated during the project implementation, relevant operation costs and simplified calculation of net revenue to be deducted from the eligible project costs: worksheets I and II of the Annex No 1 "Simplified calculation of net revenue".

6.1. Basic assumptions

In order to facilitate preparation of simplified calculation, this section lists basic assumptions which must be taken into consideration for preparation of project simplified calculation:

- ▶ cash flow includes revenue and costs planned during the project implementation period starting from the project implementation date (year);
- ▶ non-cash accounting items such as depreciation, any reserves for future replacement costs, contingency reserves and reserves for unforeseen costs shall be excluded from the calculation;
- ▶ for simplification reasons cash flow for reflecting revenue and costs for a particular year are made for calendar years not the project years;
- ▶ preparing simplified calculation cash flow, revenues and costs are reflected in comparative prices without including growth of revenue and costs level due to inflation or other external factors;
- ▶ simplified calculation cash flow does not include indirect taxes (for example, value added tax), if the PP can recover amount of respective taxes according to the procedure set in national legal acts. If indirect taxes are included in project eligible costs (are eligible in accordance with the Programme Manual) these are included in costs section of the financial cash flow;
- ▶ the "polluter pays" principle³ is observed in calculation of planned revenue regarding assessment of rate or fee for services;
- ▶ amount of revenue and costs should reflect information provided in the Project Application;
- ▶ only cash flows to be paid out or received by the operation shall be taken into consideration when calculating costs and revenue;
- ▶ in cases of investments in pre-existing infrastructure, it is recommended to carry out an analysis of historical costs of the PP (at least three previous years) as a basis for preparation of planned revenue and costs.

³ "Polluter pays" principle requires that the costs of pollution be borne by those who cause it. E.g., when setting tariff policy the tariff should be modulated to encourage the introduction of charging systems when the environmental costs of pollution and preventive measures are borne by those who cause pollution.

6.2. Revenue

The project revenues are defined as the “*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*”.

These revenues will be determined by the quantities forecasts of goods/services provided and by their prices.

Transfers or subsidies (e.g. transfers from state or regional budgets), as well as other financial income (e.g. interests from bank deposits) shall not be included within the calculation of revenues because they are not directly attributable to the project activities.

When making project cash flow estimates, revenue associated with use of fixed assets purchased or created as project output must be defined. If revenue cannot be defined only for newly created or reconstructed fixed assets, the total revenue generated only during project implementation period and connected with operation of infrastructure generating revenue shall be reflected in the worksheet II of the Annex No 1 “Simplified calculation of net revenue”. In this case, also all costs associated with operation of relevant infrastructure should be reflected.

Revenue is estimated indicating also their creation and sources, where truthfulness of information can be verified (calculation of rates, financial report, public report, etc.), also submitting the sources as annexes to the simplified calculation, if applicable.

Please also take into account that provided calculation of revenue should match with information provided in the project description in the Project Application. For example, if was stated that amount of visitors after completion of revenue generating activities in project will be increased by 10% then also it should be reflected in revenue section if relevant during the project implementation period.

Revenue shall be reflected only during the project implementation period. If the project is completed in the middle of the year, revenue for this year shall be reflected proportionally to the period of calendar year when project implementation was held.

Taking into account that projects approved within the Programme are implemented in different fields, worksheet II of the Annex No 1 “Simplified calculation of net revenue” includes various examples of revenue types that could be applicable (see also Chapter 7.4). If necessary, PPs can identify other types of generated revenue related to project outputs.

6.3. Costs

In simplified calculation costs directly associated with use of fixed assets purchased or created within the project should be indicated by filling in the worksheet II of the Annex No 1 “Simplified calculation of net revenue” under relevant project duration years. If costs associated only with newly created or reconstructed fixed assets cannot be defined, all costs connected with operation of infrastructure generating revenue shall be reflected in the worksheet II of the Annex No 1 “Simplified calculation of net revenue”. In this case, also all costs associated with operation of relevant infrastructure should be reflected.

Costs are estimated indicating also their creation and sources, where truthfulness of information can be verified (calculation of rates, financial report, public report, etc.), also submitting the sources as annexes to the simplified calculation, if applicable.

Please also take into account that provided calculation of costs should match with information provided in the Project Application. For example, if it was stated in the Project Application that after completion of investment activities maintenance costs of building will be decreased by 10%, it should be reflected in calculation of costs.

Costs shall cover all costs associated with institution's daily activities, maintenance of existing assets and fixed assets acquired during the project, including:

- energy and resources costs - includes heating, electricity, water supply and similar costs;
- personnel costs - includes salaries of employees and relevant taxes;
- taxes - includes, e.g. natural resources tax and property tax payments;
- maintenance costs - includes, e.g. maintenance of infrastructure – costs of current repairs;
- administration costs - includes costs of general operation – communication costs, fuel costs, etc;
- replacement costs of short-life equipment (e.g. furniture and office equipment) ensuring the technical functioning of the operation.

Costs must be listed in full amount otherwise simplified calculation will not reflect the actual effect of the project on structure of costs of PP, which can result to higher amount of net revenue (e.g., in case if costs indicated in the worksheet II of the Annex No 1 "Simplified calculation" are not in full amount and due to this lower than revenue generated then positive net revenue will be calculated that has to be deducted from the eligible project costs).

Costs shall be reflected only during the project implementation period. If the project is completed in the middle of the year, costs for this year shall be reflected proportionally to the period of calendar year when project implementation was held.

Costs shall not cover:

- depreciation of purchased or created fixed assets which cannot be assessed as an actual flow of financial resources. Depreciation is decrease of value of fixed assets purchased, which does not create costs of cash resources;
- repayment of loan capital and interest – although such payments are directly associated with flow of financing, their amounts as outgoing cash flow have already once been fully reflected at the moment of investment and if repayment of loan amount would be reflected, these costs would be reflected twice.

Calculation of net revenue to be deducted from the eligible project costs is made automatically in the worksheet II of the Annex No 1 "Simplified calculation of net revenue".

7. Revenue generating investment projects with total eligible costs exceeding 1 000 000 EUR

The Article 61 of the General Regulation states that „*the eligible expenditure of the operation to be co-financed from the ESI Funds 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. The potential net revenue of the project shall be determined in advance by calculation of the discounted net revenue of the project.”

The following chapter describes the preparation of full calculation of revenue generating investment projects with total project costs over 1 000 000 EUR which are foreseen to generate net revenue and that net revenue can be estimated in advance.

7.1. Methodology on preparation of full calculation

The aim of full calculation is to calculate discounted net revenue to be deducted from the eligible projects costs.

In preparation of full calculation **incremental approach** is used. It means in the full calculation scenario with-the-project is compared with a baseline scenario without-the-project.

The incremental approach requires that: a counterfactual scenario is defined as what would happen in the absence of the project. For this scenario, projections are made of all cash flows related to the project for each year during the reference period.

Example:

*Within the project investments in improvement of museum infrastructure are made for improving quality of services.
After the implementation of the project, just alike as it was before making of investments, the fee is charged for visiting museum. However, although investments are not generating direct revenue, these cannot be separated from general infrastructure and are used in providing services. Therefore, project with such kind of investment can also be considered as revenue generating project, therefore project full calculation shall be prepared.
At the same time it is assumed that infrastructure improvements do not generate additional revenue – neither number of visitors will be increased neither new services will be created.
By assessing situation before project implementation and after project implementation, reveals that the investments do not decrease costs, and also do not increase revenue. The cash flow result of full calculation is negative – revenue does not cover the costs made within the project.*

In cases where a project consists of a completely new asset, e.g. there is no pre-existing service or infrastructure, the without-the-project scenario is one with no operations. It means that in this case only calculation of revenue and costs after the project implementation should be provided when calculating revenue and costs in the worksheet III of Annex No 2 “Full calculation of discounted net revenue” of this methodology.

In cases of investments aimed at improving an already existing facility (infrastructure), it should include the costs and the revenue to operate and maintain the service at a level that it is still operable. In particular, it is recommended to carry out an analysis of the PP’s historical cash-flows (at least previous three years) as a basis for projections of the with-project scenario and as a reference for the without-project scenario.

Full calculation only considers the difference between the cash flows in the with-the-project and the counterfactual scenarios.

Namely, after comparison of revenue and costs before and after the project implementation, the cash flow estimates include only revenue and to the extent that are generated in addition to project investments. The same regards to the costs – only additional costs are included to the extent as they have occurred due to project implementation. The decrease of costs is reflected as incoming cash flow (e.g., the thermo-insulation of the building results in decrease of heating costs, which shall be reflected as incoming cash flow).

In calculation of discounted net revenue to be deducted from the eligible project costs **Discounted Cash Flow method** is used applying cash flow generated by the project (not the profit or loss estimates, but by reflecting only actual costs and revenue). Detailed information on rules for calculating revenue and costs that should be included in the project cash flow is described in further chapters.

Full calculation for projects is prepared for the reference period of 15 years except projects in field of transport where reference period is 25 years that is an economically expedient time period of the project, where financial or economic benefit can be generated from the means invested in the project or the assets created.

Since according to the Programme one project can be implemented in several places and by several PPs, the amount of investments and also the results of economic activity can be different. Therefore, full calculation shall be prepared by each PP separately for investments made. However, there could be cases where one full calculation should be made for two different related projects implemented by on PP (see Chapter 7.3).

Full calculation of the project shall be prepared in accordance with this methodology by submitting financial estimates as described below and explanations (assessment of revenue and costs by indicating sources as well as estimates of respective investment and calculation of residual value of investment at the end of the reference period, if applicable).

Prepared project full calculation must contain:

- ▶ cover page – worksheet I of Annex No 2 “Full calculation of discounted net revenue⁴”;
- ▶ estimations of revenue and costs by providing explanations of their formation. If required, sources of information also must be indicated that are used for justification of indicated revenue (worksheet II of Annex No 2 “Full calculation of discounted net revenue”);
- ▶ estimates of investments and residual value as well as explanations on calculation of residual value (worksheet III of Annex No 2 “Full calculation of discounted net revenue”);
- ▶ project cash flow with calculation of discounted net revenue to be deducted from the eligible project costs: worksheet IV of Annex No 2 “Full calculation of discounted net revenue”.

7.2. Basic assumptions

In order to facilitate preparation of full calculation, this section lists basic assumptions which must be taken into consideration for preparation of project full calculation:

⁴ In case of transport sector projects, hereinafter the same worksheets in Annex No 3 “Full calculation of discounted net revenue for transport sector projects”

- ▶ cash flow includes revenue and costs planned during the project reference period starting from the project implementation date (year);
- ▶ non-cash accounting items such as depreciation, contingency reserves and reserves for unforeseen costs shall be excluded from the calculation;
- ▶ the total initial costs of the project shall be included in the cash flow, but the approach towards assessment of initial investment described in the Chapter 7.3 of the methodology;
- ▶ for simplification reasons cash flow estimates are made for calendar years not the project years, planning use of investments for a calendar year and also reflecting revenue and costs for a particular calendar year;
- ▶ for simplification reasons cash flow estimates are made equally for each year after the project implementation that should be taken into account when calculating planned revenue and costs (average amount of revenue and costs per year should be calculated and indicated in the worksheet II of Annex No 2 "Full calculation of discounted net revenue" of this methodology);
- ▶ if the economically viable period of assets purchased or created during the project implementation exceeds the reference period, the revenue section of the last cash flow year shall reflect the residual value of investments. It is recommended to calculate residual value of investments in accordance with accounting depreciation calculation methodology following principles of best accounting practice or forecasted market value in the last year of project reference period according to the calculation method described in the Chapter 7.6 of this methodology;
- ▶ preparing full calculation cash flow, revenues and costs are reflected in comparative prices without including growth of revenue and costs level due to inflation or other external factors;
- ▶ full calculation cash flow does not include indirect taxes (for example, value added tax), if the PP can recover amount of respective taxes according to the procedure set in national legal acts. If indirect taxes are included in project eligible costs (are eligible in accordance with the Programme Manual) these are included in costs section of the financial cash flow;
- ▶ the "polluter pays" principle⁵ is observed in calculation of planned revenue regarding assessment of rate or fee for services;
- ▶ amount of revenue and costs should reflect information provided in the Project Application;
- ▶ only cash flows to be paid out or received by the operation shall be taken into consideration when calculating costs and revenue;
- ▶ nominal discount rate of 4% is used in estimates.

7.3. Eligible project investments (initial investments)

The first step in the full calculation is the analysis of the amount and breakdown over the years of the total initial investment costs (planned direct and indirect costs in the project budget targeted to improvement or establishment of infrastructure that will generate revenue as a part of service).

Initial investments includes the capital costs of all the fixed assets (e.g. construction works in buildings, purchased equipment, etc.) and non-fixed assets (technical costs of design/planning, project management, construction supervision, publicity, etc.).

⁵ "Polluter pays" principle requires that the costs of pollution be borne by those who cause it. E.g., when setting tariff policy the tariff should be modulated to encourage the introduction of charging systems when the environmental costs of pollution and preventive measures are borne by those who cause pollution.

If one project partner PP implements two or more projects within the Programme, which are carried out in the same location and which are similar in nature or by their idea, the cash flow of the PP as well as estimates of discounted net revenue shall be done for both projects together. As a result of full calculation discounted net revenue to be deducted from the eligible project costs in both projects is calculated thus proportionally to amount of investment costs in each of project should be deducted from each of project eligible costs (during preparation of the Project Application).

If the investment is made in various sectors and various places, full calculation shall be done for each project separately.

If the above described situation is faced during the project implementation (e.g. revenue generating project is under implementation and other project that will be carried out by the same partner in the same location and with similar nature or idea considered as revenue generating project is being prepared) then PP has to prepare Full calculation for both projects and submit it as a part of new project application (hereinafter – 2nd project). If at the result of full calculation any net revenue to be deducted from the eligible projects' budget is identified (point 7 of the worksheet IV of Annex No 2 "Full calculation of discounted net revenue"), then only difference (point 9 of the worksheet IV of Annex No 2 "Full calculation of discounted net revenue") between the total amount of net revenue to be deducted and amount of net revenue already deducted in the approved project (point 8 of the worksheet IV of Annex No 2 "Full calculation of discounted net revenue") should be deducted from the 2nd project budget.

In cases of investments in pre-existing infrastructure is made in both directly related projects, it is recommended to carry out full calculation based on historical data of the PP (at least three previous years starting from the year when the latest simplified calculation is prepared) as a basis for preparation of planned revenue and costs.

Amounts of initial investments per years should be indicated in the worksheet III of Annex No 2 "Full calculation of discounted net revenue" by also indicating year when project will start and the year when the project will be fully implemented.

7.4. Revenue

The project revenues are defined as the "*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*" (Article 61 of the General Regulation).

These revenues will be determined by the quantities forecasts of goods/services provided and by their prices. Increase of revenue after the project completion in comparison with the situation before the project may come from increases in quantities sold, in the level of prices, or both.

Transfers or subsidies (e.g. transfers from state or regional budgets), as well as other financial income (e.g. interests from bank deposits) shall not be included within the calculation of revenues because they are not directly attributable to the project activities.

When making project cash flow estimates, revenue associated with use of fixed assets purchased or created as project output must be defined at first. If revenue cannot be defined only for newly created or reconstructed fixed assets, the total revenue is reflected. In this case, also total amount of costs connected with

operation of relevant infrastructure that generates revenue should be reflected in the full calculation.

Revenue is estimated for situation before the project and for situation after the project implementation, indicating also their creation and sources, where truthfulness of information can be verified (calculation of rates, financial report, public report, etc.), also submitting the sources as annexes to the full calculation, if applicable.

In case if within the project it is planned to create new infrastructure/service that did not exist before therefore no information is available on revenue before the project implementation, then only calculation of revenue after the project implementation should be provided when calculating revenue in the worksheet II of the Annex No 2 "Full calculation of discounted net revenue" of this methodology.

Please also take into account that provided calculation of revenue should match with information provided in the Project Application. For example, if was stated that amount of visitors after the project implementation will be increased by 10% then also it should be reflected in revenue section after the project implementation.

In order to assess impact of project, revenue shall be estimated considering the level of revenue before the project implementation. Therefore, when calculating revenue after project implementation, in case if services are provided for fee then amount of users can be changed, but not service price or consumer payments (e.g., museum entrance fee will not be changed as a result of project implementation (except, if this is planned in the Project Application), but number of visitors can increase). If changes are planned in amount of fee for planned services, the detailed explanation must be given on how the price will be set for similar services after project implementation in comparison with situation as it was before the project implementation.

In cases of investments in pre-existing infrastructure, it is recommended to carry out an analysis of historical revenues of the PP (at least three previous years) as a basis for preparation of project cash flow and making assumptions for revenue to be generated in the with-project and without-project scenarios. In order to describe revenue generated before the project implementation, respective real data from the last closed financial year should be indicated in the worksheet II of the Annex No 2 "Full calculation of discounted net revenue" supported with the relevant evidence documents.

If the project is completed in the middle of the year and revenue is generated only after the project completion, partial revenue for this year can be reflected proportionally to the remaining period of calendar year.

Revenue generated during the project implementation can be reflected only in the case if such revenue is directly associated with use of created output within the project, e.g., a new training programme was elaborated within the project and also necessary equipment was purchased in order to ensure implementation of training programmes. Even if investments in building (construction works) will be implemented in the second year in order to ensure more qualitative service, revenue from implemented training programmes can be generated and is eligible already during the project implementation period. Revenue generated during project implementation should be reflected in white fields of the worksheet IV of the Annex No 2 "Full calculation of discounted net revenue".

If the revenue generated during the project implementation is included in the cash flow estimates (worksheet IV of the Annex No 2 "Full calculation of discounted net revenue"), the PP must prepare and submit document with explanation on assessment of revenue level.

Taking into account that projects approved within the Programme can be implemented in in different sectors (fields), methodology and its annex (worksheet II of the Annex No 2 "Full calculation of discounted net revenue") include various examples of revenue types that could be applicable under each field. If necessary, PPs can identify other types of generated revenue related to project outputs.

7.4.1. Revenue of culture institutions

Projects with investments in culture infrastructure (museums, public centres, libraries, etc.) usually have low amount of revenue generated from various types of services provided. Although the main benefit from the project implementation usually is preservation and development of culture and historical heritage sites, providing information to public and public involvement in culture activities when preparing full calculation revenue from provided services for fee must be also defined.

Table 1: Types of revenue generated by culture institutions

Type of revenue	Description	Source of verification
Revenue from lease of premises, equipment	Culture institutions are leasing their premises and equipment, for example for various seminars and trainings (costumes, paintings, stands, stage equipment, etc.).	Order on price list of services provided by the institution, financial report.
Revenue from entrance fees	Usually is set as a price for one visit, which considering the total level of visits creates revenue.	Order on price list of services provided by the institution, financial report.
Revenue from event management	In various cases culture institutions are involved in organisation of various events and this can generate revenue. Such revenue, although mostly unplanned, must be reflected in the full calculation.	Order on price list of services provided by the institution, financial report.
Revenue from services provided by libraries	Revenue can be generated from creation or development of library infrastructure and services provided (for example, fee for books, internet services, etc.).	Financial report, decision on price list of services provided by the institution.

If necessary, list can be supplemented with additional types of revenue.

7.4.2. Revenue of educational institutions

Projects with investments in educational infrastructure (high schools, universities, professional schools, etc.) usually have no revenue. However, depending on type of financing such institutions can also provide services which are paid by users.

Table 2: Types of revenue generated by educational institutions

Type of revenue	Description	Source of verification
Revenue from lease of premises, equipment	Educational institutions mostly lease their premises for sports activities. Larger educational institutions (for example, high schools) can lease their premises for holding seminars and training sessions.	Financial report, price list of services provided by the institution.
Revenue from tuition fee	Depending on the type of educational institution, revenue of educational institution is made up from state or municipal grants for covering their costs or payments by students for provided training. Only revenue generated from students shall be reflected in the revenue section of the full calculation.	Financial report, public report.
Revenue from organisation of training courses	In addition to daily work of providing training services to students, educational institutions can organise also training seminars using overall infrastructure for providing additional services. Such revenue shall also be reflected in estimates.	Financial report, price list of services provided by the institution.
Revenue from services offered by youth/children centres	Youth/children centres can plan revenue from services offered by them (for example, tuition fee, etc.).	Financial report, decision on price list of services provided by the institution.

If necessary, list can be supplemented with additional types of revenue.

7.4.3. Revenue from sport infrastructure

Sport halls and other infrastructure objects planned for physical activities typically generate revenue from lease of premises and organisation of various events.

Table 3: Types of revenue generated from sport infrastructure

Type of revenue	Description	Source of verification
Revenue from lease of premises	Premises mostly leased for organisation of various events, sport games, seminars and trainings.	Financial report, decision regarding price list of services provided by the

		institution.
--	--	--------------

If necessary, list can be supplemented with additional types of revenue.

7.4.4. Revenue from health care infrastructure

Hospitals and other kinds of health care institutions normally generate revenue from their economic activities.

Table 4: Types of revenue generated from health care infrastructure

Type of revenue	Description	Source of verification
Revenue from patient fees	Revenue is generated from patient's fee for health care services.	Financial report, decision regarding price list of services provided by the institution.

If necessary, list can be supplemented with additional types of revenue.

7.4.5. Revenue from tourism infrastructure

Although projects of tourism infrastructure generate revenue from tourism services provided and visits to tourism sites, generally revenue is low.

Table 5: Types of revenue generated from tourism infrastructure

Type of revenue	Description	Source of verification
Revenue from lease of premises, stands	Premises are mostly leased for holding of various events or seminars and trainings. The stands can be used to display various kinds of visual materials for fee.	Financial report, decision regarding price list of services provided by the institution.
Revenue from entrance fees	Revenue from visits to tourism sites which is set for the whole tourist site. Even if the project covers only part of overall tourism site and no revenue generated by a part of site included in the project can be calculated then all generated revenue shall be reflected.	Financial report, decision regarding price list of services provided by the institution.

If necessary, list can be supplemented with additional types of revenue.

7.4.6. Revenue from traffic infrastructure

Traffic infrastructure in general is not generating any revenue but there are cases when consumers pay for use of traffic infrastructure. In such cases this kind of revenue shall be reflected. If fee is charged for use of infrastructure, then such revenue usually is high and revenue can be generated also from various additional services.

Table 6: Types of revenue generated from traffic infrastructure

Type of revenue	Description	Source of verification
Revenue from use of infrastructure	Revenue from use of traffic infrastructure can be of various types – payment for its use, cargo transportation, storage services, etc. full calculation of project shall cover all types of such revenue, giving additional explanations on how revenue will be generated. Additional investment in infrastructure improvement or maintenance often does not affect the existing level of revenue, but since the revenue generated by infrastructure created or reconstructed within the framework of the project cannot be separated from the overall infrastructure, estimates shall reflect total revenue.	Financial report.

If necessary, list can be supplemented with additional types of revenue.

7.5. Costs

Project cash flow estimates shall define costs directly associated with use of fixed assets purchased or created within the project by filling in the worksheet II of the Annex No 2 “Full calculation of discounted net revenue” of the methodology. If costs associated only with newly created or reconstructed fixed assets cannot be defined, all costs connected with operation of infrastructure generating revenue shall be reflected in the worksheet II of the Annex No 2 “Full calculation of discounted net revenue”. In this case, also all revenue associated with operation of relevant infrastructure should be reflected in the project cash flow.

Costs are estimated for situation before the project and for situation after the project implementation, indicating also their creation and sources, where truthfulness of information can be verified (calculation of rates, financial report, public report, etc.), also submitting the sources as annexes to the full calculation, if applicable.

In case if within the project it is planned to create new infrastructure/service that did not exist before therefore no information is available on costs before the project implementation, then only calculation of costs after the project implementation should be provided when calculating costs in the worksheet II of the Annex No 2 “Full calculation of discounted net revenue” of this methodology.

Please also take into account that provided calculation of costs should match with information provided in the Project Application. For example, if it was stated in the Project Application that after project implementation maintenance costs of building will be decreased by 10%, it should be reflected in calculation of costs after the project implementation.

In order to assess impact of project, costs shall be estimated considering the level of costs before the project implementation. Therefore, when calculating costs after project implementation, in case if services are received for fee then

amount of service can be changed, but not service price or consumer payments (e.g., if the building is thermo-insulated, the consumption of thermal energy will decrease, but not the tariff rate). If changes are planned in amount of fee for received services, the detailed explanation must be given of how the price is calculated after project implementation in comparison with situation as it was before the project implementation.

In cases of investments in pre-existing infrastructure, it is recommended to carry out an analysis of historical costs of the PP (at least three previous years) as a basis for preparation of project cash flow and making assumptions for planned costs in the with-project and without-project scenarios. In order to describe costs before the project implementation, respective real data from the last closed financial year should be indicated in the worksheet II of the Annex No 2 "Full calculation of discounted net revenue" supported with the relevant evidence documents.

Costs shall cover all costs associated with institution's daily activities, maintenance of existing assets and fixed assets acquired during the project, including:

- provision of core services – wages, use of resources (heating, electricity), tax costs (real estate tax, nature resources tax);
- maintenance of infrastructure – costs of current repairs;
- general costs of operations – administration costs, communication costs, fuel, etc.;
- replacement costs of short-life equipment ensuring the technical functioning of the operation. Those costs includes costs occurring during the reference period to replace short-life machinery and/or equipment, e.g. engineering plants, filters and instruments, vehicles, furniture, office and IT equipment, etc. In worksheet II of the Annex No 2 "Full calculation of discounted net revenue" awarege amount of replacement costs per year should be indicated as will be automatically and equally distributed through all the project reference period after the project implementation.

Costs must be listed in full amount otherwise full calculation will not reflect the actual effect of the project on structure of costs of PP, which can result to higher amount of net revenue.

Costs shall be reflected only after general completion of the project. If the project is completed in the middle of the year, costs for this year can be reflected proportionally to the remaining period of calendar year.

Costs generated during the project implementation can be reflected only in the case if such costs are directly associated with use of created output within the project. Example, within the framework of the project park of the museum is reconstructed within 2 years period. After the first year visitors have access to garden with walking trails, during the second year fountains and various objects of interest are created. In this case costs for maintenance of park can be partially reflected already during the project implementation (after the first project year) with respect to already created output within the project but fully only after the second year when all objects of interest planned within the project will be created. Costs generated during the project implementation should be reflected in white fields of the worksheet IV of the Annex No 2 "Full calculation of discounted net revenue".

If costs generated during the project implementation are included in the cash flow estimates (worksheet IV of the Annex No 2 "Full calculation of discounted net

revenue”), the PP must prepare and submit document with explanation on indicated amounts of costs as additional annex.

Costs shall not cover:

- ▶ depreciation of purchased or created fixed assets which cannot be assessed as an actual flow of financial resources. Depreciation is decrease of value of fixed assets purchased, which does not create costs of cash resources;
- ▶ repayment of loan capital and interest – although such payments are directly associated with flow of financing, their amounts as outgoing cash flow have already once been fully reflected at the moment of investment and if repayment of loan amount would be reflected, these costs would be reflected twice.

Worksheet II of the Annex No 2 “Full calculation of discounted net revenue” includes various examples of costs types that could be applicable for projects in different fields. If necessary, PPs can identify other types of costs related to project outputs.

7.6. Residual value of investments

If the economically viable period of assets purchased or created during the project implementation exceeds the reference period, the revenue section of the last cash flow year shall reflect the residual value of investments.

The residual value of investments is calculated taking into account investment, purchase or creation costs and applying the linear type of depreciation according to best accounting principles. Depreciation is calculated starting from the first year after making of investment, assuming that fixed assets are assigned for use at the end of previous year.

Example:

Within the framework of the project investment is made during 1.5 years, assigning them for use in the middle of second year of project implementation. Total investments are 200.000,00 EUR in the following positions:

- investments in buildings – 170.000,00 EUR;
- investments in equipment – 30.000,00 EUR.

By calculating the residual value it is assumed that fixed assets are commissioned for use at the end of second calendar year. Taking into account that the project cash flow is estimated for e.g. 15 years, depreciation shall be calculated for 13 years. The calculation of depreciation is the following:

<i>Investments in EUR</i>	<i>Depreciation rate, %</i>	<i>Period of depreciation calculation, years</i>	<i>Depreciation calculated, EUR</i>	<i>Residual value, EUR</i>
<i>Investments in buildings, 170.000,00</i>	<i>5%</i>	<i>13</i>	<i>110.500,00</i>	<i>59.500,00</i>
<i>Investments in equipment, 30.000,00</i>	<i>20%</i>	<i>13</i>	<i>30.000,00</i>	<i>0,00</i>

In this example the residual value of investment at the end of reference period is 59.500,00 EUR, which should be included in the final year of cash flow as incoming financial resources.

8. Revenue generating non-investment projects

In general all projects funded by the Programme must make their outputs (especially "soft" outputs that are not regarded as part of infrastructure) freely available to general public. However there can be some cases when also soft project outputs can generate revenue.

Non-investment projects are projects implementing "soft" project activities that generate revenue.

Examples:

During the project implementation it is planned to organize event (e.g., training, conference, seminar, forum, culture event etc.) and in order to take part in the project event fee has to be paid by participants considered as revenue.

It is planned to produce book within the project that will be sold and the fee for the book is considered as revenue.

The project is considered as non-investment project also in case if project includes "soft" project activities that generates revenue and investments in fixed assets that do not generate revenue.

In case of non-investments projects only net revenue generated within the project duration should be calculated and deducted from the eligible project budget. No calculation of net revenue generation after the project implementation should be made.

As usually production/creation of the "soft" project output is fully financed from the eligible project budget, revenue generated from the "soft" project output considered as a part of provision of service (e.g. selling of project output, offer to take part in project event for fee) is considered as net revenue that should be deducted in full from the eligible project budget.

In case if production/organization/creation of project output that generates revenue was not fully covered from the eligible project budget (e.g., only part of conference that generates revenue is financed from the project), this could be proved by PP by providing relevant explanation and justification thus the amount of generated net revenue can be decreased proportionally to contribution made by the PP from its own financial sources.

Reduction of expected net revenue from the eligible project budget should be made when applying for Programme funds by indicating respective amounts in the project Application Form supported with the separate annex where justification and explanation on net revenue to be generated is provided.

For preparation of calculation of net revenue to be deducted from the eligible project costs, Annex 1 "Simplified calculation of net revenue" of this methodology can be used providing separate justification of amounts indicated. In case of simplified calculation of net revenue calculation of net revenue to be deducted from the eligible project costs should be made only for specific activity/output that will generate revenue.

If the reduction of net revenue was not made in the project Application Form, it has to be deducted in the final progress report accompanying progress report with the relevant evidence documents that proves amount of net revenue generated.

9. Annexes

Annex 1 "Simplified calculation of net revenue";

Annex 2 "Full calculation of discounted net revenue;

Annex 3 "Full calculation of discounted net revenue for transport sector project".