6.0   COST REVENUE ANALYSIS

6.1   General

Cost revenue analysis is a variant of social financial analysis in that its measures are financial and relate to more than one party in the process. It is distinguished from social financial analysis in that it is concerned not with developers/investors/promoters as such but with public authorities in their ongoing operations. including conservation.

Since each level of government could be concerned with financial costs or revenues, the SCRA method should be comprehensive for all levels of government. It should reflect costs or benefits supported by the different levels, since results may differ considerably when CRA is applied to local, regional or national government, simply because costs and revenues do not follow the same "track".

6.2   Social Cost Revenue Analysis in Conservation

The SCRA approach has been applied in conservation under the name of ADEP (Analyse de la Dimension Economique du Patrimoine) in a study for the EEC.{1} While in that study the emphasis was on an analysis of economic flows as they existed currently, in order to evaluate opportunities and strengths before facing any option, the method can be readily adapted to evaluation of the options in term of those flows as a member of the cost benefit family.{2}.

The method is described as having three phases:

(1)   a preliminary inquiry for precise determination of the project itself, with a description of the benefits, the context of the benefits and the reason for extending the economic dimensions;

(2)   a matrix of statistics which are needed for the evaluation. This could include economic flows relating to income from a variety of sources, attributable directly or indirectly to the cultural heritage, as for example:

(a)   tourism: entrance fees, special exhibitions, guided visits, commercial activity on premises;

(b)   usage: artistic, industrial, residential.

(3)   from the above, an interpretation of the results of the evaluation.

As part of the procedure, we measure how the components of investment costs could in turn bring fiscal revenues for the government at all levels. In order to describe fiscal returns, we need to rely on definitions of effects, impacts and impact chains.

direct returns: from direct charges on the property, etc;

indirect returns: from workers (income tax, social security contributions) and firms (tax on gross profit) in the conservation process;

induced returns   fiscal returns from induced activities, through the multiplier effect.

One of the telling conclusions from ADEP studies lies in the demonstration that while a government subsidy for conservation might not produce a direct positive return, it earns significant returns in total money flows for the community. Among many other studies, the analysis of the country of Luxembourg showed an amazing share of 66% of direct and indirect fiscal revenues in the total public investment cost for conservation, without including induced revenues from the multiplier. Therefore, it tells us that two-thirds of the public cost can be turned into revenues in the same year, in the same budget.{3}

So far we have introduced CRA on an accounting basis. But from an economic standpoint, there is an opportunity to save money by using the available resources properly; in time of unemployment, the social cost of labour employed in conservation will be lower than its market price. When conservation projects bring new jobs on the market, they also create more revenues and less expenses for the public sector:

more revenues because of income taxes and other indirect fiscal revenues;

less expenses because of unemployment benefits saved by the creation of jobs.

When economies are not facing full-employment, deficit spending is less costly than the investment cost appears to be. Again, we need a global perspective to guarantee that revenues can be taken into account. Formally, reduction of unemployment benefits, increases of income taxes or increases in social security contributions do not occur in the same budget.

Table 6.2 illustrates which costs and revenues can be derived from public conservation projects.

TABLE 6.2
COSTS AND REVENUES DERIVED FROM PUBLIC CONSERVATION PROJECTS

Conservation works		On completion
Public costs		
• **Expenses (more expenses)**		
Public initiative	Conservation costs	Maintenance cost
Public support	Subsidies	Subsidies
• **Revenues (less revenues)**		
Incentives	Tax exemptions (or any other incentive)	Tax exemptions
Public benefits		
• **Revenues (more revenues)**		
Direct revenues	VAT	Fiscal revenues from collective impacts
		- direct
Indirect revenues	Income taxes	- indirect
	Taxes on profits	- induced
Induced revenues	Multiplier effects	
• **Expenses (less expenses)**		
Opportunity cost	Unemployment benefits	Long-run benefits from better qualified workers

Source: Lemaire & Ost (1984).

Many of the items listed are consistent with common cost-benefit analysis. For example, induced revenues generated by the multiplier are basically the same as those measured in CBA. Long-run benefits from the public authorities can expect in their budget are due to on-the-job learning and better qualification of workers. In turn better qualification leads to durable employment and structural benefits for the budget.

Short-run vs. long-run impacts on the public budget are essential in CRA. To be effective, conservation projects need minimal impact on the current budget because of the structural deficit. The opportunity cost of financing conservation can be very high in times of structural and cumulating deficits.{4}