

Broad & Narrow Perspectives

Taxpayers earn a 8% rate of return on their investment in the Black Country Colleges.

The Black Country Colleges add more money to the Exchequer than they take out. Not only do the colleges pull their own weight, but they also effectively subsidise other sectors funded by taxpayers. Without the Black Country Colleges, the tax burden would have to be higher in order to maintain services in all other sectors at their current levels. The return on investment is considered from two taxpayer perspectives: broad and narrow.

Broad Investment Perspective

In the broad perspective all benefits are included regardless of recipient and are compared to the costs of the investment in the form of a benefit/cost ratio. If the ratio is less than one, the investment is not worthwhile; if it is greater than one, the investment may be considered sound.

Some examples: a transportation authority justifies a new road by showing that the savings in travel time and vehicle expenses accrued by thousands of drivers exceed the project's cost. Public parks are justified by showing that recreation, scenic, and other values accruing to park users exceed the public outlay for park infrastructure, operation, and the net value of extractive resources not used. All benefits are counted, not just those that accrue back to government. This is the hallmark of the broad investment perspective.

Applying this perspective to the Black Country Colleges, benefits accrue to different groups. Learners accrue higher earnings as long as they are in the workforce, whereas the public at large accrues the external social benefits (i.e., reduced crime, lower unemployment, and improved health). All of these are tallied up and compared to the investments made by taxpayers. A broad perspective benefit/cost ratio greater than 1.0 is a minimal indicator of a worthwhile public investment

The Black Country Colleges' benefit/cost ratio thus counted is 8. In other words, the cumulative added value attached to each pound invested will have a present value of £8 by the end of the learners' working career.

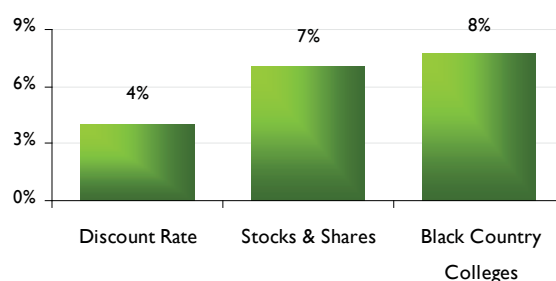
Narrow Investment Perspective

The narrow investment perspective counts only benefits that return to government taxpayers. For example, educated workers earn more and thus pay more taxes. Furthermore, because government bears part of the cost of crime, its budget benefits from education's crime-reducing effect. The same is true for other benefits of an educated populace. The bottom line: Government receives returns from its support of the Black Country Colleges in the form of increased revenue and avoided social costs.

Worthwhile public projects often generate negative narrow perspective returns, because the role of government is to provide services that the public needs but the business sector may find unprofitable. Considerable funds are spent on public parks, for example, yet they yield little or no direct return. From a narrow investment perspective, taxpayer returns are negative, though the park is justified by the benefits tracked under the broad perspective.

But unlike many government endeavours, funding for the Black Country Colleges generates strong results from *both* broad and narrow perspectives. Economists generally assume a 4% discount rate in analysing government investments, assuming that governments can obtain unsecured loans at a rate of 4% or receive a 4% return on any excess funds, if they were invested. *Since the colleges' narrow rate of return of 8% is greater than 4%, the government actually makes money on the investment. By funding the colleges, therefore, other recipients of funding are actually subsidised through the revenues generated by the colleges.*

Narrow Investment Results



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