

# CBA in Transport Forum

Financial sustainability and the  
Beneficiary's financial capacity  
to implement the project

Paweł Malinowski  
Transport Sector Specialist  
JASPERS

Brussels, 30 September 2015

- ➔ Requirements for the assessment of financial sustainability in the new regulations
- ➔ Common problems in the past programming periods
- ➔ Practical forms of evidence to demonstrate the financial sustainability of the Operation
- ➔ Requirements for the assessment of the Beneficiary's financial capacity
- ➔ Practical forms of evidence to demonstrate the Beneficiary's financial capacity to implement the project

# New requirements for the assessment of financial sustainability in the new regulations (1)

What do we want to achieve with the assessment?

- Confirmation of smooth project implementation from the financial perspective
- Confirmation of ability to operate new infrastructure in the reference period without necessity to decrease the technical standards (no under-maintenance)
- Confirmation of awareness of the financial consequences of the project implementation (stream of future revenues, necessity to adapt tariff level, necessity of operating subsidies, etc.)

# Requirements for the assessment of financial sustainability in the new regulations (2)

- ➔ Regulation EU No. 207/2015, Annex III (CBA Methodology), point 2.2.2 (c) requires that:

.....The financial sustainability analysis is based on undiscounted cash-flow projections. It is mainly used to show that the project will have year by year sufficient cash resources at its disposition enabling it to always cover expenditures for investment and operations throughout the entire reference period.

...financial sustainability of the project is verified by checking that the cumulated (undiscounted) net cash flow is positive (or zero) on an annual basis and over the entire reference period considered.

# New requirements for the assessment of financial sustainability in the new regulations (3)

- ...the net cash flows to be considered for this purpose should include:
  - investment cost,
  - cash revenues,
  - all (national and EU) financial resources,
  - operating costs
  - replacement costs
  - debt repayments
  - financial capital contributions
  - interests (financial costs)
  - direct taxes
  - no VAT if recoverable
  - no residual value unless assets actually liquidated
- ... if the cash-flow is negative, how will the deficit be covered?
- ...overall financial sustainability of the system operator in the “with-project scenario”, in case of pre-existing infrastructure

- Financial sustainability analysis focused only on the basic project cash-flows without analysis of the financial sustainability of the operator or project promoter to provide sufficient funds.
- Non-transparent structure of financial flows between institutions implementing and operating the project
- Lack of analysis of cash-flows in the investment scenario for key institutions implementing the project in the reference period
- Lack of justification for assumed level of financial resources

# Practical forms of evidence to demonstrate the financial sustainability of the Operation (1)

- Present a simple schematic structure of financial flows in the implementation and operational period, including all institutions implementing and operating the project.
- Give a short description of the system of operation financing (perspective of financial planning of the beneficiary, budgetary regime of a relevant public entity, long-term plans or service agreements, implications of the ownership and regulatory regime)
- Illustrate (quantify) the financial needs of each institution in years of project operation, including debt service requirements.
- Indicate (name) the sources of financing of the operating deficit (operational subsidy, cross-financing from other activities of the beneficiary, adequate increase of tariff, etc.)

# Practical forms of evidence to demonstrate the financial sustainability of the Operation (2)

## BEST PRACTICES:

### Step 1:

- ➔ *Develop financial projections for the project (on absolute, not incremental basis) considering all project-related activities for the duration of the reference period, including the implementation and operational phases. The projections should consider key revenues and costs (including debt service and other financial costs), and all sources of cash (investment and operational subsidies and other sources of project deficit financing).*

**(This step is sufficient for most rail infrastructure and road projects implemented by one body)**



# Practical forms of evidence to demonstrate the financial sustainability of the Operation (3)

## BEST PRACTICES:

### Step 2:

- ➔ *Develop financial projections for the main Beneficiary considering all its activities, including project implementation (“with the project”), and present key items of the profit & loss account, balance sheet, cash-flow statement for the duration of the reference period.*
- ➔ *Develop similar financial projections for every other key institution participating in the projects implementation and operation (public authorities, important co-operant), or for the scope of the public service related to the project (for services of public service obligation).*

**(Important for all train and urban transport operators, airports, ports)**

# Requirements for the assessment of the Beneficiary's financial capacity

- ➔ Application Form, following Article 101(a) of the CPR 1303/2013, in section A.4.3 requires the following information:  
*“Financial capacity (at minimum please confirm financial standing of the body responsible for project implementation to demonstrate that it is able to guarantee the liquidity for adequate funding to the project to ensure its successful implementation and future operation in addition to the other activities of the body)”*.

# Practical evidence to demonstrate the Beneficiary's financial capacity to implement the project (1)

- ➔ **Step 1: Provide information on the current financial standing:**
  - *Most recent financial statements (last three years) and auditors opinions positive (use Annual Reports data) - not in bankruptcy state or no negative outlook*
  - *Inform about external risk ratings of the body, if available!*
  - *In case of compensation paid for public transport services, present the historical and current spending pattern (amounts and distribution)*

# Practical evidence to demonstrate the Beneficiary's financial capacity to implement the project (2)

- ➔ **Step 2: Build on experience in the implementation of large infrastructure projects :**
  - *Proven ability to successfully implement and operate projects in the past with own contributions in form of equity and/or loans?*
  - *Proven ability in servicing previous debt contracted for investment purposes?*

# Practical evidence to demonstrate the Beneficiary's financial capacity to implement the project (3)

- ➔ **Step 3: Confirm availability of financial resources to implement the project:**
  - *If an investment subsidy from the Government or other public bodies (Municipalities, Regions, dedicated Fund, etc.) is planned, their availability should be evidenced through official documents allocating appropriate funds for the project.*
  - *If debt is planned: the body shall give evidence of willingness of financial institutions to lend (signed loan contract or offers received).  
If no contract signed, the debt capacity should be evidenced through the capacity for loan servicing in the financial projections.*
  - *If own funds are used: The cash flow projections shall indicate financial sustainability of the body in the years of project implementation.*

- Financial projections for the bodies implementing the project are very useful to assess the situation of the Beneficiary(s) with or without the project, as well as capture all influences of other EU funded projects implemented by the same Beneficiary(s).
- Practically, such projections satisfy most of the needs for the project financial sustainability and Beneficiary's financial capacity analysis.
- Any available reports on the overall financial standing of the Beneficiary, like annual reports with auditor's opinion or risk rating reports, are very useful in the assessment of financial capacity.
- Clear ownership and regulatory regime of the project clarifying tariff setting mechanisms and rules of compensation are valuable.
- In case of public service obligation, proper compensation calculation may require detailed financial projections for the scope of the public service in entire period of the PSO.



For info or further questions on this presentation, please contact:

Paweł Malinowski  
JASPERS Transport Sector Specialist  
Tel.: +32 2 712 41 75  
[p.malinowski@eib.org](mailto:p.malinowski@eib.org)

[www.jaspersnetwork.org](http://www.jaspersnetwork.org)

[jaspersnetwork@eib.org](mailto:jaspersnetwork@eib.org)



For info or further questions on the CBA forum meetings  
and the activities of the JASPERS Networking Platform, please contact:

Massimo Marra  
JASPERS Networking and Competence Center  
Senior Officer  
ph: +352 4379 85007  
[m.marra@eib.org](mailto:m.marra@eib.org)

[www.jaspersnetwork.org](http://www.jaspersnetwork.org)

[jaspersnetwork@eib.org](mailto:jaspersnetwork@eib.org)