"SOCIAL RETURN AND FINANCING OF URBAN REGENERATION POLICIES"

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Abstract

This paper analyses an alternative measurement framework capable of capturing the return on investment of urban regeneration projects through a cost-benefit analysis. Financial returns on investment are calculated as the ratio between the benefits accruing from the performance of a given project and the funds involved in their implementation. Both, benefits and funds, must be named in monetary terms. However, in urban regeneration projects, due to their dual economic and social nature, it is more difficult to quantify the profits generated because most of them are subjective (better quality of life, better community welfare, etc.). A wide array of value is being added in a urban regenerative process (economic value, blended value, social value) some of which is measurable in a traditional Investment/Return framework (with its implicit economic returns assumption) and more of which is not so that it remains partially hidden from stakeholders.

Based on the foregoing, the purpose of this study is twofold: to go deeply into the cost-effectiveness ratio of urban regeneration projects through consideration of social impacts and to analyze some new alternative funding formulas that arise particularly in a time of financial constraint.

The papers argues that the SROI (Social Return On Investment) method appears as the most appropriate measurement tool to capture the full public benefit as well as Tax Increment Financing and Joint European Support for Sustainable Investment in City Areas –Jessica, seem to be two innovative financing formulas based on a market approach.
1. INTRODUCTION

Sustainable investment for urban development has attracted much interest and political support as a dominant priority for EU Member States in recent years. The most remarkable milestones include the European Parliament Report on “The urban dimension in the context of enlargement” approved in 2005 which includes sustainable urban development in cohesion policy and the signing of the “Leipzig Charter on sustainable European cities” in 2007, committed to integrated urban regeneration involving actors outside the administration, enabling citizens to play an active role in shaping their immediate living environment. In Spain, some of these possibilities have been expressed in the recent Sustainable Economy Act which provides a breakdown (Title III, Chapter IV) of public policy actions for a more sustainable urban environment, clearly committed to city centre refurbishment and renovation as ways of counteracting the effects of the dispersed city model.

Europe seems clearly committed to regenerating urban centres as one of way of solving the problems posed by dispersed cities while also seeking sustainability. But now, in addition to purely physical aspects, the underlying intangible aspects of urban reorganisation are also beginning to be valued, such as local development and the creation of social capital in the community (civic awareness, citizen participation, cooperation, reciprocal/mutual trust, shared values and behaviours) which are key to regenerating neighbourhoods and partly explain their success (and therefore profitability).

This work aims to explore more deeply the aspects of integrated urban regeneration in relation to financing and profitability. The following section considers the different ways of financing these projects, presenting some of the new instruments formulated in the light of the current crisis and financial restraints on public authorities. The third section examines the cost-effectiveness ratio from a broader perspective and approximates reality by including social impact and the Social Return on Investment (SROI) focus. Rather than just a number, SROI is an entire (robust) principle-based method, structured in various steps. Finally, the last section presents the conclusions.

2. FINANCING FORMULAS

Integrated urban regeneration involves different levels of authorities and a variety of different actions (adapting existing basic infrastructures, action on communication networks, adapting public transport systems, facilities, refurbishing buildings and homes, providing parking places, etc) and a wide variety of intervention, financing and regulation formulas. The nature and scope of renewal actions will depend on the state of the neighbourhood.
In all cases these actions require funding and the main issue for the body designing the renewal project is to determine how these funds will be provided and what commitment that provision will generate. The aspects that guide project funding must therefore be addressed:

- **Universality**: as the investments will generate benefits for certain people (referred to here as citizens), the effort of obtaining funds must lie with the collective of citizens.
- **Temporality**: most of the benefits of the investments will continue over time. Therefore the burden on citizens must be distributed over several years so that benefits and costs are as simultaneous as possible.
- **Fairness**: the cost that citizens bear must be related to the benefit they receive. However, cost must not be an obstacle for low-income citizens to access to certain basic goods and services.
- **Subsidiarity**: funds from private initiatives must, in the medium or long-term, be the main source of financing. Public funds must be subsidiary and must only be allocated to investments where private funding is not sufficient. Furthermore, the main objective of public financing must be to act as a catalyst for privately funded investment.

Bearing these principles in mind, each specific urban development project must determine the extent to which different sources of financing are used. The nature of the action must also guide the choice of the source of financing.

**a) Funds directly contributed by citizens:**

When the benefits of a given action are limited to the private sphere the citizen beneficiary(ies) must assume the cost. Perhaps the clearest example of this type of action is the refurbishment of private homes and buildings. In fact as the Report on Integrated Urban Regeneration in Europe (RIURE) reveals it is only in this case of “individual regeneration” that individual owners contribute towards the funding of urban regeneration (72.3% of the population)\(^1\).

The refurbishment of homes and other actions undoubtedly helps to improve the neighbourhood but almost all the benefits go to the home owners and therefore they must assume the cost. The resources provided by public authorities for this type of investment must be limited to the investment necessary to stimulate these improvements. In fact this is

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\(^1\)The Report on Integrated Urban Regeneration in Europe (Alvarezy Roch, 2010) is based on the responses to the Questions on Integrate Urban Regeneration Policies from European Union Member States, the 3 candidate states, Norway and Switzerland, and was produced by a team of experts from the Instituto Universitario de Urbanística at the University of Valladolid
common practice in the EU as highlighted by RIURE (this type of incentives are available for most of the population, 61.8%).

Channelling (through specific integrated refurbishment projects in urban neighbourhoods) existing grants and subsidies for energy savings, accessibility and so on would undoubtedly be an incentive for private funding for the refurbishment of homes.

Another stimulus could be to set up soft lines of credit for property and home refurbishment as part of specific integrated refurbishment projects. In Spain, mediation loans from the Instituto de Credito Oficial are probably the optimum way of ensuring that the financial costs (born by owners) and financing periods are appropriate for the purposes of the funds.

Finally, a third incentive could be to create a specific management body for each development project to act as a one-stop shop where citizens could submit all applications for financing and grants and obtain advice.

b) Funds provided by private initiative:

In cases where the benefits of the action go further than the individual sphere, alternative financing formulas must be sought. Under the subsidiarity principle, actions must be financed by private initiative whenever possible. This type of financing is particularly appropriate for situations where some form of pay-per-use can be applied. Thus investments such as the provision of parking places or the construction of certain leisure and recreational facilities can be channelled through private initiative provided that it is subsequently allowed to exploit the investments. In the case of leisure facilities prices or fees for use can facilitate private investment and subsequent exploitation initiatives. For improvements in water distribution networks or waste treatment individual payment formulas can also be designed so that these investments can be undertaken by private initiative.

However, despite the subsidiarity principle, experience shows that private initiative hardly ever leads these processes. According to the IURE report in 48% of the countries interviewed this leadership only occurs very rarely despite the fact that private business initiative does obtain direct benefits from the introduction of urban regeneration projects (according to 38% of the respondent countries) and also frequently benefits from projects led by the public sector (according to 48%). That is why in the initial phase of project development some of these

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2Thus the construction of a car park may be attractive for private capital if it is accompanied by a licence to operate or authorisation to market the parking places under an ownership regime or concession.
actions should be promoted by public initiatives regardless of whether the projects are subsequently transferred to private initiative.

c) Public authority funding:

Integrated urban regeneration processes, which involve a variety of different actions, have to make investments that stimulate private initiative but a series of actions such as refurbishing public roads or providing health and education services can hardly be left exclusively to private capital. In these cases individualising payment is complicated. It is unthinkable nowadays to establish pay-per-use for using public roads inside a city (another matter would be some sort of shadow toll mechanism which would require funding from public authorities).

In the case of investment in health and education services the current conditions of access to those services mean that pay-per-use is not feasible. Experience shows that in the EU, according to RUIRE, these investments are mostly funded by public entities (either public authorities or state-owned corporations governed by private law) and the most common form of financing are subsidies followed by special condition “loans” and to a lesser extent “tax benefits” for those whose undertake “regeneration” programmes.

Public authorities have various formulas of financing for these actions:

- Transfers: the involvement of different levels of public administration in project execution should lead to the contribution of funds. The project should have items (subsidies or other transfers) from national, regional and local budgets. The capital provided in this way must, as a minimum, be the amount necessary to start up the project and to provide the incentives required to involve all the agents in project execution.

- Borrowing: This can be formalised through bank loans or the issue of securities. Whatever the formula used the main issue over borrowing lies in the fact that nowadays public authorities have little room for manoeuvre. The high levels of debt they already have make it difficult to obtain additional funds this way.

There are, however, alternatives to borrowing which, when considered without recourse to the authority’s general budget can provide funds for the project without necessarily increasing the levels of debt. We highlight two of these methods:

- Firstly, borrowing where certain revenue is earmarked to service the debt. This type of financing could be used for public initiative investments where a pay-per-use
mechanism could be put in place. Thus the income would be clearly defined and would come from the pay-per-use mechanism.

- A second option, as yet unused in Spain, is known as Tax Increment Financing or TIF. This financing formula has been applied mainly in North America (United States and Canada) and to a lesser extent in the United Kingdom. It would be appropriate for any type of investment in the project and is based on the expected growth in municipal revenue as a result of the action in the neighbourhood. This increase in revenue is used to service the debt. Briefly, the financing scheme would involve the following steps:
  1. Territorial definition of the area for action. There must be a spatial definition of the neighbourhood where the integrated urban regeneration is going to take place.
  2. Valuation of the revenue (municipal) currently generated in the neighbourhood (snapshot of municipal revenues).
  3. Forecast of the increase in revenue over a pre-established period of time as a consequence of the actions in the neighbourhood. This forecast will include a higher property tax as a result of the increase in cadastral values, additional resources brought to the council by increased economic activity (works permits, opening licences...) etc.
  4. Freezing collection. During the established time period the neighbourhood’s contribution to municipal funds is limited to the snapshot of municipal taxes mentioned above.
  5. Financing obtained by earmarking the planned increase in revenue to service the debt.
  6. TIF dissolved when the debt has been paid off.

If the above mentioned borrowing formulas are designed without recourse to anything other than the earmarked revenue they have the potential advantage of not increasing municipal debt. However, in addition to any changes in the legislation that may be required, as non-recourse debt, these sources of financing have the drawback of being more expensive in financial terms.

d) European funds:

Although the EU has no common policy for cities, largely because urban development policies are still in the national sphere and specific to each Member State, in recent decades various Community initiatives have been undertaken to favour regeneration and sustainable
development in urban areas with financial backing from Structural Funds. These initiatives are basically the URBAN programme (and the follow-on URBAN II) from 1994 to 2006 and the current JESSICA programme for 2007-2013.

The URBAN Community initiative was launched in 1994 to promote sustainable investment, growth and employment in urban areas in Europe by stimulating action by cities or neighbourhoods in crisis. This programme has now finished.

The EU has now launched a line of new generation programmes as part of the current cohesion policy which includes a series of new instruments to strengthen the urban dimension. These instruments are characterised by the need to involve local and regional authorities in the planning and introduction of urban regeneration actions. For 2007-2013 the most significant instrument promoted by the Commission in this area is JESSICA.

JESSICA, or Joint European Support for Sustainable Investment in City Areas, has been developed by the European Commission and the European Investment Bank in collaboration with the Council of Europe Development Bank. This programme enables Member States to use European Union Structural Funds to make refundable investments in projects that are part of a sustainable urban development plan. It provides an alternative way of directing EU funds to urban regeneration projects which is different from the usual subsidies and through recoverability of funds moves towards a market-based approach in an attempt to make the most of the leverage generated by the amounts invested in the relevant areas.

Figure 1 shows how the JESSICA project operates. It is an instrument for channelling EU funds to certain urban development projects by creating Urban Development Funds (UDF) that make recoverable investments (in the form of participations, loans and/or guarantees) in public-private corporations and other projects in a sustainable urban development plan.

Briefly, the main characteristics of these funds are:

- They are open to participation from other public and private sector investors.
- From the legal perspective they can constitute a separate block of financial resources within a financial entity or have their own legal personality (although no specific personality is specified).

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The JESSICA initiative is supplemented in the context of integrated urban development plans by JEREMIE. While JEREMIE can support improved access to micro-financing for medium-sized enterprises in urban areas, JESSICA can support infrastructure projects and urban networks, energy efficiency and any other project or group of projects in an integrated urban regeneration plan that do not involve access to financing for small and medium-sized enterprises.
They must be administered by an independent professional manager (selected through competitive procedures unless the role falls to the European Investment Bank).

They must formulate a business plan that shows they are technically competent and enjoy independent management and reliable financial support.

Execution of the plan must be controlled and supervised by Structural Fund Managing Authorities.

Figure 1: JESSICA. Operation and beneficiaries

The Managing Authorities can also create another type of funds, “Holding Funds” (HF) to invest in the different urban development funds in their area of territorial influence. The advantages of these funds are mainly their large size as Managing Authorities can achieve economies of scale by centralising payment and investment management and control. They can professionalise the introduction of the JESSICA project by entrusting experts from the financial sector to carry out associated tasks (such as establishing selection criteria for investments in UDF, evaluation of UDF, negotiating contracts and supervising UDF operation). This approach also enables more diversified investment.

In October 2010 there were 19 legally established Jessica instruments in 11 Member States with a commitment of €1.65 billion from structural funds. In 2010 the first holding funds began to request applications and select Urban Development Funds through which financial support will begin to flow towards current urban projects. As a result payments to end
beneficiaries are already being made in Estonia, Brandenburg and Lithuania. Table 1 shows the development of these funds.

JESSICA is the ideal framework for the financial support required by the start-up and development of integrated urban regeneration programmes in neighbourhoods and specific areas of cities. The own funds that many actions require can initially come from an ad hoc Urban Development Fund for the project or set of projects. However, as the funds are refundable, mechanisms for returning the amounts must be planned. UDF can in turn be used so that public authority borrowing requirements (through loans, the issue of securities, earmarked or otherwise, or through TIF) can enjoy advantageous periods and financial costs so that the financial conditions are not an excessive burden on the project.

Table 1: Portfolio funds JESSICA project.

Source: Inforegio-European Commission
3.- MEASURING THE PROFITABILITY OF INVESTMENT IN INTEGRATED URBAN REGENERATION PROJECTS

If the profitability of integrated urban regeneration projects is measured in strictly economic terms, most of the benefits being generated by these projects are ignored. Thus an easy-to-interpret measure of profitability is needed that reflects as many project impacts as possible. It is in this context that the present paper proposes the use of the Social Return on Investment (SROI) to quantify the creation of value in the execution of urban regeneration projects. Figure 2 summarises the proposed conceptual framework for implementing this measure.

SROI considers the social value (or socio-economic value) created in the investment project, thereby making it visible to citizens. This aspect is particularly important for transparency and accountability, given the mainly public nature of the financial resources invested in the projects, and favours citizens' recognition of the investment effort made by the public administration.

3.1.- Relevance of SROI for urban regeneration projects: measuring social impact

The usual method for calculating investment profitability involves estimating the relationship between the benefits of a given project and the funds used to launch it. Benefits and funds must be denominated in monetary terms so that profitability can be expressed either on a per unit basis or more commonly, as a percentage.

In the area of integrated urban regeneration projects, funds that can be allocated to a given project by different public authorities are usually quantified in monetary terms; however it is
much more complicated to convert to these terms the benefits flowing from the project. The performance of this type of project cannot be assessed by a conventional measure of profitability, instead parameters are required that can measure the true value of the project (which may be economic, social or a combination of both) and the special features of the benefits it generates given its dual economic and social nature.

- **The value creation process: What is to be measured**

  By undertaking their activities over time all public and private organisations, (with private interests such as corporations or in the public interest, such as non-profit organisations) generate and accumulate value continuously. Depending on the added value being considered or created, there are three categories of value (Emerson et al. 2001):

  1. **Economic**: Creating services or products that have greater market value than their inputs. There are many economic indicators for this value.

  2. **Social**: Creating services or products that have a provable beneficial impact on society e.g. anti-racism initiatives. This value is difficult to quantify because it is based on elements such as individual legitimacy, social support, social capital and the defence of rights or free expression.

  3. **Socio-Economic**: Creating services or products that increase the market value of inputs but also generate cost savings for the public system or environment e.g. employment programmes. An example of socio-economic value is the value created by the public sector when it applies a job creation or social insertion programme or when it regenerates a depressed neighbourhood.

  In a process of purely financial quantification any of the not strictly economic values would be at least partially hidden. A way of overcoming this obstacle is to implement the method for assessing the social return on investment-SROI. SROI provides a methodology for estimating (rather than directly measuring) profitability. Thus it aims to facilitate a market valuation of the objectives/benefits for all the groups involved, even those that are normally excluded from these valuations because of the lack of market benchmarks. It is therefore a more suitable management tool for urban development projects with unquestionable social

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4 Consider for example the potential benefits of a project such as those stemming from improved personal wellbeing or a more sustainable urban environment; quantifying them in monetary terms is complicated to say the least.


6 In the acronym SROI, “S” refers to the social part of the activity; “ROI” refers to the business profitability analysis.
impact as it can give social groups a voice in resource allocation decisions (SROI-UK Network7).

- **The SROI focus: Origins and concept**

  This methodology originated in social enterprise and although fairly recent, it has developed at dizzying speed so that the approach is currently being taught in the main US schools and has been the basis for subsequent adaptations that are widely used by non-profit organisations in the United States, the United Kingdom9 and all over the world. It was developed in the 1990s by The Roberts Enterprise Development Fund (REDF), a US non-profit entity dedicated to helping people out of poverty by introducing social programs financed in part by public subsidies. This NGO began to analyse its SROI in order to illustrate the value generated by its social programmes in relation to the investment made in them.

  SROI attempts to answer a series of unknowns that traditionally have been considered in non-profit entities and can easily be generalised to public investment projects:

  - How can the success of the efforts made be measured?
  - How can it be known if the initial objectives are being reached?
  - How can informed decisions be made over the ongoing use of resources?
  - How can transparency be improved showing that each monetary unit invested provides significant quantifiable benefits for individuals and for society as a whole?

  To answer these questions SROI has been defined, specified and implemented from different approaches although the differences between them are obviously due more to the way they are implemented than to the essence of the concept. The most common approaches are those proposed by the following organisations:

  - **SROI-UK NETWORK approach**: SROI is a focus for understanding and managing the impact of a project, an organisation or a given policy. In this regard it is perfectly applicable to different policies or social programs with different aims such as social insertion, job creation, revitalising depressed areas, etc. The approach focuses on stakeholders and attributes financial value to impacts with no market value identified by stakeholders. (SROI-UK Network).

  - **NEW ECONOMICS FOUNDATION (NEF) – UK**: Similarly, the New Economics Foundation defines SROI analysis as “a process of understanding, measuring and

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7[www.sroi-uk.org](http://www.sroi-uk.org)
8Such as UCLA and Harvard Business School
9In particular the adaptations by the New Economics Foundation (http://www.neweconomics.org/) and the British Government itself through the SROI-UK Network project (http://www.sroi-uk.org/)
reporting on the social, environmental and economic value that is being created by an organisation”. This methodology is developed on the basis of the cost-benefit analysis, social accounting and social auditing, capturing social value by translating social objectives into financial and non-financial measures (NEF, 2008).

- The REDF (USA) approach: This entity defines SROI as the financial assessment of socio-economic value that compares a project’s net benefits to the investment required to generate those benefits over a certain period of time. The basis of this approach is to combine financial analysis with an analysis of social cost savings to give a socio-economic value\(^\text{10}\) which is added to the financial return on the social impact. In this approach the benefits are formed by two net cash flows:
  a) economic benefits (from organisation’s economic activity)
  b) and social benefits measured in terms of total net savings for society, that is, the costs savings for public funds and additional revenue/taxes resulting from the project/programme (Emerson and Cabaj, 2000).

To summarise then, the SROI analysis framework attempts to recognise and quantify the return for an entire community as a whole rather than just the profit obtained by a specific set of investors. It is based on the fact that the return can take the form of a broad series of changes including monetary changes such as tax savings for the community, a reduction in social services costs and greater income for individuals as well as changes with different effects on individuals and communities that are difficult to translate to monetary terms such as increased stability in the home and individual self-esteem (Gair, 2002).

- \textit{SROI calculation}

  The calculation of SROI involves a set of successive phases. From a general perspective the stages are those shown in Figure 3\(^\text{11}\).

\(^{10}\) Also known as “\textit{blended value}”. The value measured by this approach is the value at the centre of the economic value and social value continuum, given that for practical purposes it is impossible to measure absolutely all social outcomes through a reliable ratio. Therefore only the most direct, easy to measure effects such as cost savings and increased revenue for public funds are identified.

\(^{11}\) In the second part the specific phases are developed for the class of projects in this present study.
Figure 3: General framework for calculating SROI

1. Examine the activity of social services (policy, programme, etc.) over a given period of time.
2. Calculate the amount of financial resources necessary to start the project/programme/policy.
3. Account for economic returns in public spending and related benefits for the public system as a result of the adopted measure.
4. Calculate the economic value of the savings in costs and the related benefits.
5. Measure these savings at the start of the investment period with an Annual Net Value (ANV) and/or discounted cash flow analysis.
6. Finally present the Social Economic Value created during the investment period expressed in terms of same ANV and SROI ratios.

The analysis must follow a series of basic criteria that guarantee that the result is a true and fair view about the reality it is attempting to describe. In general, these criteria or characteristic are as follows:

- Involve all interested parties through dialogue.
- Recognise, cover and organise all the changes (values, objectives and interested parties) so that they are taken into account.
- Value the things that matter and include only what is significant.
- Quantify everything possible in monetary terms (by proxies) (Monetisation principle).
- Permit comparison of outcomes and impact using appropriate benchmarks, objectives and external rules.
- Be rigorous and transparent throughout the process.
- Be accessible: feasible, relevant and understandable for the interested parties (informant entities and information users).
- Avoid bad use: correct application of the method should reduce the risk of bad use or confusion of outcomes in the SROI analysis.
- Guarantee appropriate independent verification of the process to avoid the risk of “massaging” the figures if the variable becomes significant for assigning public resources.

- The relevance of SROI for urban regeneration programmes.

The application of SROI goes further than simple planning and control of an activity or policy. In the public sector (and in general in all non-profit or public interest activities) where policy impacts are not evaluated, calculation of the flows from SROI permits a more realistic vision of the true investment effort and work done by public authorities for their citizens. It is a question of disclosing the real value created by an organisation, programme or policy, of
introducing measures to improve information on positive impacts in a way that is understandable for citizens.

SROI enables improvements to accountability systems by reporting citizens and taxpayers of aspects beyond the economic sphere, making transparency one of the organisation’s strategic values. Impacts that are not assessed and notified to the interested parties end up by being little appreciated or at least not valued to the extent they should be. Furthermore, calculating social profitability enables improvements in risk management ability and to identify opportunities for achieving the established objectives and goals.

3.2.- Steps in determining SROI

The social profitability of a project is measured by comparing benefits with costs. In principle it seems then that this would simply involve a mathematical calculation but nothing could be further from the truth. As noted above, most of the parameters that need to be added to determine project benefits are not monetary, nor is exclusion or inclusion automatic.

Therefore estimating the SROI of a project is more than a calculation, it is a complex process which must follow an entire series of steps. These steps and each aspect that must be covered are shown below (see Figure 4). In order to show how the process for an urban

\footnote{In the public sector, transparency has been traditionally limited to stewardship accounting and budgetary control. This limited notion has been exceeded thanks to the New Public Management focus which emerged in the late 1980s in Nordic countries and among others, introduces the need to inform on the economic-net worth aspects of public entities. SROI is another step towards that transparency.}
regeneration project would function in practice, a hypothetical example has been planned and for each step different items are shown that need determining in the example context

- **Stage one: scope and impact map**
  The object of measurement and how it is to be measured must be determined. The following steps are taken in this stage:
  
  1. **Determine the scope of the analysis.** The following issues must be clarified:
     - Scope: analyse the profitability of a specific regeneration project. In this step it must be decided if the analysis is going to be prospective or retrospective, according to the reason for wanting the SROI calculation: to evaluate the result of a specific project (retrospective) or to evaluate and arrange projects in order of importance (prospective).
     - Who carries out the analysis: the administrative unit and the head of that unit should be entrusted with analysing project profitability. Alternatively the analysis can be outsourced.
     - Reason for the analysis: one reason could be to control the return generated by the project through monetary inputs and mainly social outputs. Control of this return facilitates comparison between projects and helps decision-making when new projects have to be tackled.
     - Available resources: If the analysis is carried out by staff from the administration, what is the human resource allocation in terms of number of people, total hours and dedication. If it is outsourced the monetary resources available for the analysis must be determined. The resources will limit the scope of the analysis.
     - Activity whose impact is to be measured: specific regeneration action in a neighbourhood.
     - Population to be analysed: all those who potentially could benefit from an integral action.
     - Determining the time interval in which data will be collected.
     - Necessary information: A whole series of information is needed on the particular neighbourhood and the city as a whole. The information will be used in subsequent phases (monetisation of indicators) and assuming that the analysis is prospective, to formulate the hypotheses for estimating profitability.

<table>
<thead>
<tr>
<th>Example:</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Scope. Regeneration project for seaside neighbourhood in City X</td>
</tr>
</tbody>
</table>
1. Type of analysis: prospective. The intention is to estimate profitability from a previous project if it is carried out.

- Unit entrusted with the analysis: External. For the moment there are no plans to analyse many projects so it has not been considered advisable to create a specific unit for this analysis. Partial collaboration from administration units will be required to: draft the contract with the external agent and monitor the work being carried out.

- Reason for the analysis: to compare estimated profitability of this project with estimated profitability for other projects in the portfolio in order to place their execution in order of importance.

- Available resources: XXX Euros to outsource the contract

- Activity whose impact is to be measured: Integral regeneration action in the seaside area of city X.

- Population to be analysed: To be determined in subsequent stages

- Data collection: 3 months

- Other necessary information: historical information segmented by neighbourhoods on the market value of the properties, facilities and public services, economic activities, number of inhabitants, population pyramid, square metres per inhabitant, information on planned refurbishment projects.

2. **Identification, prioritisation and capture of persons on which the data collection process will focus.** The best way of knowing the benefits the project generates is through the people and institutions affected by it. We need to know the needs and goals of these people and institutions and how to calibrate the extent to which the project meets those needs. The steps are as follows:

- Produce a comprehensive list of all the people and institutions affected by the project including the direct and indirect beneficiaries, who contribute in some way to its start-up or who are even remotely affected by the project.

- Selection and exclusion of affected persons and institutions. It is not efficient to question every person and institution. The most relevant ones are chosen, excluding those who are less relevant or who would provide similar information to those already included.

- Defining the method of contacting people and institutions to obtain information

**Example:**

<table>
<thead>
<tr>
<th>Comprehensive list of the people and institutions affected by the project</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Direct beneficiaries: Residents, business owners in the neighbourhood.</td>
</tr>
<tr>
<td>✓ Indirect beneficiaries: Employees of these businesses, visitors to the city and the city as a whole</td>
</tr>
<tr>
<td>✓ Who contributes to project start-up: Financiers, central, regional and local authorities, businesses entrusted with the refurbishment.</td>
</tr>
<tr>
<td>✓ Other affected parties: Other neighbourhoods in the city (especially those nearby), the city’s commercial and business network in general</td>
</tr>
</tbody>
</table>

**Selection and exclusion of affected people and institutions.**

| ✓ Residents in the neighbourhood: Included because they are the main beneficiaries |
| ✓ Business owners in the neighbourhood: Included for the same reason |
| ✓ Employees of businesses in the neighbourhood: Excluded. The information they can provide on their goals and objectives is not necessarily linked to the project that is to be carried out. For them it is indifferent (or almost indifferent) whether they work in their current company or another and in this or any other neighbourhood. |
| ✓ Visitors to the city: Excluded for a similar reason to the employees |
The city as a whole (municipal authorities): Included as they can provide a vision of the benefit for the whole of society.

Financiers: Excluded. Their contribution to the project is not influenced by the social benefits it can generate.

Companies participating in the refurbishment project: Excluded for the same reason.

The authorities involved (the local authority has already been included): Included because they can give an idea of the impact of the project on the community.

Other neighbourhoods in the city: Excluded because their potential contribution is covered by the local authorities contribution and the contribution which emerges from the objectives of the residents in the affected neighbourhood.

Local business owners: Included because they can provide a vision of the neighbourhood’s economic development potential.

Contact with included people and institutions: The best way of obtaining information on the benefits that the different collectives expect from the project is considered to be meetings with the following collectives:

- Neighbourhood associations.
- The city’s business associations. Representatives of employers in the affected neighbourhood must attend the meeting.
- Local authority.
- Other administrations involved.

These meetings are expected to provide specific information for the next phases in the project: information on general objectives and aspirations of the collectives involved and the desired outcomes.

**Stage two: data collection**

1. **Identifying the outputs.** The stage one meetings must take place so that conclusions can be drawn over the desired outcomes for different players, especially as regards the start-up of the project.

   **Example:**

   The meetings planned in the first stage were held with the following results:

   - Residents’ outcomes: Improved quality of life; improved family well-being
   - Business outcomes: Increased investment opportunities
   - Administration outcomes (especially local authorities): make the area a focal point for all residents

2. **Mapping impacts and outcomes.** Project inputs are used to determine the activities carried out with the outcomes, the contribution of those outcomes to fulfilling the outputs defined in the previous stage and the net impact of the project to that contribution. The output in this phase is the Impact Map. The map is then used to carry out a materiality analysis: any impacts which are not significant and those for which no data can be obtained must be discarded.

   **Example:**

<table>
<thead>
<tr>
<th>Input: Money invested</th>
</tr>
</thead>
<tbody>
<tr>
<td>Activity one: Refurbishment of housing.</td>
</tr>
</tbody>
</table>
Output 1: Square metres refurbished.
Contribution one: Improved family well-being
Impact one: 100%. If the remodelling had not taken place well-being would not have increased. In addition, the increase in well-being is net, that is, it is not achieved by decreasing well-being in another area.

Input: Money invested

Activity 2: Refurbishment of the neighbourhood.
Output 2: Square metres refurbished.
Contribution 2: Improved quality of life
Impact 2: 100%. If the remodelling had not taken place quality of life would not have improved. Additionally this improvement is net, that is, it is not at the cost of worsening conditions in another area.

Input: Money invested

Activity 2: Refurbishing the neighbourhood.
Output 2: Square metres refurbished.
Contribution 3: Improved opportunities for business investment
Impact 3: 100% for the same reasons as before.

Input: Money invested

Activity 2: Refurbishing the neighbourhood.
Output 2: Square metres refurbished.
Contribution 4: Focus of attraction for new residents
Impact 4: 100% the same reasons as above.

Materiality analysis: Impacts 3 and 4 are rejected because they are held to be implicit in impacts 1 and 2.

3. **Choice of indicators.** The indicator is the information that enables us to know if change has occurred or not. One indicator or more must be selected for each input. It is important to emphasise at this point that indicators must be for inputs, not outputs. Inputs are the most important measure of project profitability. It would be counter-productive to base decisions on outputs as what is being measured would not be the achievement of objectives but the realisation of activities. Indicators can be quantitative and qualitative.

<table>
<thead>
<tr>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution 1: Improved family well-being.</td>
</tr>
<tr>
<td>✓ Indicators</td>
</tr>
<tr>
<td>• Improved property quality.</td>
</tr>
<tr>
<td>Contribution 2: Improved quality of life</td>
</tr>
<tr>
<td>✓ Indicators</td>
</tr>
<tr>
<td>• Closer to schools.</td>
</tr>
<tr>
<td>• Improved access to shops.</td>
</tr>
</tbody>
</table>

4. **Identifying monetary values.** This stage in the process is also known as monetisation. Financial equivalents or proxies to those equivalents are established for the indicators defined in the previous stage. It is often possible to find a direct financial equivalent for an indicator but sometimes it is more difficult. In short it is a question of seeking indicators
that measure the indicator that has been linked to a specific contribution in monetary terms as reliably as possible.

<table>
<thead>
<tr>
<th>Example:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicator</td>
</tr>
<tr>
<td>✓ Improved property quality.</td>
</tr>
<tr>
<td>Indicator</td>
</tr>
<tr>
<td>✓ Closer to schools.</td>
</tr>
<tr>
<td>Indicator</td>
</tr>
<tr>
<td>✓ Improved access to shops.</td>
</tr>
</tbody>
</table>

5. **Calculating the value of the indicator at the current moment and estimating its value after project execution.** In this stage the estimated change in the proxies must be quantified. Most of the variables will have an impact that must be quantified in annual terms and will extend beyond one year. The temporary effect of the benefits must be taken into account.Net impact must also be quantified, that is, by subtracting from the indicator value the part that would have been obtained even if the project had not taken place and the part that has been achieved to the detriment of an affected third-party.

| Example: |
| Difference between the value of a property in the regenerated neighbourhood and the value of property in what is considered to be a “good” area in the city. The difference can be attributed to the moment immediately after project execution100% impact. |
| ✓ Shorter average travelling time multiplied by the price per hour in a minimum wage. Must be quantified as an annual rate,100% impact. ✓ Shorter average distance to school multiplied by the per kilometre cost of using a private vehicle. Must be quantified as an annual rate,100% impact. ✓ Difference between shops per inhabitant in a neighbourhood considered as “good” and the neighbourhood for the planned refurbishment multiplied by average sales per shop. Must be quantified as an annual rate,0% impact. More sales in the neighbourhood are at the expense of lower sales in other neighbourhoods ✓ Shorter average distance to the shopping centre multiplied by the per kilometre cost of using a private vehicle. Must be quantified as an annual rate,100% impact. ✓ Estimated reduction in the number of trips to the shopping centre multiplied by the average number of hours of each trip and cost per hour according to the minimum wage. Must be quantified as an annual rate,100% impact. |
Stage three: SROI determination

In this third and final stage project profitability is calculated and a sensitivity analysis carried out. Three steps are followed:

1. **Quantification of inputs.** Total investment in the project must be quantified. Projects that develop over several years must take into account the effect of time. Data on public investment will be relatively easy to obtain. Private investment will have to be estimated.

   **Example:**
   All the investment in the project by the Administration is quantified. To this amount is added an estimation of the cost incurred by private individuals in refurbishing their properties. Based on anticipated subsidies for refurbishment projects the number of square metres refurbished is obtained and multiplied by a cost estimate.

2. **Calculating the current value of the impacts.** When the costs have been quantified revenue in terms of current value must be quantified. Variables with a temporary impact require no transformation but those with an impact over years must be updated; that is, the number of years of estimated impact must be determined and the update rate.

   **Example:**
   - Market value of the property: Available in current value.
   - Shorter times and distances: current value is calculated assuming that the benefit is perpetual and with a discount rate equivalent to the risk-free interest rate.
   - As the impact on sales in the neighbourhood is null, this proxy is not taken into account.
   - No adjustments need to be made by impact because all the variables have a 100% impact.

3. **SROI calculation and sensitivity analysis.** SROI is determined immediately by dividing the current value of the benefits by the investment (both parameters calculated in the two previous stages). It would also be advisable to run a sensitivity analysis for the calculated measure against the different variables to provide a robust measure of profitability.

4. **FINAL CONSIDERATIONS**

The start-up of an integrated urban regeneration programme requires working with various projects and so an evaluation process is required to evaluate feasibility and organise execution by order of importance. It is therefore essential to have a standard valuation measure.

SROI is a measure of profitability traditionally used in the field of project evaluation (mainly developed by social enterprises) whose characteristics make it appropriate in the context of urban regeneration. Although the calculation process is not simple, the result enables comparison of projects and decision-making over execution.
From the perspective of financing, tackling an integrated urban regeneration project means that sufficient funds must be available in the appropriate time and manner for different actions. The main problem arises when the funds must be provided by public authorities whose current levels of debt make additional borrowing difficult. Imaginative solutions with market-based approaches are therefore required to fund urban development projects without altering the levels of public borrowing. One of the most notable initiatives, after the necessary amendments to the legislation, could be tax increment financing (TIF).

5.- BIBLIOGRAPHY