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Graham Russell

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University of Durham

Department of Economics and Finance

A Critical Analysis of Current  
Methods of Public Sector Project  
and Programme Evaluation in  
Regeneration

M.Phil in Economics

Graham Russell

2001

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23 APR 2002

***A Critical Analysis of Current Methods of Public Sector Project and Programme  
Evaluation in Regeneration***

*M.Phil in Economics*

*Graham Russell*

*Acknowledgement*

Some of the work presented in this thesis has already been published in the final national evaluation of the City Challenge Programme (Russell et al, 2000), which was commissioned by the Department of the Environment, Transport and the Regions (DETR). There were 31 City Challenge Partnerships, which ran in deprived urban areas between 1992 and 1998. Each Partnership was eligible to receive £37.5 million over five years and, including levered-in funds, Partnerships on average spent over £240 million in each of their target areas. The total programme cost was £1.14 billion.

The author wishes to acknowledge the contributions made by the other researchers who worked on the City Challenge evaluation as part of a team that he led. The author was personally responsible for the overall evaluation methodology, research approach and study management. He was the principal author, with editorial control of the final evaluation report and other outputs of the research. This thesis presents a framework that develops and extends that utilised in the City Challenge evaluation, building upon the lessons learnt through this major real world application.

# ***A Critical Analysis of Current Methods of Public Sector Project and Programme Evaluation in Regeneration***

*M.Phil in Economics*

*Graham Russell*

*Abstract*

This thesis presents a critique of public sector regeneration project and programme evaluation and develops an alternative and original evaluation framework. The framework has been successfully applied, in part, to a major national evaluation, demonstrating both its feasibility and significant added value.

An important priority for the UK Government is regenerating areas of concentrated deprivation. The thesis provides, in Chapter 2, a review of the inter-linked problems facing such areas. It goes on to consider the nature and characteristics of the regeneration policies and programmes that have been developed to tackle these problems - noting their complex and multi-domain nature.

The thesis demonstrates, in Chapter 3, that the public sector intervenes in the allocation of resources to secure certain societal objectives including, in particular, economic efficiency and equity. The thesis argues that regeneration programmes will often seek to meet a number of these objectives to varying degrees.

If the public sector is to ensure that net social benefits of regeneration are maximised effective evaluation is critical. The thesis shows that the evaluation of regeneration programmes is extremely complex. It proposes in Chapter 4, a typology of evaluation methodologies and techniques. The thesis reviews current guidance on evaluations and identifies a number of key issues.

The thesis presents a critique of various, recent evaluations of regeneration programmes and identifies significant weaknesses in them and their coverage of the key evaluation issues. It argues that complex regeneration programmes need a multi-faceted framework to evaluate them. The approach proposed is novel and combines multi-criteria value for money, cost benefit account and what works analyses, using both macro (top-down) and micro (bottom-up) approaches.

Overall, the thesis sets out the results of distinctive and original research into the evaluation of regeneration projects and programmes. The alternative framework proposed represents a significant improvement on past practice.

## **Declaration**

I confirm that no part of the material offered has previously been submitted by me for a degree in this or in any other University. If material has been generated through joint work, my independent contribution has been clearly indicated. In all other cases material from the work of others has been acknowledged and quotations and paraphrases suitably indicated.

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***A Critical Analysis of Current Methods of Public Sector Project and Programme  
Evaluation in Regeneration***

*M. Phil in Economics*

*Graham Russell*

**Preface**

The alternative evaluation framework developed in this thesis has been in part successfully applied as part of the final national evaluation of the City Challenge Programme (see, Russell et al, 2000). There were 31 City Challenge Partnerships, which ran in deprived urban areas between 1992 and 1998. Each Partnership was eligible to for £37.5 million over five years and, including levered-in funds, Partnerships on average spent over £240 million in each of their target areas. The total programme cost was £1.14 billion. The Department of the Environment, Transport and the Regions (DETR) commissioned the final evaluation. This thesis presents a framework that develops and extends that utilised in the City Challenge evaluation, building upon the lessons learnt through this major real world application.

## Contents

<b>1</b>	<b>Introduction</b>	<b>1</b>
1.1	Overview	1
1.2	Objectives	2
1.3	Method of approach	2
1.4	Assumptions	4
1.5	Structure of the thesis	6
<b>2</b>	<b>Regeneration Programmes in the UK</b>	<b>7</b>
2.1	Introduction	7
2.2	The nature of the problem	7
2.3	Regeneration Policies in the UK	13
2.4	Characteristics of recent regeneration programmes in England	23
2.5	Summary	32
<b>3</b>	<b>Conceptual Framework – the Rationale and Objectives for Public Sector Intervention</b>	<b>34</b>
3.1	Introduction	34
3.2	Social Objectives – the rationale for public sector intervention	34
3.3	Market Failures	50
3.4	Forms of public sector intervention	51
3.5	Government failure	52
3.6	Decision making in the public sector	54
3.7	Implications for evaluations	56
<b>4</b>	<b>Evaluation methodologies, approaches and guidance in Regeneration</b>	<b>58</b>
4.1	Introduction	58
4.2	Evaluation Methodologies and techniques	58
4.3	Public sector guidance	73
4.4	Conclusion	90
<b>5</b>	<b>Key Evaluation issues</b>	<b>91</b>
5.1	Introduction	91
5.2	Rationale	91
5.3	Contextual conditions	91

5.4	Aims and objectives	92
5.5	Costs and benefits	93
5.6	Additionality	99
5.7	Economic efficiency and distributional effects	106
5.8	Administrative efficiency	107
5.9	Overall evaluation of programme	107
5.10	Policy lessons and dissemination	108
5.11	Research Methods	108
5.12	Conclusion	112
<b>6</b>	<b>The Benefits of Regeneration Programmes and Projects</b>	<b>114</b>
6.1	Introduction	114
6.2	Benefits of Regeneration Projects	114
<b>7</b>	<b>A Critical Review of Recent Evaluations</b>	<b>133</b>
7.1	Introduction	133
7.2	Rationale	136
7.3	Contextual Conditions	140
7.4	Aims and Objectives	141
7.5	Costs and benefits	145
7.6	Additionality	150
7.7	Economic efficiency (market impacts) and distributional (equity) effects	152
7.8	Administrative efficiency	153
7.9	Overall evaluation	154
7.10	Policy Lessons	158
7.11	Research methods and evaluation approaches	160
7.12	Conclusion	162
<b>8</b>	<b>An Alternative Evaluation Framework</b>	<b>165</b>
8.1	Introduction	165
8.2	The alternative evaluation framework	166
8.3	Cost benefit account framework	170
8.4	Multi-criteria value for money	181
8.5	What works, how and why?	201
8.6	Reporting and dissemination	208
8.7	Conclusion	209
<b>9</b>	<b>Conclusions and Recommendations</b>	<b>210</b>

## *Index of tables and illustration*

<i>Table no.</i>	<i>Title</i>	<i>Page no.</i>
Table 1:	Index of Local Deprivation 1998	11
Table 2:	Ward level unemployment in Newcastle Upon Tyne October 1999 (3 highest and lowest wards)	12
Table 3:	DETR expenditure on regeneration 1994 - 95 to 1997 – 98 (planned)	15
Table 4:	Advantages and disadvantages of competitive bidding process for regeneration resources	26
Table 5:	Aaronovichs evaluation typology	69-71
Table 6:	Assessing additionality of outcomes by project type	105
Table 7:	Outputs and outcomes assessed	146-148
Table 8:	Costs benefit account for six case study TECs (after national displacement but before taking account of crowding out effects)	157
Table 9:	Estates Action – Value for Money (VFM) Framework	158
Table 10:	Research methods used in the evaluations reviewed	160
Table 11:	Evaluation frameworks used in the evaluations reviewed	161
Table 12:	FTE Scalers	172
Table 13:	Employment leakage rates	173
Table 14:	Displacement / substitution rates	173
Table 15:	Deadweight by project type	174
Table 16:	Gross and net outputs of the City Challenge Programme	175
Table 17:	Regeneration value of net outputs (£million)	176
Table 18:	Multi-criteria weighting and scoring analysis of City Challenge	179
Table 19:	City Challenge: A summary costs benefit account	180
Table 20:	Achievement of programme aims	182-183
Table 21:	Resident’s survey results – “Overall, how satisfied or dissatisfied are you with living in this area”.	184

<i>Table no.</i>	<i>Title</i>	<i>Page no.</i>
Table 22:	Resident’s survey results – “Would you say this area has improved, got worse or stayed about the same during the last five years?”	184
Table 23:	Cost effectiveness of selected outputs	190
Table 24:	Gross additional outputs / outcomes per £50,000 and £20,000 of public sector expenditure	191
Table 25:	Cost effectiveness – benchmarking a basket of City Challenge outputs and outcomes	193
Table 26:	Overall private and public sector leverage by City Challenge (real terms)	194
Table 27:	Variation between actual and budget – City Challenge Programme expenditure (cash terms)	197
Table 28:	Overall Value for Money assessment – Stage 1	200
Table 29:	Overall Value For Money assessment – Stage 2	200
Table 30:	Overall Value for Money assessment – combined score	201
Table 31:	Factors influencing performance	201
Table 32:	Relative change in host local authority areas compared to the English average	204
Table E1:	Addressing the key evaluation issues	255
Table G1:	Rochdale Canal restoration project – cost benefit analysis (30 year appraisal period)	268

<i>Figure no.</i>	<i>Title</i>	<i>Page no.</i>
Figure 1:	Approach	3
Figure 2:	Securing self-sustaining regeneration	24
Figure 3:	Total social costs and benefits	36
Figure 4:	Marginal social costs and benefits	37
Figure 5:	Utility possibilities curve	42
Figure 6:	Utility possibilities schedule and Pareto improvements	45
Figure 7:	Community Equilibrium	46

Figure 8:	Change in price and the equilibrium	46
Figure 9:	Influences on public programme design	54
Figure 10:	Evaluation approaches typology	61
Figure 11:	A composite typology	72
Figure 12:	Policy making cycle	81
Figure 13:	Key evaluation issues	87
Figure 14:	Assessing additionality	101
Figure 15:	Assessing additionality (micro) - business support leakage, deadweight, displacement, substitution and multiplier effects	102
Figure 16:	Net additionality analytical framework	104
Figure 17:	Methodological framework	167
Figure 18:	Cost benefit account framework	170
Figure E1:	Approach to evaluation	254

## *Appendices*

	<i>Page no</i>
Appendix A: A Review of Regeneration Programmes in the UK	214
Appendix B: The Causes of Market Failures	228
Appendix C: Review of Data Sets	233
Appendix D: Cost Benefit Analysis	247
Appendix E: Implementing the Alternative Evaluation Framework	253
Appendix F: Assessing Additionality – A Worked Illustrative Example	261
Appendix G: An Example of a CBA Analysis of a Regeneration Project	267
Appendix H: Using Hedonic Pricing to Assess a Regeneration Project	271

# 1 Introduction

## 1.1 Overview

This thesis presents a critique of public sector project and programme evaluation in the field of regeneration and develops a new alternative evaluation framework. This framework has, in part, been successfully applied to the evaluation of a major national regeneration programme – the £1.14 billion City Challenge Programme (see Russell et al, 2000).

It examines the rationale and objectives for public sector intervention in the market, drawing upon the theories of welfare economics to provide the conceptual framework for the thesis. The key methodological and research issues, which must be addressed in order to undertake a rigorous evaluation, are assessed and public sector guidance on evaluations is reviewed. Next the costs and benefits of regeneration programmes and projects are considered. Following a critical review of various recent evaluations an alternative evaluation framework is proposed.

Regeneration is the process of improving the physical, economic and social characteristics of a given geographical area<sup>1</sup>. As such it is concerned with the welfare maximisation of a spatially defined population. A regeneration project is a discrete, one-off form of activity or expenditure, while a programme is a given policy intervention, which usually involves public expenditure. A regeneration programme will normally be composed of a package of projects, covering policy areas or domains, such as, employment, education, health, transport, training, housing, community, leisure, community safety and crime reduction.

*Evaluation* - or the systematic examination of past decisions in order to learn from them and improve future activities - is essential to improve the effectiveness and efficiency of public sector interventions. Evaluations can be interim, ongoing or final. Interim evaluations are concerned primarily with the process of implementation and, in particular, the extent to which process objectives have been met. On-going evaluations comprise a programme of research that is conducted throughout the life of a project or programme. They will include process and wider impact assessments. A final evaluation is undertaken after the project or programme is finished and the extent to which its wider objectives have been efficiently achieved is assessed. This thesis is concerned primarily

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<sup>1</sup> H. M. Treasury (January 1995) A Framework For the Evaluation of Regeneration Projects and Programmes



with on-going and final evaluations, although many of the issues and approaches discussed will be similar for interim evaluations.

The *ex-ante appraisal* of projects or programmes - comprising the definition of objectives, examination of options, analysis of costs and benefits and risks and uncertainties *before* a decision is made - is outside of the scope of the research. However, since the issues and approaches are similar for both, much of the alternative framework presented below is also of relevance to those undertaking appraisals.

The thesis is not just a review and critique. An alternative framework has been developed in order to address recognised weaknesses and difficulties in the evaluation of regeneration programmes, which have multiple objectives and a variety of disparate types of intervention. New approaches are proposed to undertaking evaluations that are well founded in economic theory and can and have been applied in the real world. As such the thesis contains a *significant amount of original content*.

## 1.2 Objectives

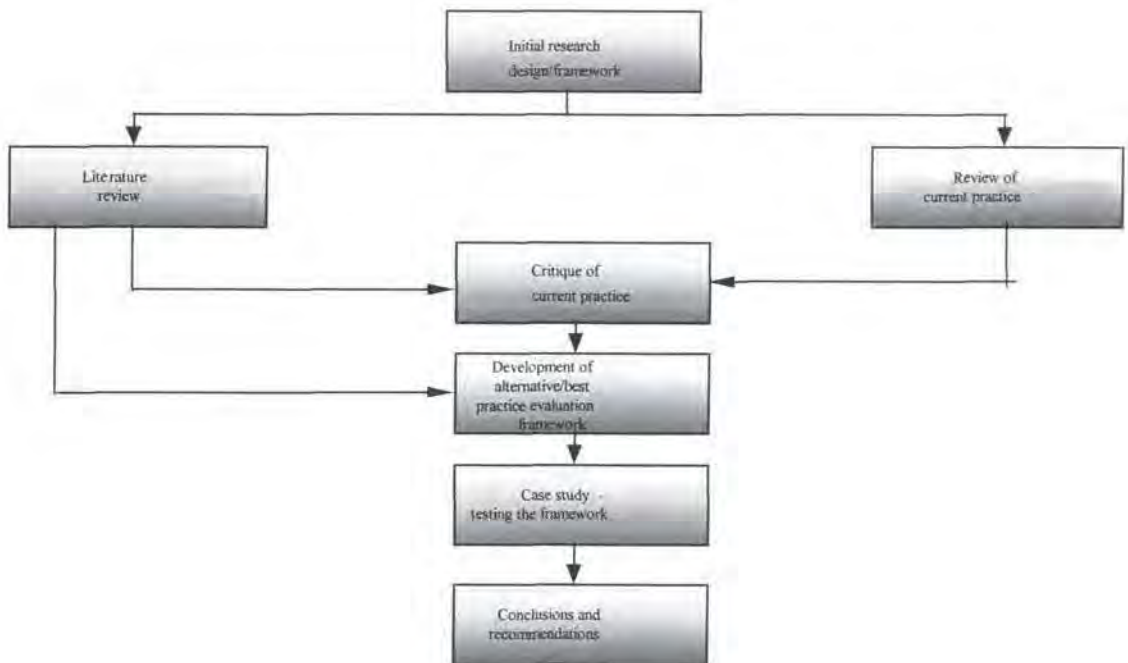
The objectives of the research are as follows:

- to review the theoretical underpinnings of project and programme evaluation;
- to critically review current practice in public sector project and programme evaluation in regeneration;
- to examine the rigor, robustness, validity and value of alternative approaches to the evaluations of regeneration projects and programmes through a critical appraisal of recent evaluations; and
- to define an alternative evaluation framework and make recommendations as to good practice.

## 1.3 Method of approach

The approach adopted for the research is illustrated diagrammatically in Figure 1 and then discussed further below.

Figure 1 : Approach



The research has been subdivided into five main stages, as follows:

(i) *Stage 1 – Literature review*

A broad range of publications has been reviewed in order to establish the theoretical and methodological, as well as the public sector policy, context to the thesis. The literature review has therefore included texts concerning welfare economics and cost benefit analysis, along with books and journal articles covering specific regeneration projects and programmes.

(ii) *Stage 2 – Review of current guidance*

The current guidance on evaluation published by H. M. Treasury, other Government Departments and the European Commission has also been critically reviewed.

(iii) *Stage 3 – Critique of recent evaluations*

A number of recent evaluations commissioned by Government Departments and other agencies have been assessed. In particular, consideration has been given to the approach adopted and the ways in which each has addressed a range of evaluation issues.

(iv) *Stage 4 – Development of an alternative evaluation framework*

An initial version of the alternative evaluation framework has been applied to the evaluation of the City Challenge Programme.

(v) *Stage 5 – Conclusions and recommendations*

The overall validity and value of the alternative evaluation framework has been considered and recommendations made as to future good practice.

The main data sources utilised in the research include:

- academic literature and journals;
- Government publications - such as *Appraisal and Evaluation in Central Government* (known as the “Green Book”)<sup>2</sup>;
- published and unpublished evaluation reports;
- secondary source statistics - including data from the Census of Population, Census of Employment and the Labour Force Survey;
- primary survey and interview data collected as part of the final evaluation of City Challenge; and
- information and views derived from a number of discussions with policy makers and evaluators.

## 1.4 Assumptions

The subsequent Chapters present a detailed discussion of the particular paradigm within which the thesis has been developed and the alternative evaluation framework

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<sup>2</sup> H.M. Treasury (1997), *Appraisal and Evaluation in Central Government*, London; The Stationery Office

formulated. However, in order to assist the reader and to define the scope of the research, the key assumptions upon which the thesis is predicated are set out below:

- the public sectors' rationale for intervening in the market is principally based upon two objectives - economic efficiency (welfare maximisation) and equity. There is normally a trade-off between these. However, other objectives, such as consumer choice and a sense of community, can also be important (refer to Chapter 3 below);
- within a representative democracy a range of factors and groups will impact upon public sector policy decisions. Since an individual's preferences are rarely revealed in relation to specific issues or policies, determining aggregate preferences is extremely difficult;
- decisions over the allocation of resources between policy areas are normally made on imperfect information and influenced by pressure groups and sectional interests. There is often a conflict between a need-based allocation, founded on an equity argument, and one which is concerned to maximise economic efficiency;
- regeneration is one area where resources will be deployed – the rationale for doing so is normally based upon both equity and efficiency arguments. However, in most cases equity will be the principal objective. Following the Labour Government's first Comprehensive Spending Review (CSR) it was announced in July 1998 that an additional £1 billion was to be allocated to regeneration programmes over the next three years (see Chapter 2 below); and
- evaluation can play an important role in the design and development of new policies - helping to ensure that past mistakes are not repeated and that good practice lessons are learnt.

The thesis assesses how ex-post evaluation can be best used to optimise decisions over the scale and nature of future regeneration activity. It **does not** seek to establish an alternative basis upon which public resources should be allocated between national policy areas, such as defence, health, education and regeneration. However, since regeneration involves a wide range of public sector interventions, regeneration policy makers and practitioners are, in effect, having to make decisions about the allocation of resources across a number of policy domains, albeit within small geographical areas.

## **1.5 Structure of the thesis**

The thesis continues in eight Chapters as follows:

- Chapter 2 - reviews the nature and characteristics of regeneration policies and programmes in the UK;
- Chapter 3 - considers the rationale and objectives for public sector intervention and the role of evaluation in helping to ensure that society's objectives are met. It identifies a series of factors that should form the basis of any evaluation of public sector intervention;
- Chapter 4 - presents a typology of evaluation methodologies and approaches and critically reviews the current public sector guidance on evaluation and different evaluation approaches;
- Chapter 5 highlights the key methodological issues associated with the evaluation of regeneration programmes. In addition, a brief review of relevant research methods is set out;
- Chapter 6 - considers the range of benefits associated with regeneration projects and programmes;
- Chapter 7 - critically reviews a number of recent evaluations;
- Chapter 8 - sets out an alternative evaluation framework and presents its application to the final evaluation of the City Challenge Programme. However, it is important to stress that the focus of this thesis is not on the specific output, value for money and other calculations, but on the conceptual evaluation framework; and
- Chapter 9 - details the conclusions and implications of the research.

## 2 Regeneration Programmes in the UK

### 2.1 Introduction

This Chapter reviews recent regeneration policies and programmes in the UK. It highlights their evolution over the last twenty years and considers in more detail the characteristics of recent programmes.

The policy of targeting resources at specific geographical areas in order to regenerate them raises a number of significant questions, which although outside of the scope of this thesis are important to bear in mind. Fundamentally, the rationale for concentrating effort on a spatial area, rather than disadvantaged individuals, can be questioned. Whilst it is evident from socio-economic information, such as unemployment and means tested benefits data, that there are concentrations of such individuals in specific neighbourhoods, there are many who are not in such areas. However, there are arguments that such neighbourhoods lack, for example, access to many of the facilities and services which are more generally available elsewhere and that they do not have positive role models and thus there are few positive demonstration effects. It is not the purpose of this thesis to address these issues. It is therefore taken as a given that regeneration programmes exist and will continue to do so for the foreseeable future.

### 2.2 The nature of the problem

The priority for current regeneration programmes, such as the Single Regeneration Budget (SRB) and New Deal for Communities (NDC), is to enhance the quality of life of local people in areas of need by reducing the gap between deprived and other areas, and between different groups. The Department of the Environment, Transport and the Regions (DETR) Annual Report (1999) states that "*the Government believes that regenerating our communities adds to our well-being, as lasting improvements help balance our social, environmental and economic life*".

Gaffickin and Morrissey (1994a, 1994b) found that there has been a larger recent growth in poverty in the UK than in any other European Union member state, and a faster rate of growth in inequality than in any other industrialised country with the exception of New Zealand. As a result UK governments have accorded significant importance to regeneration programmes.

More recently, the term social exclusion has been used to define what happens when people or areas suffer from a combination of linked problems such as unemployment, poor skills, low incomes, poor housing, high crime environments, bad health, poverty and family breakdown. The Labour government has identified tackling social exclusion as one of its highest priorities. It set up the Social Exclusion Unit (SEU) in December 1997, with the remit to help improve government action to reduce social exclusion by producing 'joined up solutions to joined up problems'. The principle of the Unit is not to cover issues that are dealt with by one government department, or duplicate work being done elsewhere.

The Social Exclusion Unit's (1998) report *Bringing Britain together: a national strategy for neighbourhood renewal* states that "*Over the last generation, this has become a more divided Country. While most areas have benefited from rising living standards, the poorest neighbourhoods have tended to become more rundown, more prone to crime, and more cut off from the labour market*".

Social exclusion is though a contested concept. It implies a potentially inclusive and cohesive society, which is at odds with reality, and oversimplifies the polarisation between included and excluded (Levitas 1996). However, it has provided what might be termed an alliance concept bringing together a range of organisations and professionals to attempt to tackle poverty and disadvantage in a more comprehensive and co-ordinated way. Moreover, it is a recognition of the complexity and inter-related nature of the problems.

Defining a regeneration area is difficult, as a result of practical and conceptual problems, and perceptions differ as to what constitutes such an area. Deprivation or social exclusion can be very difficult to measure – it may be both absolute and relative. If relative deprivation is being assessed then the scale and intensity of deprivation will vary depending upon the comparator area and over time. Typically, regeneration areas will though be characterised by a number of inter-linked problems, including:

- *High levels of unemployment* – for example, the Tranmere/Rock Ferry Objective One Pathways<sup>3</sup> area in Merseyside had an unemployment rate of 24.3% in January 2000, compared with 9.5% for Wirral Metropolitan Borough as a whole;

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<sup>3</sup> Pathways areas are defined as those areas in the Merseyside Objective 1 region containing the highest level of deprivation, based upon a number of indicators.

- *Low levels of educational attainment* – In the Thatto Heath Queens Pathways area in St Helens baseline indicator data collated in 2000 showed that only 6% of pupils secured five or more General Certificate of Secondary Education (GCSEs) passes at grades A-C. The overall rate for St Helens was 43.3%
- *Ethnic minority disadvantage* – the unemployment rate for black under 25 years old men in Deptford City Challenge area was twice the rate recorded for white men under 25 years old;
- *Uncompetitive industries and businesses* – regeneration areas are often characterised by local economies that have suffered from long-term decline in traditional industries and more general dis-investment. Those firms that remain often lack any significant competitive advantage. In the case of the North Tyneside City Challenge area, for example, a large proportion of the firms served predominantly local markets and had a narrow local supply base;
- *Low household incomes* – the mean income in the Noctorum Pathways area in 1998 was £11,600, compared with £19,700 for the Wirral overall.
- *High levels of dependency on means tested benefits* - in parts of the Deptford City Challenge area 45% of households were receiving Income Support, compared to 11% of the Greater London population in 1989/90. In the Bootle/Seaforth Pathways area 60% of 5 – 14 year olds received free-school meals, compared with a 26.7% average for Sefton.
- *Poor and often deteriorating physical environment* – a survey of vacant sites and premises in the Bootle City Challenge area in October 1993 recorded 46 vacant sites and 110 vacant properties. The under-use and disuse of land and property was a substantial problem, which was further compounded by the serious contamination of land as a result of previous industrial uses;
- *Poor condition of the housing stock and low levels of demand* – much of the housing stock within the City Challenge areas was in a poor condition with various problems, such as, poor insulation, heating, energy efficiency, security and access, as well as overcrowding and a lack of basic amenities. At the extreme, dwellings were classified as unfit. For example, Tipton Green in Tipton City Challenge was estimated to contain 815 unfit private dwellings in 1993. As well as the housing

stock being in a poor, and often deteriorating condition, demand for properties was low in many cases;

- *Poor health* – the Standardised Mortality Ratios were 32% higher than the national average for the Bolton City Challenge area;
- *High levels of crime* – in the Deptford City Challenge area, rates of recorded property crime in 1990 were almost 40% above rates for the Metropolitan Police area as a whole. For the same period, rates of recorded violent crime were twice those for the metropolitan area. In 1998/99 there were 213 reported incidents of criminal damage per 1,000 properties in the Duke Street/Cornwallis Pathways area in Liverpool, compared with 55.6 for the City as a whole.
- *High levels of drug abuse* - for example, in Bootle City Challenge the local drugs outreach centre recorded a drug use rate per 1,000 residents of 7.4 in the Bootle area compared with 2 per 1,000 in neighbouring areas.

In an attempt to better define deprivation the DETR commissioned the Centre for Urban Policy Studies in the University of Manchester to produce an Index of Local Conditions, which mainly used data from the 1991 Census of Population. Thirteen indicators from a range of domains of deprivation were combined into a single deprivation score for each local authority district. The Index was produced at three spatial levels – local authority districts, wards and Census Enumeration Districts. An updated index was published in June 1998 (called the Index of Local Deprivation). Table 1 below shows the five most deprived local authority areas, based upon the 1998 Index of Local Deprivation. In order to ensure that areas which had severe pockets of deprivation, rather than deprivation spread across the whole district, were identified, four measures were used as follows: the degree or district level<sup>4</sup>; the ED extent<sup>5</sup>; the ward intensity<sup>6</sup>; and the ward-extent<sup>7</sup>.

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<sup>4</sup> Measures deprivation across the whole district and is based on 12 indicators mainly updated to 1996.

<sup>5</sup> The proportion of enumeration districts in each local authority which fall within the most deprived 7% of EDs in England, based on 5 indicators from the 1991 Census of Population.

<sup>6</sup> The average score of the 3 worst wards in each local authority, based on 6 indicators from the 1991 Census of Population.

<sup>7</sup> The proportion of the local authority population that are within the 10% most deprived wards in England, based on 6 indicators from the 1991 Census of Population.

Local Authority District	Degree rank	ED Extent (rank)	Ward Intensity (rank)	Ward Extent (rank)
Liverpool	1	6	2	11
Newham	2	3	10	2
Manchester	3	8	4	8
Hackney	4	1	8	1
Birmingham	5	11	1	15

The Government indicated that 80% of new Single Regeneration Budget (SRB) monies between 1999/2000 and 2001/2002 would go to fund large comprehensive schemes in the most deprived areas (refer to Section 2.3.2 below). The most deprived areas were taken to be the local authority district areas included in the top 50 on one or more of the four measures of deprivation in the Index of Local Deprivation. Therefore, need - as defined by the Index - was being used as an initial basis for spatially allocating regeneration resources. Partnerships from within these areas still needed to submit proposals, which were appraised prior to an offer of funding.

A revised Index was published in August 2000. The DETR's 2000 Index of Multiple Deprivation includes six summary measures, which describe differences between districts. The summary measures focus on different aspects of multiple deprivation in the area. There were 354 local authority districts in England as of April 1999. For each measure each district is given a rank and score. A rank of 1 indicates that the district is the most deprived according to the measure and 354 is the least deprived. The six measures are as follows:

- Local Concentration is the population weighted average of the ranks of a district's most deprived wards that contain exactly 10% of the district's population.
- Extent is the proportion of a district's population living in the wards which rank within the most deprived 10% of wards in the country.
- Income Scale is the number of people who are Income Deprived.
- Employment Scale is the number of people who are Employment Deprived.
- Average of Ward Ranks is the population weighted average of the combined ranks for the wards in a district.

- Average of Ward Scores is the population weighted average of the combined scores for the wards in a district.

This Index is not directly comparable with the previous two and as such it is not possible to track longitudinal changes.

The types of areas that exhibit some, or all, of the characteristics of deprivation or social exclusion vary considerably. They include inner city areas, peripheral housing estates, parts of free-standing towns and remote rural villages. Much of the policy response has concentrated on urban areas and the inner cities in particular, which in most cases have had the worst levels of economic, social and physical deprivation.

Areas of high deprivation exist in close proximity to areas of affluence. The problem of the substantial variation in conditions within a relatively small geographical area is highlighted by ward level unemployment rates for Newcastle Upon Tyne (see Table 2); the rate in the West City ward in October 1999 being in excess of ten times greater than that in Westerhope ward.

Ward	Male (%)	Female (%)	Persons (%)
West City	27.8	9.8	20.8
Walker	21.5	6.4	15.3
Elswick	21.9	5.5	15.1
Newcastle average	9.9	3.1	6.9
Tyne and Wear average	9.5	3.0	6.7
Castle	3.4	1.2	2.4
South Gosforth	3.0	1.7	2.4
Westerhope	3.0	1.2	2.2

Source: Tyne and Wear Research and Information (TWRI) – October 1999, Claimant Unemployment rates, TWRI mid-1997 residence base denominator

The SEU (1998) notes that *“The failure to get to grips with the problem of the poorest neighbourhoods represents a costly policy failure...We are all paying for this failure, whether through the direct costs of benefits and crime, or the indirect costs of social division and low achievement”*.

## 2.3 Regeneration Policies in the UK

### 2.3.1 *The evolution of regeneration policy over the last two decades*

The policy response to local pockets of deprivation has evolved considerably over the last two decades. The 'physically focused' or property-led programmes of the 1980s were replaced in the 1990s by more 'people orientated' or community-based programmes. Appendix A presents a review of regeneration programmes over the last two decades, which highlights the diversity and complexity of often overlapping initiatives.

Policy makers have recognised that the physical transformation of declining urban areas is only part of the wider process of regeneration. The emphasis on property-led regeneration during the 1980's was based upon a simplistic, physical determinist view, which tended to eschew a more complex economic and social analysis of urban problems in favour of a narrow range of physical explanations and solutions (Atkinson and Moon, 1994). Shaw and Robinson (1998) note that since physical regeneration has been relatively easy to achieve, its 'success', may have 'crowded out' effective consideration of more difficult issues concerning how to secure lasting regeneration. Turok (1992) argues that the transformation of the physical environment is really only one part, and a necessarily limited part, of a much wider (holistic) process of regeneration.

The 1977 White Paper entitled Policy for the Inner Cities (Cm. 6845) emphasised the need for an integrated or holistic approach. However, between the late 1970's and early 1990's urban policy initiatives were developed in a relatively random and ad hoc manner (Shaw and Robinson, 1998). More recently, there has been a greater emphasis on a strategic approach, with a willingness to pursue policies that work rather than those that fit with ideological considerations.

In the early 1990's the government was funding regeneration activities through about thirty programmes under the umbrella of the Action for Cities programme. Six central government departments and various agencies and local organisations were also involved.

Amongst the government departments the Department of the Environment (DoE), now the DETR, had one of the most extensive programmes. This included property-led programmes such as the Urban Development Corporations (UDCs), Enterprise Zones, Derelict Land Grant and Estates Action. It was also responsible for the Urban

Programme, which had been established in 1969, and had the principle aim of rebuilding confidence and encouraging investment in urban areas. In 1991 the DoE launched the City Challenge Programme with the aim of transforming specific run-down inner city areas and improving significantly the quality of life of local residents. It promoted a comprehensive and partnership-based approach to regeneration.

The then Department of Employment, was also heavily represented. Its programmes included Job Clubs, the Enterprise Allowance Scheme, Compacts and Headstart. The Home Office promoted the Safer Cities Initiative and assistance under Section 11. The Department of Trade and Industry provided Regional Selective Assistance as part of Regional Policy. In addition, the then Department of Education supported City Technology Colleges and Inner City Open Learning Centres.

DETR expenditure on regeneration measures in 1996-97 amounted to an estimated £1.4 billion. Table 3 overleaf sets out DETR expenditure on regeneration between 1994-95 and 1997-98. It shows the wide range of programmes which were being funded to secure local regeneration. In addition, other government departments, such as the Department for Education and Employment, were also incurring substantial expenditure on area-based and regeneration programmes.

Table 3: DETR expenditure on regeneration 1994-95 to 1997-98 (planned) (£ millions)				
	1994-95 outturn	1996-96outturn	1996-97 est outturn	1997-98 plans
<b>Single Regeneration Budget</b>				
UDC <sup>1</sup>	258.0	217.9	193.8	168.0
Docklands Light Railway	29.1	37.1	20.7	33.9
English Partnerships (URA) <sup>2</sup>	191.7	211.1	229.6	209.6
Housing Action Trusts	92.0	92.5	87.8	88.7
Challenge Fund		136.4	264.9	481.6
Estate Action	372.6	315.9	256.7	169.9
City Challenge <sup>3</sup>	233.6	226.8	230.1	143.0
<b>Other SRB<sup>4</sup></b>				
Urban Programme	67.8	)	)	)
Task Forces	15.7	)	)	)
Business start-up scheme	63.8	)	)	)
Local Initiative Fund	34.5	)	)	)
Compacts	5.2	)	)	)
Teacher Placement	3.3	)	)	)
Education Business Partnerships	2.5	)	)	)
TEC Challenge	3.5	)	)	)
Programme Development Fund	3.1	) 117.9	) 65.5	) 21.2
Regional Enterprise Grants	11.8	)	)	)
Section 11 (part)	65.3	)	)	)
Ethnic Minorities Grant	5.7	)	)	)
Safer Cities	1.9	)	)	)
Ethnic Minority Business Initiative	0.6	)	)	)
GEST 19	4.2	)	)	)
City Action Teams	0.2	)	)	)
CFERS <sup>5</sup>	-7.8	)	)	)
<b>Total SRB</b>	<b>1,458.2</b>	<b>1,355.5</b>	<b>1,348.9</b>	<b>1,315.5</b>
<b>Other Regeneration</b>				
Manchester Regeneration	30.2	1.6	-	-
Coalfield Areas Fund	2.0	0.4	-	-
European Structural Funds	159.4	112.0	189.6	150.8
New Towns	-135.3	-125.0	-100.0	-105.0
Special Grants Programme	1.2	1.2	1.0	1.3
Local Investment Fund	1.0	-	-	-
Urban Development Grant	0.1	-	-	-
Publicity	0.3	0.3	0.3	0.3
Dearne Valley	0.8	0.8	0.8	0.3
Groundwork <sup>6</sup>	5.9	6.2	6.9	6.7
Manchester Bomb Fund			0.2	
CFERS <sup>5</sup>	0	0	-6.0	0
<b>Total Regeneration</b>	<b>1,517.0</b>	<b>1,347.7</b>	<b>1,434.9</b>	<b>1,369.9</b>

1 All Urban Development Corporations (UDCs) due to wind-up by March 1998 as they complete their work. Leeds, Bristol and Central Manchester UDCs wound up on 31 March 1995, 31 December 1995 and 31 March 1996 respectively. Figures include payments made by the Department in respect of UDC liabilities after wind-up.

2 English Partnerships figures prior to 1994-95 include spending on City Grant, Derelict Land Grant and English Estates and associated administration costs.

3 City Challenge figures include a contribution from the Housing Corporation.

4 From 1995-96 total includes aggregated continuing commitments from the programme brought together in the SRB

5 Consolidated Fund Extra Receipts

6 Groundwork was moved to Regeneration from the Countryside and Wildlife Division as of 1997-98. Therefore, figures before 1996-97 do not contribute to the total line

Source: DETR (1998) and The Government Expenditure Plans 1997-98 to 1999-2000 (Department of the Environment)

Whilst there have been many initiatives aimed at tackling the problems of poor neighbourhoods from the 1960s onwards, the SEU (1998) argues that none has really succeeded in setting in motion a virtuous circle of regeneration<sup>8</sup>. The Audit Commission (1989) termed the disparate array of initiatives that developed during the late 1970s and 1980s as “*programme overkill in a strategic vacuum*”. Lawless (1996) notes that inner city policy has given academics, politicians and policy makers a great deal to write about, to discuss and to do; but it does not seem to have done a great deal of good.

Regenerating people, rather than just places, is difficult to achieve. Shaw and Robinson (1998) have noted that the possibility of informed debate and development of clear strategies over the period from the late 1970’s to the mid 1990’s was frustrated by the absence of detailed evaluations. Metcalf (1993) argued that “*conventional political processes often block learning because ideology over-rides evidence or vested interests resist policy evaluation and change*”. It was not until 1994 (Robson et al, 1994) that wide ranging research on the overall impact of the post 1979 ‘patchwork quilt’ of urban policies emerged.

### **2.3.2 Recent policy developments**

#### ***(i) Introduction***

A significant number of changes to existing programmes and new initiatives to tackle social exclusion were introduced by the Labour Government, which was elected in 1997.

#### ***(ii) Comprehensive Spending Review 1998***

Following the 1998 Comprehensive Spending Review (CSR), it was announced in July 1998 that an additional £3.3 billion would be made available for housing and construction and £1.0 billion for regeneration programmes over the next three years. The aim of the CSR was to increase sustainable growth and employment, to promote fairness and opportunity, and to modernise public services. The additional funds were only available for investment in reform and it was a requirement that they were spent efficiently and effectively.

The complex issues involved in tackling social exclusion were identified by the Government as reinforcing the need for effective co-ordination of regeneration activity at both central and local government levels. SRB partnerships were highlighted as effective at working horizontally across traditional departmental boundaries demonstrating the

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<sup>8</sup> Further details of the nature and characteristics of the main regeneration programmes since the late 1960s are summarised in Appendix A.

impact that can be achieved through synergies with other spending programmes and through leverage of private investment. The CSR concluded that new regeneration funding should continue to be channelled via integrated local partnerships working in cross-cutting ways.

***(iii) Single Regeneration Budget (SRB)***

The SRB provides resources to support regeneration initiatives in England carried out by local regeneration partnerships. Under Rounds 1 – 5 over 750 schemes were approved, worth over £4.4 billion in SRB support over their lifetime of up to 7 years.

The Round 6 bidding guidance (DETR 1999) noted that the SRB supports initiatives that build upon best practice and represent good value for money.

The SRB is administered at the regional level by the Regional Development Agencies (see below), but is managed locally by SRB Partnerships. The SRB partnerships are expected to involve a diverse range of local organisations, including local businesses, the voluntary sector and the local community, in the management of their schemes.

Like SRB Round 5 a two tier funding approach was retained under Round 6. 80% of new resources were allocated to the most deprived areas, to support large comprehensive schemes. As noted above the definition of the most deprived areas was based upon the Index of Local Deprivation. The new larger funding packages in these areas was to provide the 'critical mass' of activity that the Regeneration spending review concluded was necessary to make a real and sustainable difference in the most deprived areas.

The remaining 20% of SRB resources were to fund schemes tackling smaller pockets of need outside the most deprived areas. These included schemes in rural areas, and the former coalfield areas and coastal towns not included in the Index of deprivation.

The re-launched SRB included a new emphasis on building the capacity of local partnerships to devise and implement regeneration initiatives. The release of funding is dependent not just on partnerships demonstrating such capacity and achieving adequate management systems and competence in project appraisal, but also on local communities being directly involved and supportive of the regeneration activities planned.

There are to be no further Rounds of SRB following Round 6. The Government's main local area regeneration policies will now be delivered through New Deal for Communities and Neighbourhood Renewal.

***(iv) New Deal for Communities (NDC)***

Resources of £800 million have been allocated for the New Deal for Communities (NDC) initiative. NDC offers intensive help to the most deprived neighbourhoods and aims to bring together regeneration and housing programmes at the local level, enhance economic and employment opportunities and offer better neighbourhood management with increased community decision-making. In total 39 NDC partnerships have been designated – 17 Pathfinder Partnerships that received their funding in April 2000 and 22 Round 2 Partnerships, which are expected to be funded from April 2001.

The value of evaluating programmes on an on-going basis has been recognised by the DETR in relation to NDC. The Department has a budget of between £8 and £16 million to evaluate the next three years of the NDC programme.

***(v) Neighbourhood Renewal***

The New Commitment to Neighbourhood Renewal: National Strategy Action Plan was launched in January 2001 after two and a half years of consultation. The aim of the strategy is to revitalise the most deprived neighbourhoods in England and make them places where people will want to live and work. A Neighbourhood Renewal Unit has been established in DETR to oversee the policy's implementation.

The strategy is based upon targets for improvement in housing, crime, health, employment, education and the environment to focus efforts on raising standards. By meeting these targets the Action Plan aims to raise the standard and better co-ordinate public services and support communities by putting them at the heart of the process. It is envisaged that the Local Strategic Partnerships will bring together all the key players at every level to ensure that the targets are delivered upon.

The Government also recently launched its new Neighbourhood Renewal Fund, targeted at the 80 most deprived local authorities, as measured by the Index of Multiple Deprivation.

***(vi) English Partnerships***

The Urban Regeneration Agency (known as English Partnerships) was established on 1 April 1994 taking over the functions of English Estates, City Grant and Derelict Land Grant. Its key task was to promote the regeneration of vacant, contaminated and derelict land and buildings in partnership with the private sector, local authorities and communities.

English Partnership's aim is to promote job creation, inward investment and environmental improvement, reclamation and development of vacant, derelict and contaminated land in areas of need throughout England, within a framework of sustainable development.

On 1<sup>st</sup> April 1999, English Partnerships merged with the Commission for New Towns. The regional roles, functions, staff and assets of EP were taken over by the RDAs on the same date; except London which were transferred in April 2000. Its role in relation to regeneration has thus been substantially reduced. However, it continues to play a key co-ordinating role in relation to the regeneration of coalfield areas and has also been important in the establishment of the Urban Regeneration Companies (see below).

***(vii) Regional Development Agencies (RDAs)***

The RDAs were formally launched in eight English regions on 1 April 1999 and in London in April 2000. They are responsible for co-ordinating regional economic development and regeneration, in order to enable the English regions to improve their relative competitiveness. The RDAs statutory purposes are:

- economic development and regeneration;
- business support, investment and competitiveness;
- skills, training and employment; and
- sustainable development.

The functions of the Agencies are: formulating a regional strategy in relation to their purposes; regional regeneration; taking forward the government's competitiveness agenda; taking the lead on regional inward investment; developing a regional Skills Action Plan to ensure that skills training matches the needs of the labour market and taking a leading role on European funding.

As new agencies it has taken them sometime to become established. Their future role in relation to local regeneration will be significantly reduced as SRB comes to an end – in particular, since the Government Offices for the Region oversee NDC and Neighbourhood Renewal.

***(viii) Urban Regeneration Companies (URCs)***

The Urban Task Force (UTF)<sup>9</sup> recommended the creation of Urban Regeneration Companies “to redevelop and bring investment back to the worst areas in our cities and towns.” In response three pilot URCs were agreed and established in Liverpool (Liverpool Vision), Manchester (New East Manchester) and Sheffield (Sheffield One). The three companies were set up at different times – Liverpool in June 1999, Manchester in October 1999 and Sheffield in February 2000.

The pilot URCs are independent companies established by partners from the public and private sectors. Each of the pilots has had the same three core partners – the local authority, the Regional Development Agency (RDA) and English Partnerships. Whilst operating within a comprehensive strategy for the area, the emphasis of the pilot URCs is on physical and economic regeneration. Becoming a URC does not bring with it any additional powers and resources beyond those that the partners are willing to commit. Much of the added value of the approach is therefore expected to result from the Company’s co-ordinating, influencing and facilitating role.

***(ix) European Structural Funds***

European Structural Funds have been a very important source of funding for the UK’s deprived areas. Structural Funds are the European Union’s main instruments for supporting social and economic restructuring across the Union. They account for over a third of the European Union budget. The UK’s allocation from the Structural Funds for the period 2000 - 2006 is over £10 billion.

Most structural fund spending is targeted on specific regions, known as Objective 1 and 2 regions. Eligible Objective 1 areas are those that have less than 75% of EU average GDP. There are separate national Objective 3 programmes in England, Wales, Scotland and Northern Ireland. The national and regional bodies responsible have been preparing the new programmes for the UK for 2000 - 2006. The European Commission must approve the programmes.

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<sup>9</sup> Urban Task Force (June 1999), *Towards an Urban Renaissance*

Objective 2 aims to support the economic and social conversion of areas facing structural difficulties.

***(x) Other area-based and regeneration initiatives in England***

Despite attempts to streamline government intervention in regeneration, the current package of programmes remains extensive and confusing. As well as continuing a number of existing programmes, a range of new area-based and regeneration initiatives have been introduced, as illustrated below.

· Education Action Zones	-	These are clusters of schools working with local and national partners (typically including parents, businesses, the Local Education Authority and Training and Enterprise Councils) to achieve substantial improvement to educational achievements. A key feature of the zones is their multi-agency approach, bringing together complementary initiatives on employment, health and social services;
· Early Excellence Centres	-	To achieve a range of centres or networks offering high quality, integrated education and care provision, family support and training services for the 0 – 5 year olds.
· Healthy Schools	-	To create a healthy ethos within schools, improving the health and self-esteem of the school community, enabling children to make healthier choices and improve their educational achievement.
· Excellence in cities	-	To raise standards in city areas, establishing new opportunities for pupils of all backgrounds and abilities and tackling barriers to learning.
· New Start	-	To re-engage 14-17 year olds who have dropped out of learning or are at risk of doing so.
· Employment Zones	-	Prototype Employment Zones have been designated with each containing three core strands: learning for work (education and training); business enterprise (learning how to start and run a small business) and neighbourhood watch (intermediate labour market projects);
· Health Action Zones	-	These aim to modernise health services and tackle health inequalities through overcoming barriers between health and local authorities, and between professionals, particularly in areas of high deprivation. The zones aim to bring together local partnerships of NHS organisations, local authorities, community groups and business.
· New Deal for the Long Term Unemployed	-	To examine new approaches to helping long-term unemployed people into sustained employment.
· New Deal for Lone Parents	-	To encourage lone parents to work.
· New Deal for 18 – 24 year old unemployed people	-	To help people find work and improve their prospects of remaining in employment.

· New Deal for Partners of unemployed people	- To give unemployed partners of job seekers access to employment programmes.
· New Deal for Disabled People	- To discover what works best in helping disabled people move into work after a long period away from employment.
· New Deal for Musicians	- To enable young musicians to move from welfare into work and stay in work by providing specialist music industry advice, an open learning route under the New Deal Full Time Training and Education Option and flexibilities when following the self-employment route.
· ONE	- To increase the sustainability level of employment by getting more benefit claimants into work.
· Coalfields Regeneration Trust	- To support initiatives identified by Coalfields Task Force as being key to restoring healthy and prosperous communities.
· Coalfields Enterprise Fund	- To support local initiatives to make a contribution towards the regeneration of their areas.
· Local Government Association (LGA) New Commitment to Regeneration	- To establish a new relationship between central and local government and local partnerships to marshal the totality of public expenditure in an area in support of regeneration strategies.

In addition, various other organisational changes are underway. For example, the Learning and Skills Council (LSC) is a new body, which the Government proposes will modernise and simplify the arrangements for the planning, funding, delivery and quality assurance of post-16 education and training. It has taken over many of the responsibilities of the Training and Enterprise Councils (TECs). A new Small Business Service (SBS) has also been created within Government responsible for the interests of small business. In addition, the new Connexions Service or youth support service will provide support to young people aged between 13 and 19.

***(xi) Integrating regeneration with other interventions***

Recent bids for funding under both strands of the new deal for regeneration (NDC and the reshaped SRB) have had to show how they fit with other new area-based initiatives and strategies. Regeneration partnerships have to make clear the linkages between housing, regeneration and other initiatives and demonstrate that their local strategies fit within and complement the Regional Economic Strategies (RESs) developed by the Regional Development Agencies (RDAs).

The vision for future regeneration activity is of locally-driven initiatives, developed by inclusive local partnerships as part of comprehensive local strategies and complementing the wider strategies of the RDAs.

## 2.4 Characteristics of recent regeneration programmes in England

### 2.4.1 *General features*

The more recent regeneration programmes - notably, City Challenge and then subsequently SRB - have adopted a more integrated and comprehensive (or holistic) approach. They have been delivered by local partnerships, comprising representatives of the public, private and voluntary sectors, together with local communities. The partnerships themselves have developed strategies to address specific local circumstances and have competed for regeneration funding.

In developing local strategies regeneration partnerships have addressed economic, social, environmental and infrastructural conditions often in an attempt to reverse long-run spirals of decline. Their intention is to create, using limited regeneration resources, a virtuous circle, whereby improvements are positively reinforcing. Figure 2 below illustrates a number of the main components and inter-relationships of the approaches adopted by many Partnerships. It highlights, albeit in a very simplified form, the complexity of the interventions and interactions involved in a regeneration programme.

In attempting to reverse cycles of decline this has typically involved local regeneration Partnerships in addressing a diverse range of factors that are affecting conditions in the regeneration area. Thus, measures, such as business grants and advice, will be developed to promote business formation and development. These measures will often include interventions targeted at each of the factors of production: land, labour, capital and technology. The generation of additional local economic activity will, in most circumstances, result in increased employment opportunities in the area. Through increased training, including motivational, pre-vocational and vocational support, and improved educational attainment local residents can be equipped to compete for the additional jobs generated within the area, as well as employment opportunities outside of it. As local people secure employment, this will have a demonstration effect, encouraging other local residents to, for example, undergo training. The level of local unemployment will reduce and local incomes rise.

Improvements to the quality and availability of local facilities and enhancements in local image will help to retain higher income earners in the area. With the availability of additional disposable income there will be an increase in the maintenance and repair of housing. This, together with improvements to the local environment and building stock, will contribute towards improved confidence. In combination, these factors will help to



The allocation of regeneration resources through competition, rather than on the basis of need, has both advantages and disadvantages as summarised in Table 4 overleaf. On the positive side it can potentially provide a more efficient and effective basis for the allocation of scarce resources – with only those projects that are judged able to deliver good value for the costs involved receiving support. There is also evidence (see Russell et al, 2000) that competition can serve to galvanise effort and promote learning and understanding between different sectors (public, private and voluntary) and organisations. As a result of the competitive nature of the process and the knowledge that the bid will be critically appraised it is likely that a competitive process will result in higher quality strategies or bids. The bidding process can also increase the capacity of the partner organisations.

A number of negative effects have though also been identified in relation to a competitive bidding process for regeneration resources. In particular, the allocation of funding may not address the most needy areas. As a process it is also potentially very divisive. The expectations of the local community and other organisations will often be raised significantly during the bidding process. If the bid is unsuccessful there will often be substantial disappointment and recrimination. Concern has also been expressed about the amount of time and resources that may be wasted in preparing an unsuccessful bid.

The appraisal of bids is perceived by some as more of a beauty contest than an objective analysis, being judged on appearance rather than content. Since bids are assessed, at least in part, on the basis of what they state they will deliver, there is a danger that the competitive nature of the process will encourage partnerships to set unrealistically high targets in order to win. In addition, failure to secure regeneration resources also has a potentially negative impact on other policies and funding. Thus, for example, European Union Structural Funds require match funding (i.e. a proportion of a project's costs must be funded from a source other than the Structural Funds). Regeneration monies are often used as the match. Thus, there is a concern that the competitive process can become self-reinforcing – with those that are successful having available matched funding to compete for and win other funding.

Table 4: Advantages and disadvantages of a competitive bidding process for regeneration resources	
<i>Advantages</i>	<i>Disadvantages</i>
<ul style="list-style-type: none"> <li>- Galvanises effort</li> <li>- Promotes cross sectoral understanding and learning</li> <li>- Provides an efficient and effective basis for allocating scarce resources</li> <li>- Produces higher quality strategies and bids</li> <li>- Increases bidding capacity - through learning lessons from previous bids</li> </ul>	<ul style="list-style-type: none"> <li>- May not address the most needy areas</li> <li>- Potentially divisive</li> <li>- Raises expectations</li> <li>- Significant amount of time and resources may be wasted</li> <li>- Perceived to be a 'beauty contest' judged on appearance rather than content</li> <li>- Encourages setting unrealistically high targets in order to win</li> <li>- Has a potential negative impact on other policies and areas</li> </ul>

Source: Russell et al (2000)

A key dilemma for regeneration, like other public policy areas, is how to best distribute resources, given that there will be winners and losers in any allocation system. This dilemma cannot be resolved but it is important that the decision criteria are clear.

The introduction of competition may have improved the management of regeneration and efficiency with which resources are deployed. However, an openly competitive process may reduce the ability to respond to need. As a result more recent SRB Rounds and NDC have either reduced or substantially removed the competitive element of the bidding process. In the case of SRB, for example, the majority of the resources were only assessable to those local authority areas containing high levels of deprivation as measured by the Index of Local Deprivation.

### 2.4.3 *Partnership*

A wide range of organisations, across the public, private, voluntary and community sectors have an interest in regeneration. As such a partnership approach, whereby individual organisations co-operate and integrate actions is now core to regeneration. In many cases the local authority will lead schemes as facilitators, enablers and implementers. For example, in relation to the SRB Programmes local authorities led almost 70% of schemes in Rounds 1 – 4.

The SRB, like City Challenge before it, has to be delivered by cross-sectoral local partnerships. Each partnership has to develop systems to manage and implement their programme. In the case of City Challenge and NDC, the local authority was the

accountable body<sup>10</sup>. However, under SRB any legally constituted organisation could be the accountable body. Neighbourhood Renewal Funding goes directly to local authorities.

The evidence from the final evaluation of City Challenge does not suggest that organisational structure in terms of either an informal partnership or a corporate entity was a key factor in determining performance and effectiveness (Russell et al 2000).

The OECD<sup>11</sup> (1995) have noted that “*In recent years partnership has become one of the fundamental principles in policy making and implementation not only in the UK but more widely in advanced industrial countries*”. Geddes (1997) has stated that the emergence of the partnership approach in local regeneration is linked to several factors including:

- the perceived intractability and complexity of urban problems, requiring a multi-agency approach to both economic growth and competitiveness and disadvantage and deprivation;
- the development of a “mixed market” in the delivery of many services, requiring collaboration between public, private and voluntary sector providers;
- the proliferation of state and quasi-state agencies;
- the development by many local authorities of “enabling” or “civic leadership” roles, which emphasise a partnership approach;
- pressure from grass roots and local community organisations, sometimes as a consequence of the fact that traditional forms of local democracy do not necessarily allow local communities adequate involvement in the policy process; and
- the recognition that while private sector involvement may be essential for local regeneration, market mechanisms alone are unlikely to be effective, and the private sector may only wish to take on a limited responsibility for local regeneration and particularly for social issues (Drake, 1995).

Bailey (1994) has argued that goals are “*more likely to be achieved by two or more sectors working together than separately. The quality of partnerships depends upon the*

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<sup>10</sup> SRB defines the “accountable body” as the legal entity nominated to act on behalf of the Partnership in taking responsibility for the receipt and use of SRB Challenge Fund grant and the realisation of the Delivery Plan. When the Partnership has its own legal entity it may nominate itself as the accountable body.

<sup>11</sup> Organisation of Economic Co-operation and Development

*willingness of people and institutions to share power*". Robson et al (1994) asserted that failing to involve all the relevant partners will undermine the success of initiatives.

Partnerships are expected to reflect the content of the bid and characteristics of the area. This approach has led to many new partnerships and there is a concern that these are simply marriages of convenience to access funding (Tilson et al, 1997). The creation of partnerships now absorbs a considerable amount of time and energy. Shaw and Robinson (1998) have argued that it is therefore important that regeneration partnerships are more than short-term, single-issue, organisational fixes.

#### **2.4.4 *Strategic and Comprehensive approach***

Urban problems tend to have been compartmentalised – defined as either economic, social or environmental in nature – depending upon the government department. The UDCs were, for example, criticised for their narrow approach to regeneration, concentrating on physical renewal while ignoring the social dimension. Robinson, Shaw and Lawrence (1993) argue that they failed to recognise that it was vital to regenerate communities of people, not just buildings. As such they argue that the so-called trickle down effect does not work.

Past government policies have also contributed to the problem (SEU, 1998). The failure of the 1980s urban policies have added to the difficulties of developing effective initiatives in the 1990s. They have created communities that have been effectively by-passed or ignored, with few positive role models.

In recognition of the need for comprehensive or holistic approaches to tackle inter-related issues, SRB Delivery Plans now reflect the complex nature of the problems and the breadth of actions required (Kelly and Robinson, 1996). However, the lack of consensus about what regeneration is and of an intellectual foundation does not provide a solid basis for the 'holistic approach'.

#### **2.4.5 *Significant resources***

Many of the regeneration partnerships have been granted substantial funding to deliver their programmes. In the case of City Challenge a total of £37.5 million was provided to each of 31 Partnerships over five years. This represented a significant level of regeneration resources targeted at relatively small geographical areas. The average size of a City Challenge Partnership was 760 hectares and its population almost 25,000.

Regeneration monies will normally need to be matched with other sources of funding. Thus, it is unusual for projects to be solely funded from a regeneration programme.

However, despite the very significant resources potentially available to individual partnerships, Shaw and Robinson (1998) have identified a long-term under-funding of UK urban policy. There is also a concern that the bending of main programmes has not occurred to a sufficient extent and that cuts in, for example, mainstream housing resources have disadvantaged deprived areas. Clarke (1996) argues that if central government is serious about regeneration it should encourage an holistic view of the total public resources being applied to an area and give government sponsored agencies and organisations freedom to adjust priorities and spending patterns to meet locally determined needs.

The idea of public money 'pump-priming' private investment is another that underpins many regeneration programmes.

#### **2.4.6 Targeting**

The targeting of resources on small geographical areas was another feature of both the City Challenge and SRB programmes. There has been an on-going debate about the advantages and disadvantages of area-based approaches compared with mainstream programmes, which are not spatially focused, that target individuals with a particular set of characteristics. It is not within the scope of this thesis to consider in detail the relative merits of either approach. However, as a result of the multiple nature of problems that face individuals in deprived neighbourhoods, area-based approaches have become and, on the basis of recent policy announcements, will continue to be a key element of government policy.

In addition, regeneration programmes have also targeted resources in a number of other ways, as follows:

- *objective driven targeting* – the extent to which projects contribute to strategic objectives;
- *spatial targeting* – resources are often targeted upon particular priority areas even within regeneration areas;
- *beneficiary targeting* – specific groups within the regeneration area, such as ethnic minorities or women, have been targeted, as have particular industrial sectors; and

- *theme or issue targeting* – for example, partnerships have targeted specific criminal activities within a crime prevention and community safety scheme.

#### **2.4.7 *Output and performance driven***

Particular emphasis has been placed on delivery, by stressing the use of performance measures and output indicators. Outputs are defined (DETR, 1999) as the products or direct results of the programme. City Challenge Partnerships were, for example, asked to estimate outputs as part of their bid and then in their Action Plans. Annual and five year targets were set and performance against these monitored by the DETR and the Government Office for the Region.

SRB Partnerships are required to identify annually Key Indicators of Performance in discussion with the relevant RDA. These are outputs and activities regarded as central to the fulfilment of the Delivery Plan and they form the basis of in-year monitoring of scheme performance by the Government Office.

The development of clear aims and realistic objectives should also aid the operation of effective monitoring and evaluation. However, the performance measurement approach of many programmes concentrates on targets, outputs and milestones and tells us little about the impact of the intervention on social and economic indicators. For example, Shaw (1995) criticised the UDC performance measures for their limited coverage, imprecision and lack of transparency.

With increased emphasis on community-based regeneration it is important to develop precise and locally-relevant indicators of performance. There is growing emphasis on collecting data on quality of life issues and on the need to identify baseline indicators, from which subsequent improvements can be measured. It is important to ensure that the use of extensive monitoring and evaluation procedures are not just about recording whether targets are achieved, but actually leads to programme and project improvements.

More recent programmes, such as NDC, have placed increasing emphasis on outcomes and not outputs. Outcomes are the wider consequences of the programme (DETR, 1999)

#### **2.4.8 *Time limited***

The limited life of regeneration schemes has been identified (see, for example, Russell et al, 2000) as important in retaining interest and concentrating effort. However, the City Challenge Programme adopted a fixed, five-year life for all partnerships. This was not

universally appropriate and the SRB has subsequently enabled partnerships to determine the correct length of the scheme between one and seven years, depending upon local circumstances.

In many cases it has been argued (see, for example, Russell et al, 2000) that even seven years is too short a time to reverse long run decline. The New Deal for Communities programme has extended the lifetime of schemes to ten years, but longer still may be required for many areas.

#### **2.4.9 *Delivery and involvement structures***

A number of the property-led regeneration programmes of the 1980s, such as the UDCs have been implemented by un-elected Quangos. Such Quangos do not build local capacity and serve to disempower local institutions and communities. However, local authorities and other organisations were restored to the process in the early 1990s and emphasis placed on community needs and aspirations (Robson et al 1994).

It is not only the end products of regeneration that are important. So too is the process by which regeneration is achieved. Through building local capacity communities can be re-empowered through regeneration, enabling them to effect greater influence over decisions that affect their lives. Over the last decade increasing emphasis has been given to the concepts of community and empowerment. Community-led approaches are now central to many area based regeneration initiatives.

Each SRB partnership is required to set up a Management Board, which includes representation of the various partners, to oversee implementation of the programme. In addition, in relation to the larger schemes a range of working groups and forums are often established to inform the Board and promote involvement. In the case of larger schemes a dedicated, executive team may also be created to deliver the scheme on a day-to-day basis.

SRB Partnerships, as noted above, are required to prepare annual Delivery Plans. These Plans show how the Partnership will translate its successful bid into action, and are updated annually. Significant delegated authority is given to SRB partnerships to appraise and approve projects, as follows:

- below the delegated project approval limit (£250,000 or such other figure as notified to the Partnership);

- not novel; and
- not contentious.

However, the authority delegated to SRB Partnerships is less than that accorded to City Challenge Partnerships.

#### **2.4.10 Self-sustaining regeneration**

Regeneration programmes are concerned to make meaningful, long-lasting improvements in deprived areas. The concept of self-sustaining regeneration has been introduced into recent programmes. This has resulted in an increasing emphasis on a long-term perspective and a broad and multi-dimensional view, with economic, social and environmental issues integrated. This has led to increasing emphasis on distributional issues and on the institutional conditions and actions necessary to achieve interrelated social objectives.

Garner (1996) has argued that sustainable cities “*need to be economically efficient, environmentally friendly and socially integrated*”. However, in many cases the timescale for projects is too short. Succession must be planned for. There is a danger that funding and capacity gaps (Fordham 1995) are left when programmes finish.

## **2.5 Summary**

Social exclusion - or the existence of people or areas with linked problems or multiple disadvantages – has been identified as one of the Labour Government’s highest priorities. It has also been an important issue for previous Governments. The current attempts to tackle social exclusion emphasise a joined-up approach to address joined-up problems.

Measures of multiple deprivation are used to ensure that resources are targeted towards areas of particular need. Local partnerships in these areas are then able to submit bids, in the form of a strategy, with costed projects, for regeneration funding.

Regeneration programmes have continued to evolve into more holistic and comprehensive attempts to improve the conditions within the designated regeneration area and secure self-sustaining regeneration. They will normally involve a wide range of interventions across a diverse number of policy areas, including: economic development; the environment; health; social, community and leisure; housing; crime prevention and community safety; training; education and infrastructure. The regeneration strategies

will have multiple objectives, ranging from improving local economic efficiency to promoting community capacity and involvement. As such a regeneration programme will in most cases be a highly complex and integrated series of interventions, over a number of years.

The management and delivery of regeneration programmes is also often complex. A wide range of organisations is involved. Furthermore, the recent changes to regeneration policy have increased the emphasis on partnership and community involvement. In addition, a substantial number of spatially focused programmes exist, with increasingly attempts being made to link and integrate these on the ground.

The resources made available for regeneration are also substantial. For example, since its creation in 1994 SRB schemes have received funding of £4.4 billion. There have been over 750 SRB schemes over its six Rounds. The recently launched NDC programme has made available in excess of £50 million of regeneration funding to relatively small areas.

In order to effectively evaluate regeneration programmes an approach is needed which can disentangle a complex series of interventions and interactions between organisations, sectors and local residents.

## 3 Conceptual Framework – the Rationale and Objectives for Public Sector Intervention

### 3.1 Introduction

This Chapter reviews the rationale and objectives for public sector intervention in the market. It draws upon the theories of welfare economics<sup>12</sup> and provides the conceptual framework within which the remainder of the thesis assesses approaches to the evaluation of regeneration projects and programmes. Decision makers will either explicitly or implicitly transform value judgements into a single dimension in order to compare them. Economists try to express all utility in monetary terms, so that the social net benefits of alternative options can be compared. Welfare economics provides the theoretical foundations for cost benefit analysis (CBA), which is a central (although by no means only) methodology, and other approaches to project and programme evaluation. The next Chapter considers the content, structure, advantages and disadvantages of these approaches in more detail. However, in order to do so it is important to understand the welfare foundations for any assessment of the costs and benefits of a public sector intervention.

There are many influences on the decision making process within the public sector. Various actors are involved in different stages of the process. The nature of these influences is therefore also discussed.

### 3.2 Social Objectives – the rationale for public sector intervention

#### 3.2.1 Overview

Economic benefits are derived from the consumption of goods and services. Economics is concerned with the allocation of scarce resources in order to maximise utility. As the quantity of good or services increases normally so too does utility - albeit at a diminishing rate. However, since resources are scarce the production of one commodity has a cost in terms of the other goods or services that could have been produced using those resources (the opportunity cost). Thus, money spent on a regeneration programme could be spent on another public policy area, such as health, education or defence.

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<sup>12</sup> Welfare economics is a normative branch of economics concerned with the organisation of societal activity in order to maximise welfare.

Public expenditure may crowd out private sector activity<sup>13</sup>. More generally, the distribution of resources will normally not be equal among members of society. It is primarily for this reason that Governments have developed spatially targeted programmes (regeneration programmes), designed to address specific and acute examples of unequal resource distribution.

The public sector intervenes in the allocation of resources in order to achieve certain societal objectives, which would not necessarily be met by the market mechanism alone. Every society has a number of objectives that it seeks to achieve. In particular, two principal objectives can be identified, as follows:

- economic efficiency – the provision of quantities of goods and services to yield the greatest aggregate (net) benefits to community; and
- equity – justice or fairness in the way goods and services are divided between members of society.

However, there are also other reasons why the public sector intervenes, such as community based objectives, consumer choice, individual liberty and maintaining the status quo.

There may be a trade-off between efficiency and equity. Thus, for example, to obtain more equity some amount of efficiency will often be sacrificed. Targeting resources at regenerating spatial areas may therefore be a less efficient use of resources than, say, promoting research and development, which could result in a new technological development.

The definition of societal objectives is essentially value laden. This is particularly true in relation to equity, where one person's view of what is equitable is likely to differ from another's. Thus, those living in a regeneration area and suffering from multiple deprivation may be regarded by one person as deserving and by another as undeserving. Since equity is the primary rationale for most regeneration programmes this creates complexity in the evaluation of their effects, as there are very rarely absolute scales. The views of two individuals affected, either directly or indirectly, by a regeneration

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<sup>13</sup> The view of the UK H.M. Treasury is that increased public expenditure cannot generally create a sustainable increase in output or employment at the national level. Public sector expenditure will directly displace private sector consumption or investment if financed through taxation. If the expenditure is financed through borrowing and the inflation targets are to be met, interest and exchange rates will adjust reducing international competitiveness and thereby negating the initial increase in employment. Only policies which result in supply side improvements are believed to have lasting output or employment impacts at the national level.

programme may differ depending upon their personal values. This presents a difficult challenge to the evaluator.

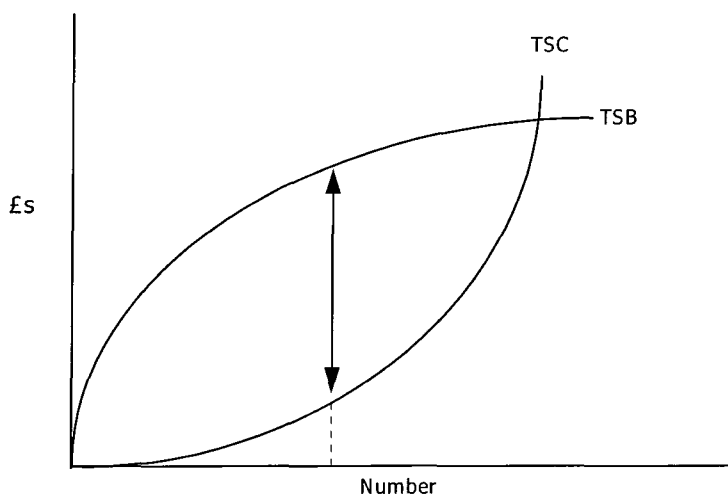
### 3.2.2 Economic efficiency

#### (i) Total and marginal social costs and benefits

The market system reconciles the actions of a diverse range of groups through coordinating the allocation of factors of production (land, labour, capital and technology) and commodities through the price mechanism. Consumers and producers respond to common price signals, until the point of equilibrium is reached. This point is determined by the combination of the consumer demand curve and producer supply curve. In welfare economics it is the compensated demand curve<sup>14</sup> that is usually of interest.

In terms of social welfare, benefits and costs vary at different levels of output. The economically efficient level of output is that where the net benefits (excess of benefits over costs) are greatest. The efficient level of output occurs when total social benefits exceed total social costs by the greatest extent or marginal social benefits equal marginal social costs (refer to Figures 3 and 4 below). The net social benefits will be greatest when the consumer surplus<sup>15</sup> and producer surplus<sup>16</sup> (defined by vectors A and B respectively) are maximised.

**Figure 3: Total social costs and benefits**

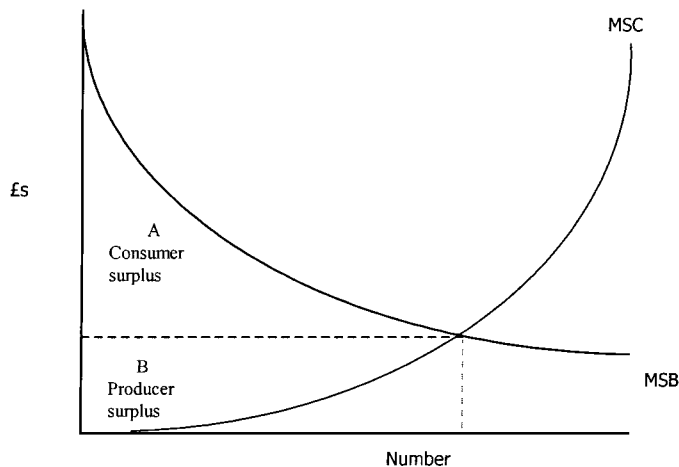


<sup>14</sup> A compensated demand curve gives the demand for a commodity under the assumption that, as its price rises, the individual is given sufficient additional income that his level of utility remains unchanged.

<sup>15</sup> The extra utility gained by consumers from paying an actual price for a good, which is lower than that which they would have been prepared to pay. Consumer surplus is defined as the area below the short-run demand curve and above the price line.

<sup>16</sup> The additional earnings obtained by producers for a good that is higher than the price at which they would be prepared to supply. It is defined as the area above the short-run supply curve and below the price line.

**Figure 4: Marginal social costs and benefits**



In a perfectly competitive market under certain circumstances (where all of the agents are price takers and there no externalities associated with the production of goods and services), the equilibrium price indicates both the marginal social cost (MSC) and the marginal social benefit (MSB) of that good. This is because the opportunity costs of production are given by the supply curve, assuming perfectly competitive input markets, whilst the demand curve is a schedule of the willingness to pay. Thus, under certain circumstances, the demand curve is an alternative presentation of the MSB curve and the supply curve the MSC curve. Accordingly, the equilibrium output determined through the market mechanism will be the economically efficient level of output.

There are though circumstances where the market price is a bad indicator of MSC and MSB. If this is the case, then shadow prices can be used to reflect true resource scarcity. There are three cases where this might arise:

- (a) where market failures occur (this is discussed further in Section 3.3 below);
- (b) government failure – certain government interventions in the market result in inefficient resource allocations - such as the use of subsidies (see Section 3.5);
- (c) the absence of a market - goods not traded in markets and for which no obvious price exists. The issue of public and merit goods is also considered in Section 3.3.

In the case of (a) and (c) Governments may intervene in the market to increase economic

efficiency.

*(ii) Consumer Surplus*

There has been considerable development and debate about consumer welfare theory and the use and measurement of consumer surplus. It is not the purpose of this thesis to review this debate, although reference may be made to, amongst others, Dupuit (1844), Hicks (1941), Currie et al (1971), Freeman (1979), Willig (1979), Hausman (1981) and Shonkwiler (1991).

A number of approaches have been developed to measure consumer surplus (see, for example, Johnson, 1993). Where preferences are revealed then it is possible to calculate completed demand. Where a good or service is not bought and sold in a market, valuation will involve the inference of a price revealed by consumers' behaviour or derived from their stated preference. Where there is no direct preference revelation a number of possible approaches are available:

- (a) Contingent valuation – this is a survey method (for a more detailed explanation see Mitchell and Carson 1989). Under the contingent valuation method preference information is collected by asking households how much they are willing to pay (WTP) or willing to accept (WTA) in compensation for some change in the provision of a public good. Pearce (1998) notes that the WTP and WTA concepts correspond to the measures of consumer surplus formalized by Hicks (1941). Implicit in the approach is that human preferences are 'sovereign' and that society is always an aggregation of individuals. The approach could be used to assess the willingness of local people to pay for improvements to their neighbourhood. However, there are a number of methodological and other problems with the approach. Probably the best known is the free rider syndrome, whereby respondents bid strategically. Thus, if the respondent believes that they are being asked about a real situation, they may conceal their true WTP in order to qualify at a lower price. However, research has indicated that the free rider syndrome does not tend to apply to WTA/WTP scenarios (Hanley and Spash, 1993). Other problems in using the contingent valuation method are possible bias in the design of the survey or questionnaire; and the hypothetical market not being realistically constructed.
- (b) Closed-end techniques - respondents are confronted with a single bid or tax increase, which has to be accepted or rejected, rather than an open ended answer.

Different sub-samples are confronted with different bids. A cumulative distribution function can then be used to calculate average or expected WTP.

- (c) Utility functions and demand - another approach is to assume that the utility function takes a particular form and estimate demand based upon this.
- (d) Travel cost method – this method assesses the attraction of a particular facility versus the ‘frictional resistance’ of its hinterland – “*the difference between the value of the visit and the costs of visiting*” (Green et al, 1990). As such it is potentially useful in evaluating the consumer surplus associated with a tourism development supported through a regeneration programme. It is assumed that the visitors will make trips until the point where consumer surplus is zero or the consumer surplus generated by visiting other sites is higher. Only the costs of travelling to and consuming the site or facility are valued. This method uses people's actual behaviour, in contrast to the contingent valuation method. However, it captures only use values, thus it will not for example measure existence value. In addition, it cannot capture proposed future visits. It is hard to see how travel costs can be used to reveal demand for many public goods and bads, such as environmental pollution. Moreover, since it has largely been used to measure the values of private transport users it cannot easily be used to assess the value of a park in the centre of a city which is visited by pedestrians.
- (e) Hedonic pricing (or household production function) approach – this method relates the price of a marketed good (usually, property values) to a non-marketed good (such as the environment or improved accessibility). Thus, improved access to an isolated area may increase its attractiveness as a residential location and lead to relatively greater house price movements. However, in practice, property prices vary with respect to a range of factors, such as neighbourhood characteristics and supply changes in an area. Expenditure on substitute goods (avertive expenditure), such as, noise insulation being used as a substitute for reduction in noise at source, can also be used.

It is also possible to borrow valuations from similar programmes or other contexts, which is referred to as *benefits transfer*. Care though is needed to ensure that the comparator used is appropriate and robust.

In view of the methodological and practical difficulties associated with the various valuation techniques there is a concern that valuations from a single method may be

unreliable. As such, greater weight will normally be given to estimates if different methods give similar results.

***(iii) Producer Welfare theory***

Producer welfare can be measured directly and is observable. The choice for the welfare economist is whether to use the input or output market as the basis to measure producer surplus. The decision is often based on the availability of data. Serious errors can arise between the theoretical assumptions and actual market conditions and corrections and qualifications may need to be made.

A primary focus for many regeneration programmes is the creation of local employment or more particularly assisting local unemployed individuals to gain a job. This raises the question how to value the services of a worker who was previously unemployed. There is no loss in production from hiring an unemployed person. If there is a social cost it is the loss of valued leisure time, which can be measured through the reservation wage (Johnson, 1993).

However, the reservation wage can overstate the true social cost of using unemployed labour. The unemployed lose self-respect, skills atrophy and working habits degenerate. Thus, it can be argued that the true social cost of hiring an unemployed worker is zero or negative. A distinction though needs to be drawn between short and long term unemployment. The reservation wage will be higher for the former.

A further problem is that the level of employment in other firms may be affected by the impact of the project. If a project results in productivity improvements and aggregate output expands, following adjustments the project under consideration may cause aggregate unemployment to rise. The true social cost of hiring an unemployed worker would then exceed the wage cost. Thus when an economy suffers from unemployment, profitability measured at market prices is not sufficient to ensure that a small project generates net social benefits. In a perfect market economy with full employment, profitability at market prices guarantees a project is socially desirable.

Displacement may occur if, for example, a business that is supported through a regeneration programme takes trade within the product market from an unsupported business. If as a result of this labour is laid off in the latter and unemployment remains unchanged then the social cost of hiring an unemployed worker would, all other things being equal, be the same as the wage cost. Conversely, private sector production may increase if the project is complementary. Thus, if the project provides a public good that

is complementary to some private good (e.g. roads and cars), demand for the private good may be stimulated (i.e a multiplier effect).

The above discussion shows the inadequacies of the partial equilibrium view (see, Johnson, 1993), which treats all labour employed in a marginal project as coming from the pool of unemployed, and implicitly ignores the effects on employment in other sectors of the economy. The problem with the alternative, general equilibrium view is how the evaluator should determine the net effect of a project on aggregate unemployment. This involves difficult judgements about what would have been the probable counterfactual scenario – in other words what would have happened anyway if the public sector had not intervened. This issue will be considered further in later Chapters.

#### ***(iv) Aggregating supply and demand***

Aggregation makes some implicit assumptions about the distribution of income. Either income is not redistributed or the redistribution has no effect on demand. Since neither condition is normally likely to hold, a weaker assumption is that income elasticities are similar among individuals and changes in income distribution are small.

Lowering (or raising) the purchase price of a good will increase (or decrease) net benefits or the consumer's surplus. However, the underlying cause of the change is important to a welfare assessment. The producer can reap a similar surplus to the consumer by charging more for a commodity than it cost to produce. A price reduction, which does not result in a reduction in production costs, cannot increase the welfare of society. Such a price change merely increases consumer welfare and reduces producer welfare.

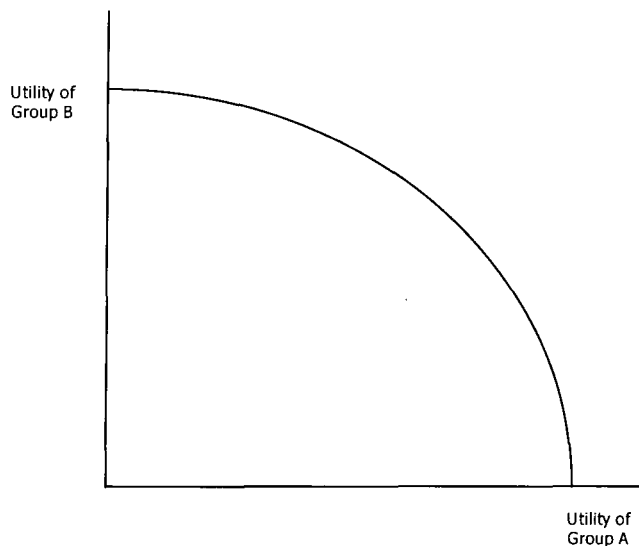
#### ***(v) Welfare Criteria – The Pareto Criterion***

Vilfredo Pareto argued that any policy change was socially desirable if everyone is made better off (the weak Pareto criterion) or at least some are made better off while no one is made worse off (the strong Pareto criterion). When the possibilities of making such policy changes are exhausted, what is left is an allocation of commodities that cannot be altered without someone being worse off. Such allocations are called Pareto-optimal or efficient.

The equilibrium price vector simultaneously allows all households to maximize utility and all firms to maximise profits - everyone has maximised welfare/profits. Thus if competitive equilibrium exists it attains Pareto optimality.

This Theorem can be shown graphically using a utilities possibilities curve (refer to Figure 5 below). Pareto's theorem asserts that a competitive economy will attain a point on the possibilities curve. Furthermore, that every point on the curve can be reached by redistributing resources, thereby addressing concerns about the equity of a given distribution.

**Figure 5: Utility possibilities curve**



However, the Pareto principle provides no guidance as to the issue of resource distribution. It is not possible to say which Pareto efficient allocation is superior to another, without reference to a social welfare function (see Section 2.3.3 (iii) below). Moreover, as noted above, most policy changes make some people better off and some worse off simultaneously.

### 3.2.3 *Equity*

#### *(i) Resource distribution*

The rationale for Government intervention may also, as noted above, be based upon arguments about equity. These are concerned with fairness or justice in the way that goods and services are divided between individuals. As Chapter 2 has highlighted regeneration resources are specifically targeted towards those areas that contain the greatest concentration of disadvantaged individuals.

An efficient system will not necessarily be an equitable one. Accordingly, since there are many combinations on the consumption possibility frontier and equity is not a

determining factor within the market system, it is unlikely in most circumstances that the market mechanism will result in an equitable distribution of costs and benefits.

In many cases concern over equity is based upon a concern over the unequal distribution of resources, in terms of income, wealth and in particular the problem of poverty. Income relates to an increase in purchasing power over a given period. Wealth refers to the amount of purchasing power at any given moment and is composed of physical wealth (assets), financial wealth and human capital. Poverty may be:

- absolute; and/or
- relative to other individuals in society.

It may also vary by unit of analysis - individual, household or family.

Various techniques exist to measure inequality, such as the Lorenz Curve and Gini Co-efficient, although most have conceptual and practical problems associated with them. (These techniques are discussed further in Section 5.7.2 below). For example, few approaches take account of the duration of poverty or deprivation.

Intervention by Government to achieve a more equitable distribution of net social benefits may be based upon a number of systems, including:-

- Minimum standards;
- Equality of access; and
- Equality of treatment for equal need.

#### ***(ii) Welfare Criteria – The Compensation Principle***

The Pareto rule is in its simplest form impractical since virtually all changes involve someone being a loser. Kaldor and Hicks (Kaldor 1939 and Hicks 1939; 1943) suggested an alternative welfare criterion to that of Pareto - the compensation principle. They proposed that any economic change should be considered beneficial if, after the change, the gainers could hypothetically compensate the losers and still be better off. As such it considers both equity (income distribution) and economic efficiency issues. If compensation is not paid directly by the gainers, Governments must decide whether to intervene to tax gainers and compensate losers. Again, whilst this criterion has its attractions, it fails to address the issue of the relative (as opposed to absolute)

distribution of resources. Moreover, the ability to apply the criterion to real world decisions is limited, particularly where the effects of these are difficult to determine.

However, modern welfare economics is based upon the Kaldor-Hicks principle of potential compensation. That is, if gainers from an action could compensate the losers, the action is an improvement regardless of whether compensation is actually paid. If a project passes the decision criteria (normally a positive net present value<sup>17</sup>) and if compensation is feasible, pursuing such a project will improve social welfare. However, Mishan (1969) notes that *“Compensation is, after all, only hypothetical; it is consistent with making the poor yet poorer. Hence, to announce, as did Kaldor, Hicks, and others at that time, that an objective method of detecting increases in “wealth” or “efficiency” had been discovered, is to mislead opinion by the use of persuasive words. Nothing had been discovered. Kaldor had merely coined a definition of efficiency, one whose ethical implications, as it happens are hardly acceptable”*.

### ***(iii) Social Welfare function***

There are many Pareto efficient allocations and as has been seen the Pareto criterion is insufficient to rank such allocations. In most situations there are winners and losers. A complete and consistent ranking of social states or projects is called a social welfare ordering. If this is continuous it can be translated into a social welfare function. It is a function of the utility of all households such that a higher value of the function is preferred to a lower one.

The form of the welfare function depends on who is behind it. However, it is generally assumed to have four properties. Firstly, it is assumed to satisfy welfarism, in other words social welfare depends only on the utility of the households. Secondly, social welfare is assumed to be increasing with each household's utility level. If one household is made worse off, then another household must be made better off to maintain the same level of social welfare. Thirdly, the intensity of the trade-off is usually assumed to depend on the degree of inequality in society. Social indifference curves are therefore convex to the origin. Fourthly, it is often assumed that it does not matter who enjoys a high or low level of utility (known as the principle of anonymity).

Further assumptions are needed to use the concept of the welfare function. For example, it must be assumed that all utility is fully measurable. Each household is assumed to be equipped with a unique utility function. The social welfare function will then produce a

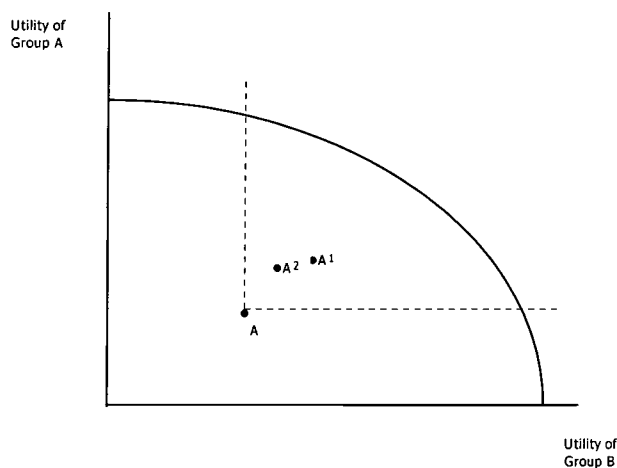
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<sup>17</sup> See Section 4.2.3

consistent ranking of social states.

The utility possibility schedule can be used to show the level of utility that individuals in a regeneration area (Group A) can gain, given the level of utility that those (Group B) in non-regeneration areas have (refer to Figure 6 below). Any point along the curve corresponds to the Pareto efficient resource allocation. No one person can be made better off without someone else being worse off. Points A, A<sup>1</sup> and A<sup>2</sup> represent different combinations of utility. Movements from A to A<sup>1</sup> and A<sup>2</sup> would be Pareto improvements. Point A<sup>1</sup> would give a bigger increase than A<sup>2</sup> in the utility of Group A - those in the regeneration area.

**Figure 6: Utility possibilities schedule and Pareto improvements**



Social indifference curves can be used to make comparisons between situations where some individuals are worse off. These curves show those combinations of utilities of groups for which society is indifferent. In principle, having identified a set of alternatives available to society (the opportunity set) that alternative with the highest social indifference curve is the best option.

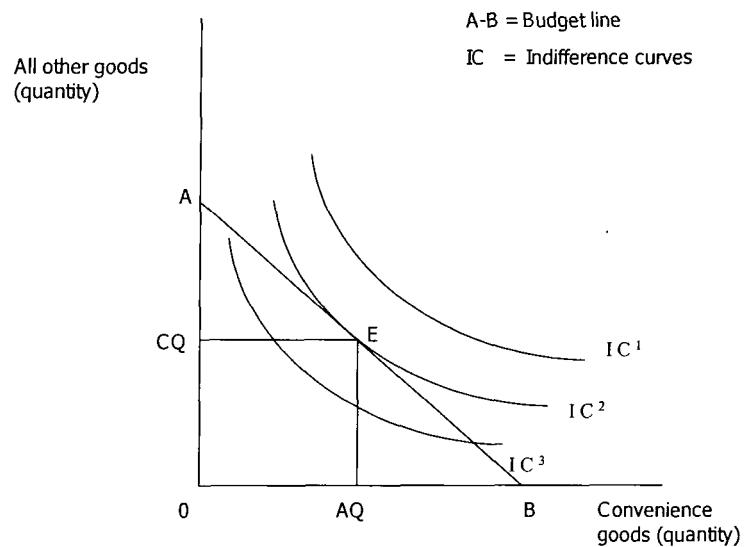
Social indifference curves and budget constraint lines can be used to demonstrate the benefits, which may be derived by a community if the public sector intervenes. For example, assistance was provided through the City Challenge Programme to a major food store to develop in the Hulme area of Manchester. Before the development of Hulme High Street, a scheme which was anchored and principally comprised of an Asda food store, only limited shopping facilities were readily available to local residents.

A number of research studies (see, for example, London Economics, 1995) have found that the greater efficiency of the larger food stores has resulted in lower food prices than

would otherwise have been the case.

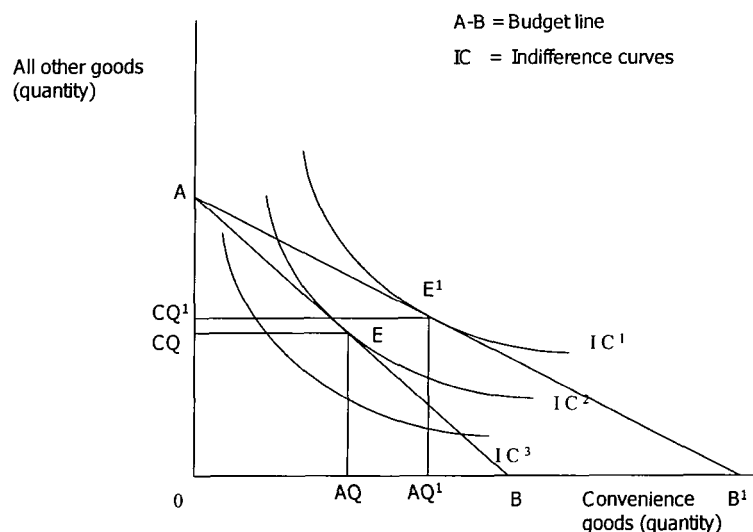
A family of indifference curves can be shown (see Figure 7 below) representing different levels of utility. The highest level of utility is represented by the curve ( $IC^1$ ) which is furthest away from the origin (0). However, the community is subject to budget constraints – both in terms of their income and the relative prices of products. The highest level of satisfaction is thus achieved where the budget line is tangential to the indifference curves (point E on  $IC^2$  in Figure 7).

**Figure 7: Community Equilibrium**



The creation of a new food store in the area is likely to have resulted in a reduction in the price of convenience goods. A change in the relative price of products would represent a shift in the budget line (from AB to  $AB^1$ ) and result in a new equilibrium position ( $E^1$ ) on Indifference Curve  $IC^1$  (refer to Figure 8).

**Figure 8: Change in price and the equilibrium**



Since the community has moved from curve  $IC^2$  to  $IC^1$ , its level of utility will have increased. Thus, where the store has resulted in lower local convenience goods prices, this will, all other things being equal, have resulted in an increase in the utility of the local community.

An intervention of this sort is a subsidy to the producer. The use of a subsidy is relatively inefficient in a sense that it constrains choice. The provision of additional income to the same value would yield greater utility. The decision to intervene using a subsidy reflects the desire of those making the decision to ensure that a greater quantity of certain goods (in this case convenience goods) is consumed because this is seen as a good thing (i.e a merit good) rather than allowing the individuals concerned to use additional resources in line with their own preferred expenditure pattern.

The shape of the social indifference curve depends upon the views society holds of welfare and thus involves further ethical judgements on how to aggregate individual utilities. The Utilitarian social indifference curve is simply the sum of utilities of different individuals. In contrast, Rawls (1972) argued that the welfare of society depends upon the welfare of the worst off individual. Thus, no amount of increase in the welfare of the rich can compensate for a decrease in the welfare of the poor. Rawls suggested that inequality in a society should only be permitted to that degree to which it maximises the economic position of those with minimum resources - termed the maximin objective. As such the social indifference curve would be L-shaped. Regeneration interventions would seem to support Rawls' argument.

For quite a broad class of social welfare functions, moving the Lorenz curve closer to the 45° line will increase social welfare (see Atkinson (1970) and Broadway and Bruce (1984)).

The social welfare function ranks all possible social states, including Pareto efficient ones. The social welfare function can therefore in principle be used to decide on the social desirability of any project. For example, if a project affects prices, wages and the supply of public goods, the social welfare function would indicate if this project increases or decreases social welfare. It is in effect a social cost benefit analysis.

However, in reality it is not possible to observe a social welfare function. There are two

fundamental aspects to the problem - first is the difficulty in estimating welfare weights and the second the unobservability of the individual welfare utility function. However, many costs and benefits of a project may be identified.

In addition, the effects arising from an intervention may be different from those intended. For example, a different group of individuals may benefit than those originally intended. It is not normally possible to identify all individual beneficiaries from a public sector intervention. However, it is usually possible to see how different groups benefit. In addition, it is also important to consider intertemporal distributional effects (the distribution over time), together with its spatial impacts. If a programme benefits the poor disproportionately, it is described as progressive. Conversely, if the rich benefit disproportionately the programme is regressive. However, concepts such as fairness and distribution are not well defined. Different individuals have different views.

Many economists do not believe that interpersonal comparisons, such as those which underpin social indifference curves, are meaningful. The extent to which consistent and non-contradictory community preference ordering is possible has been questioned. However, the social welfare function does provide a way of conceptualising the effects of policy changes. Meyer (1995) though comments in relation to the evaluation of urban policy that “*‘Objective’ policy and the maximisation of any collectively defined or accepted welfare function may be unattainable in a socially diverse environment*”.

Applied welfare economists have largely limited themselves to one normative idea; efficiency. The potential compensation principle is useful in separating efficiency and equity, but has meant that actual compensation has been avoided as being outside the realm of economists. Page (1988) argues for the inclusion of equity and other normative concepts besides efficiency in applied welfare economics. Thus, a judgement must be made as to whether the distribution of wealth due to a policy is good (Little 1950), usually based upon choices within the political system. This thesis addresses this issue through consideration of the political science view of decision making.

### **3.2.4 Other Societal Objectives**

#### **(i) Community**

Society also often places importance on the development of a sense of community and citizenship. This will often involve interventions to promote local empowerment and enhanced social cohesion. Promoting the ability of a local community to help itself has also been stressed. Community based objectives are often important in regeneration

programmes. However, with increasing ethnic and cultural diversity (discussions of the reasons for this can be found in Jacobs, 1992, and Dendrinos, 1992) there is a pressure for evaluations to arrive at a summary measure and thus to ignore minority or unpopular perspectives. As Meyer (1995) notes “*If, however, the promotion of democracy and community are to have any role in public policy objectives, such imposition of a ‘majority will’ is inappropriate*” .

The market mechanism focuses upon personal attributes and as such could be argued to be incompatible with promoting a sense of community. However, it does provide the basis for mutually profitable transactions.

### ***(ii) Consumer choice***

A further objective of many societies is the maintenance of consumer choice. It is argued that consumers should have the opportunity to select from a wide range of products and services. Competitive markets are usually associated with a large number of producers and therefore choice within the market place. However, many markets are subject to a considerable degree of market failure and monopoly. As such choice is limited.

### ***(iii) Individual liberty***

Individual liberty is viewed as particularly important in a number of societies, such as the United States. This impacts upon the relationship between the individual and the state in a number of ways. For example, it may mean a freedom of access to information. The market mechanism places particular emphasis on the individual.

### ***(iv) Maintaining the Status Quo***

Ultimately, many of society’s (or sometimes more narrowly those in power) objectives are concerned to maintain the current system of governance. As a result, improving social cohesion and addressing acute inequalities, where these are destabilising, can be important motivations for government intervention. Thus, for example, a number of regeneration programmes were implemented in the UK in response to social unrest in the early 1980’s. The unequal distribution of resources resulting from the market mechanism were, in part, blamed for this unrest. For example, Lord Scarman identified two sets of explanations for the disorders in Brixton (Scarman, 1981). First, the riots could be viewed as a reaction to oppressive policing over a period of years. Second, the troubles could be seen as a protest against society by people, deeply frustrated and deprived, who sought to draw public attention to their grievances.

### 3.3 Market Failures

The market mechanism will not determine the efficient level of output in circumstances where market failures arise. A high level of unemployment – which, linked with other indicators of deprivation and social exclusion has often been the trigger for a regeneration programme – is taken by many economists as evidence that the market is not working correctly. However, the existence of high levels of unemployment is not sufficient in itself to justify Government intervention. Such intervention must result in an improvement in the functioning of the market if net benefits are to accrue. (Section 3.5 below discusses the issue of Government failure).

Market failures arise where market distortions or disequilibria prevent the free operation of either product or factor markets. In the case of some goods or services no tradable market exists and/or the market price does not fully reflect the external effects (externalities) of such goods or services. Market failures may be caused by the following:

- barriers to entry and exit;
- imperfect information;
- externalities; and
- public and merit goods.

An understanding of the causes of market failures is essential in order that an evaluation critically assesses the extent to which particular market failures have been corrected. Therefore, a more detailed discussion of each of the above is included in Appendix B.

The correction of market failures leads to improvements in the supply side of the economy and enhances productive capacity. This may, for example, be achieved through the intervention resulting in the improved flexibility of factor markets or expansion of the stock of factors of production.

Since the market is dynamic so too are market failures. In basing an intervention upon the correction of a market failure it is therefore important to ensure that the nature of the market failure is reviewed.

Most regeneration programmes are concerned to address localised market failures, as well as equity considerations.

### **3.4 Forms of public sector intervention**

Interventions by the public sector may take a number of forms. However, essentially three categories of intervention can be defined as follows:

- direct public sector provision;
- taxes and subsidies; and
- regulation.

In the case of most regeneration programmes all three forms of intervention will often be present. Thus, for example, training may be directly (or more often indirectly through compensating a private sector training provider) provided to local unemployed individuals. Local firms may receive grant assistance and land use planning allocations may be made to encourage commercial development in an area.

Where the Government directly provides a good or service it is often in a monopoly position. Since there is less incentive, compared to the market, to keep costs to a minimum, the marginal costs of a Government produced good or service will generally be higher than the minimum efficient marginal social cost of production. As a result Government provision will be inefficient. In addition, Government commodities are often offered at below the cost of production, or at no cost. The Government as a monopoly provider is likely to be more equitable than a private provider, since it has less incentive to exploit its position and the profits accrue to taxpayers rather than shareholders. However, this will not necessarily be the case.

In the case of taxation this will often result in distorted market signals, through altering prices. A subsidy may achieve greater equity if the latter is defined in terms of a minimum standard. If perfectly informed and suitably motivated, Government can achieve efficient allocation through regulation. However, problems arise as a result of difficulties in obtaining information about relevant social costs and benefits. In addition, there is a danger of regulatory capture (a sympathetic relationship developing between the regulator and firms). Regulations may stifle innovation. They may also have perverse effects on markets. For example, the imposition of a minimum wage may result in a reduction in employment, thereby adversely affecting equity.

In the case of many policies a combination of these types will be used. The nature of an intervention will be significantly influenced by history and circumstances, including the political process (see Section 3.7).

The actual choice of which form of intervention is used in any given circumstance will therefore depend upon judgements made by decision makers about a wide range of factors, including the likely effects, resource implications and legislative considerations. Thus, for example, the UK Government has over the past two decades intervened in the property market by providing gap funding (with the public sector providing assistance to bridge the gap between costs and values) to promote regeneration. The intervention represented a subsidy to developers in order to make developments in run-down areas commercially attractive. In December 1999 the European Commission's Competition Directorate General issued its final decision that Partnership Investment Programme was in breach of the European Union's State Aid rules (House of Commons, Environment, Transport and Regional Affairs Committee, 2000). Four possible alternatives are now being considered: gap funding schemes in Assisted Areas (which up to certain limits of assistance are State Aid compliant); direct development by the public sector; public procurement and a new regeneration framework. Concerns have, for example, been voiced about the direct development option because it will require substantial initial public sector resources. Nor will it have what the House of Common's Committee recently referred to as an "entrepreneurial edge" and there are problems associated with land ownership, with the majority of development land in many areas in private sector ownership.

The particular design of a policy or intervention can substantially impact upon its efficiency and distributional effects. Thus, for example, a trade-off can be noted between two types of error – with a tight regulatory intervention potentially leading to a number of deserving individuals not receiving aid and looser regulation where undeserving individuals may benefit.

### **3.5 Government failure**

More recently many observers have highlighted the existence of Government failure. Government intervention, far from resulting in an increase in aggregate, net social benefits may cause a reduction therein. Government failure can arise for a number of reasons, including:

- Government objectives are often not clearly set and are in some cases incompatible. For example, interventions to promote economic growth may conflict with policies to protect the environment;
- decision making is subject to a series of influences, including self interest by politicians and bureaucrats (see Section 3.7 below);
- a lot of the outcomes, such as improved quality of life, are hard to define let alone measure making the design and adjustment of interventions difficult because of the absence of clear information about impacts. There are thus problems of imperfect information;
- each of the three forms of intervention may be affected by a series of inefficiencies resulting for example from its position as a monopoly (as discussed above).

A Government programme may thus itself be inefficient and crowd out private sector support. It is therefore important that the immediate and longer-term consequences are considered, after all consumers and producers have adjusted their behaviour.

In some cases it is clear that public sector agencies have had an inadequate understanding of the impact of interventions on the market. Thus, institutional rigidities may prevent the market from operating efficiently. For example, the Town and Country Planning system imposes a number of constraints upon the use of land and property, which may impair efficiency.

Government intervention may therefore itself result in distortions. Depending upon the nature of the intervention, income and substitution effects may arise. Where a Government programme lowers the prices of particular goods or services, it results in substitution effects – the substitution of one good or service for another as a result of a change in their relative prices. (This type of effect was discussed earlier in relation to subsidising a major food store development). Income effects occur when Government gives grants to an individual. Normally, only substitution effects are associated with inefficiencies. In the case of some regeneration interventions, such as improvements to private homes, substitution effects occur. The reason for using a subsidy will often be based upon a merit good argument.

In terms of society's other objectives Government intervention can also be criticised for eroding civil liberties. However, it can often be seen as promoting a sense of community.

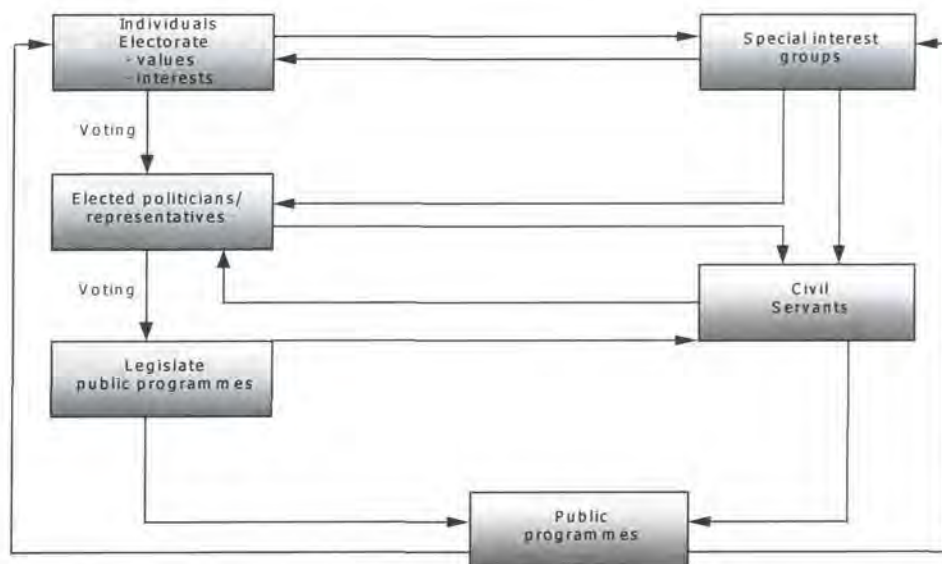
### 3.6 Decision making in the public sector

It is also relevant to recognise the political nature of decision-making and thus resource allocation. Resource allocation decisions in the public sector are subject to a number of influences within a representative democracy, including:

- individuals;
- special interest groups;
- elected politicians/representatives; and
- civil servants/bureaucrats.

The relationships between these groups in determining the design of public sector interventions is shown in Figure 9.

**Figure 9 : Influences on public programme design**



Source: Based upon Stiglitz (1988)

Individuals vote for elected representatives. However, this happens relatively infrequently. In addition, elections are rarely, if ever, based upon a single issue. Thus, whilst an individual may agree with the majority of policies proposed by a politician or party they may not agree with all of them. In very few circumstances are individual's preferences revealed in relation to specific policies or programmes. The only exception being those issues which are the subject of a referendum.

Voting on specific issues is probably the best way of obtaining a true indication of net social benefits, since it gives everyone an equal say. However, one problem of majority voting is that it gives greatest weight to the median voters. In certain circumstances an

alternative weighting voting system may be more appropriate - possibly with more weight given to those directly affected by a decision. In addition, organising voting systems is normally expensive and voters are rarely properly informed about the full implications (costs and benefits) of a decision. Some voters will not exercise their right to vote.

In reality most decisions in a representative democracy are delegated to politicians and civil servants/bureaucrats. Reconciling different views and aggregating preferences is extremely difficult. The actions of politicians have been interpreted as either being of self interest, seeking to retain office, or altruistic. In the case of the former the politicians are acting as private utility maximisers.

There are a number of theories associated with making optimal decisions. By reviewing these we can help to understand the decision-making processes. Decision Theory is a formalisation of the problem involved in making optimal decisions in a given situation (Arrow, 1964). It is concerned with making an assessment of the likely outcomes of selecting various possible courses of action. As such it is composed of three elements:

- (i) knowledge as to possible options;
- (ii) a definition of values associated with those options; and
- (iii) a way of dealing with uncertainty.

Decision trees (or policy option graphs) are often used to show the options and their impacts. These can be useful in setting out alternative policy combinations. They can help to focus attention on the most likely or plausible outcomes. If information is available on preferences, a probabilistic approach may be adopted.

There are a number branches of decision theory. One that is relevant to decision making in regeneration is Game Theory (see, for example, Singleton and Tydal, 1974). Two or more competing decision makers face a choice in terms of a finite action in a situation where some knowledge of alternative outcomes is available. In more complex situations, such as a regeneration programme, a decision may result in any one of several states but the ultimate result is outside of the control of the decision maker. The theories are concerned to understand what an option will contribute to welfare and to minimise residual uncertainty about whether these benefits will actually occur. As much uncertainty as possible is therefore removed through analysis, prediction and, importantly, evaluation.

Further developments of decision theory (such as strategic choice) have been designed to confront problems of uncertainty, partial knowledge and unpredictable outcomes of social policy, such as regeneration programmes. Decision Optimising Techniques (see Openshaw and Whitehead, 1975) also allow for consideration of performance over time.

### 3.7 Implications for evaluations

Both market and non-market mechanisms have their advantages and disadvantages in achieving social objectives. Which is the most effective will depend upon two factors:

- (i) society's values concerning the weight to be placed upon the various objectives of society, such as equity and efficiency; and
- (ii) the extent to which the allocation of resources under each of these systems meets these objectives.

The first of these factors is value laden. The second requires empirical analysis and testing.

In reality most public sector policy decisions involve consideration of the equity, efficiency and other implications of an intervention and will often seek to balance these. Few policy changes will be Pareto efficient. Most will result in someone being worse off.

If the public sector is to ensure that net social benefits are maximised and that past lessons are learnt and applied to future policies, effective evaluation is critical. The preceding discussion has highlighted a number of questions which a comprehensive evaluation must answer:

- What are the objectives of Government intervention? Is the basis for the intervention economic efficiency, equity, some other societal objective or a combination of these?
- What (if any) market failures are being addressed? What has been the impact of the intervention on these market failures?
- What are the costs and benefits that result from the programme? (What are the efficiency consequences? This must be assessed relative to a counterfactual and based upon a general equilibrium view, with full consideration of the impact on other economic agents);

- Who gains and loses? (What are its distributional effects?)
- What impact does the programme have on other societal objectives (such as community and consumer choice)?
- What alternative programmes are there and what is or would have been their relative impact?

Welfare economics provides a framework within which these issues can be systematically assessed and policy decisions subsequently evaluated. The succeeding Chapters use the welfare economics theories and concepts discussed above as the basis for developing a workable framework for evaluating regeneration programmes.

## 4 Evaluation methodologies, approaches and guidance in Regeneration

### 4.1 Introduction

Chapter 2 demonstrated the complexity, multiple objectives and multiple domain nature of regeneration programmes. Then Chapter 3 set out the rationale and objectives for public sector interventions in the market and reviewed the theoretical basis for assessing the social net benefits of a regeneration programme or project. Building upon the discussion in both of these Chapters, the thesis now considers evaluation methodologies and techniques and develops a classification or typology of these. Current public sector guidance on evaluations in regeneration is then critically reviewed.

### 4.2 Evaluation Methodologies and techniques

#### 4.2.1 *Overview*

A wide range of evaluation methodologies and techniques have been developed and applied to regeneration programmes. In order to inform the development of an alternative framework, it is helpful to classify or categorise current methodologies and approaches and then to consider the advantages and disadvantages of each typology. It is also important to consider the political context within which evaluations are commissioned and conducted.

A three-fold analysis of evaluations is therefore presented below. The main alternative methodologies and approaches are classified and assessed. Then a further typology is presented which recognises the essentially political nature of evaluations and categorises them according to the constraints imposed by the client on the purpose, scope and conduct of the evaluation.

#### 4.2.2 *Evaluation methodologies – a typology*

There are a number of potential ways of classifying evaluation methodologies. For example, we could distinguish between those that assess different types of benefit. However, evaluations of regeneration programmes will, given the diverse nature and composition of the programmes themselves, have to assess multiple benefits. A more useful categorisation is therefore one that distinguishes between the nature of the

measurement unit used and the overall approach adopted, in other words, is the focus of the analysis upon project specific impacts or more general movements in indicators, such as the level of unemployment in an area.

**(i) Measurement Unit**

In the case of the measurement unit we can distinguish three broad classifications:

- Use of a single measurement

The principal approach here is the full CBA, which is considered further below. In this methodology all costs and benefits are expressed in a single monetary unit, so that the social net benefits of a programme or project can be considered. A cost is thus defined as any loss of well-being (welfare or utility) and a benefit as a gain in well-being.

- Use of multiple measurement units

This methodology involves measuring a programme or project's impact through the use of several different units of measurement. The emphasis is still on assessing costs and benefits on some scale, but not using a single common unit. Typically, approaches will involve "*a monetary evaluation of relevant impacts extended with a non-monetary impact assessment of all remaining relevant effects*" (Nijkamp, 1989). A comparable value will not therefore be generated for all activities. While intra-programme comparisons cannot be made between the different measured benefits, it is possible to compare inter-programme performance through, for example, cost per unit output or cost effectiveness ratios.

- Qualitative

Some techniques, such as checklist approaches, rely principally on qualitative analysis.

- Combined quantitative and qualitative

As well as measuring costs and benefits, either using single or multiple measurement units, these evaluations will also contain a greater degree of qualitative or subjective analysis.

**(ii) Micro, macro and combined approaches**

As a further dimension to the typology it is also possible to separate evaluation methodologies between those that consider project specific impacts (the micro or bottom-

up approach); those that assess changes in more aggregate indicators, such as employment and unemployment, and attempt to attribute changes to the programme (the macro or top-down approach); and those that use both.

Both the micro and macro approaches are subject to a number of limitations. In the case of the macro approach there are a wide range of exogenous factors that will affect changes within any given area. For example, research<sup>18</sup> has shown the highly significant role that general economic performance plays in determining the impact of a regeneration programme on local unemployment. Some of the programmes or projects being assessed will often have only been operating for a relatively short period and it may be difficult to discern their impact on indicators. In addition, their impacts are also likely to change over time, although the same is also true for the micro approach.

Up-to-date indicators with which to assess overall changes at a regeneration area level are often not available. For example, it is not normally possible to obtain from secondary source data on disposable income at a very local level. Some commercial organisations, such as CACI, do provide survey based information although the sample size for regeneration areas is often very small and estimates, based on analogous areas, are used. (Appendix C of the thesis presents a review of available data sets and shows the wide range of potential sources, but also highlights the different spatial coverage and timings). Moreover, changes in the estimating procedure and definition of indicators (such as unemployment) can undermine longitudinal or time-series analyses. Where data is only available at a larger spatial level, regeneration programmes or projects will often represent only marginal changes within wider, mature markets. Thus, for example, it may be unrealistic to expect that a new road within a regeneration area will have an identifiable impact on the level of economic impact at the host city level.

Once again though the micro based analyses are subject to a number of limitations. There is often only limited data available about beneficiaries and the ability to generate primary data will be constrained by the scope of the evaluation and the resources available. In a number of cases use may be made of proxy data, such as industry standard ratios, which may not be appropriate to the particular circumstances under consideration. In addition, in the absence of a fully articulated model of the local economy, approximations would need to be made of the indirect and induced multiplier effects. As long as these ratios are applied with reasonable care and justified as being appropriate to the particular circumstances that pertain in any given evaluation this may well be a

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<sup>18</sup> See, for example, Russell et al (2000) *The Final Evaluation of City Challenge*

reasonable and pragmatic approach.

On the basis of the above classification criteria, Figure 10 categorises various evaluation approaches. It is evident that relatively few of the approaches use the macro or top-down approach alone. The majority will consider the specific effects of the programme and its individual projects.

**Figure 10: Evaluation approaches typology**

		Measurement units/data			
		Single Measurement Unit	Multiple Measurement Unit	Qualitative	Combined quantitative and qualitative
Methodology	Macro or top-down		<ul style="list-style-type: none"> <li>▪ Macro-economic/ macro-social analysis</li> </ul>		
	Micro or bottom-up	<ul style="list-style-type: none"> <li>▪ CBA</li> <li>▪ Exchequer cost analysis</li> <li>▪ Financial appraisal</li> </ul>	<ul style="list-style-type: none"> <li>▪ Cost effectiveness</li> </ul>	<ul style="list-style-type: none"> <li>▪ Checklist</li> </ul>	<ul style="list-style-type: none"> <li>▪ Planning Balance Sheet</li> <li>▪ Community Balance Sheet</li> </ul>
	Combined macro and micro		<ul style="list-style-type: none"> <li>▪ Environmental appraisal</li> </ul>	<ul style="list-style-type: none"> <li>▪ Goal/objective achievement matrix</li> </ul>	<ul style="list-style-type: none"> <li>▪ Value for Money</li> <li>▪ Multi Criteria Analysis</li> </ul>

#### 4.2.3 *An assessment of the alternative evaluation approaches*

##### *(i) Introduction*

Since this thesis is concerned with the comprehensive evaluation of regeneration programmes the assessment of alternative evaluation approaches has focused upon six specific techniques:

- CBA
- Goal/achievement matrices
- Balance sheet approaches
- Cost-effectiveness
- Value for money assessment
- Multi-criteria analysis

The other more limited approaches, such as an exchequer cost analysis or compliance cost assessment, will be appropriate to particular circumstances but are not relevant to this thesis.

***(ii) Cost benefit analysis***

CBA compares the gains and losses associated with an investment project, such as a new road, or a programme. It is used to measure the preferences of the individuals who are affected rather than those, say, of the decision takers. As noted above all relevant costs and benefits should be monetized and included (Willis, 1980). Its aim is to identify the extent to which projects either add to or detract from the total of social utility. The costs and benefits are discounted using the social discount rate. The normal criterion used to test the project or programme viability is the Net Present Value (NPV) method – if the present value of the benefits exceeds the present value of the costs then the project or programme is viable. Alternative decision rules include the Internal Rate of Return (IRR) and the benefit-cost ratio.

A more detailed discussion of CBA is presented in Appendix D, which includes further information on the key components and concepts including the discounting of costs and benefits.

Hanley and Spash (1993) describe the typical structure of a CBA as follows:

- *Stage 1 - Definition of project*
- *Stage 2 - Identification of project impacts*
- *Stage 3 - Which impacts are economically relevant?*
- *Stage 4 - Physical quantification of relevant impacts*
- *Stage 5 - Monetary valuation of relevant effects*
- *Stage 6 - Discounting of costs and benefits*
- *Stage 7 - Applying the Net Present Value (NPV) test*
- *Stage 7 - Weighting* – altering the weights within the NPV function to reflect distributional issues.
- *Stage 8 – Sensitivity analyses*

CBA is subject to a number of criticisms. The difficulties summarised below are those that are most relevant to an ex-post evaluation. Additional concerns have been expressed about its use in ex-ante appraisals, such as, its ability to handle uncertainty and irreversibility.

Concerns have been expressed about the reliability of the valuations of non-market goods. In addition, as Pearce (1998) notes the “*science of economic valuation has evolved and still is evolving, uncertainty is endemic in the estimates*”. In addition, there is often an emotive and irrational objection to monetization. Although research which claims to show that individuals do not trade off environment and other goods (so called lexical preferences) may provide a more rationale basis for this view.

CBA has also been criticised for its lack of transparency, with highly varied costs and benefits reduced to single financial numbers. Whilst this criticism has some validity, it could be overcome through the reporting process and through sensitivity analyses.

Where benefits do continue on into the future then the issue of what discount rate to use and concern that discounting may violate the rights of future generations has also been raised. Various overlapping generation modelling approaches have been developed to address this issue (a discussion of the issues associated with these is presented in Johnson, 1993). There are also concerns about institutional capture. Is CBA a truly objective way of making decisions, or can institutions capture it for their own ends?

Perhaps the most difficult criticism to counter is that CBA without weighting is concerned to assess economic efficiency. However, economic efficiency is not the only objective. As we have seen employment creation, community development and involvement in the process of decision-making, amongst others, are all important objectives of regeneration programmes. CBA is not well placed to accommodate multiple objectives or multiple domain programmes. However, it does have significant merits as an approach and can be supplemented by other complementary analyses. It can usefully inform the decision-making process, when combined with other approaches.

### ***(iii) Goal/Objective achievement matrix***

The basic approach is to attempt to assess the extent to which pre-determined set objectives have been achieved. Thus, performance is assessed in respect of the progress towards certain stated goals and objectives.

The approach (Lichfield et al, 1975) was principally developed to evaluate alternative policies or plans on an ex-ante basis. However, the framework can also be applied ex-post. It has the benefit of being able to explicitly accommodate multiple objectives. However, there are clear difficulties in measurement, with subjective judgement often required. The approach cannot easily accommodate the counterfactual, other than again on a highly judgemental basis. Whilst it clearly provides an indication of the effectiveness of an intervention in achieving certain objectives, it says nothing about how efficiently this was achieved. It also takes no account of the timing of costs and benefits.

#### ***(iv) Balance Sheet Approaches***

A balance sheet approach involves identifying various groups of producers/operators, who are as far as possible paired with appropriate groups of individuals who will be consuming the goods and services generated. Each linked or associated pair of producers is considered to be engaged in either notional or real transactions. These transactions are not confined to tradable goods and services, but can extend to amenity considerations, indices of accessibility and so forth. The balance sheet aims to produce a comprehensive set of social accounts in a descriptive rather than analytical framework. Estimates of the resource costs can also be made and their distribution among the groups involved assessed. Although some interactions cannot be quantified, they should all be considered.

The balance sheet approach thus contains both quantitative and qualitative data. It also identifies the various sectors within a community that are affected by an intervention and the relationship to the objectives and preferences of sectors in society. The Balance Sheet recognises the political nature of the public sector decision making by accepting that a choice must be made through consideration of a diverse set of elements.

The approach can though be criticised for not weighting the impacts on the sectors of society. Neither is it transparent nor obvious whether a project or programme represented value for money.

#### ***(v) Cost effectiveness***

Cost effectiveness analyses focus directly on the main effect of a regeneration programme in relation to its costs. It excludes all other effects. It differs from CBA in so far as impacts of the programme are expressed in physical quantities, rather than monetized. It is in effect a simplified form of a value for money evaluation, with the value of the programme expressed in a single dimension.

A cost effectiveness analysis will normally involve four stages. Firstly, the programme objectives are determined. Then the total public sector resource costs of the programme are assessed. Generally, only direct monetary resources are included, although the programme costs may sometimes be measured in relation to the benefits that could have been obtained by allocating the monies to other projects (i.e. the opportunity cost). Thirdly, the impact is measured, with due assessment given to additionality. Finally, the cost per unit output and outcome are assessed, through the simple division of costs by outputs/outcomes. (The distinction between outputs and outcomes is explored further in Section 5.5.3 below).

The analysis tends to focus on the direct results that occur over the short to medium term. It does not in general assess the longer-term effects. Yet since regeneration is concerned to secure lasting changes, it is these that are most important. In its normal form it ignores all except the main objective or output/outcome associated with a project. However, this focus upon the main purpose of a project and the simplicity of the analysis make it a potentially attractive approach to decision-makers. Since it makes explicit the relationship between inputs and outputs, and thus the efficiency of the programme, it can provide useful insights into the programme.

Comparisons of cost effectiveness ratios between projects are possible, but require considerable care. Often the approach used to assess costs or outputs/outcomes may vary. Thus, one evaluation may express prices on a constant basis, while another uses nominal figures. There may also be qualitative differences in the outputs/outcomes. For example, the remuneration or longevity of the net additional jobs created by two projects may be substantially different, although the same number of jobs are involved.

Cost effectiveness can be used in combination with other approaches.

***(vi) Value for money***

A value for money analysis will normally comprise an appraisal of:

- a) effectiveness – the extent to which the programme’s aims have been achieved;
- b) efficiency – the ratio of inputs to outputs or outcomes (i.e. cost effectiveness);  
and
- c) economy – the extent to which the resources deployed were the minimum required.

The approach is founded in part on the guidance set out by H.M. Treasury in its publication *Policy Evaluation: A Guide to Managers*. This guide is critically reviewed in Section 4.3.4 below.

It is possible for a programme to be effective at meeting its objectives, but not to provide good value for money. For example, the programme may be relatively inefficient and the objectives could have been met using fewer resources if an alternative approach had been adopted. Neither the Goal/Objective matrix nor the Balance Sheet approaches consider the efficiency with which resources are deployed. However, assessing the cost effectiveness of a project or programme will not by itself, even when benchmarked against ratios derived from comparable programmes, provide a clear assessment of its social net benefits in the way in which a CBA would. The approach tends to be one where the views expressed are those of the researcher. It does not normally adopt a pluralist approach, whereby the different perceptions of success of different interest groups are assessed.

The value for money approach will often be informed by both top-down and bottom-up analyses. It enables the multiple objectives of a regeneration programme to be explicitly included, as well as an assessment of the efficient use of resources. However, there are significant difficulties in assessing the cost effectiveness of a comprehensive regeneration programme, because of the multiple outputs and outcomes. A number of approaches to handling multiple outputs in assessing cost effectiveness are considered later as part of the alternative evaluation framework.

***(vii) Multi-criteria analysis<sup>19</sup>***

Multi-criteria analysis is used to make a comparative assessment of heterogeneous measures. Typically, a range of programme impacts are combined into a single framework for easier assimilation by decision makers. Thus, several criteria are used to assess simultaneously the impact of a multi-domain and multi-measure regeneration programme. It has in general been used in ex-ante evaluations, but can be applied to ex-post analyses. Multi-criteria analysis comprises the following stages:

- *Stage 1 – Definition of measures/projects to be evaluated*
- *Stage 2 – Definition of judgement criteria* – Specific and clearly stated criteria should be defined. The criteria must reflect the preferences of the decision-makers

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<sup>19</sup> Multi-criteria analysis is also referred to as multi-attribute technique or analysis, multi-goal analysis and multi-criteria decision making.

or different points of view. In reality in relation to an ex-post evaluation these should in most cases closely match the original objectives set for the Programme and its individual projects.

- *Stage 3 – Analysis of impacts* – a quantitative or qualitative estimation of the impact of each project is undertaken in terms of the criteria. A process of impact descriptors may be used to do this.
- *Stage 4 – Judgement of effects of each measure* – evaluating the impacts of each measure in terms of each of the selected criteria by giving them a score, based on quantitative data or more subjectively by experts or the beneficiaries themselves.
- *Stage 5 – aggregation of judgements* – this can be based upon three approaches: personal judgements, where each assessor constructs their own personal judgement; assisting coalition, where a measure is classified above another if it has a better score for the majority of criteria and if it has less ‘eliminary scores’ compared to the other criteria; and assisting compromise, a weighting of criteria is proposed by the evaluator and negotiated by the decision-makers/beneficiaries, and weighted scores calculated.

Multi-criteria analysis has the benefit of explicitly recognising the political and value-based nature of evaluations. Its negotiated character and explicit treatment of judgement criteria help to structure complex, dynamic relationships. The values and opinions of several actors are taken into consideration, which makes it a suitable technique for a partnership approach. The framework is relatively simple and explicit, particularly when compared with CBA.

However, multi-criteria analysis is potentially open to significant bias. The definition of criteria and, in some cases, project scoring will be undertaken by those with a vested interest in the result. If these individuals are acting as private utility maximisers, their response may be strategic rather than independent. There is no attempt, unless it is identified as a criteria, to assess whether resources were used efficiently or not. Thus, while projects or measures can be ranked in terms of their contribution to achieving the judgement criteria there is no consideration as to whether alternative interventions could have secured similar impacts more cost effectively or greater impacts for the same resource inputs.

#### 4.2.4 *A politically based typology of Evaluations*

The political nature of evaluations means that the purposes and objectives of the client (the organisation, group or individual who commissions the evaluation) will often be important in determining its nature and scope.

Aaronovitch (1997) has identified four typologies of evaluation as follows:

- confirmatory/legitimising;
- audit/target driven;
- pluralist/stakeholder; and
- democratic.

The characteristics of each are set out in Table 5 overleaf.

Evaluations cannot be easily categorised into these typologies, since there is in reality a continuum and identifying clear demarcations is not possible. However, the typology does provide an indication of the influence that the client has upon the nature of an evaluation. The approach outlined in Chapter 8 below seeks to define an evaluation framework within the democratic typology.

Table 5: Aaronovichs Evaluation typology			
	Purpose/objectives	Indicators regarded as important	Monitoring
1. Confirmatory/legitimising	<p>what the client wants and expects of the evaluation</p> <p>Confirm or at best modify a predetermined policy/programme/project</p> <p>the main results of the evaluation anticipated but useful for a) control; b) claims for funding</p> <p>the client may go ahead without waiting for the evaluation (e.g. project work)</p>	<p>Gross rather than net.</p> <p>Outputs rather than outcomes</p> <p>private sector financial leverage</p>	<p>only so far as needed for the above and for management information</p>
2. Audit/target driven	<p>what the client wants and expects of the evaluation</p> <p>concern with control over expenditure of client's money especially if the delivery agency is at arm's length</p> <p>evaluate the efficiency and effectiveness in the light of the objectives set out in the brief and whether the objectives set for the target groups have been met</p>	<p>Likely to be more rigorous than confirmatory evaluations</p> <p>concern with outcomes as well as with outputs though this may be variable</p> <p>may include an element of stakeholders concerns</p>	<p>important but restricted in scope</p> <p>output important but outcomes less so</p>
3. Pluralist/stakeholder	<p>the client recognises that there are a range of interested groups in the PPP including those indirectly and directly targeted; this is especially the case with delivery of services such as health, crime prevention, housing provision and maintenance etc.</p> <p>concern of client with efficiency and effectiveness of expenditure with effectiveness and empowerment of those directly concerned regarded as of no less importance</p>	<p>These will include a wide range which would be found in audit/target driven evaluations but would tend to go beyond these to look at degrees of involvement in policy, programme and project development</p> <p>outcomes rather than outputs would be a substantial concern</p>	<p>demands on the monitoring system greater than audit/target driven concern with follow up records</p>
4. Democratic	<p>how far does the PPP to be evaluated contribute to the main line objectives of extending democracy, increasing social justice and building up social capital? The commissioner may or may not see this as important for the evaluation. The evaluator brings this concept to the policy, programme, project.</p> <p>this does not dismiss efficiency and effectiveness but interprets them differently. Building up collective capacity, fostering participation is seen as an objective and not an evaluation technique.</p> <p>the evaluation process is itself intended to add value to the policy, project, programme through its active involvement.</p>	<p>These will include a wide range used also in other types of evaluation; they will include all those described under pluralist/stakeholder evaluation</p> <p>there will be special emphasis on the build up of social capital; the range and intensity of involvement of people affected directly or indirectly and capacity building as the heart of the exercise</p> <p>long run sustainable development, so far as it can be defined, determines the indicators to be required</p>	<p>the demands on monitoring are especially stringent to enable the evaluation described to be feasible</p> <p>especially important for the capacity for long sustainable development</p> <p>for this to happen the staff of the delivery agency need to be fully involved, as is the case with the stakeholders themselves, in establishing what is needed and the capacity to deliver</p>

Source: Aaronovich (1997)

Table 5 continued: Aaronovitchs evaluation typology					
	Criteria favoured	Evaluating the delivery agency	Typical methodology	Role of evaluator	Relation to wider economic/social and political issues
1. Confirmatory/ legitimising	as laid down by the client	Variable but not likely to be a key element required of the evaluation  The agency staff not typically involved in the evaluation exercise  treatment of partnership likely to be formal and taken at face value	These could draw on a wide range of methods but likely to be tailored to meet the clients requirements also affected by costs and time, a common problem for all evaluations!	as defined by the client; passive in relation to the brief; results presented after the event	not the evaluator's concern but as defined by the client
2. Audit/target driven*	Value for money; regard for Treasury constructed indicators; achievement targets	Not normally an important issue except as a judgement on results  Agency staff may not be very involved in the exercise  treatment of partnership examined but tend to be more formal than in depth	Primarily quantitative where this is feasible; measurability a priority; impact analysis; cost benefit analysis; project appraisal techniques; quasi-experiments/ control groups may be used	in the main as defined by the client and conform to the brief; results presented after the event; a degree of independence of judgement and recommendations depending often on the status of the evaluator and who controls publication of the results.	variable in range; decided or influenced by clients control of results
3. Pluralist/ stakeholder	the views and perceptions of those affected  degrees of their involvement and building up of social capital  capacity building as critical	An important issue relating to involvement of staff;  The relationships created with relevant bodies;  looking at partnerships in some depth	Could include any of the methodologies already described but also client and user groups; focus groups  social cost benefit analysis	active involvement in the process; to some degree participating with the stakeholder groups  initiating ways of involving users and other stakeholders  an approach akin to action research; responsive to stakeholders as well as to commissioners of evaluation; stakeholders as clients?  Considerable independence of judgement in analysis and recommendations but these seen as contributing in the PPP itself  regards dissemination of evaluation results in progress as part of the evaluation exercise	sensitive to these wider issues and readiness to consider them as part of the evaluation  sense of rights and responsibilities  prepared to consider alternative approaches to those underlying the PPP being evaluated

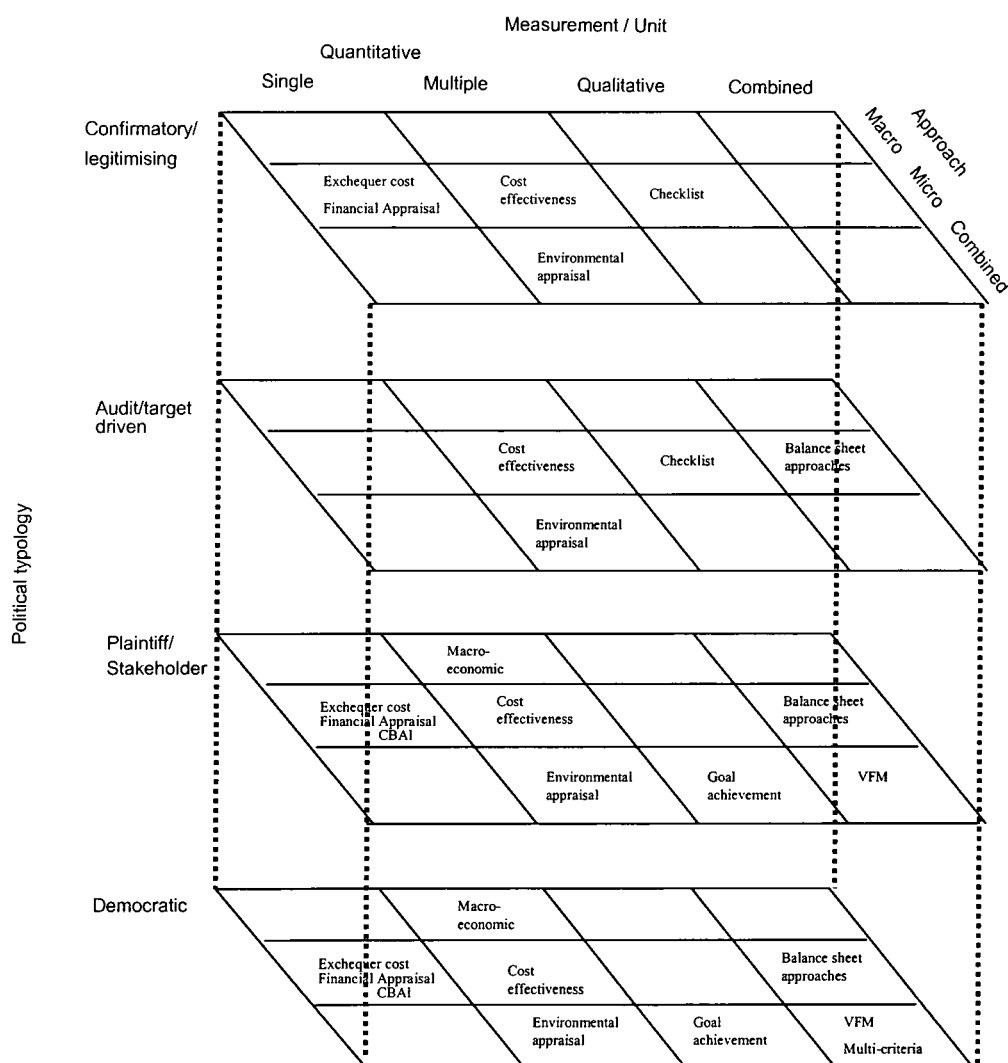
<p>4. Democratic</p> <p>* Probably the most common type of evaluation required</p>	<p>The mode of operation of the agency itself strengthening the collective capacity and institutions with which it works in ways which foster democratic development</p> <p>This includes the ways in which partnerships are constructed, the degrees of equality between partners and how that may be improved through the conduct of the policy, programme, project</p> <p>The extent to which the work relating directly to individuals e.g. in training, employment and other regeneration strategies is conducted in a way which increases their degree of involvement in decision making</p> <p>The degree to which evaluation as an ongoing process affects the way in which the policy, programme, project is delivered</p>	<p>There is enormous diversity in delivery agencies, deriving from the reasons for which they were created and the practical and ideological concepts which determine their specific structures, modes of operation etc.</p> <p>The delivery agencies are critical to the PPPs they are involved with and evaluating them must therefore be a vital part of democratic evaluation which would follow from the criteria already set out</p> <p>The distribution of power between the agents involved in the delivery agencies and the extent to which the differing agendas affect their capacity/intention to foster democratic development</p> <p>the agencies themselves assessed in terms of the kind of organisational structures, also staff development and relations with the people they require to work with</p>	<p>it would, as required, use all the methodologies that are available and relevant</p> <p>it would seek to establish measures of involvement; examine the distribution of resources in the light of capacity building and social justice</p>	<p>readiness for an independent role; not primarily client driven</p> <p>using techniques primarily as they assist in collective capacity building</p>	<p>the evaluator would seek to locate the PPP within a wider framework - within which it is embedded</p> <p>would be able to review the macro situation and the need for contextual policies</p> <p>would be ready to examine policy choices and alternatives</p>
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Source: Aaronovich (1997)

#### 4.2.5 A composite typology

The methodological and political typologies are complementary and can usefully be combined within a single composite typology. This composite typology is perhaps best illustrated in the form of a three-dimensional matrix (refer to Figure 11), with the axes being measurement/unit, methodology and political typology. Many of the approaches can be applied within different political typologies, with the distinction often being who is undertaking the research, how it is undertaken and the scope of the analysis. Thus, for example, a value for money approach could be used within both the pluralist/stakeholder and democratic typologies. However, in the case of the latter the approach would need to be extended to include equity or distributional issues and be based upon local stakeholder involvement. The approach proposed later in the thesis develops just such an extension to the value for money approach.

**Figure 11: A Composite Typology**



The categorisation is not a definitive one. It does though illustrate the multiplicity and complexity of evaluation approaches. We have previously seen in Chapter 2 the complexity of the regeneration programmes themselves.

#### **4.2.6 Summary**

Each of the various approaches has strengths and weaknesses. In particular, the CBA has significant theoretical advantages. It is not however well placed to handle the multiple objectives of a regeneration programme. Conversely, the value for money assessment enables the multiple objectives to be explicitly considered, while also considering efficiency. However, it does not normally present information in a single dimension and the results are difficult to compare. Evaluations can though be highly politicised and subject to significant client influence.

Any alternative evaluation framework must recognise the complex, multi-objective nature of regeneration programmes and as such will need to use multiple, complementary evaluation approaches. The aim of this thesis is to develop a framework that enables a programme or project to be evaluated using a range of different, but complementary techniques. The approach will need to combine assessments of economic efficiency, distributional equity and other societal objectives in a single integrated framework.

### **4.3 Public sector guidance**

#### **4.3.1 Introduction**

In the UK guidance on the evaluation of regeneration programmes and projects is primarily provided by five main sources, as follows:

- Appraisal and Evaluation in Central Government (known as the Green Book) produced by H.M. Treasury;
- A Framework for the Evaluation of Regeneration Projects and Programmes (known as the EGRUP Guidance) produced by H.M. Treasury;
- Policy Evaluation: A Guide to Managers produced by H.M. Treasury;

- Guide to cost benefit analysis of major projects produced by the European Commission for large Structural Fund supported projects; and
- European Commission – Evaluating socio-economic programmes (MEANS Collection).

In addition, individual Government Departments also issue guidance on evaluation or other specific related issues. For example, the Department of the Environment, Transport and the Regions (DETR) has published a guide on the treatment of environmental issues in policy analysis<sup>20</sup>.

The content of each of the main guidance documents is critically reviewed in turn below.

#### 4.3.2 *The Green Book*

H.M Treasury published its guidance “Appraisal and Evaluation in Central Government” (referred to as the Green Book) in 1997. The purpose of the guidance is to “...*help government departments and agencies appraise and evaluate their activities effectively.*” It updates and extends the 1991 edition.

The Green Book states that “*Appraisal is essential to good decision making. Good appraisal calls for flexibility and imagination. It is not a ritual in which rigid rules are applied to the letter.*”

Appraisal is defined as the analysis of the costs and benefits which underlie a policy, programme or project decision. The guidance notes that a wide range of factors need to be assessed. However, it recognises that an appraisal can never do more than inform a decision.

The appraisal will need to consider risks and uncertainties. In addition, issues such as equity, planning feasibility and prior commitments will also need to be assessed. The impact of such factors should be systematically described. All of these issues will inform the subsequent decision.

The Green Book notes that normally an appraisal will follow the same sequence:

- ***define the objective*** - these should be related to an underlying policy or strategy. The Green Book notes that one way of classifying objectives is ultimate, intermediate and immediate. Ultimate objectives are usually strategic or ‘high-level’ and a project is

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<sup>20</sup> Department of the Environment (1991) Policy Appraisal and the Environment, HMSO (Note – a review of the operation of this guidance was published in 1997)

likely to influence, rather than determine, the attainment of these. Intermediate objectives will need to be met if the ultimate objectives are to be achieved. They may not always be within the control of those implementing the project but they should be measurable. Immediate objectives are directly concerned with the outputs of the project and will need to be met if the intermediate objectives are to be achieved. They should be measurable and usually in the control of those implementing the project. Wherever possible objectives should be specific, measurable, agreed, realistic and time-dependent.

- ***consider the options*** - the alternative ways of meeting the objectives should be identified. As a minimum this will include a do nothing or do minimum scenario, which will be the base case or counterfactual. A wide range of options should normally be considered before choosing a limited number for further appraisal. The initial choice of options should not normally be restricted by public expenditure constraints.
  
- ***identify, quantify and, where possible, value the costs, benefits and risks and uncertainties associated with each option*** - appraisals should take a broad view of costs and benefits, including indirect and longer term effects. Typically, this will include:
  - capital expenditure on assets and revenue expenditures;
  - residual value of capital assets at the end of the appraisal period;
  - other costs and benefits which can be valued in money terms;
  - quantified measures, or at least, descriptions of those costs, benefits or impacts which cannot be valued in money terms.

The appraisal should consider the distribution of costs and benefits. The valuation of assets or resources should be on an 'opportunity cost' basis and costs expressed in real terms, although relative cost changes should be included.

- ***analyse the information*** - a number of alternative approaches are discussed.

Most costs and benefits occur at different times. It is therefore important that the appraisal takes account of the time preference of individuals. A 6% real public sector discount rate is recommended to be used in most circumstances.

The risks and uncertainties associated with the project should be fully assessed. Sensitivity analyses should be undertaken to assess the variation in cost effectiveness as a result of changes in key parameters.

- **present the results** - The results of the appraisal should be detailed, together with any underlying assumptions and calculations.

The Green Book states that evaluation examines the outturn of a project, programme or policy. It details the sequence through which an evaluation is normally undertaken, as follows:

- establish exactly what is to be evaluated and how the past outturns can be measured;
- choose alternative states of the world and/or alternative management decisions as counterfactuals;
- compare the outturn with the target outturn, and with the effects of the chosen alternative states of the world or management decisions;
- present the results and recommendations; and
- disseminate and use the results and recommendations.

Evaluations can be very expensive. The amount of effort and resources that should go into them is a matter of judgement. However, in general larger expenditure programmes or projects will justify more detailed evaluations.

The Green Book is supported by a number of technical appendices.

The 1997 Green Book represents a significant improvement over the 1991 edition. It sets out the Treasury's preferred approach to appraisal. In relation to regeneration programmes it promotes the use of cost effectiveness measures and draws extensively upon the EGRUP guidance (see 4.3.3 below). However, whilst such an approach is often simple to use it does not take account of all social costs and benefits. Moreover, it needs benchmark ratios to be widely available to enable comparisons and inform judgements – at present they are not available.

The Green Book states that shadow pricing should not be used and makes no reference to benefits such as the social value of a job. It also advocates the use of a 6% real social discount rate in most circumstances, whereas it would be more appropriate to adopt a specific risk adjusted discount rate for each project. In reality the time preference rate and the cost of capital rate will not be identical (as The Green Book notes) and will change over time as economic circumstances fluctuate.

The Green Book provides only very limited practical guidance to the reader about how to undertake a project appraisal or evaluation – there are no worked examples of complete appraisals for projects of different types. It is particularly weak in its coverage of evaluation. It presents no guidance on how to undertake an evaluation of different types of programme. The European Commission’s MEANS collection: “Evaluating socio-economic programmes” provides far more detailed and more accessible guidance (see Section 4.3.6). There is no discussion of how to handle the complex issues raised by the evaluation of a regeneration programme, such as: that the impacts of projects and programmes often vary substantially over time; that relating input costs to outputs and outcomes and determining the marginal costs and benefits of a programme is often difficult; that interventions in one area can have a positive ‘spillover’ or negative ‘shadow’ effects on adjacent areas; and that in view of the range of regeneration interventions undertaken over time it is very difficult to identify appropriate control or comparator areas.

The emphasis is on economic efficiency rather than equity – the guide fails to explain the difference sufficiently in the main text. It also does not address whether, for example, additional weighting should be applied to certain beneficiaries. In general there is very little coverage of distributional equity. There is very little reference to intended beneficiaries and need.

The Green Book is not consistent with European Union guidance – the European Commission Guide to Cost-Benefit Analysis of Major Projects sets out a CBA approach, with as many benefits as possible being valued, including, for example, the social value of a job.

The guide fails to explain how to deal with multiple outputs and outcomes in the appraisal of regeneration projects. There is only limited coverage of the treatment of ‘costs and benefits not easily valued’.

Appendix 1 to Annex E does not set out a clear methodological framework. For example, no reference is made to local multiplier effects. Nor is there any discussion of how benefits, such as jobs, that are taken up by people living outside of the target area should be treated.

### 4.3.3 *EGRUP Guidance*

H.M. Treasury published *A Framework for the Evaluation of Regeneration Projects and Programmes* in January 1995. The guidance was prepared by the interdepartmental Evaluation Group on Regional and Urban Programme (EGRUP). It sets out a framework for the ex-post evaluation of expenditure projects and programmes with regeneration objectives. Its aim was to improve the comparability of information on the value for money of regeneration programmes.

The EGRUP guidance provides a framework for measuring value for money, based upon a cost effectiveness approach. It emphasises the need to clarify objectives, to identify the rationale for engaging in particular activities, and to assess their impact on markets (and market failures).

The guidance notes that virtually all regeneration activity has the same ultimate aim, namely: to promote self-sustaining economic, physical and social regeneration in areas judged to need targeted assistance.

It stresses the need to identify the objectives and rationale for intervention. The guidance recognises that, where the objective is to redistribute opportunities or income, it is important to assess the effect of such interventions on economic efficiency. Accordingly, it highlights the need to analyse relevant markets.

The guidance notes that a key argument for promoting economic regeneration is that markets are not working properly. By correcting market failures it argues that supply side improvements will be made and the productive potential of the economy as a whole will be increased. It is though often difficult to establish clearly what market failure is being addressed.

The EGRUP guidance identifies that the objectives of regeneration programmes will often include: the promotion of enterprise; improving labour supply and skills; improving the quality of life; and improving the physical environment. Other process objectives are also noted including: improving the performance of local authorities and other agencies; encouraging co-ordination and partnership at local level; improving the image/correcting perceptions of the quality of the target areas; and leverage.

In relation to the analysis of outputs, efficiency and effectiveness the guidance highlights the following:

- Problems of measurement - there are problems in quantifying, let alone valuing, many regeneration outcomes, such as a “reduction in the fear of crime”, the guidance advocates the use of government expenditure per unit of output measures or a cost effectiveness approach. It recognises the distinction between intermediate and final outputs. It also indicates that marginal, as well as average, information should be provided where possible;
- Identification and presentation of outputs - all outputs of a regeneration programme should, as a minimum, be listed. As far as possible outputs should be standardised. The outputs must also be assessed in terms of the extent to which the target group has specifically benefited. Output measures need to be carefully defined and should distinguish between different activities. Care needs to be taken to avoid double counting. The guidance states that receipts from asset sales should not be set off against gross expenditure, but should be recorded.
- Time profiles - the timings of outputs related to expenditures should be shown. The guidance recommends that output data is presented in undiscounted time profiles. However, where it is judged appropriate additional information on a discounted basis should also be presented.
- Expenditure per unit output - in order to assess the government expenditure per unit of intermediate output. This requires the measurement of total expenditure, the apportionment of total expenditure between outputs and measurement of unit cost. The guidance indicates that, generally, tax flow backs to the Exchequer should not be netted off the expenditure. However, not all policy interventions involve public expenditure. Some are regulatory in nature. In these cases the wider costs and benefits still need to be addressed.
- Marginal/average costs and benefits - the relevance of each will depend upon the particular circumstances of the evaluation. However, wherever possible information on both should be provided.
- Additionality - the EGRUP guidance notes that the effectiveness of an activity depends upon the ‘additionality’ or net (as opposed to gross) effect on output. Estimates of additionality require information on: deadweight, displacement and local multipliers. The importance of the spatial area of analysis on the size of displacement and multiplier effects is recognised.

- Impact on markets - the evaluation should include descriptions of:
  - the objectives and rationale (market failures);
  - the main markets affected by the programme;
  - the expected or actual final outputs or outcomes;
  - progress in achieving objectives and the supply side improvements that have taken place;
  - any adverse effects on markets;
  - how the programme activity evolved and the succession strategy.

The Guidance also discusses arrangements for monitoring and evaluation. Particular emphasis is accorded to defining an evaluation framework and establishing monitoring systems at an early stage of policy development, preferably while programmes and their management information systems are still at the appraisal or design stage.

The EGRUP guidance advocates a cost effectiveness approach to evaluating regeneration projects. However, cost effectiveness approaches do not take account of the full stream of social costs and benefits. It indicates that receipts from land sales should not be netted off of gross public sector costs. Whilst there are difficult questions concerning displacement effects and possible double counting it is unclear why for some agencies whose role is to regenerate land such receipts should be excluded. More generally, it indicates that property market values are not generally a good indication of economic impacts. Again, despite difficulties over the potential distortionary effect on the property market of public sector intervention, it is not clear why this should be argued.

In places the guidance does not refer to employment as a core output of regeneration. This would seem to be a significant omission, since most regeneration programmes have as an objective the creation of jobs for local people.

The guidance indicates that outputs should generally not be discounted. Again, in many cases it would be appropriate to attempt to take some view as to the time preference of individuals. This will often mean discounting.

The guidance focuses extensively on the economic efficiency rationale for public sector intervention. In reality the majority of regeneration programmes are motivated by an equity objective.

The guidance makes no explicit reference to leakage or the proportion of outputs that benefits those outside of the target area or group, although it does indirectly. (This and related issues are discussed further in Section 5.6). In addition, while it includes guidance as to the size of supply linkage and income multiplier effects, it presents no evidence as to the sources of these. Furthermore, the employment multipliers quoted are significantly lower than those identified in, for example, the Welsh input-output tables.

#### 4.3.4 Evaluation of social policy

*Policy Evaluation: A guide for managers* was published by H.M Treasury in 1988. It defines policy evaluation as the “*the process of examining a policy while it is in operation or after it has come to an end*”. The guide notes that evaluation forms an important part of the policy making cycle (refer to Figure 12).

**Figure 12: Policy making cycle**



Source: HM Treasury (1988)

The scope and purpose of an evaluation needs to be carefully defined. Issues concerning the information required, depth of analysis and precision required can only be answered once the purpose of the evaluation has been decided. A clear plan or evaluation framework is required. The guidance highlights that the best time to plan to evaluate is when the programme is being introduced.

In some cases the objectives of a policy or programme will not have been clearly defined. It may then be appropriate to reconstruct objectives, which should be sub-divided into ultimate (the broad benefits sought by Government) and intermediate objectives. Where possible objectives should be quantified. Specific management targets linked to objectives can help in assessing performance. However, achieving targets may become an end in itself.

In order to evaluate a policy it is necessary to compare what has happened as a result of the policy with what otherwise would have happened (a base case). In some cases this can be achieved through the use of a control group. However, it is often difficult to find appropriate policy off comparators.

The assumptions underpinning the evaluation need to be clearly defined. The links or casual relationships between the ultimate and the intermediate objectives should be made explicit. In addition, assumptions about the external environment should also be made clear and the evaluation questions to be addressed must be identified.

Where possible the evaluation should include measures and indicators. These can be grouped as follows:

- (i) effectiveness measures and indicators - achievement of objective and relevance of the policy to this. Also issues such as quality of the service and side effects;
- (ii) input measures and indicators - all costs of the policy. These may also include deadweight, additionality and leverage or gearing;
- (iii) efficiency measures and indicators - generally ratios of outputs to inputs. Where possible the unit costs actually incurred in delivering a policy should be compared with estimates of the unit cost of delivering the policy in a different way.

The data for evaluations can either be information that has already been collected for another purpose or compiled specifically for the evaluation. The Guidance also highlights that evaluation itself costs money. Careful consideration must therefore be given to the usefulness (or benefits) of a proposed evaluation in relation to its costs.

The Treasury's social evaluation guidance provides a framework for assessing the value for money of a programme in terms of effectiveness and efficiency. However, it provides no guidance as to the social costs and benefits to consider or how to measure and value these. Whilst it refers to deadweight (the base case option) it makes no reference to

displacement or multiplier effects. The guidance does not include any conceptual or theoretical basis to the approach proposed. Nor does it provide much advice on how to implement the approach.

The approach advocated is founded upon the rational policy-making cycle shown in Figure 12 above. The cycle raises a number of conceptual, methodological and political issues. From a conceptual basis the approach is founded upon a positivist view of evaluation, with an integrated social reality and independent researchers. It is framed within a particular theoretical framework, which will generate specific categories of explanation. In methodological terms the implicit assumption is that evaluation is unproblematic. It provides limited guidance on issues such as additionality. Finally, the guidance fails to discuss that policy evaluation is inevitably a political activity.

#### 4.3.5 *EC major project Cost benefit analysis guidance*

The European Commission (EC) guidance on cost benefit analysis is set out in the “*Guide to Cost-Benefit Analysis of Major Projects*”<sup>21</sup>. The analysis of the socio-economic costs and benefits of major projects is required by the EC Regulations governing Structural Funds. A major project is one whose total cost is greater than €25 million for infrastructure investment or greater than €15 million for productive investments.

The guide defines CBA as “*a procedure for evaluating the desirability of a project by weighing benefits against costs. Results may be expressed in different ways, including internal rate of return, net present value and benefit-cost ratio*”.

The guidance identifies ten steps required for a CBA, as follows:

- ***projects identification*** - the project must be a self-contained object of economic analysis;
- ***definition of objectives*** - the key socio-economic objectives that the project aims to influence should be defined. Objectives should be socio-economic variables and not physical variables. The relevant EU regional and cohesion policies objective should also be identified.

A project with a high economic rate of return is socially efficient. An efficient project generates social profits - social benefits exceed social costs. In principle, the guidance states that Gross Domestic Product (GDP) is increased by any increase in social profits.

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<sup>21</sup> EC Directorate-General XVI, *Guide to Cost-Benefit Analysis of Major Projects*, June 1997.

The internal economic rate of return of a project (a micro-economic projection) may be easier to estimate than macro-economic projections, such as GDP per capita;

- **feasibility and option analysis** - the costs and benefits of the proposed project must be compared with those feasible alternatives. More generally the feasibility of the option must be supported by detailed technical reports;
- **financial analysis** - data should be presented on the physical inputs and outputs on an annual basis and on financial inflows and outflows. The forecasts should be over the useful life of the project or long enough to understand its likely medium/long term impacts. The internal rate of return and net present value of the project should be assessed, supported by full financial statements;
- **socio-economic costs** - the following socio-economic costs should be assessed:
  - actual prices are distorted by monopolies, trade restrictions and so forth - where actual prices do diverge from social opportunity costs then the guidance argues that border price or marginal costs should be used;
  - wages are not linked to labour productivity - distortions may arise because of imperfections the labour market;
  - taxes or subsidies influence price structures - generally prices of inputs into the CBA will be net of Value Added Tax and other indirect taxes, but direct taxes (such as Income Tax and Corporation Tax) should be included. Transfer payments to the individual will be omitted;
  - externalities - social costs which spill over and for which no compensation is paid;
  - non-monetary effects, including environmental impacts - as a minimum these effects should be listed;
  - accounting value of public sector owned assets - the present value of these assets should be included whenever there is an alternative option for their use. No option value implies an opportunity cost of zero;
- **socio-economic benefits** - the social benefits should be presented in measurable form, with consideration given to the following:

- price distortions of output - output prices may not represent their social value, because of market imperfections;
- social benefit of additional employment - the social value of an additional job should be included. In a context where unemployment is high the opportunity cost of labour may be zero. In these situations the benefits would be the additional income generated. As an alternative approach the guide notes that one can try to estimate the income multiplier of output;
- external benefits - positive externalities, such as increased life expectancy from a reduction in pollutants, for which no payment or compensation is made;
- discounting - costs and benefits should be expressed in constant € . All future social costs and benefits must be discounted to a base year, using a real 5% discount rate;
- economic rate of return - the economic rate of return or economic net present value for the project must be calculated. In most cases where the ERR is less than 5% or the ENPV negative the project should be redesigned or rejected;
- other evaluation criteria - non-monetary costs and benefits cannot easily be included in the CBA analysis. Careful consideration needs to be given to such additional criteria in reaching a decision. Distributional objectives should also be assessed and due consideration given as to what, if any, weight will be attached to equity objectives; and
- sensitivity and risk analysis - the risks should be highlighted and a sensitivity analysis undertaken. The guidance advocated the use of probability distribution of ERR.

The EC Guidance presents a more rigorous CBA-based approach than that detailed by the UK Treasury. However, it requires that greater effort is given to valuing benefits, as well as costs. The evidence from appraisals is that in many cases where the social value of a net additional job is included the ERR of projects substantially exceeds the real 5% discount rate. This may well reflect the fact that the opportunity cost of labour has been assumed to be zero.

The guidance provides only limited advice on how to implement the approach. It also advocates the use of a 5% real discount rate; whilst this helps ensure consistency it does not reflect the diverse nature of projects concerned.

#### 4.3.6 *European Commission – Evaluating socio-economic programmes*

The European Commission undertook a programme of research entitled MEANS: Means for Evaluating Actions of a Structural Nature. The aim of the programme was to devise a coherent set of methods for addressing a wide range of evaluation problems encountered in Structural Fund interventions. The results of the research are published in six volumes.

Three main categories of evaluation are identified: managerial, democratic and pluralistic. The British “value for money” approach is presented as fitting within the managerial concept. Consensus conferences are highlighted as being well established in Denmark; while in France, ad hoc evaluation authorities are formed, composed of actors of diverse origins, to conduct evaluation work.

The volumes identify three reasons for conducting evaluations, as follows:

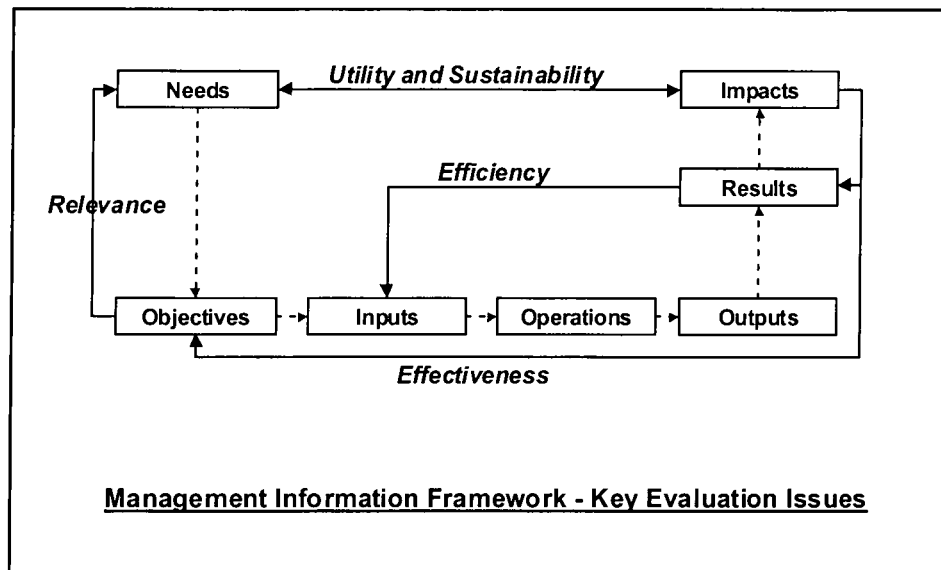
- Verifying that public action responds to uncovered or insufficiently satisfied needs;
- Improving interventions; and
- Accountability.

Evaluation methods need to be adapted to the specific circumstances of the socio-economic development programme concerned. Amongst these characteristics will be the fact that they are co-financed and involve joint decision-making. The evaluation must therefore be carried out with the participation of several partners and meet their different expectations.

The existence of multiple objectives and multiple domains of intervention further compound the complexity of evaluation. The system chosen by the European Commission consists of a programme of three successive stages: *ex-ante*, *intermediate* and *ex-post*. The form of evaluation is recognised as depending upon the stage of the programming cycle, the level of decision-making involved (policy, programme or project) and the scope of the evaluation (overall, thematic or in-depth). However, the various forms are linked together and comprise part of a general framework.

The framework for evaluation has been determined by the Commission and is shown in Figure 13 overleaf.

**Figure 13: Key Evaluation Issues**



Source : European Commission, MEANS Collection

The Needs define the Objectives. Needs and Objectives must be constantly reviewed to ensure Relevance. Inputs are the measures of the resources (usually time and money) put into the service. The Operations are the actions taken and the interventions made.

Output indicators relate to activity and are usually measured in physical or monetary units (e.g. number of training courses run). Result indicators relate to the direct and immediate effects on the individuals or businesses coming into contact with the Programme (e.g. qualifications gained) and include such things as satisfaction measures. Impact indicators refer to the consequences of the service beyond the immediate effects on its direct beneficiaries. Two different “types” of impact can be defined.

- a) specific impacts are those which occur after a certain lapse of time but which are directly linked to the action.
- b) global impacts are longer term effects affects on a wider population or economy. Measuring this type of impact is complex and clear causal relationships are often difficult to establish.

In addition to Relevance as discussed above the model contains a number of “feedback” loops, which it notes are essential to the evaluation process. Efficiency measures how the resources (inputs) were turned into outputs or results. Effectiveness measures how far the interventions contributed to achieving the specific objectives. Utility measures the extent to which the interventions impact on the target groups or population in relation to their needs. Sustainability measures the extent to which the changes (or benefits) can be

expected to last once the programme ends.

Emphasis is made of the importance of framing the work, formulating clear evaluation questions and criteria, and securing full political legitimacy. The terms of reference must be sufficiently precise so that several evaluation teams can compete and the work can subsequently be conducted.

The first step of the evaluation is identified as an analysis of the logic of the programme. In an ex-post evaluation, this analysis is used to clarify objectives when these are not clearly expressed. This step is used to verify and assess the logic of a programme or the connections between all of its elements. This would include the needs to be met, the strategy chosen, the objectives set, the inputs, the measures taken to implement it, the outputs and the expected results and impacts.

When an evaluation examines an entire programme, it is expected to systematically study all impacts. The guide notes that given their diversity and the number of possible causes, the applicable methods are necessarily global. The methods make use of secondary data, qualitative surveys of operators and beneficiaries, and the extrapolation of the results of other evaluations.

The main impact sought is a structural and therefore lasting one on the macro-economic or macro-social level. As a result most programmes adopt multi-sectoral strategies, consisting of diverse kinds of intervention. Each project produces results on the direct beneficiary, after which its impacts materialise in successive stages on distant groups, through various mechanisms. The issue of the policy-on and policy-off situation and deadweight, displacement and substitution effects are discussed in the guidance.

A programme evaluation can either be: a global evaluation, consisting of an examination of the impacts of all measures; a more in-depth analysis of macro-economic impacts; and/or a more in-depth analysis of a particular impact at the micro-economic or micro-social level. In discussing the global evaluation consideration is given to whether macro-economic impacts on a regional or national scale are considered to be the sum of all micro-economic impacts. In relation to the former four techniques are highlighted: concept mapping of impacts, scoring scales, matrix of cross impacts and multi-criteria analysis.

The collection also emphasises that if an evaluation is to add real value in the decision-making and institutional fields, its conclusions must be disseminated. In this regard it considers appropriate communication channels and a communication plan.

Eight criteria are proposed for assessing the quality of an evaluation, as follows: meeting the needs of the commissioners; relevance of scope; appropriateness of the methodology; reliability of the data; soundness of the analysis; credibility of the results; impartiality of the conclusions; and clarity of the report.

The MEANS collection is very comprehensive in its coverage of issues associated with the evaluation of socio-economic programmes. Unlike the other sources of guidance it provides clear explanations of how to undertake an evaluation, using case studies and diagrams to illustrate points.

The methodological approach advocated is one based upon the use of multi-criteria analysis. CBA is identified as being *“often problematical, because of the difficulty in putting certain impacts into incontestable financial terms (especially environmental impacts). Moreover, the technique is extremely difficult to apply to a large programme and is practically limited to the evaluation of infrastructure projects”*. However, the approach proposed by the European Commission may lead to evaluation results that are difficult to interpret as a result of its multi-criteria and pluralist nature.

#### 4.3.7 **Summary**

The five sources of guidance contrast significantly in terms of their theoretical and methodological foundations and the approaches they advocate. In terms of the composite typology the approaches can be classified as follows:

- The Green Book and EGRUP – principally cost effectiveness in terms of regeneration projects within an audit/target driven and/or plaintiff/stakeholder political typology;
- Evaluation in social policy – value for money analysis within an audit/target driven and/or plaintiff/stakeholder political typology;
- EC major project CBA guidance – CBA within a principally target/audit driven typology; and
- EC – Evaluating socio-economic programmes (MEANS) – a range of techniques, including in particular multi-criteria analysis conducted within a mainly democratic political typology.

Any evaluator is thus faced with a range of often conflicting advice or guidance.

## **4.4 Conclusion**

A wide range of approaches is available to evaluators. These approaches can be classified into a three-fold typology combining:

- Measurement/unit;
- Methodology; and
- Political typology.

The guidance available to evaluators from the UK Government and European Commission varies significantly in the approach proposed.

## 5 Key Evaluation issues

### 5.1 Introduction

On the basis of the preceding review of evaluation methodologies and approaches, the review of current public sector guidance in Chapter 2 and the theoretical and conceptual framework outlined in Chapter 3, a number of key evaluation issues in regeneration are now discussed.

### 5.2 Rationale

The rationale for public sector intervention will normally involve justifying an activity in terms of its expected impact on economic performance, or in terms of stated Government policy objectives (such as social objectives), or some combination of the two<sup>22</sup>. In the case of regeneration programmes or projects the rationale will typically be based upon the enhancement of the quality of life of disadvantaged groups (equity) and/or the correction of a market failure. In the case of the latter, the market failures, which the programme is seeking to address, will need to be identified and its impact upon them assessed.

### 5.3 Contextual conditions

In assessing the impact of a regeneration Programme it will be important to establish a clear baseline position. In establishing the baseline, data sources or indicators need to be identified, which are ideally:

- project and geographically specific;
- up-to-date;
- can be regularly updated without excessive cost or delay; and
- will change as a direct result of the activity being monitored.

An indicator must be defined in the context of the system it is to inform. It should relate to the change, or dynamic, of the system and must relate explicitly to the intended effects of policy. In reality few indicators exist which can meet all of these criteria. As a result best fit or proxy indicators will often need to be defined.

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<sup>22</sup> H. M. Treasury (1997) op cit.

The development of the use of indicators owes much to attempts to assess and evaluate various welfare and employment programmes in the USA during the 1960s (Brauer, 1966). In the UK the publication of *Social Trends* in 1970 represented the first official publication of indicators of social conditions.

Indicators can be used in two ways. Firstly, to provide systematic information about changes in society and secondly to learn of the effects of policy interventions. They may be published, official statistics, although they are sometimes collected on a bespoke basis because of inadequacies in published data. As a result they can be useful for a 'one-off' policy study and cannot stand alone as data. Such indicators are non-neutral, since they are defined by the researcher in order to explain particular local issues. Thus, an explicit decision has been made about the purpose and expected areas of impact of a policy intervention. There is an important problem of establishing meaningful comparators where bespoke, primary data is collected, so that the indicator is capable of interpretation.

Indicators can help by providing a more complete understanding of social conditions. They can be used to directly answer policy orientated questions and as a diagnostic tool.

However, there is a tendency to use physical measures for social measures. For example, data about the physical conditions of the housing stock does not necessarily provide a measure of living conditions.

#### **5.4 Aims and objectives**

The objectives of a programme or project should state what it is intended to achieve and be consistent with the rationale for intervening. A critical component of an evaluation will be assessing the validity of the objectives of the regeneration programme or project and determining how effectively they have been achieved. However, the existence of multiple objectives in many regeneration programmes and projects - particularly where no weighting is attributed - make this a complex task and one that requires a degree of sensitivity and judgement.

## 5.5 Costs and benefits

### 5.5.1 Costs

#### (i) *Economic costs*

Most goods or services have an alternative use and they should be costed in an evaluation at their full value in the best alternative use or their opportunity cost. In most circumstances market prices will accurately reflect opportunity cost.

Economic costs include the costs of owned assets, such as land and premises, at their market value. They would also include capital and revenue funding. In an economic appraisal capital costs are included as lump sums in the year in which they are incurred. They are not depreciated over time as they would be from an accounting perspective in a financial appraisal. Other financial costs, such as accounts receivable and payable and finance costs should be excluded from the evaluation, since they represent transfers from one part of the economy to another rather than a change in the supply of resources in the total economy. A summary of the differences between financial and economic costs is set out in the Department of Media, Culture and Sports White Book (2000).

Economic values are generally not affected by the method of financing a project or programme. The source of funding does not affect the quantity of economic resources used in a project.

#### (ii) *Constant prices*

It is necessary to take account of the different timings of costs and receipts and express them in constant prices by reflatting them over time to a particular base year's prices. Nominal historic prices can be converted to real prices using a price index. In most cases a general measure of price changes (such as a GDP deflator) should be used, rather than a project specific index, since the analysis is interested in the change of welfare at the broadest level. However, where the relative price changes of particular items differ significantly, industry or item specific indexes should be used.

#### (iii) *Taxation, subsidies and transfer payments*

Taxes and subsidies can affect relative prices. As a result market prices which include them may not reflect opportunity costs or benefits. However, adjustment of market prices is appropriate in only a few cases. There are though, two exceptions. First, if the tax is

designed to correct a market imperfection (e.g. pollution tax), taxes are interpreted as shadow prices. However, these are rare and not usually a good guide to marginal external costs. Second, where Government places unequal weight on gains and losses attached to different groups in society. Here gains and losses will not cancel out.

One class of impact that should be excluded from a CBA are transfer payments. These flows do not constitute a using-up of real resources (such as labour hours), but merely a redistribution of money through, normally, the Government. Transfer payments represent any expenditure by Government for which it receives no goods or services in return. They do not represent direct economic costs, except in terms of administration, because the benefits to recipients are offset by the direct costs to taxpayers. However, they do in the case of social security payments have, for example, significant distributional effects.

(iv) *Discounting costs*

Where costs and benefits accrue at different times within the overall evaluation period then these should be discounted to reflect the concept of time preference. H.M. Treasury guidance indicates, as noted above, that the normal rate of discount applied to appraising Government expenditure decisions is 6%. The European Commission recommends the use of a 5% discount rate.

(v) *Exchequer costs*

In order to undertake an effective evaluation the total Government expenditure on a given programme will need to be identified. This will include: all public expenditure, any tax expenditure (such as accelerated capital allowances) and contributions from European Structural Funds. Generally, the argument is that tax flow backs to the Exchequer should not be netted off the expenditure.

The EGRUP guidance also states that “receipts from asset sales by the public sector should not be set off against gross expenditure”. As noted earlier, in the case of regeneration agencies, which are often seeking to buy, reclaim and sell on land having corrected specific market failures, it is not clear why at least a proportion of these receipts should not be included. Some of the value may have arisen because of a displacement of activity, and thus reduction in land value elsewhere in the area of analysis. Thus a general equilibrium rather than a partial equilibrium analysis would be required. In addition, care will need to be taken to ensure no double counting of benefits.

(vi) *Negative Externalities*

The project or programme may result in a number of other costs, such as environmental or congestion costs. These should be assessed and, where possible, valued.

A particular issue that will require specific consideration is the issue of irreversible effects. These are often discussed in the context of environmental impacts.

### 5.5.2 *Benefits*

(i) *Monitoring data*

The availability of input and output monitoring data is critical to an evaluation. This data needs to be accurate and relevant. In particular, it should relate to the objectives of the programme or project. If this information is inadequate its assembly after the event is often difficult and expensive. As a result the establishment and maintenance of an effective monitoring system is an essential to a comprehensive evaluation.

(ii) *Outputs and outcomes*

The outputs of a regeneration programme may either be intermediate or final, as follows:

- intermediate outputs are defined<sup>23</sup> as the goods or services produced as a direct result of the programme; and
- final outputs or outcomes are the wider consequences of the policy on the welfare of consumers or producers.

The outputs and outcomes to be assessed in an evaluation of a regeneration programme may include economic, housing, social, training, education, health, social and environmental related benefits. (The precise nature of the outputs and outcomes of regeneration programmes and projects is discussed in detail in Chapter 6 below). Any variation between actual performance and planned targets will also need to be assessed.

In addition, many of the outcomes associated with a regeneration programme will be difficult to measure or will be less tangible, such as quality of life and happiness. Other important benefits that are difficult to measure include the accumulation of capital

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<sup>23</sup> EGRUP Guidance

(including social and human capital) within the area, the extent to which the local community's capacity for self-help has been enhanced and the level of empowerment. These outcomes are often associated with societal objectives such as community.

The impacts of a regeneration programme are the attributable outcomes of the programme or project.

*(iii) Impacts*

The impacts of a regeneration programme may arise in a variety of ways as follows:

- Primary (direct and indirect) - for example, short-term and permanent direct expenditure, employment or income created by a programme or project. In addition, a project may generate a series of indirect effects. In the context of a tourism project this would include the off-site impacts associated with visitor expenditure.
- Secondary - expenditure, employment and income resulting from supply linkage and income multiplier effects;
- Tertiary - the broader impact of a programme or project in generating additional economic activity or other benefits. For example, the objective of spending on the refurbishment of sites is not simply to stimulate the construction industry, but to attract inward investment into the area.
- Wider - a range of wider benefits - or positive externalities - such as image enhancement or environmental improvement. The creation of additional economic activity - particularly if the employment created is accessible to local residents - may help to reduce social polarisation and improve quality of life.

Each of these will need to be considered in an evaluation.

*(iv) Measuring and valuing benefits*

Wherever possible it will be important to define the scale, as well as the nature, of the benefits generated. In seeking to quantify benefits it will also be important, where practicable, to attribute monetary values to benefits, as well as costs.

Attaching a value to a non-marketed commodity is difficult. The value of a publicly provided good or service to an individual is measured by the consumer surplus it generates. This is measured by the area under the (compensated) demand curve and above the price line.

Valuation techniques, such as contingent valuation and hedonic pricing (refer to Section 3.2.2 above), have been developed to enable explicit monetary values to be placed on costs and benefits that have no market prices. However, these are open to a number of criticisms and are often expensive to apply.

Valuing time and time savings can be an important consideration in certain conditions. Wage rates can be used to measure an individual's own evaluation of time. However, it can be argued that for some individuals, whose number of hours worked is restricted, this is likely to overestimate leisure time values. For others their wage may be an underestimate.

There will in reality often be benefits (and costs) upon which it is not possible or is extremely difficult to put a monetary value. If this is the case these factors need to be set out in a way that helps inform the evaluation. These benefits (and costs) should still be quantified either using their own unit of measurement or by devising scales of measurement. Scoring, weighting and ranking can be useful to highlight the various effects and trade-offs between projects or options. Several types of scale can be used:

- ordinal – ranking options on the basis of the characteristics being assessed;
- interval – the difference between the scores; or
- cardinal or ratio – have an origin or true zero point. Ratios between scores may be calculated using these scales.

In a scoring and weighting system outputs are assigned a score on an appropriate scaling system and then different outputs are accorded a weight reflecting their perceived importance in enabling the stated objectives to be met. There are though significant weaknesses in the approach including the question of how far 'downstream' benefits are attributed to the project or programme, and in particular the degree of subjectivity involved in the scoring and weighting of each element. As a result it is important that the assumptions used in weighting and scoring are clearly set out.

(v) *Exchequer considerations*

H.M. Treasury argues that the wider economic consequences of an intervention - such as benefit payment savings to the Exchequer associated with a lower level of unemployment - should not be counted since the expenditure associated with the programme or project would typically be available for use in other ways, with broadly equivalent macro-economic consequences. The validity of this argument should be considered and tested in an evaluation of a major regeneration programme. Where a project results in the removal of a supply side constraint, through for example promoting technological improvement, this may bring benefits to the national economy.

(vi) *Shadow prices and market prices*

Where market failures exist social prices or shadow prices can be used to calculate the true marginal social costs or benefits. Shadow prices are though difficult to calculate, because of uncertainty over the consequence of Government intervention. It is contended in this thesis that there is significant merit in the concept of benefits transfer or the use of values derived from previous or analogous projects or programmes.

(vii) *Timing and duration of benefits*

The benefits (like costs) of a regeneration programme or project will vary over time. Greater value is normally placed upon those benefits that arise earlier and last longer. More generally, the concept of time preference or greater weight being attributed to earlier than to later costs and benefits is an important one. It will be important that an evaluation assesses and clearly presents the time profile of all benefits and costs.

In the context of a regeneration programme the longevity of benefits can be important. Most regeneration programmes seek to secure what is often called self-sustaining regeneration. This can be defined as creating the conditions, within a given spatial area, where further regeneration resources - over and above those that are generally available to all communities - are no longer needed, because of the improved physical, social and/or economic conditions. If all social costs and benefits can be quantified and valued to infinity then this issue will automatically be incorporated within the evaluation. However, where benefits are not assessed in this way, separate consideration may need to be given to the extent to which a programme has created the conditions for sustainable regeneration.

Careful consideration also needs to be given to the likely duration of benefits. Thus, for example as new interventions take place and markets adjust it becomes increasingly difficult to separate out the effects of a project or programme. The nature and scale of benefits will change over the evaluation period. In many cases the level of benefits will decay over time.

*(viii) Discounting non-monetary benefits*

There is a general presumption in H.M. Treasury guidance (see EGRUP guidance, Annex B) against discounting non-monetised benefits, such as jobs. Instead a qualitative approach is advocated, with the profile of outputs being identified. However, by not explicitly taking account of the timing of benefits the evaluation may not fully address the issue of time preference.

*(ix) Quality of benefits*

Where benefits cannot be expressed in monetary terms it will be essential to consider the qualitative effects of the programme or project. Thus, the quality of the projects implemented and the outputs and outcomes achieved will be an important consideration. In the case of an employment outcome, for example, consideration will need to be given to the wages, conditions and permanency of the job. It will be important to be explicit about the treatment of part-time jobs. In many cases jobs are converted to full-time equivalents based upon the number of hours worked and an assumption concerning the standard working week. This may though understate the value of part-time jobs, which may meet the working pattern requirements of particular groups within the labour force.

*(x) Residual value*

Even at the end of the evaluation period or time horizon for the evaluation an asset may still have some residual value. The estimated residual value should be included within the evaluation and the assumptions made clear.

## **5.6 Additionality**

Additionality is the extent to which activity takes place at all, at a larger scale, earlier or within a specific designated area as a result of the policy intervention.

The main focus for any evaluation is the net additional impact of a programme and project. The EGRUP Guidance defines additionality as:

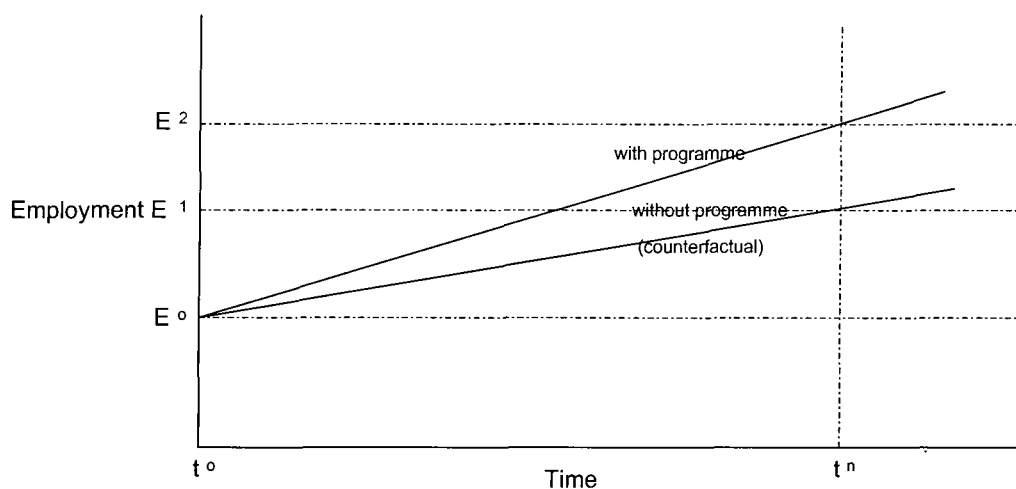
*“a general concept relating to any output of regeneration policies. In practice, most empirical work relates to employment. Additional output is defined relative to what would have happened in the absence of the intervention (the counterfactual). It may relate to the scale, timing or location of activity.”*

The impact of the programme or project will need to be compared with the effects that would have been expected to arise under selected alternative approaches. In reality most evaluations contrast the costs and benefits of the programme, with a base case or counterfactual scenario (i.e. that which would have happened in the absence of the programme or project under consideration being implemented). However, it may also be appropriate to assess the alternative options considered at the appraisal stage or potentially options which were not thought of during the appraisal. The comparative assessment of impacts should normally include a control group, upon which the programme or project did not have an impact. The identification of appropriate control groups or policy off comparator areas is often very difficult, since most comparable areas will have been subject to some form of regeneration intervention.

Additionality is not solely a matter of an output either being produced or not. In the majority of cases it is about partial additionality. In order to assess additionality analyses will be required of the markets affected by the intervention and the impact on other public sector interventions.

Figure 14 below illustrates the assessment of net additional employment change based upon a macro or top down approach. Thus, the net additional employment impact of the programme is  $E^2$  minus  $E^1$ .

Figure 14 : Assessing additionality



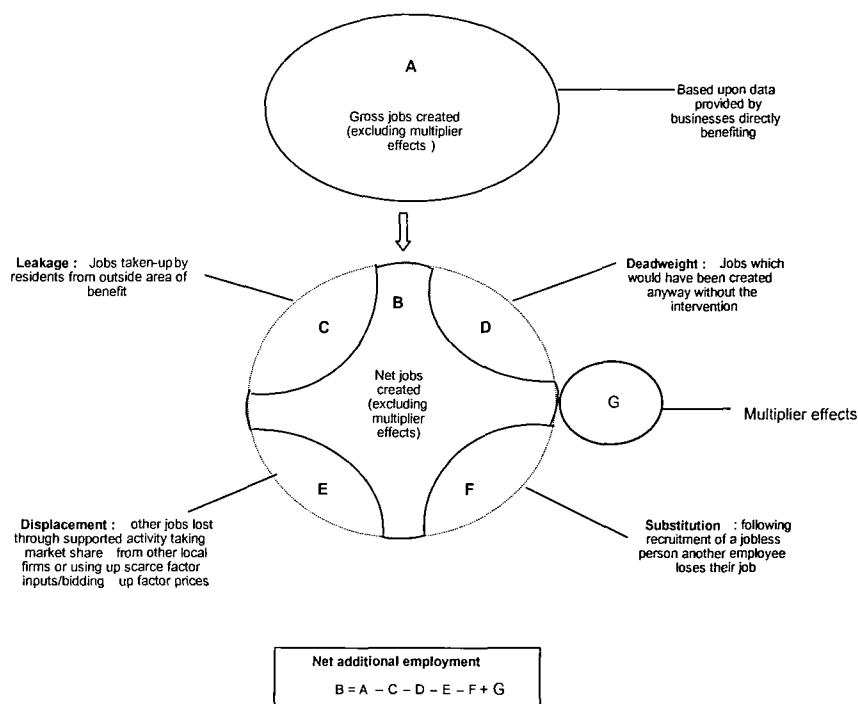
Where

$t^0$	=	baseline
$t^n$	=	evaluation point
$E^0 - E^2$	=	observed change in employment
$E^1 - E^2$	=	impact of programme

However, the analysis of additional impact will often need to be assessed from a project or micro level. In order to assess additionality from the bottom-up a series of adjustments need to be made to move from the gross direct effects to the total net additional effects. Figure 15 below illustrates the deductions (leakage, displacement, substitution and deadweight) and additions (multiplier effects) that need to be made at the local level. Each of these effects is then discussed in turn.



**Figure 15: Assessing additionality (micro)- Business Support Leakage, deadweight, displacement, substitution and multiplier effects**



The evaluation therefore needs to include an assessment of:

- **Multiplier effects**<sup>24</sup> – further economic activity associated with additional local income and local supplier purchases.
- **Leakage** – the proportion of outputs that benefit those outside of the programme or project’s target area or group. Leakage is, for example, not explicitly referred to in the EGRUP guidance. However, the need to take account of such effects is clearly implied, with the guidance referring to additionality relating to the “*scale, timing or location of activity*”. In addition, EGRUP states that “*a scheme to promote employment in a particular area for young people without formal qualifications*”

<sup>24</sup> For analytical purposes two types of multiplier can be identified:-

- a supply linkage multiplier - due to purchases made as a result of the project and further purchases associated with linked firms along the supply chain. In the absence of a fully articulated model of the local economy these effects are difficult to trace. However, multipliers derived through empirical research in previous studies can be used to approximate these impacts. Alternatively, estimates of the local content of purchases can be used to calculate the local supply linkage multiplier effects, assuming the proportion of expenditure net of non-recoverable indirect taxes incurred on local goods and services is similar throughout the supply chain.
- an income multiplier - associated with local expenditure as a result of those who derive incomes from the direct and supply linkage impacts of the project. Again, precise estimates are difficult to calculate. As a proxy, the results of previous research can be used or estimates can be calculated on the basis of local consumption patterns through the local economy. Again the assumption is that behaviour is similar at each point in the supply chain.

A number of impact studies have also identified a longer-term development multiplier associated with the retention of expenditure and population in an area. However, EGRUP Guidance indicates that “the concept of the long term multiplier is relevant to the longer-term, general objective of self-sustaining development, but it cannot usefully be quantified”.

*ought to be regarded as a failure if additional employment was created in the area, but of a kind that offered no opportunities for the target population”.*

The concept of leakage recognises that particular weight has been given to ensuring that benefits accrue to the residents of a spatially defined area or to target groups. However, it means that no value is attached to, for example, jobs taken by individuals residing outside of that area. To the extent that those individuals living outside of the area who gain employment are equally or more disadvantaged than local residents it is unclear why no social benefit should be attached to these jobs, even on an equity basis.

The emphasis on benefiting residents of a given spatial area raises further questions. For example, many of the people living in an area at the beginning of a regeneration programme will not still be there at the end. In some cases individuals may have been helped into employment by the programme. As a result of an increase in their income they may then have been able to move.

- **Displacement** – the proportion of project outputs accounted for by reduced outputs elsewhere in the target area. Displacement may occur in both the factor and product markets<sup>25</sup>.
- **Substitution** – this effect arises where a firm substitutes one activity for a similar one (such as recruiting a jobless person while another employee loses a job) to take advantage of public sector assistance.
- **Crowding out** – increases in public expenditure cause other variables in the economy to adjust resulting in a decline in private expenditure<sup>26</sup>. Crowding out differs from displacement because it relates to wider economic effects – it is a macro economic rather than a micro economic phenomenon. At a national level crowding out and displacement combined would be 100%, or more, unless there are supply-side improvements.

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<sup>25</sup> Product market displacement arises where the output of a supported activity takes market share from local firms producing the same good or service. In the case of factor market displacement a support activity uses locally scarce factors of production (e.g. skilled labour or land) or bids up factor prices.

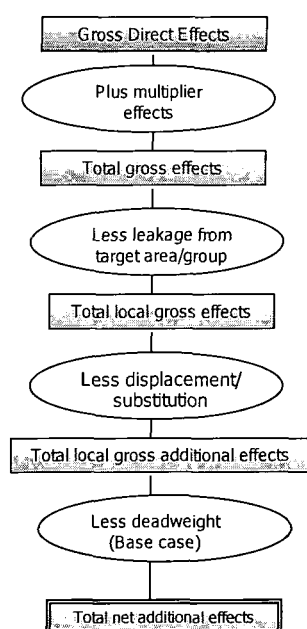
<sup>26</sup> The UK Treasury has stated that in its view increased public expenditure cannot generally create a sustainable increase in employment or output at a national level. Public sector expenditure will directly displace private consumption or investment if financed through taxation. If the expenditure is financed by borrowing and the inflation targets are to be met, interest and exchange rates will adjust reducing international competitiveness and thereby negating the initial increase in employment or output. Only policies which result in supply side improvements are believed to have lasting employment effects at the national level.

- **Crowding in** – public expenditure encourages private expenditure to increase as a result of adjustments in other variable in the economy. This may result, for example, from lower interest rates due to public sector interventions reducing risk.
- **Deadweight** – output which would have occurred without the project.

For more local level evaluations crowding out and crowding in effects are not normally relevant.

The analytical framework for a local area level evaluation (i.e. not including crowding out and in) is summarised in Figure 16 below.

**Figure 16 : Net Additionality Analytical Framework**



Not all of the factors will be relevant to all outputs of a regeneration programme. Their applicability will vary by project/output type and individual project. Table 6 below presents a summary review of the factors that will need to be considered by project type in assessing net additional outputs.

<b>Project type</b>	<b>Leakage</b>	<b>Deadweight</b>	<b>Displacement/substitution</b>	<b>Multiplier effects</b>
Commercial development	May be relevant if beneficiaries are non residents	Need to assess	May be displacement within commercial property market	Relevant to employment (investment and income)
Housing	Not relevant	Need to assess	May be displacement within housing market	Not likely to be relevant
Transport	May be relevant if beneficiaries are non residents	Need to assess	Not likely to be relevant for most projects	Relevant to employment (investment and income)
Environmental	Not likely to be relevant	Need to assess	Not likely to be relevant	Not likely to be relevant
Business support	Not relevant to businesses themselves. Is relevant to employment created	Need to assess	Displacement may arise in relation to private sector business support (e.g. banks) and product and factor market displacement	Relevant to employment (investment and income)
Community & social	May be relevant if project serves a wider area	Need to assess	Not likely to be relevant	Not likely to be relevant
Crime prevention & community safety	Not relevant	Need to assess	Not likely to be relevant, although crime may be shifted to elsewhere in area. This is a different form of displacement, which should be described and, where practicable, quantified in the appraisal	Not likely to be relevant
Training	May be relevant if places taken by non residents	Need to assess	May result in substitution of labour	Not likely to be relevant
Education	May be relevant if places taken by non residents	Need to assess	Not likely to be relevant	Not likely to be relevant

Source: DETR (2000)

An evaluation will need to specify clearly at what spatial level or reference area the programme or project is to be assessed. For a major regeneration programme it will be normal to appraise those benefits that have accrued at the national, regional and local level. It is worth noting that the level of displacement and size of the multiplier effects will both vary with the size of the area under assessment. The larger the area over which the benefits of the programme are being analysed the higher will be:

- the level of displacement;
- the size of the indirect multiplier; and
- the size of the induced multiplier.

The level of leakage will often also be lower as the area of analysis grows. Crowding-out also becomes an issue as the area increases.

## 5.7 Economic efficiency and distributional effects

### 5.7.1 *Market failures*

Where the rationale for intervening is based upon economic efficiency, the underlying market failures and their cause(s) must be identified. It is important that this is not simply a description of the consequences or symptoms of these failures. Thus, appropriate analysis is required to generate evidence that a market failure is causing a significant misallocation of resources. This is though still not sufficient to justify public sector intervention. By implementing a project or programme the public sector must have led to an improvement in economic efficiency, after taking account of all costs, including the distortionary costs of intervening.

### 5.7.2 *Distributional equity*

Regeneration programmes and projects cover a limited geography and are often targeted upon particular groups such as ethnic minorities, specific industry sectors and other target groups. As such any evaluation will need to give careful consideration to distributional issues and the degree to which the intended beneficiary has actually benefited from particular projects.

The more general distributional effects of a programme or project in relation to disadvantaged groups must be assessed, even where it is unclear that specific groups within the area were being targeted.

A number of approaches can be used to measure inequality with and without the programme including:

- graphs - showing income against population;
- Lorenz curve - showing the percentage of national income earned by various income groups;
- Gini co-efficient - this provides a summary measure of the extent to which the Lorenz curve deviates from the linear diagonal. The value of the Gini Co-efficient varies between 0 (egalitarian or complete equality) and 1 (complete inequality);
- Poverty index - a minimum income level. The number of individuals below the poverty line. One potential problem associated with interventions to reduce the number of those below the poverty line is that it can focus Governments on moving

those just below the line above it, rather than focusing support on the most disadvantaged;

- statistical or econometric analyses.

Where the rationale for intervening is based upon equity alone it will not be necessary to identify a market failure. However, the impact of the intervention on economic efficiency should be assessed.

## **5.8 Administrative efficiency**

The effectiveness of operational procedures and processes established to administer a programme or project will also need to be evaluated in order to assess administrative efficiency. Furthermore, the economy of the programme and individual projects will need to be evaluated in terms of the extent to which the expenditure incurred was the minimum required. An assessment of administrative or process efficiency is important in evaluating the overall value of a programme.

A partnership approach has become a central component in the delivery of recent regeneration programmes. A further important element of an evaluation will therefore be consideration of how effectively the partnership has worked and to identify the added value associated with operating in this way.

The more recent regeneration programmes (City Challenge and SRB Challenge Fund) have attempted to secure the comprehensive, lasting regeneration of designated areas through a comprehensive (holistic) approach to regeneration involving the development of integrated packages of projects. As such an attempt to secure synergy between different types of intervention is an important element of the Programme. Synergy can be both positive and negative and represents the additional impact from running projects together rather than separately. Thus, for example, positive synergy may occur between mutually reinforcing road programmes and advance factory building.

## **5.9 Overall evaluation of programme**

There are a number of alternative overall methodologies for evaluating a programme as was seen in Chapter 4 above. These include both quantitative and qualitative approaches to assessing the overall merits of a regeneration programme or project.

## 5.10 Policy lessons and dissemination

It is essential that the results and recommendations of any evaluation are clearly identified and fed into future decision making. As a result a dissemination strategy should be developed for an evaluation as part of the research design. The results of evaluations should in almost all cases be placed in the public domain and widely disseminated.

## 5.11 Research Methods

Most evaluations will involve a range of research methods including:

- Primary data
  - surveys (telephone, postal, face-to-face)
  - consultations/interviews
  - focus groups
  - case studies
- Secondary data
  - programme monitoring data
  - published statistical data (e.g. Annual Business Indicator, Labour Force Survey, Claimant Count Unemployment, educational attainment, etc)
  - other reports
- Data analysis
  - factor analysis
  - delphi techniques
  - comparison groups
  - econometric analysis and modelling.

It is not within the scope of this thesis to address the methodological and practical issues associated with these research methods. However, it is important to review a number of

the principles of policy research, which will need to be considered in formulating the alternative evaluation framework.

Undertaking policy evaluation raises a number of questions about the normative stance of the researcher and the objectivity of the research. As such regeneration policy analysis goes beyond the traditional bounds of research methods.

Along with experimental and non-experimental methods, regeneration policy research will also directly involve policy makers and implementers. Questioning civil servants, politicians and administrators raises questions of confidentiality, co-operation and biased responses. The researcher must be aware of these issues and address them using appropriate techniques. It will also be necessary to involve beneficiaries and those affected by regeneration programmes. It is essential to understand the benefits and costs of the programme as experienced and perceived by these groups.

A wide range of methods will normally be required, drawn from a range of disciplines. As noted above welfare economic theory provides a central theoretical basis. However, the researcher must also draw upon qualitative political theory to understand the decision making process; quantitative modelling in order to systematise knowledge about the relationship between interventions and their impacts; and organisation theory to understand the process of policy implementation.

Regeneration policy research will normally involve the use of case studies and comparative analysis. Newton and Sharpe (1977) argued that effective policy analysis requires the complementary use of case studies and comparative research – *“despite the undoubted refinement, case studies can tell us little if we do not know how they fit into the broader picture: similarly the comparative approach, for all its value in identifying the broader contours and general patterns of the system, cannot provide a comprehensive account of the policy process and its outcomes.”*

In using case studies the researcher must build a context that takes them beyond just description. Use must be made of the information gathered to test theoretical hypotheses. A variety of research methods will need to be used including: an analysis of documents and minutes of meetings, interviews with policy makers and implementers and a sample survey of attitudes, behaviours, opinions and impacts of those affected. A study of documents alone will inevitably be constrained by the extent to which the researcher believes the documents fully reveal policy intentions.

In making inferences from case studies the greatest uncertainty is external validity. Generalising from the sample may be difficult. This can be reduced by minimising the inter case study variability. As such careful research design is required, which draws upon accumulated knowledge.

Policy research involves a political dimension. Policy makers may give biased answers for a number of reasons. They may feel that it will expose weaknesses in their policy argument or that the research is of limited value or that they have too little time available to participate. Any researcher must carefully nurture the relationship with the subject group.

A wide range of data will need to be used. As such careful consideration also needs to be given to the issue of measurement. Terms and definitions need to be defined so that there is no ambiguity between the researcher and the subject group. To order the data, nominal and ordinal scaling may often be required.

The policy process should be seen as a continuous one. Each new policy is a reaction, in part, to a previous policy and its effects. In evaluating programmes it is important that they are seen in this context. Thus, the patterns of interactions over time that surround the policy making and implementation need to be clearly identified and understood.

The field of policy analysis requires that a clear conceptual framework is developed. Since it is concerned with collective decisions, it is inherently complex. Therefore, there is a policy dynamic – with every action producing some form of reaction or adjustment. In addition, there is a need to distinguish between policy causes and policy effects. The former is concerned to assess the social norms and attitudes, which explain why and how a policy was developed. Policy-making is subject to a wide range of factors that influence its nature and content (see Section 3.7 above). In the case of the effects of policy it is the changes in the environment, conditions, behaviours and attitudes of individuals and groups within society that is important. This will involve consideration of effects over time and any unintended or side effects.

Braken (1981) set out some broad guidelines to the use and development of methods in urban policy research as follows:

1. strategies for the selection of events (policies), variable (both casual and effectual), and their treatment must be set down;

2. as far as possible, standardisation of the specification of research designs should be adopted;
3. as 'time series' collection of data and information is extremely important, the early identification of emerging policy deemed to be worthy of study is vital, as is:
4. the need to 'build in' to policy programmes the facility to analyse systematically the impact of policy;
5. following points 3 and 4, it is clear that a commitment to continuity of research (particularly data collection) is vital and should not be subjected to inconsistencies that 'political crisis' type responses often bring;
6. that large scale multiple objective projects (and these are common in the urban field) raise some difficult problems in management terms and these particularly affect the specification of priorities *within the policy programme* that makes an efficient research design difficult to construct;
7. that full and comprehensive documentation during the conduct of the analysis is vital;
8. that, where possible, a quasi-experimental approach should be adopted, particularly in that 'control' will be a difficult concept to apply, but that useful comparisons can be achieved by the use of matched pairs of locations, and finally;
9. that in making inferences in policy research, there will be a need to integrate findings both from the research into policy-making processes and into the substantive contexts and impacts of that policy making;

Bracken's guidelines propose that policy research is conducted in parallel with policy implementation. This is without doubt the optimum approach. However, in many cases Government policies are implemented without detailed consideration of what arrangements should be established to evaluate its impacts. In some cases researchers will therefore find themselves undertaking retrospective research. However, this introduces additional uncertainty, particularly when dealing with 'soft' data. There will be problems of post-rationalisation in the case of policy implementers and difficulties of recall and learning effects with beneficiaries.

There is therefore a need in most evaluations to combine quantitative and non-quantitative research methods. Thus, the descriptive methods provide the basis upon which hypotheses can be formulated and a framework within which quantitative analysis can be set. A quantitative or quasi-experimental approach can be used to validate (or otherwise) hypotheses which the researcher has constructed through descriptive approaches. Thus, in the case of a regeneration programme, a multiple replication design can be used, which

compares the policy impact in different locations or regeneration areas. In addition, Decision Theory can, for example, also be used to explain and understand the decision making process within a regeneration programme.

In all cases it is important that researchers are aware of the possibility of jeopardising factors. These may include the existence of unmeasured, independent variables. This can only be addressed through extensive exploratory and contextual study. Other problems include intervening variables. These include, importantly, public opinion, which given the extent of community involvement in regeneration programmes can often be a significant factor.

In most evaluations some form of quantitative analysis will be required if the nature and scale of causes and effects are to be distinguished. Inductive statistical analysis can be used. Thus, an analysis of empirical data about a situation can be used to induce knowledge about the relationship between variables through the use of standard statistical techniques, such as analysis of variance, linear regression, and probit and logit regression.

In its simplest form the policy represents the independent variable and the various outputs and outcomes the dependent variable. In other cases it may be interesting to analyse what aspects of a policy or programme explain a particular outcome. Thus, the policy would be the dependent variable and the independent variables would include levels of unemployment and various characteristics of the local regeneration partnership. However, care must be taken to exclude common types of explanation, where the dependent variable co-varies with an independent variable or where there are complicating indirect influences between the dependent and independent variables.

In most cases the research will be based upon direct empirical study. However, in some situations simulation models may be used.

## **5.12 Conclusion**

This chapter has identified and defined the following issues as being key to any evaluation of a regeneration programme:

- rationale
- contextual conditions
- aims and objectives

- costs and benefits
- additionality
- economic efficiency and distributional effects
- overall evaluation of the programme
- policy lessons and dissemination.

In critically reviewing recent evaluations it will be important to assess the extent to which these issues have been effectively addressed. Furthermore, they must form a core element of any alternative evaluation framework.

The Chapter has also reviewed the key principles of policy research. These will also need to be considered in critically assessing recent evaluations and in developing the research design for the alternative evaluation framework.

## 6 The Benefits of Regeneration Programmes and Projects

### 6.1 Introduction

This Chapter assesses the public sector's objectives in intervening in particular programme areas or domains in order to secure additional social benefits. It also reviews the broad range of benefits, in terms of outputs and outcomes, which may be associated with a regeneration programme or project.

### 6.2 Benefits of Regeneration Projects

#### 6.2.1 *Economic*

Regeneration areas often suffer from a range of market failures. For example, in many there are negative externalities, such as a poor environment, associated with traditional industrial activities. The supply of physical infrastructure in the area, such as the industrial premises, is often highly inelastic. As a result the area is unable to adjust to external shocks, such as changes to the global pattern of competition.

The creation of additional local economic activity and income that either directly or indirectly benefits disadvantaged individuals within the regeneration area is a key objective of most regeneration partnerships.

The economic domain, like a number of other areas, is one where there is potential for regeneration supported projects to duplicate or displace those offered by other providers, including other public sector agencies, such as the newly created Small Business Service(SBS) and Learning and Skills Council (LSC).

<b>Social Objectives:</b>	Associated with both economic efficiency and equity objectives
<b>Form of intervention:</b>	Subsidy Provision

<b>Type of support:</b>	Business advice Start-up assistance Inward investment attraction Grant aid Training
<b>Outputs:</b>	Firms supported/advised (by sector e.g. tourism) Temporary construction employment (gross direct person weeks) Employment created and safeguarded (gross direct) Private sector investment Other public sector investment New business start-ups (by sector/high tech) Number of new bed spaces created Number of research institutes Number of collaborative projects Number of new products or processes adopted and patents taken out Number of businesses connected to broadband Hybrid Fibre Coax (HFC) or upgraded existing narrowband network with Asymmetrical Digital Subscriber Loop (ASDL) ICT usage Number of firms becoming exporters/increasing exporting Penetration rate (target beneficiaries) Number of new products or processes
<b>Outcomes:</b>	Local output/turnover (net additional) Local profit/value added (net additional) Temporary construction employment (net additional direct person weeks) Employment created and safeguarded (net additional) Quality of jobs (wage/salary and occupation) Local unemployment (net additional)/long-term unemployment Tourism spend (net additional)/visits/satisfaction Private/other public sector investment (net additional) Change in income (net additional) Reduction in poverty Workless households with a member in employment

Viability of businesses - increased survival rate (after 18, 24 and 36 months)

Level of exports

Industry structure (employment and value added) – non-public/sheltered sectors

**Measurement issues:**

Additionality (leakage, multipliers, displacement, deadweight and crowding out)

Quality of jobs

Sensitivity of income questions/survey response

Time profile/Sustainability

The main economic benefits of a regeneration programme or project will include:

- economic output and value added;
- employment;
- expenditure/investment;
- income; and
- enterprise development.

The nature and issues associated with each of these are reviewed in turn below.

*(i) Output and value Added*

The support and advice provided to local businesses and inward investors may also result in an increase in turnover and value added.

*(ii) Employment*

Employment is in reality an economic cost. However, the creation of accessible local jobs is normally a central objective of a regeneration programme. In a job centred economy, such as that in the UK, employment is often seen as a good thing in itself and therefore yields utility. There is though a potential tension between policies that are concerned to improve productivity, which try to minimise inputs, and those concerned to promote employment creation.

In many regeneration areas disadvantaged individuals are excluded from the markets and services which are vital to the pursuit of a reasonable standard of life and to human development. In particular, exclusion from the labour market can have significant and multiple adverse effects. Those excluded are denied the opportunity to generate income and secure their independence from state benefits, and thus are unable to make financial decisions that have an impact on their futures.

Rational employers will always select the most productive factor inputs, all other things being equal. In terms of labour this will mean the most skilled and most educated and thus the prospects for unskilled individuals from deprived areas are often very limited.

Unemployment is a symptom of economic decline and market failure, but is also the immediate cause of poverty and social deprivation. Long-term unemployment can, as noted earlier, have further deleterious effects including the atrophication of skills, lack of self-confidence and low self-esteem. These effects are major barriers to re-integration.

The employment impacts of a regeneration programme may arise in a number of ways including the following:

- short-term construction related employment;
- short-term direct employment associated with the implementation of the project;
- permanent direct employment associated with the subsequent operation or occupation of a facility or development;
- off-site visitor expenditure related employment associated with, for example, a tourism project;
- tertiary regeneration benefits – associated with, for example, development which has either taken place, happened earlier or at a greater intensity than would have been the case in the absence of the programme or project; and
- consumption and supply linkage employment multiplier effects.

As well as the quantitative employment effects it is also important to assess the qualitative benefits. The new jobs created may, for example, be accessible to residents in adjoining, lower-priority areas if there is a local mismatch of skills. By facilitating the creation of types of employment that are currently under-represented the project may however strengthen and diversify the local economy, as long as mechanisms are in place to ensure

local residents are equipped to compete effectively for the new jobs. It may also, through promoting the retention of existing employers, result in the indirect safeguarding of a substantial number of jobs.

Treasury guidance (EGRUP) states that construction jobs should be treated as temporary and exclude them from the assessment of direct jobs. However, it is worth noting that such jobs may well have been accessible to residents of the designated area.

*(iii) Expenditure/investment*

The attraction of private sector investment underpins the labour market effects described above, as well as many of the other benefits outlined below. The level of expenditure by the private sector therefore provides another way of measuring the economic benefits attributable to many regeneration programmes.

Additional investment by other public sector organisations may also have provided a further impetus to regeneration in a designated area.

*(iv) Income*

Another aspect of the economic benefits of a regeneration programme or project is the effect it has had on the level of income relative to adjoining and wider areas.

The measurement of such effects is difficult in the absence of access to data such as that held by the Inland Revenue. However, some relevant information can, for example, be generated through the survey work and other secondary source data.

*(v) Enterprise development*

A regeneration programme will often include a number of projects to support the creation and development of businesses. The aim is to promote enterprise development and survival within the designated area.

*(vi) Innovation and technology*

In the long-run, growth and employment depend critically on an economy's capacity simultaneously to use and to enrich the stock of scientific, technological and other knowledge (OECD, 1996). Knowledge, both as an input and an output, is central to the process of growth and job creation.

### 6.2.2 *Environmental*

Many regeneration areas are characterised by a very poor environment containing a legacy of poor housing, industrial decline and poor infrastructure and amenities. Improving the local environment and providing high quality, safe and accessible amenity space can be important in:

- enhancing the image of an area, thereby increasing investor confidence; and
- improving the quality of life of local residents.

In general, the importance of ensuring high quality standards in the regeneration of urban environments has been stressed. Such environments are important if regeneration areas are to retain residents and attract a more mixed resident population. There is thus a desire in many regeneration programmes to address the spirit of Local Agenda 21 following the Rio Environmental summit.

Environmental projects can often be integrated within larger housing or development related projects.

As we have seen a wide range of valuation techniques are available to estimate the economic value of environmental impacts. An environmental asset can have several different types of economic value. User value can be measured through stated and revealed techniques. However, as well as the value in use environmental assets will often have non-user values, in terms of both an option value (knowledge that the option is retained to use the asset in the future) and existence value. The non-user values can only be estimated through stated preference surveys.

The objectives, interventions, outputs, outcomes and measurement issues associated with the environmental projects are as follows:

<b>Social Objectives:</b>	Often concerned to address negative externalities. As such the interventions seek to correct market failures and are thus concerned with economic efficiency. However, in seeking to promote an improved quality of life they will often also have equity or distributional objectives. In the case of pollution the rationale is again one of efficiency. The objective is to identify the point at which the marginal social benefits of the activity concerned equals the marginal social costs - the socially efficient level of pollution.
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<b>Form of intervention:</b>	Provision Regulation Subsidy
<b>Type of support:</b>	Environmental improvements in housing areas (eg fencing, gates, energy efficiency) Development - land reclamation and environmental improvements (eg brownfield site decontamination, upgrading 'corridors', parks, amenity area) City and town centre improvements (eg pedestrianisation, shop frontages)
<b>Outputs:</b>	Buildings improved (listed/non-listed) Waterways improved Environmental areas improved Hectares of land improved for development/open space
<b>Outcomes:</b>	Value of amenity improvement Improvement in environmental indicators (e.g. level of pollutants, level of recycling, reduction in emissions) Net additional value added and employment in environment-related businesses
<b>Measurement issues:</b>	Scoring system Often subjective Valuation techniques (eg contingent valuation) are not yet widely accepted Additionality (displacement/deadweight)

### 6.2.3 *Health*

The good health of communities is important. It improves the prospects of local people and enables them to enjoy life and have confidence to plan for the future. The links between unemployment, poor housing and poor health have been proved in various research studies.

Many argue that the market system is not efficient in relation to the provision of health care. One reason for this is the uncertainties of demand. Whilst insurance can be used to overcome this, it too is subject to problems, such as, moral hazard and adverse selection. In addition, there exists an imbalance of information (imperfect information) between the supplier and consumer. As a result a supplier can create induced demand. Furthermore, there are relatively few suppliers and as such a monopolistic/oligopolistic situation exists, making it difficult for consumers to shop around. In addition, there is a range of positive externalities, associated, for example, with preventing communicable diseases. The market mechanism is unlikely to be equitable.

However, problems exist in the public provision of health care. The Government is a monopsonist. The lack of competition allows inefficiencies and the system is substantially self-regulated. As a result there is a danger that regulation operates in favour of those who are being regulated. There is an apparent excess of demand. Therefore, rationing devices, such as queuing and waiting lists, have been used in the absence of a market mechanism. In an attempt to address these and other issues the last Conservative Government introduced a number of internal or quasi-market structures.

The value to be attached to a life is also subject to some debate. Two alternative methods can be used, as follows:

- *constructive method*: based upon an estimate of what an individual would have earned if they had remained alive for a normal life. Assuming that income is believed to correspond to their marginal product, this method reflects the loss of national income as a result of the death of an individual. However, the method fails to distinguish between the value of a life and livelihood. Difficulties also arise in relation to how to determine an appropriate income and what costs, such as education or health, society would incur. In addition, it assumes a zero value to a life beyond retirement age;
- *indirect method*: the value of a life is calculated by looking at how much extra income an individual needs to compensate them for an increased chance of death. This approach is controversial since it depends upon how well informed an individual is, along with psychological reasons.

In reality health impacts are rarely just about simply lives saved or lost. Therefore, an alternative approach applied by the Government is to take account of changes in life expectancy and, where possible quality of life. The Quality-Adjusted Life Years

(QALY) is often used to measure health benefits, with alternative health interventions contrasted in terms of cost effectiveness.

Regeneration areas contain a high concentration of disadvantaged individuals. In many cases the areas are characterised by a wide range of health problems, including drug abuse. A range of projects designed to improve the health of residents has been incorporated within many recent regeneration programmes.

The relationship between regeneration projects targeting health and mainstream provision through the Health Service requires careful consideration in an evaluation.

The health benefits that will need to be assessed include:

<b>Social Objectives:</b>	The principle objective is equity. However, health care provision also has efficiency implications. The value of improvements in health can be measured in a number of ways including the loss of earnings potential.
<b>Form of intervention:</b>	Provision Subsidies
<b>Type of support:</b>	Local facilities (eg health centres, hospitals) Health awareness/promotion (eg campaigns on drugs, healthy lifestyle) Specialist support (eg drug abuse)
<b>Outputs:</b>	Number of new facilities/programmes Number of patients Immunisation rates Prescription rate Access to health services (waiting list/average distance) Penetration rate (target beneficiaries)
<b>Outcomes:</b>	Standardized Mortality Rate Birth weight of new-born babies Substance abuse Long term limiting illness
<b>Measurement issues:</b>	GP Practice lists do not necessarily correspond to designated area boundaries Additionality (displacement/deadweight)

#### 6.2.4 *Social, community and Leisure*

The market mechanism would be inequitable in terms of social and community provision. A number of market failures are apparent, such as caring externalities, imperfect information and irrationality. It is only in relation to commercial leisure facilities that market provision/operation occurs. In relation to other forms of intervention the benefits are difficult to measure. As a result it is not normally feasible to calculate the marginal social costs and benefits. Thus, a balance of care model is often applied, where provision is based upon the minimum cost of achieving a given level of social care. Support in these areas can be important in securing other societal objectives, such as a sense of community.

In assessing social and community benefits a balance of qualitative and where possible, quantitative indicators will normally be required. A vital aspect would be the community capacity considerations and the wider galvanising impacts this may have had not only in its own right, but also on other related projects (for example, crime prevention and community safety).

The outputs, outcomes and measurement issues associated with the assessment of the social and community impacts of a regeneration programme are set out below.

<b>Social Objectives:</b>	Primarily equity, but also community and maintenance of the status quo.
<b>Form of intervention:</b>	Provision
<b>Type of support:</b>	Community centres/facilities Community capacity (eg training, community networks/structures, awareness raising) Youth and special group/needs related projects (eg establishing clubs, events, centres, and activities) Sports and leisure (eg creation/renewal of sports centres, swimming pools) Local support services (e.g. debt counselling)
<b>Outputs:</b>	Number of projects/facilities Usage of projects/facilities/services Number of childcare schemes/places Number of /membership of community/voluntary organisations Quality of projects
<b>Outcomes:</b>	Capacity of organisations Satisfaction of users

	Indebtedness
	Empowerment (active residents/groups)
	Quality of life/well-being of residents
<b>Measurement issues:</b>	Additionality (displacement/deadweight)

### 6.2.5 *Housing*

Housing is often a central element of many regeneration strategies. A supply of good quality housing is important in attracting and retaining residents and industry and commerce. By stabilising communities new and/or improved housing can contribute to the development of excluded areas. Enhancing living conditions can give a boost to residents' self-esteem and contribute to raising their quality of life. Tenure diversification can, for example, help attract higher income groups and boost spending power. Creating a social mix can help to stabilise the social infrastructure in an area with improvements in services. In addition, housing management policies in relation to social rented housing can work within an overall regeneration framework to meet housing and wider issues.

Housing markets can be subject to a number of market failures. There is often imperfect information and potentially negative externalities, for example, associated with a bad neighbour. Imperfections exist within the capital market. The supply of properties is also inelastic. It is therefore very difficult for the housing market to adjust in the short to medium term. Earlier this Century the public sector moved away from the market based provision to direct provision through the construction and management of Council housing. More recently, other organisations, notably the Housing Associations, have been created to provide social housing.

Since housing is locationally fixed and an individual's/household's area of search will also be limited there are in reality a number of markets. Conditions within these may vary substantially at any given point in time. In some there will be land shortages. Often, these will arise from land use allocations and policies (such as Green Belt designation) within the Town and Country Planning system.

The public sector's provision of subsidised housing can have a significant impact upon the local housing market. The market price of properties immediately adjacent to those being refurbished may fall (or increase) as a result of a project. The selection of which properties to upgrade can itself result in inequalities. In addition, housing renewal

activity that, for example, benefits the private rented sector may adversely affect demand for social housing in an area.

Many regeneration areas are characterised by neighbourhoods within which the housing stock is in a poor, and often deteriorating condition, and for which there is very low demand. These processes have led to a downward spiral, with increasing voids, high turnover rates, loss or lack of amenities and stigmatisation. This decline has in turn impacted upon the demand for local services, such as police time.

The causes of decline are often complex and inter-related. They also vary by neighbourhood. In many cases the factors include:

- a local oversupply of accommodation - often in areas where substantial economic restructuring has taken place;
- an unpopular housing estate or area - particular locations gain a reputation which is difficult to change. This is often due to a concentration of social disadvantage. However, it is, in part, associated with the physical condition of the stock, as well as the residualisation of much of the local authority stock and the changing housing/tenure aspirations of households;
- an imbalance between the supply of housing of particular types and the household demanding accommodation;
- limited past repairs and maintenance made by previous owner occupiers/private landlords; and
- changes in the funding for social housing, which have resulted in a restricted scale of maintenance by, in particular, local authorities.

The areas concerned often contain a disproportionate percentage of particular socio-economic groups, such as the elderly and ethnic minority groups.

An assessment of housing benefits will need to consider:

<b>Social Objectives:</b>	The main objective is equity - with a desire to provide a minimum standard of housing to all. However, there has been increased emphasis on efficiency, with attempts to promote increased owner occupation, particularly during the 1980's.
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<b>Form of intervention:</b>	Provision Subsidy
<b>Type of support:</b>	New build Refurbishment Demolition/clearance Housing management initiatives Local authority/Housing Association voids, waiting lists and transfer lists

<b>Outputs:</b>	Number of new dwellings (units) by sector Number of dwellings improved by sector Security improvements Local management initiatives Number of dwellings demolished by sector Number of dwellings sold/transferred Total number of occupied housing unit by number of bedrooms Local authority / Housing Association voids, waiting lists and transfer lists
<b>Outcomes:</b>	House prices and market rents Population Condition of stock Number of households Gross inward and outward movements Satisfaction with housing/area
<b>Measurement issues:</b>	Quality of improvements Attitudes of tenants/owners Additionality (displacement/deadweight)

### 6.2.6 *Crime Prevention and Community Safety*

Crime and the fear of crime can have a very destabilising effect upon an area and are often identified by the residents of regeneration areas as their most important priority.

Crime prevention and community safety is an impure public good. The market mechanism would not result in a equitable or efficient allocation of resources.

The key issues that will need to be evaluated in respect of these benefits are:

<b>Social Objectives:</b>	The primary objective is equity. However, crime prevention and community safety projects can have important efficiency implications. They are also important to community objectives and in maintaining the status quo.
<b>Form of intervention:</b>	Provision Subsidy
<b>Type of support:</b>	Additional policing/new police stations Witness Protection, victim support and mediation services Housing management/enforcement Surveillance equipment (eg CCTV) Design advice Grant aid Public realm improvements Neighbourhood and business watch Crime prevention advice
<b>Outputs:</b>	Number of projects
<b>Outcomes:</b>	Reported crime (by type) Fear of crime
<b>Measurement issues:</b>	Attribution Additionality – in particular potential displacement effects

### 6.2.7 *Commercial and industrial property*

Commercial and industrial property markets are subject to a number of market failures in many regeneration areas. There is often imperfect information and imperfections within the capital market. In addition, many areas suffer from negative externalities associated with past industrial activities.

The impact of a regeneration programme on the commercial property market in the area will in most cases need to assess the following:

<b>Social Objectives:</b>	The objectives include both efficiency and equity. In many cases intervention is seeking to address specific local market failures. However, it is attempting to do this in a location and way that results in a redistribution of opportunities.
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<b>Form of intervention:</b>	Subsidy Provision
<b>Type of support:</b>	Grant aid (although the previous Partnership Investment Programme in England has recently been declared a State Aid by the European Commission) Direct development Joint venture with the private sector Site preparation/servicing
<b>Outputs:</b>	Floorspace created/improved Number of units created/improved
<b>Outcomes:</b>	Market rents and values Additional development Occupancy/vacancy rates Condition of stock
<b>Measurement issues:</b>	Additionality (displacement/deadweight) Robust secondary source data

### 6.2.8 *Training*

Unemployment and economic inactivity are often very high in regeneration areas. An area's competitiveness and appeal to investors depends in part on its human resources and capital. The residents of regeneration areas are often characterised by low skills and low educational attainment. In order to address this human capital deficit and the atrophication of skills due to persistent unemployment, pre-vocational and vocational training is in many cases an important component of regeneration programmes.

The potential scope for displacing activity in relation to training is again significant, unless regeneration projects are highly targeted or integrated with mainstream provision.

The assessment of training and labour market related projects will need to include the following:

<b>Social Objectives:</b>	The social objectives of intervening are both efficiency and equity.
<b>Form of intervention:</b>	Subsidy
<b>Type of support:</b>	Pre-vocational and vocational training courses Training and advice centres

	Grant aid to businesses for training
<b>Outputs:</b>	<p>Number of training weeks</p> <p>Number of courses</p> <p>Number of businesses receiving training support</p> <p>Number of on-line courses and hours of on-line training provided</p>
<b>Outcomes:</b>	<p>Number of people trained who gain employment (and remain in employment after 6, 12 and 24 months)</p> <p>Number of people trained who gain qualifications</p> <p>Number of trainees who progress to a more advanced course</p> <p>Number of individuals not made redundant following training</p>
<b>Measurement issues:</b>	<p>Attribution</p> <p>Additionality (particularly substitution and deadweight)</p>

### 6.2.9 *Education*

Schools serving regeneration areas often achieve poor educational results and pupils lack a good basic education. The efficient level of education is that amount that will maximise the aggregate net social benefits. The benefits of education are in terms of increased productivity and positive social impacts. The social benefits are more intangible and include socialisation.

Equality of opportunity in education has been taken to mean equality of access. Whilst attempts have been made recently to improve the quality of provision, the standards vary significantly.

The market system does offer choice and price in education. However, there are a number of failings. Imperfections in the capital market mean that it is difficult for students to borrow against future incomes. Moreover, students are themselves risk adverse. The information available to parents and children is often imperfect. The system of catchment areas for schools means that in many cases there are spatial monopolies, with limited choice available to consumers. There are also substantial externalities in terms of productivity, flexibility and adaptability. If resource allocation were based upon the market mechanism then access would be largely due to income and therefore unequal.

A number of changes have been introduced to increase efficiency in education. For example, students are now required to pay a contribution towards their tuition fees in Higher Education. However, this may itself be regressive - inhibiting those from less well off families from continuing their education.

Regeneration practitioners<sup>27</sup> have highlighted improving educational attainment as being of critical importance if regeneration is to result in long lasting changes.

The objectives, outputs, outcomes and measurement issues associated with the appraisal of educational impacts are set out below.

<b>Social Objectives:</b>	Both equity and economic efficiency objectives
<b>Form of intervention:</b>	Provision Subsidy Regulation
<b>Type of support:</b>	After schools clubs Attainment initiatives Teacher/head teacher mentoring
<b>Outputs:</b>	Number of pupils benefiting Number of projects
<b>Outcomes:</b>	Pupils gaining 5 or more grades A-C GCSEs Pupils leaving with no GCSEs Truancy/attendance rates Destination of leavers
<b>Measurement issues:</b>	Attribution Additionality (displacement/deadweight)

### 6.2.10 Infrastructure

Infrastructure projects, such as the provision of a new road, may contribute to market enhancements through increased accessibility and enhancing the image or perception of an area. However, various specific issues need to be considered in assessing transport improvements, such as, the two-way road argument - improved infrastructure reduces

<sup>27</sup> See, for example, KPMG (1998) What works - Learning the Lessons of City Challenge

both the costs of exports and imports. It may also extend access to labour markets both within and outside the area.

In evaluating these effects consideration will need to be given to the following:

<b>Social Objectives:</b>	Both equity and economic efficiency objectives
<b>Form of intervention:</b>	Provision Subsidy Regulation
<b>Type of support:</b>	Creation of new infrastructure (e.g. roads) Grant aid
<b>Outputs:</b>	Length of carriageway created/improvement Number of infrastructure/public transport improvement schemes Number of vehicles/passengers/users using infrastructure Number of destinations
<b>Outcomes:</b>	Enhanced accessibility by mode Safety Modal shift User costs Number and durations of interruptions (eg of electricity distribution) Environmental impact Satisfaction of businesses/residents with accessibility Tertiary economic effects
<b>Measurement issues:</b>	Tertiary impacts Additionality (displacement/dead-weight) Attribution

### 6.2.11 *Wider benefits*

In addition to the preceding benefits consideration will also be given to assessing the following wider benefits of a regeneration programme or project, including:

- Community Capacity building - Enhancing the capacity of individuals and organisations to operate more efficiently and effectively in the future.

- Quality of Life and happiness - The condition, well-being and feelings of local residents.
- Community empowerment - The degree to which local residents and others have been empowered.

## 7 A Critical Review of Recent Evaluations

### 7.1 Introduction

This Chapter presents a critical review of various recent evaluations of regeneration programmes. It seeks to highlight in particular those areas where evaluations fail to fully address the key evaluation issues identified in the earlier chapters of this thesis. A number of serious weaknesses or gaps in current practice are observed. The following chapter then presents an alternative evaluation framework, which addresses these weaknesses in a theoretically robust, but also practical way.

The selection of case study evaluations has been based upon a number of pragmatic and methodological criteria. The principal pragmatic issue has been the public availability of evaluation reports, with in some cases the full evaluation reports remaining confidential to the client. This clearly raises concerns about the extent to which the results of these evaluations are subject to public and independent professional scrutiny, and thus fulfil the accounting role of evaluations. As part of the research for this thesis some twenty evaluation reports were assembled and reviewed. These were wide ranging in their coverage of programmes and timing. Ten of these were the subject of more detailed assessment, the results of which are presented below. The ten were selected using the following criteria:

- (i) single and multiple programmes;
- (ii) for single programmes a variety of programme types – including those addressing economic development and regeneration;
- (iii) undertaken over a period of time (within the last ten years);
- (iv) nationally and locally conducted – covering either one partnership or a whole programme and thus multiple partnerships or organisations.

The choice of evaluation studies for detailed review was then made by applying each of the above criteria and ensuring that a reasonably representative, stratified sample was selected from the twenty evaluations. All of the evaluations selected were undertaken by independent consultants or academics, commissioned either by the organisation responsible for implementing the programme, the sponsoring government department or a combination of the two.

The review is based upon the analysis presented in the preceding Chapters. The key evaluation issues against which each of the selected evaluations have been assessed are:

- rationale – the social objective for intervening;
- contextual conditions – the analysis of baseline socio-economic conditions and problems;
- aims and objectives – to what extent were the aims and objectives of the evaluation and the Programme identified and were they achieved?
- costs and benefits assessed;
- additionality – analysis of deadweight, displacement, leakage and multiplier effects;
- impacts on markets (economic efficiency) and distributional effects;
- administrative efficiency - programme design and implementation arrangements;
- overall value for money; and
- policy lessons.

In addition, the research methods used and the evaluation framework developed for each evaluation are also reviewed.

The following evaluations have been critically reviewed:

***(i) Evaluation of Urban Development Grant (UDG), Urban Regeneration Grant (URG) and City Grant (1991)*** – this final evaluation was commissioned by the DoE. It assessed the impact of City Grant and its predecessors. These programmes provided grant aid to major private sector capital schemes that would otherwise have been unable to proceed because, as a result of their inner city sites and locations, costs exceed values. The aim of the programme was “*to promote the economic and physical regeneration of inner area by leveraging private sector investment into such areas*”.

***(ii) Evaluation of the Economic Impact of the Section 4 Assistance Scheme in Scotland (1992)*** – Section 4 Assistance was provided in Scotland by the Scottish Tourist Board (STB) towards suitable tourism projects which were in accordance with the Board’s priorities.

**(iii) *Assessing the Impact of Urban Policy (1994)*** - the aim of this study was to evaluate the overall impact of central government urban policy in England over the decade to the mid-1990's. The impacts and effectiveness of many individual policy instruments had already been evaluated. However, this evaluation identified that the "*functioning of cities cannot readily be portioned into neatly discrete categories. The economies, environments and social structures of cities form a seamless interconnected web and the effectiveness of expenditure on any one of these distinctive elements of policy clearly intersects with the impact of expenditure on many of the other policy instruments. The obvious extension to such programme evaluations is to look at the effects of the broad swathe of policy as a whole over the span of time during which it has operated.*" As such its focus is somewhat different to the other evaluations reviewed, concentrating on a policy rather than an individual programme or project.

**(iv) *Evaluation of Department of Trade and Industry (DTI) funded Training and Enterprise Council (TEC) services in support of small and medium-sized businesses (1995)*** – DTI funded initiatives organised by the TECs were related to business counselling, skills training and information and advice to existing SMEs, as well as activities which provided a foundation for the Business Link.

**(v) *The Impact of Environmental Improvements on Urban Regeneration (1995)*** – this study was commissioned by the DoE to assess the impact of environmental improvements on urban regeneration. The focus for the study was on the impact on development investment. Three urban policy programmes were included in the study: Urban Programme (UP), Derelict Land Grant (DLG) and Urban Development Corporations (UDC's).

**(vi) *Evaluation of the Welsh Development Agency (WDA) Financial Services Initiative (December 1995)*** – the Financial Services Initiative (FSI) was launched in 1988 with the objective of promoting Wales as a centre for financial services and in the longer term to establish Cardiff as a recognised financial services centre. The FSI was a partnership initiative between the WDA, local authorities and development agencies in South East Wales.

**(vii) *An Evaluation of Six Early Estate Action Schemes (1996)*** – an assessment was commissioned by the DoE of the effectiveness and value for money of the Estates Action programme, based on the findings of six case studies of Estates Actions schemes. The Estates Action Programme was launched in 1985 (under the name Urban Housing Renewal Unit – UHRU), with the aim of helping local authorities improve the quality of

life on their run-down housing estates. Despite various revisions to the Estates Action guidelines, the programme was characterised throughout by two main features: it allowed schemes to be drawn up which tackled different types of problems and it usually involved linked physical and management improvements.

***(viii) Tipton City Challenge – Final Baseline Study Review 1997/98 (December 1997)***

– Tipton City Challenge Partnership formally commenced work on regenerating one of the most disadvantaged towns in Sandwell District in April 1993, having been successful in the second round of the national City Challenge funding competition.

***(ix) Ex-Post Evaluation of the Dyfed, Gwynedd and Powys 1987 – 1993 National Programme of Community Interest (NPCI)/ Integrated Development Operation (IDO) and Objective 5b Community Support Framework (CSF) (April 1998)***

– a combined ex-post evaluation of the Dyfed, Gwynedd and Powys European Commission Integrated Development Operation which ran over the 1987-1991 period and the 1992-93 Operational Programme was undertaken on behalf of the Welsh Office. The programme area represented almost three-quarters of the land area of Wales but with only one quarter of the population. The peripheral nature of the programme area and its rurality underpinned many of its economic and social problems.

***(x) Business Links – Value for Money Evaluation (October 1998)***

– Business Links came into being as a result of the “one-stop-shop” for business support initiative announced in July 1992. By January 1997, a total of 89 Business Link partnerships covering the whole of England, had come into operation. Each Business Link was based on a partnership between local agencies involved in the support for businesses. The Business Links co-ordinated and integrated the delivery of support services.

## **7.2 Rationale**

The extent to which the various evaluations clearly set out the rationale for social intervention varies significantly. Of the evaluations reviewed only the Evaluations of DTI funded TEC Services, Business Links – Value for Money Evaluation and the evaluation of the impact of the STB Section 4 assistance scheme explicitly assessed the rationale for intervening. In the case of the TEC funded Services they state:

*“The evaluation identified serious failures on both the demand side and the supply side of the market for small business support services. Moreover, the*

*failure is endemic to the small firms sector because the population of firms changes rapidly”*

The more recent Business Link evaluation notes:

*“It is believed that the small firms do not use the services because there is failure on the demand side and the supply side of the market, and because there is institutional failure in the supply of services. The market failure arises because the returns to potential users are uncertain and difficult to quantify, and because the quality of support is uncertain. In addition, even when the returns and quality of support are more certain, some small firms are genuinely unable to meet the costs of private sector support. The institutional failure is thought to arise from the wide range of bodies offering services in a fragmented and uncoordinated fashion. With the consequent overlap and duplication of provision causing confusion to potential service providers”.*

In both cases the need to assess the validity of the programme’s rationale was specifically included as one of the objectives of the evaluation. Interestingly, both of these studies were commissioned by the DTI and the programmes were explicitly concerned with economic efficiency. Unlike most of the other programmes they were also national in their coverage, although enhanced funding from, for example, SRB for targeted additional support was provided to the Business Links in some areas.

The evaluation of the economic impact of the Section 4 Scheme in Scotland identified the following four characteristics as appearing to be the key areas of market imperfection in the tourism sector and thus by implication, part of the rationale for public sector intervention:

- *“short time horizon, with private sector funds aiming for 3-5 year payback which may not be achievable given the seasonality of the market and the time required for the Scottish market to accept new products: focus on short term returns will therefore bias funding towards me-too types of projects such as leisure centres in hotels;*
- *inadequate investment in information: where operators have poor market information they may delay entering new markets with product developments, and therefore may be financially squeezed through a loss of market share; this is potentially important where market share is lost to non-Scottish competitors;*

- *barriers to entry, such as lack of suitable development sites in good tourism locations, can lead to under-investment by existing businesses earning monopoly profits but having no need to, or being unaware of the need to, invest to keep up with market developments; in such circumstances action is required both to tackle barriers and to assist demonstration projects which will increase competition and demonstrate what is achievable through developments; and*
- *tourism externalities: private sector operators take no account of benefits external to their project; market forces will tend to lead to less investment than is required to maximise the economy-wide net benefits from tourism.”*

The rationale for intervening is not explicitly identified in any of the other evaluations. However, in most cases there is an implicit explanation linked to the stated aims and objectives of the programme and/or the problems being addressed. In most cases, discussion of the latter tends to focus upon the effects (such as high levels of unemployment or poor educational attainment levels) rather than the causes of the problem.

In the case of the Impact of Environmental Improvements on Urban Regeneration research, for example, there is no explicit discussion of market failures, such as negative externalities, providing at least part of the rationale for the programme concerned. However, the evaluation does attempt to identify the principal factors in the development process and their relationship with Environmental Improvement Projects (EIPs). It notes that

*“The [property development] process can be divided into four elements:*

- *Demand factors: these relate to the property requirements of occupiers, investors and developers and reflect the wider economic structure of the area, choice of property and individual’s operational needs.*
- *Supply factors: these relate to the supply of sites and premises, their attributes, and their location and accessibility.*
- *Perceptions: the information on supply and demand factors available to decision-takers is limited and incomplete. Property decisions also involve subjective judgements. Perceptions are important in influencing how supply and demand information is interpreted and investment decisions are taken.*

- *Development viability: based on interpretation of the earlier elements, investors can make assessments as to the potential returns against costs, and a judgement can be made as to viability”.*

In the case of perceptions the evaluation report has highlighted a market failure based upon information problems. However, it does not specifically develop this argument. The research does though go on to examine each of the above four elements with reference to the potential influence of EIPs. It found that their potential impact was focused on supply factors and financial assistance to allow locations to compete for private sector investment.

The evaluation of EIPs thus implicitly identified the correction of market failures as one of the key rationales for intervening. The focus of the study, as determined by the research brief given to the consultants by the DoE, was to “*assess the impact of environmental improvements on urban regeneration as measured by development investment*”. This meant that some of the other rationale for intervening such as the adverse effects of contaminated, derelict and under-used land on the health, safety and visual amenity of individuals in specific areas were not covered in the evaluation.

A similar implicit rationale can be found in the Evaluation of Urban Development Grant, Urban Regeneration Grant and City Grant. However, again no explicit discussion of failures within the property market is presented.

The Ex-Post Evaluation of the Dyfed, Gwynedd and Powys 1987 – 1993 NPCI/IDO and Objective 5b CSF provides little detail of the rationale for intervening other than identifying a number of key economic issues facing the area, such as the “*narrow and vulnerable economic base with a high proportion (approximately 25%) of employees and self-employed in agriculture and dependent industries*”. The Final Baseline Study Review of Tipton City Challenge sets out a summary of the nature of the area at the baseline in 1993. The Assessment of the Impact of Urban Policy provides a review of the problems of inner city areas and of policy responses. However, it makes no distinction between policies primarily concerned to address market failures (such as Enterprise Zones) and those more concerned with distributional equity (such as the Section 11 grants and Task Forces).

The Evaluation of Six Early Estate Action schemes also relies on a description of policy objectives to explain the reason for intervening. Despite one of the objectives of the

evaluation being to consider the rationale for the WDA Financial Services Initiative, this research also provides no explicit discussion of the rationale for intervening.

***Rationale - key conclusions:***

- Only three of the ten evaluations reviewed explicitly considered the rationale for intervening in terms of economic efficiency and equity and tested, to varying degrees, the validity of the programme rationale;

### **7.3 Contextual Conditions**

The coverage of contextual or baseline conditions again varies significantly. In the case of evaluation of the impact of urban policy the research includes an extensive review of changing socio-economic conditions in inner city areas, together with an analysis of policy developments.

The Ex-Post Evaluation of the Dyfed, Gwynedd and Powys 1987 – 1993 NPCI/IDO and Objective 5b CSF contains a substantive analysis of changes in key indicators in the programme area. The Evaluation report notes:

*“Whilst recognising [that the Programme represents only 5% of total annual GDP], it is useful to at least review the economic context within which the programmes were operating. In addition, with the predominance of investment in infrastructure during the 1987-1993 period we cannot discount the possibility that this may have had some impact on the area’s economy.”*

The Evaluation of the WDA FSI contains an assessment of financial services employment and of the mobility of companies within the sector. In contrast the DoE’s Evaluation of Six Early Estate Action Schemes provides information only on the physical characteristics of the six case study and comparator estates. Some further, albeit limited and principally descriptive contextual information, is provided in case study profiles. The Assessment of Impact of Urban Policy contains substantial contextual information, although much of it is set out in a series of extensive appendices. As such it is difficult for the reader to readily assimilate.

The Evaluation of Economic Impact of the STB Section 4 Assistance scheme provides no contextual information about the tourism sector and only limited information about the programme overall. However, to a significant extent this reflects the narrow focus of the consultant’s remit, with a statistical review being reported in a separate volume.

The Tipton City Challenge Final Baseline Study Review contains contextual information on the programme including, in particular, the vision and expenditure, together with a summary of baseline conditions. Likewise the Impact of Environmental Improvements on Urban Regeneration study provides some limited contextual information about the programmes concerned and more detailed data on a series of case studies.

Neither the evaluation of DTI funded TEC services to SMEs nor the Business Links evaluation, contain any contextual information concerning the performance of the economy or of SMEs over the period under consideration. However, details of the services provided and local variations in design and delivery thereof are presented. In contrast, the Evaluation of UDG, URG and City Grant included a review of external economic factors and of the property market cycle.

***Contextual conditions - key conclusions:***

- contextual conditions are poorly covered in half of the ten evaluations reviewed;
- in many cases the description and explanation of the programme was poor – significantly inhibiting the reader’s ability to understand and interpret the results of the evaluation.

## 7.4 Aims and Objectives

All of the evaluations reviewed set out:

- (i) the study or evaluation objectives; and
- (ii) the aims/objectives of the programmes under consideration.

In terms of the study objectives these ranged from a relatively narrow or tightly defined brief to much broader, more all-embracing terms of reference. For example, in the case of the Evaluation of the STB Section 4 assistance, the scheme had been assessed in 1985 and the main purposes of the 1990 review were identified as:

- *“to identify the changes that have taken place in the types of project receiving assistance;*
- *to consider the scheme’s current cost effectiveness, particularly in terms of employment generation or protection”.*

In contrast the Tipton City Challenge evaluation had a far broader remit based upon the requirement in the Programme for:

*“independent external evaluations of the wider impact of City Challenge on the underlying problems of the area to be undertaken at the mid-term and final stages.”*

The aims of the evaluation of DTI funded TEC services to SMEs were: to determine whether these services provided value for money; to draw conclusions on the conduct and operation of the programme; to inform the development of TEC and government policy design; to assess the merits of different approaches to TEC delivery mechanism and the appropriateness of the national objectives for TECs. Within these aims the more specific objectives set for the evaluation were:

- *“To assess the validity of the scheme rationale. To address whether the market failures that TEC services are designed to meet are addressed and to assess the benefits of a decentralised approach of services designed and delivered locally.*
- *To assess additionality and displacement effects and to explore the possibility of any “crowding out” effects of TEC services.*
- *To assess the quality of services, customer satisfaction and the extent to which quality standards and targets are being achieved.*
- *To assess the merits of different approaches to delivering business support services.*
- *To assess marketing, awareness and ease of access of TEC services.*
- *To assess the scope for revenue raising activities and whether self-financing would distort the TEC’s ability to respond to market failures.*
- *To assess TEC influence on increasing co-operation between local bodies which support SMEs.*
- *To provide guidance on methodology for future evaluations, especially with regard to cost-benefit appraisal.*
- *To assess the appropriateness of national objectives to TEC objectives.*
- *To assess the effectiveness of TEC self-evaluation mechanism.”*

To a significant degree, the client requirements determined the scope and content of each evaluation. This would seem to support the claims made by Aaronovitch (1997) concerning the political nature of evaluations, discussed in Chapter 4 of the thesis. Six of the evaluations broadly conformed to the audit/target driven typology he defines. The other four – the Evaluation of DTI funded TEC services, the Evaluation of Six Early Estate Action Schemes, the Final Baseline Study Review of Tipton City Challenge and the Business Links Value for Money evaluation - include greater consideration of the views and perceptions of those directly involved and are closer to the pluralist/stakeholder model.

It is not within the scope of this thesis to address in detail the complex socio-political issues raised by the independence or otherwise of an evaluation. It is however clear from the review of ten evaluations that the client has set the terms of reference for the evaluation and will normally select the consultants or academics to undertake the study. The selected researchers will be those whose proposed approach and discussion of the key issues to be addressed, subject to cost considerations, most closely match the view of the individual(s) making the appointment, if the later behave rationally. It is naive to assume that because it is the government which is ultimately the client that evaluations will be independent and not subject to bias. The individuals concerned may well be acting as private utility maximisers, with significant vested interest in the results of the evaluation in terms of their own personal careers. There are certain countervailing pressures since the evaluation report will normally be subject to internal scrutiny by other parts of government, such as H.M. Treasury, independent experts or House of Commons Committees. Many evaluation studies are also published or widely disseminated and thus subject to widespread analysis and review. Evaluations are also undertaken by bodies such as the National Audit Office, which are independent of the programmes.

The political nature of evaluations and the key role of the client in setting the research brief and directing the study must be recognised. The validity of the evaluation results must be assessed in the light of the potential for the client to influence or bias these results. However, it is unlikely that, in view of the requirements placed on departments by H.M. Treasury and parliament to undertake evaluations and the degree of semi-independent and independent scrutiny, that programmes which have, for example, failed badly would be presented as performing well. The ability to influence results is probably therefore at the margin, although in some cases the size of the margin may be significant. Greater influence may be exerted by narrowly defining the scope of an

evaluation. Thus, the focus of the research could be directed towards those areas where more positive results might be expected. However, here again the terms of reference for evaluation studies are usually circulated for comment within and beyond the department, if the research is being commissioned by a government department.

The evaluations reviewed also set out the aims and objectives of the programme(s) concerned. In a number of cases these aims/objectives lacked precision. For example, the objectives of the NPCI were:

- (i) To improve road, transport and communication links in the programme area in order to reduce the impact of its peripheral location;
- (ii) To improve the area's economic infrastructure in order to assist the operations of existing firms and industries, stimulate new development both for industry and tourism, and so assist the broadening of the economic base, and promote new indigenous initiatives and development;
- (iii) To support and promote new industrial initiatives within the programme area;
- (iv) To promote and optimise the development of tourism within the programme area; and
- (v) To improve environmental conditions in areas identified for industry and tourism development, in order to raise the economic potential of these areas.

The evaluation report commented that:

*"The five objectives were broad and general in nature. They were also non-specific in terms of geographic targeting and sectoral targeting. Although tourism was identified as a specific sector to be addressed, the focus was on tourism infrastructure. Business development was not a priority. The objectives were addressing structural weaknesses which could only be overcome through the investment in capital infrastructure"*

The objectives of many of the programmes were neither specific nor measurable. This inhibited the ability to assess as part of the evaluation the extent to which they had been achieved.

***Aims and objectives - key conclusions:***

- The scope and content of the evaluations is dictated to a very significant extent by the client requirements as set out in the study objectives. Further influence may be exerted during the course of conducting the research for each evaluation, although it is difficult to judge the extent of this from the evaluation reports;
- all of the evaluations present the aims and objectives of the programme. However, many of the programme objectives lack precision – this significantly inhibits the ability to assess the effectiveness of the programme if there is only limited clarity as to the original intended purpose.

## **7.5 Costs and benefits**

### **7.5.1 Costs**

All of the evaluations reviewed include an appraisal of the Exchequer or public sector costs. All of them assessed projects or programmes that spanned a number of years. However, only four of the ten expressed costs in constant as well as nominal prices, the others used nominal prices throughout.

Reflecting the nature of the programmes, two of the evaluations included more extensive financial appraisals. In the case of the UDG, URG and City Grant evaluation the net grant input was calculated, after allowing for, amongst other things, clawback. In the case of the Estates Action scheme the evaluation assessed the net present value of the monetary costs and monetary benefits.

Only the UDG, URG and City Grant evaluation included specific consideration of negative externalities. An approach based upon a scoring system was developed to assess the environmental costs (and benefits) of the projects at two levels: on-site and off-site changes in surrounding areas. For example, the evaluators concluded in relation to traffic and parking effects that “*three schemes produced a net disbenefit*”. None of the other studies attempted to value the wider costs associated with intervening.

### **7.5.2 Benefits**

The benefits (outputs and outcomes) assessed in each evaluation varied in relation to:

- (i) the nature of the programme or project; and

- (ii) the range of benefits considered by the evaluator.

Table 7 summarises the benefits considered in each evaluation.

Table 7: Outputs and outcomes assessed		
Evaluation	Benefits assessed	
	Outputs	Outcomes
UDG, URG and City Grant	Gross employment	<p>Area occupied</p> <p>Land values</p> <p>Net additional employment</p> <p>Environmental impacts – on and off-site (scoring system): size of project, visibility and prominence, removal of dereliction, reduction in detractors, environmental/building conservation, increased usage of site, quality of design, traffic and parking, pollution and area impact</p> <p>Social and community impacts (scoring system): housing schemes (new social groups, increased availability/affordability, removal of hazard, removal of visual dis-amenity or pollutant, support for existing facilities/services) and commercial and industrial schemes (new jobs for local people, new facilities and services, support for existing facilities and services)</p>
NPCI/IDO and Objective 5b CSF	<p>Length of road constructed/improved</p> <p>Area of land serviced</p> <p>Industrial floorspace created/improved</p> <p>Number of SMEs assisted</p> <p>Number of additional visitors</p> <p>Improvements to rail network</p> <p>Improvements to electricity supply network</p> <p>Improvement projects to sewerage, water supply and treatment facilities</p> <p>New refuse and recycling centres</p> <p>Ports improved for passenger, fishing, boat repair and business activities</p> <p>New training facilities</p> <p>Improved Tourist Information Centres</p> <p>Town Centre enhancement projects</p> <p>Coastal protection projects</p> <p>Gross direct and indirect jobs</p>	<p>Net additional jobs</p> <p>GDP per capita</p> <p>Average earnings</p> <p>Employment levels</p> <p>Unemployment levels</p> <p>Business growth rates</p> <p>Household income</p> <p>Tourism revenues</p>
WDA FSI	<p>Analysis of projects (number, size, destination and sectors)</p> <p>Gross employment</p> <p>Private sector investment</p>	Net additional employment

<p>Tipton City Challenge</p>	<p>Training weeks Pupils benefiting Childcare places Persons trained into jobs School attendance Training opportunities Gross jobs created and preserved Construction jobs (person weeks) New business start-ups Businesses advised Business/commercial floorspace Land reclaimed/improved for commercial development Vacant/derelict land/buildings Dwellings demolished (private/public sector) New housing units (private/public) Dwellings improved (private/public) Dwellings sold/transferred Local management initiatives Dwellings security upgrades Carriageway improved Waterway improved Community facilities</p>	<p>Educational attainment Training Unemployment Employment Turnover Vacancies Quality awards Benefits and income Unfit dwellings Quality of life Domestic burglary per 1,000 households Car crime per 1,000 households Health indicators Awareness, involvement and satisfactions</p>
<p>DTI TEC funded services</p>	<p>Number of firms by size band</p>	<p>Net jobs created Net additional turnover Leverage of private sector investment Profitability Product quality, design and innovation New markets including export markets Reliability, delivery and after sales service Labour productivity/production processes Marketing/research Financial control and business planning Management training Motivation and attitudes Management science and information technology</p>

Estate Action scheme	Management indicators	<p>Bringing empty properties into use</p> <p>Improving residential quality of the estate (quality and condition of the estate, resident satisfaction, management and maintenance, lettability)</p> <p>Reduction in levels of crime and incivilities</p> <p>Participative estate-based management</p> <p>Estate-based enterprise initiatives</p> <p>Diversification of tenure</p> <p>Private investment</p> <p>Wider impacts</p> <p>Economic indicators</p> <p>Layout and design indicators</p>
Environmental improvements	Site and premises availability	<p>Site access</p> <p>Perceptions of risk</p> <p>Visual amenity</p>
Urban Policy		<p>Unemployment</p> <p>Long term unemployment</p> <p>Employment</p> <p>Number of small businesses</p> <p>Number/proportion of 25-34 year olds</p> <p>House prices</p> <p>Quality of life</p> <p>Desirability of neighbourhood</p> <p>Crime</p> <p>Job opportunities</p> <p>Image and attractiveness</p>
Section 4 scheme	Gross jobs (including and excluding construction jobs)	<p>Private sector investment</p> <p>Net additional jobs (including and excluding construction jobs)</p> <p>Visitor numbers and expenditure</p> <p>Perceptions</p>
Business Links	Number of firms assisted	<p>Net additional local/national jobs</p> <p>Net additional local/national business turnover</p> <p>Net additional increase in local /national profit</p> <p>Net additional increase in local/national net assets</p> <p>Net additional increase in local/national exports</p>

The analysis highlights the extensive range of outputs and outcomes assessed in the evaluations reviewed.

The analysis of outcomes was sub-divided between those evaluations that focused upon the project specific impacts (the micro or bottom-up approach) and those which assessed changes in aggregate indicators, such as employment and unemployment, and attempted to attribute change to the programme (the macro or top-down approach), as follows:

- Bottom-up or micro analysis – nine of the evaluations reviewed used the micro

approach - identifying and tracing through the various impacts of each programme or project on a given local area. However, the Tipton City Challenge evaluation only presented gross output information concerning individual projects. It made no attempt to assess the additionality.

- Top-down or macro analysis – involving the measurement of the overall change in the study areas relative to baseline conditions and other areas. Three of the evaluations used the macro approach – the evaluation of Urban Policy, Tipton City Challenge evaluation and the NPCI/IDO and Objective 5b CSF evaluation. In the case of the evaluation of Urban Policy only the macro approach was used. Only the evaluation of the NPCI/IDO and Objective 5b CSF included substantive use of both approaches. However, even here no attempt was made to compare the two assessments and no detailed or statistical analyses undertaken as part of the macro approach. The evaluation of Business Links included surveys of users and non-users and analysed the respective performance of each group. For the purposes of classification this is treated here as an extension to the micro approach.

It is also often difficult to accurately assess and benchmark the positive externalities associated with regeneration projects. Thus, for example, significant resources and careful research design is required to fully assess the effects of a regeneration programme on community capacity and involvement. The coverage of positive externalities in the evaluations was very limited. Only the evaluation of UDG, URG and City Grant included a scoring system to appraise the wider effects of various projects.

### 7.5.3 *Summary*

***Costs and benefits - key conclusions:***

- only four of the ten evaluations used constant prices, despite all of the programme covering a number of years;
- there is only very limited coverage of wider costs in any of the evaluations;
- those evaluations that adopted a micro approach included both output and outcome measures;
- only one evaluation included both a micro and macro approaches. However, there was no attempt to integrate the two approaches;
- there was only very limited coverage of the wider benefits – only one of the ten evaluations used a scoring system to assess these.

## 7.6 Additionality

The UDG, URG and City Grant evaluation explicitly considered the additionality of the investment concerned. It defined additionality as:

*“...the extent to which the payment of grant resulted in development that would not otherwise have occurred, would have occurred much later or in a substantially curtailed form, or which displaces other investment”.*

In assessing whether the investment was additional the evaluation appraised the level of deadweight (*“...investment that would have occurred in the absence of grant aid either because the project did not need the aid to progress or it would have received sufficient other aid instead”*) and displacement (*“...this occurs when the generation of a desirable programme output leads to the loss of the same output elsewhere”*). The report notes that:

*“Property market displacement occurs where either:*

- *a developer substitutes a grant aided project for another non-grant aided project.*
- *Projects by other developers are not undertaken as a result of a grant aided project being carried out or existing businesses are damaged”.*

The evaluation did not however, specify any area of impact. This was common to a number of the evaluations. Without defining the area within which the impact of the public sector intervention is to be assessed, it is difficult to see how the analysis of displacement and multiplier effects was undertaken.

The NPCI/IDO and Objective 5b CFS evaluation assessed the gross and net additional employment impact. In view of the uncertainties involved, the evaluators calculated ranges of net additional employment, taking account of the variation of deadweight and displacement found in the case study analysis. A multiplier was applied to the employment estimates. Composite employment multipliers of between 1.2 and 1.5 were used, based upon H.M. Treasury guidance. The WDA FSI evaluation also assessed additionality through the use of a range of various levels of additionality, although it did not provide a detailed definition of the factors included in its assessment of additionality.

The STB Section 4 assistance evaluation considered additionality, in terms of financial additionality, displacement and externalities. The need for public finance was assessed in terms of whether the project would have gone ahead anyway if the public money had not been made available, with specific consideration given to partial additionality and temporal additionality. The analysis of displacement concentrated on product market displacement. However, the evaluation did recognise the complexity involved in calculating displacement, noting that:

*“Although, in the majority of cases, displacement is viewed as a negative effect, there are instances where this may be acceptable and even encouraged. It has been argued that parts of the tourism market, which, for example, display characteristics of monopolistic suppliers or have too short an investment time horizon, are unwilling or unable to undertake the necessary investment to remain internationally competitive, and it is in these cases where greater efficiencies or quality are only going to occur through the encouragement and assistance of new entrants into the market place. By actively encouraging new entrants into the market, so displacing market share of existing suppliers, public sector intervention leading to displacement can be seen as having a positive rather than a traditionally negative effect. Nevertheless, where such an approach is followed it needs to be explicitly stated and monitored”.*

In order to allow for these uncertainties a range of possible displacement rates are used in the evaluation. The evaluation specifically notes that displacement is assessed at the Scottish level.

The evaluation of the Impact of Urban Policy utilised a macro approach which tracked the movement in socio-economic indicators and sought to assess the extent to which changes were due to public sector policy interventions. A similar approach was used in the evaluation of the Tipton City Challenge programme, although without the use of quantitative or statistical techniques.

In the case of the Impact of Environmental Improvements on Urban Regeneration no specific consideration was given to additionality. This would seem to be a serious omission, particularly since the evaluation specifically examined those projects whose main objectives included “...the attraction of private sector investment”.

The Estates Action scheme evaluation includes specific consideration of displacement and deadweight, although the evaluation refers to the latter as crowding out.

The only evaluation to consider potential crowding out effects and supply side gains as well as additionality (deadweight, displacement and multiplier effects) was the evaluation of DTI funded TEC services in support of SMEs. In part this was because the analysis was undertaken at the national level and therefore potential crowding out effects should be a material consideration. The Business Link evaluation, which also assessed the impacts of the initiative at the national level, did not address the issue of crowding out.

None of the evaluations give any detailed consideration to the issue of leakage, although the URG, UDC and City Grant evaluation did consider the extent to which the jobs created were taken up by local people (inner city residents).

***Additionality - key conclusions:***

- the evaluations were inconsistent and often incomplete in their assessment of additionality;
- some of the evaluations were not explicit about the area within which the impact of the various programmes was being assessed;
- the issue of leakage was not covered at all in most of the evaluations.

## **7.7 Economic efficiency (market impacts) and distributional (equity) effects**

Only three of the evaluations present detailed analyses of the market impacts of the programmes concerned – the UDC, URG and City Grant, Business Link and DTI funded TEC services evaluations. In part this reflects the fact that these initiatives were the most directly concerned to address perceived market failures and improve economic efficiency. Thus, in the case of the UDC, URG and City Grant initiatives specific consideration is given to the property market impacts.

Through analysing movements in socio-economic indicators, the evaluation of the Impact of Urban Policy, Tipton City Challenge and the Ex-post evaluation of the NPCI/IDO and Objective 5b CSF, have indirectly assessed the market impacts of each programme. However, no specific consideration is given to whether the initiatives have successfully corrected market failures. In contrast the evaluations of the Business Links and DTI funded TEC services did do this. In the case of the latter, the evaluation report commented that:

*“DTI funded, TEC delivered services, locally designed and delivered and increasingly customised to small firms’ needs, do address important aspects of market failure and in doing so generate significant benefits to small firms and to the wider economy”.*

The evaluation of the STB Section 4 assistance also considers, as noted above, the market failures which form the rationale for intervening. However, it does this without providing evidence from the evaluation to substantiate the market failures identified nor does it assess the extent to which the Section 4 assistance has corrected them.

There is only limited consideration given in all of the evaluations to the specific distributional effects of the various programmes. Thus, the STB Section 4 assistance evaluation gives no consideration to, for example, whether those gaining the jobs created as a result of the initiative were previously unemployed or from a deprived area. In contrast the UDC, URG and City Grant evaluation assessed the extent to which new jobs were taken up by local people, noting that *“few schemes have produced a significant number of net additional jobs for those within the Inner Area”.*

In reality so long as the jobs created are truly net additional they will ultimately have provided employment opportunities for either an unemployed person or a new entrant to the labour market. However, the focus of regeneration programmes is on specific spatial areas and those living within them.

***Economic efficiency and distributional effects - key conclusions:***

- the evaluations reviewed included only a limited analysis of the impacts of the programmes on local markets and more generally on economic efficiency;
- linked to the issue of leakage discussed above, the coverage of the distributional effects of the programmes was also extremely limited.

## **7.8 Administrative efficiency**

The Business Link and DTI funded TEC services evaluations both give detailed consideration to the efficiency of the administrative arrangements established for each programme, as does the Ex-post evaluation of the NPCI/IDO and Objective 5b CSF. In contrast the management and delivery of the programme was not considered in any of the other evaluations. In some cases, such as the evaluation of UDG, URG and City Grant, the evaluation report explicitly stated that *“...nor are we concerned with the way in which the programme is operated. These aspects were both covered in an earlier*

*study... ”. For the evaluation of the Impact of Urban Policy the focus was more upon the overall impact of central government urban policy, rather than detailed programme arrangements.*

The potential effects of the organisational and management arrangements of a programme can though be significant, as highlighted by the following extract from the evaluation of the NPCI/IDO and Objective 5b CSF concerning the 1987 – 1991 programme:

*“The majority of the views on the management and organisation of the programme were relatively negative.*

*Several sponsors felt that the original monitoring committees were too unwieldy and cumbersome and could not facilitate open debate between the partners, The Welsh Office and the EC.”*

There is though little or no analysis of the extent to which aspects of the programme’s administration contributed to the performance and impact of the various programmes. Thus, for example, could the different performance of Business Links be explained in part by administrative efficiency or other local issues?

***Administrative efficiency - key conclusions:***

- coverage of the efficiency of the administrative arrangements is also mixed. Some of the evaluations reviewed do not include any consideration of programme administration;
- where administrative efficiency was included in the evaluation framework there was little or no attempt to assess the contribution of good or bad administrative performance to the outputs and outcomes of the initiative.

## **7.9 Overall evaluation**

The approaches used to evaluate the overall impact of each programme varied significantly. In the context of this review we have defined value for money as an assessment of the effectiveness and efficiency of the programme or project. In general this was one of the weakest areas, with many of the evaluations including little detailed or comparative analysis.

The evaluation of the Tipton City Challenge did assess the effectiveness of the programme by appraising in some detail the extent to which each of the partnership’s

seven inter-related strategic objectives had been achieved. It did this by presenting supporting project level information and relevant socio-economic change data. Thus, for example, in relation to the impact of Tipton City Challenge on local business development the evaluation report concluded:

*“The impact of the general economic upturn notwithstanding, Tipton Challenge has made a very significant contribution to the scale and underlying competitiveness of the area’s economic base. An important local training infrastructure has been left in place. It is slightly disappointing that this has not had a greater impact on local levels of unemployment. We consider that there are two main reasons for this: firstly the fact that, in Tipton, as elsewhere, the impact of increased competitiveness and output levels in manufacturing is based upon productivity rather than employment increases, and secondly, continued concerns about the quality of the underlying educational and skills base of the area. Finally, and positively, benefits dependency has fallen with signs that it has converged with the wider Borough.”*

However, the evaluation of Tipton City Challenge included no assessment of the efficiency with which the programme was delivered. Thus, for example, there is no attempt to bring the costs and benefits of the programme together in a cost effectiveness analysis. Similarly, while the Evaluation of the Impact of Environmental Improvements on Urban Regeneration considered the extent to which the case study projects had achieved their intermediate and final objectives, it did not assess whether or not they had done this in a cost effective way.

The evaluations of UDG, URG and City Grant, the STB Section 4 Scheme, the WDA FSI and the NPCI/IDO and Objective 5b CSF all present analyses of cost per job as their measure of cost effectiveness. None of them include an explicit assessment of the extent to which the programme has achieved its original objectives. In reality the focus on a single output (gross jobs) and outcome (net jobs) is seriously flawed, since it ignores the other often less tangible, but nonetheless important outputs and outcomes of these programmes. In the case of the NPCI/IDO and Objective 5b programme a number of the projects supported were, for example, concerned with reuse/recycling. Whilst jobs will often be created by such projects they will not necessarily be the only or indeed the main reason for the public sector funding the scheme. The environmental benefits will in most cases be a more important reason. No attempt is made to assess the cost effectiveness of these projects. The analysis of cost per job in this evaluation did though

only include the costs and jobs associated with those projects that stated an employment impact.

The UDG, URG and City Grant evaluation also includes analyses of gearing (the ratio of net public expenditure to private) and the cost per completed dwelling for the housing projects assessed. The evaluation of the Impact of Urban Policy attempted to identify whether there was a statistically significant relationship between inputs of resources and socio-economic outcomes. It did not specifically assess the ratio of costs to benefits.

In some cases the jobs used in the analysis of cost per job were expressed as full-time equivalents<sup>28</sup> and in others jobs accommodated (head count) figures were used. Care is therefore required in interpreting and comparing the results of different evaluations.

The Business Link and DTI TEC funded services evaluations both included analyses of outcomes per £1/£1m of DTI/net exchequer input and cost per unit outcome. The outcomes considered in relation to the former were local and national level net additional jobs, business turnover, profits, net assets and exports. However, the efficiency analyses included only the DTI costs set against the total level of outcomes. The DTI funding accounted for 50% of Business Links revenues, but the report argued, albeit not convincingly so, that *“It is debatable how much of the estimated £220 million total (and equivalent amounts for previous years) should be set against Business Link outputs and economic impacts...DTI funding pays for the bulk of [Personal Business Advisor] and specialist services (i.e. core services), which are shown...to account for most of the significant interventions. Partners’ and other contributions are increasingly used to support specific non-core activities, such as regeneration, training and enterprise development, and to contribute to Business Link overheads to some extent”*. The DTI TEC funded services evaluation presented a simple, but easily accessible, cost benefit account, as shown in Table 8 below.

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<sup>28</sup> For example, the evaluation of the STB Section 4 Scheme converted the number of new jobs to full-time equivalent level using the following assumptions: part-time all year = 0.5 full-time all year; full-time seasonal = 0.5 full-time all year; and part-time seasonal = 0.25 full-time all year.

Table 8: Cost benefit account for six case study TECs (after national displacement but before taking account of crowding out effects)	
Costs	Benefits
Exchequer costs 1993-94 prices (£m) 9.5	Net jobs created 2170 Net additional turnover generated (£m) 314 Leverage of private sector investment 28 (£m) Significant benefits assessed qualitatively to: - motivation and attitudes - profitability - business planning - marketing and new market entry - management and IT systems - product quality and design - reliability and services
Cost benefit ratios (cost effectiveness) Cost per net additional job = £4,380 Turnover per £1 of Exchequer costs = £33 Private sector investment per £1 of Exchequer costs = £3.0	

Source: DTI (1995) Evaluation of DTI funded TEC services in support of small and medium-sized businesses

None of the evaluations that presented cost per unit output/outcome analyses included any benchmark or comparator ratios. As such it is difficult to assess whether the programme ratios are reasonable or not.

The approach to assessing value for money in the Estates Action evaluation combined explicitly both effectiveness and efficiency. The evaluators appraised whether three necessary (but not sufficient) conditions had been met, as follows:

- *“that the scheme was consistent with the Estates Action (EA) objectives and was effective;*
- *that implementation of the scheme had not prevented alternative schemes of equal or greater priority which would have yielded greater net benefits (in other words, there was no displacement); and*
- *only the minimum EA funds necessary for the project to go ahead were spent (i.e. there was no crowding out).”*

If these conditions were met consideration was then given to whether the project would yield over time a surplus of benefits to the community. In particular, account was taken of the net present value of the monetary costs and monetary benefits and the balance of non-monetary costs and benefits. The evaluation identified a four fold typology of the permutations of costs and benefits, which had different implications for value for money (as illustrated in Table 9 below).

**Table 9: Estates Action – Value for Money (VFM) framework**

<i>Net non-monetary benefits</i>			
<i>Net monetary</i>	1. Possible VFM	2. Clear VFM	<i>Net monetary</i>
<i>Benefits</i>	3. No VFM	4. Doubtful VFM	<i>Benefits</i>
<i>Net non-monetary benefits</i>			
1	A scheme yielding non-monetary benefits but with a net monetary cost may provide VFM where the non-monetary benefits outweigh the monetary costs;		
2	If a scheme has net non-monetary benefits and also generates a financial surplus then it can clearly be regarded as yielding a surplus of benefits to the community;		
3	A scheme generating both monetary and non-monetary costs must yield a net overall deficit and hence cannot be said to be VFM;		
4	It is possible, though unlikely, that a scheme may generate monetary benefits but no non-monetary benefits. It is doubtful that such a scheme provides VFM because it is probable that the scheme has been ineffective (effectiveness is an initial VFM condition).		

Source: Department of the Environment (1996), An Evaluation of Six Early Estate Action Scheme

None of the evaluations used a CBA approach to assess the overall net social benefits of the programme.

***Value for money - key conclusions:***

- the assessment of value for money in vast majority of the evaluations reviewed was particularly weak – there was no structured assessment in most cases of the effectiveness and efficiency of the programme or project. Only one of the ten evaluations attempted to combine these two components in a single composite assessment. None of the evaluations used a CBA approach;
- the evaluations did not always assess whether the original aims and objectives of the programme have been achieved; and
- where cost effectiveness ratios are presented none of the evaluations benchmark or compare these with the results of previous evaluations. Whilst benchmarks are not readily available, the results of previous evaluations do provide a source of such information.

## 7.10 Policy Lessons

All of the evaluations reviewed present policy conclusions or recommendations. However, these varied significantly in terms of the depth of analysis and interpretation and coverage. For example the evaluation of the Tipton City Challenge identifies three key lessons for the future, as follows:

1. *“The multiple benefits of genuine community participation*
2. *The need to maintain an on-going programme of community development.*
3. *The need to recognise the challenge of developing effective strategies for the involvement of young people in the shaping of the programme as well as in its implementation”.*

In view of the diverse nature of the programme and its effectiveness in a number of areas the policy lessons identified are too limited.

The evaluation of DTI funded TEC services, for example, presented a far more comprehensive set of recommendations. These covered issues such as: the continuation of the programme and its scale; the quality and targeting of services and their marketing; the development of innovative services and the composition of the core package of services.

None of the evaluations sought to assess in any detail what works and why it works. An assessment of what works must go beyond just descriptive analyses. Where possible attempts should be made to determine the elasticity of response of economic agents to certain incentives or constraints. This requires the development of hypotheses and models about how agents respond. However, the evaluations reviewed did not attempt to do so. As such their value to future policy development was limited.

A further area of concern was the accessibility of the evaluation reports and summaries. The style, content and length of the evaluation reports meant that the majority would potentially not be widely read by busy policy makers. As such there is a real danger that the important lessons of past activities will not be fed into future policy development.

***Policy lessons - key conclusions:***

- All of the evaluations were weak in identifying policy lessons – in particular, the analyses lacked depth in terms of explaining what works and - more importantly for future policy development - why it works;
- The accessibility of reports to all potential readers, including in particular policy makers needs to be given careful consideration.

## 7.11 Research methods and evaluation approaches

Table 10 presents a summary analysis of the main data sources and research methods used in each of the evaluations. All of the evaluations reviewed were informed by primary data<sup>29</sup>, although the sources used varied. None of the evaluations used all of the research methods identified. Only the evaluations of Urban Policy and Business Links made use of econometric or statistical analyses.

	Site survey	Residents surveys	Visitor survey	Case studies	Firm survey	Focus groups	Weighting / scoring	Beneficiary survey	Agency interviews / surveys	Input-output data	Contextual / change indicators
UDG, URG and City Grant	✓	✓		✓			✓	✓	✓		✓
NPCI/IDO and 5b CSF				✓					✓	✓	✓
WDA FSI					✓			✓	✓	✓	
Tipton City Challenge		✓			✓				✓	✓	✓
DTI funded TEC services				✓	✓			✓	✓	✓	
Estates Action	✓	✓				✓			✓		
Environmental improvements	✓			✓	✓				✓		
Urban policy		✓			✓				✓	✓	✓
Section 4			✓	✓	✓					✓	
Business Links					✓			✓	✓	✓	

A wide range of evaluation frameworks were used in the evaluations reviewed. However, none of the evaluations made use of all of the possible approaches. In particular, the weighting and scoring systems were not widely used. No attempt was made to combine the micro and macro approaches or to integrate cost benefit accounting and value for money assessments. The coverage of equity issues was also extremely limited. The evaluation of the NPCI/IDO and Objective 5b CSF analysed the extensive, multifaceted programme by project type, but did not include any sub-area or spatial analysis. The evaluation frameworks used in each of the evaluations is shown in Table 11 below.

<sup>29</sup> Primary data collection involves the assembly of information directly from local residents, businesses or organisations, or through an inspection or investigation of local conditions (e.g. a site or building conditions survey).

Table 11: Evaluation frameworks used in the evaluations reviewed										
	Micro-analysis	Macro-analysis	Cost benefit account	Goal/achievement matrix	Balance sheet	Value for money				Multi-criteria analysis
						Effectiveness	Efficiency	Equity	Overall	
UDG, URG and City Grant	✓						✓	✓		
NPCI/IDO and 5b CSF	✓	✓					✓			
WDA FSI	✓						✓			
Tipton City Challenge	✓	✓		✓		✓				
DTI funded TEC services	✓		✓				✓			
Estates Action	✓					✓	✓		✓	
Environmental improvements	✓			✓		✓				
Urban policy		✓								
Section 4	✓						✓			
Business Links	✓						✓			

In terms of the composite typology developed as part of this thesis the evaluations reviewed can be classified<sup>30</sup> as follows:

- UDC, URG and City Grant – cost effectiveness within an audit/target driven political typology;
- Section 4 Assistance Scheme in Scotland – cost effectiveness within audit/target driven typology;
- Impact of Urban Policy – impact of programmes assessed within an audit/target driven typology;
- DTI funded TEC services – cost effectiveness and cost benefit account within an audit/target driven typology;
- Environmental improvements – a goal achievement approach within an audit/target driven typology;
- WDA Financial Services Initiative – cost effectiveness within a target/audit driven typology;
- Estates Action Schemes – value for money assessment within a pluralist/stakeholder typology;
- Tipton City Challenge – principally a goal achievement approach within a

<sup>30</sup> In some cases it is difficult to precisely classify the evaluations since they have some elements of a number of the typologies. The approach adopted is therefore to identify the principal approach or approaches adopted.

pluralist/stakeholder typology;

- NPCI/IDO and 5B CSF – cost effectiveness analysis within an audit/target driven and/or pluralist/stakeholder political typology; and
- Business Links – cost effectiveness analysis within a target/audit driven typology.

The majority of the evaluations reviewed adopted a cost effectiveness (efficiency) approach and were conducted within an audit/target driven political typology.

## 7.12 Conclusion

All of the evaluations reviewed had weaknesses and failed to fully address the various evaluation issues. However, each also has a number of merits and provides important pointers to inform the development of an alternative evaluation framework. The main points to consider in developing an alternative approach are as follows:

- ***rationale*** – there is a clear need to ensure that the reason (economic efficiency, equity or other societal objective) for public sector intervention is defined and its validity tested. Then subsequently that the impact of the programme on the market failures and/or distributional equity is assessed;
- ***contextual conditions*** – a thorough assessment of contextual conditions and description of the programme are important if the reader is to form his/her own views on the evidence presented and conclusions drawn in the evaluation;
- ***aims and objectives*** – it is essential that the objectives of the evaluation are clearly identified, along with the aims and objectives of the programmes under consideration. In the case of the latter the evaluator may need to do more than just repeat the original aims and objectives, where these were very generic. In general this was covered reasonably well in the evaluations reviewed;
- ***costs and benefits*** – a more extensive analysis of the costs and benefits of the programmes is required than presented in the majority of the evaluations reviewed. In particular, constant price financial and wider cost information is required on the cost side of the equation. On the benefit side, additional emphasis needs to be given to assessing wider benefits, with greater use of weighting and scoring systems. There are clear advantages and disadvantages to

using micro and macro approaches. As such the most robust approach in many circumstances will be to combine both approaches in an integrated way;

- **additionality** – a consistent and robust approach is required to assessing project and programme additionality. This will require clear definition of the mechanism concerned, clarity over the area of impact and research to produce evidence based estimates. In particular, specific consideration will need to be given to the issue of leakage – this is closely linked to the distributional effects of the programme, which were generally very poorly covered in the evaluations reviewed;
- **impacts on markets and distributional effects** – as noted above, it is important to assess the effects of an intervention on the markets concerned (and in particular, any market failures) and on the distribution of resources or equity. Whilst a (limited) number of the evaluations reviewed covered the former well, none of them effectively addressed the distributional effects of the programmes concerned;
- **administrative efficiency** – it is important to understand whether the programme concerned was administered in as efficient a way as possible and to identify areas for future improvement. However, the analysis must go beyond this and assess the extent to which different administrative arrangements contributed to greater benefits and, importantly, why?
- **overall evaluation** – this is perhaps the weakest area in the evaluations reviewed. It is clear from the earlier chapters that producing a single numerical ‘answer’ in relation to complex and wide-ranging regeneration programmes is not normally feasible. Therefore, an approach which integrates a number of alternative components is required; as such a framework that combines cost benefit accounting and value for money assessments should be explored; and
- **reporting and policy lessons** – The report must be written in a way that it is readily accessible and understood. The policy lessons identified should be informed by an analysis of what works and why it works. In general the evaluations reviewed were weak in identifying why things worked and interpolating insightful policy lessons.

The review of recent evaluations has also emphasised the key role of the client in

shaping the scope and content of the evaluation. It is difficult for the evaluator to go substantially outside of the terms of reference. However, most evaluators are given a degree of latitude and can in reporting the results of the evaluation explain the limitations and shortcomings of the research.

## 8 An Alternative Evaluation Framework

### 8.1 Introduction

The preceding Chapter has highlighted a series of weaknesses in recent evaluations of regeneration programmes. These range from failure to assess and test the rationale for the programme to the very limited identification of policy lessons. It is strongly contended, based upon the discussions in the earlier Chapters of this thesis, that more effective evaluations can be conducted through the development and implementation of an alternative evaluation framework.

Ideally all programmes would be evaluated using a full socio-economic CBA. However, as a result of the diversity and complexity of regeneration programmes it is not feasible, in the vast majority of cases, to undertake a full CBA. The alternative evaluation framework must be able to reflect and accommodate this complexity, whilst also being replicable and robust. It is thus proposed that the impacts and policy lessons of a programme are considered in a variety of ways.

This Chapter therefore presents an alternative framework for the evaluation of regeneration programmes. It is not an exercise in economic theory. Rather it focuses on the development of a pragmatic and practical approach that provides a basis for a move forward, but which is well founded upon economic theory. Further details on how the alternative evaluation framework can be implemented are set out in Appendix E. This appendix sets out a practical research approach to conducting an evaluation based upon the proposed alternative evaluation framework. It also shows how the various elements of the approach will provide the data necessary to address the key evaluation issues.

The proposed framework has been successfully applied in part to the national evaluation of the City Challenge Programme undertaken for DETR. The City Challenge Programme was launched in 1991 with the aim of transforming specific rundown inner city areas and improving significantly the quality of life of local residents. Local authorities, in partnership with private, public and voluntary sector organisations and the local communities, were invited to develop a comprehensive strategy for the sustainable regeneration of key areas of deprivation and to compete for resources to implement their strategy. The strategies were to be based upon a clear vision for the area.

Two City Challenge competitions were held - with in total 31 bids being accepted. Eleven so called Pacemaker Partnerships started on 1 April 1992 and were wound up in March 1997. The twenty Second Round winners commenced operation on 1 April 1993 and finished on 31 March 1998. Each City Challenge Partnership received £37.5 million over a five year period, depending upon the satisfactory achievement of annually agreed targets and objectives. The programme has been delivered through approved, annual Action Plans.

The local authority, together with its partners, has been responsible for delivering the agreed programme for their area. Each Partnership has set up a City Challenge management board, which included representatives of the various partners to implement their programmes. Twenty one of the thirty one partnerships established companies limited by guarantee and the other ten partnerships remained unincorporated.

The approaches adopted and results of the City Challenge evaluation are presented and critically reviewed in the remainder of the Chapter in order to illustrate the proposed evaluation framework. However, as noted earlier, the focus of the thesis is not on the specific calculations and results of this evaluation, but on the conceptual evaluation framework. The figures used are therefore illustrative only. In places changes are suggested to the framework used for the City Challenge evaluation and additional analyses have been undertaken. In some cases other approaches are identified with further details presented in appendices.

It is assumed that the programme to be evaluated is a major partnership-based regeneration programme and that the evaluation is to be undertaken on an on-going basis, with information collected at frequent intervals as the programme is being implemented. However, the approach could easily be adapted to accommodate evaluations undertaken on an ex-post basis as it was in the case of the City Challenge evaluation. Furthermore, it is also assumed that the terms of reference for the evaluation are all embracing and do not unduly constrain the scope of the evaluation.

## **8.2 The alternative evaluation framework**

The methodological framework presented is one that builds upon and extends current practice and guidance. It sets out a multi-faceted approach that enables the evaluator to fully reflect the complexity of a regeneration programme in the analysis and provides a clear evidential basis upon which the - to a degree inevitably - subjective judgements about the performance of a programme and the key lessons for future policy can be made.

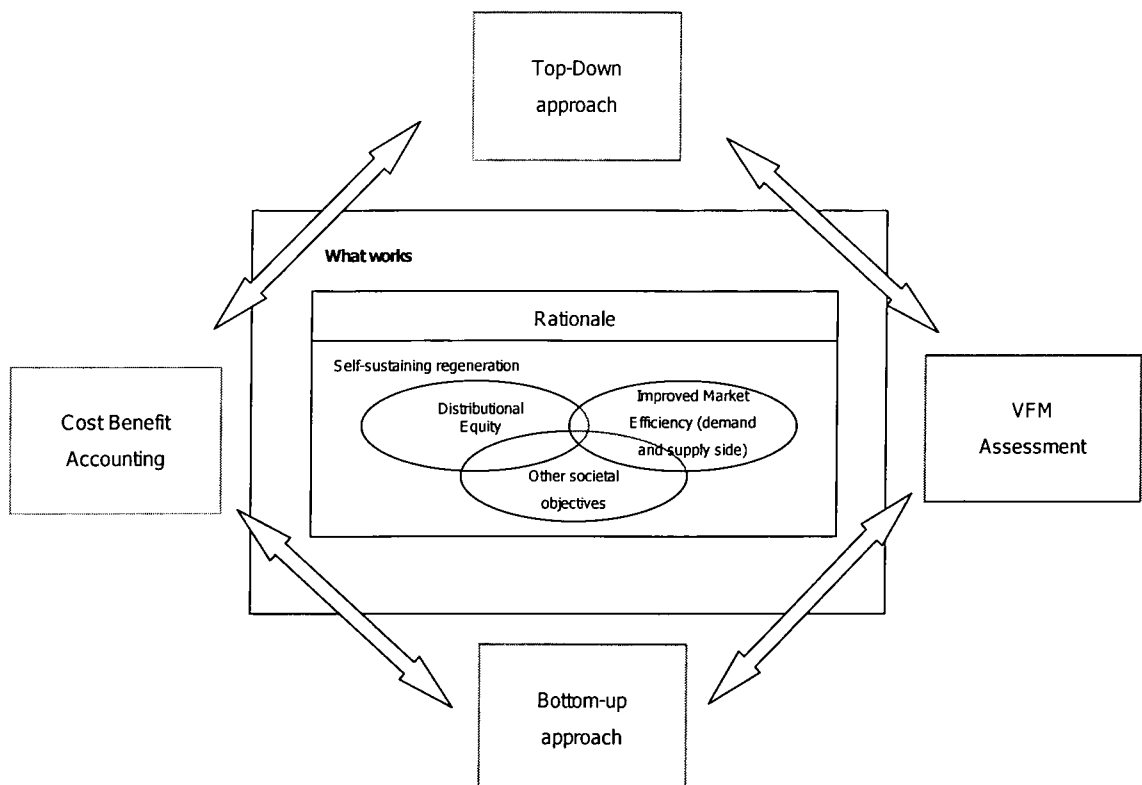
It also enables the key evaluation issues identified earlier in the thesis to be addressed in a comprehensive way.

The methodology is composed of a **cost benefit account, multi-criteria value for money assessment** and **what works analysis** of a programme or project. These are not alternatives. They are different aspects of, or perspectives on, the same thing. The cost benefit account sets the costs of the programme against the benefits it generates. The value for money assessment is founded upon the public sector's rationale and objectives of intervening. Then the what works analysis identifies those characteristics and relationships that can inform the design of future policy interventions. The approach (refer to Figure 17) to informing these various elements of the methodology combines:

- **Bottom-up analysis** - of the impacts of individual projects; and
- **Top-down analysis** - of secondary source information.

The methodology allows for a consideration of impacts at different spatial levels, as well as for an assessment of a set of qualitative and process issues within one composite framework.

**Figure 17: Methodological Framework**



As the earlier Chapters have shown the rationale for a regeneration programme will normally be based upon a combination of four factors:

- (i) Improved market efficiency - Addressing market distortions and failures;
- (ii) Enhanced distributional equity - Improving the opportunities and conditions of severely deprived individuals and communities; and
- (iii) Other societal objectives - including, for example, community objectives;
- (iv) Self sustainable regeneration - Intervening so that the market failures and equity issues are addressed and local capacity enhanced to the point where the area's regeneration becomes self-sustaining. For the purposes of this thesis self-sustainable regeneration is defined as being achieved if the designated area no longer needs targeted, specific public sector support – over and above that provided to all other areas – to address issues of disadvantage and deprivation. The critical point at which regeneration becomes self-sustaining will differ across areas and across time.

The combination of the cost benefit account and multi-criteria value for money frameworks, within a bottom-up and top-down approach, provides a robust basis upon which to consider and assess the rationale, impacts and self-sustainability of a programme or project. The approach allows for an objective assessment of the degree to which market distortions/failures have been corrected and inequalities addressed through enhancing the relative and absolute quality of life of local residents. The top-down approach to the cost benefit account sets out detailed information on contextual conditions. The proposed evaluation framework also embraces the issues set out in the European Commission's MEANS framework (see Section 3.4.5) and allows theories of change to be examined.

The aims and objectives of the programme or project are specifically identified as a core component of the value for money approach, which includes an assessment of the extent to which these have been met. The costs and benefits are analysed as part of the cost benefit account, informed by both the top-down and bottom-up approaches. Both methodologies and approaches assess the additionality of the outputs and outcomes generated. The value for money method also explicitly considers the impact of the programme or project on economic efficiency and equity, as well as administrative

efficiency. The framework also allows the validity of the partnership's theory of change to be tested.

However, the evaluation framework must go beyond just assessing costs and benefits, and value for money. It must also enable the evaluator to:

- assess what works in terms of individual projects and approaches and, importantly;
- how they work; and
- why.

The what works analyses will help to ensure that the policy lessons are insightful and add value.

In addition, the approach proposed to implementing the evaluation framework, which is inclusive, provides the opportunity for those affected by public policy to provide direct feedback- with local residents, businesses and organisations actively involved in the evaluation, thereby enhancing local capacity.

In terms of the typology of evaluations, the alternative framework can thus be defined as a cost benefit account and value for money assessment within a democratic typology.

In order to fully evaluate the range of impacts associated with a major regeneration programme a methodology is needed which links both individual project and local level results with movement in more aggregate indicators.

The two approaches are complementary and self-reinforcing. There will be greater confidence in the overall results of the evaluation where the top-down and bottom-up approaches produce comparable results. For example, if an analysis of longitudinal unemployment data shows a statistically significant programme effect, there would, in general, be greater confidence that this accurately reflects the impact of the programme if the bottom-up estimates of the net additional local employment effects are of a comparable scale.

Regeneration programmes are time limited and are therefore delivered within a very specific and discrete time period. It is therefore normally possible to consider trends across a range of indicators (such as unemployment) within a policy-on and policy-off context, although identifying appropriate policy-off areas can be very difficult. It is also

the intention of the majority of regeneration programmes that they go beyond simply short-run ameliorative measures.

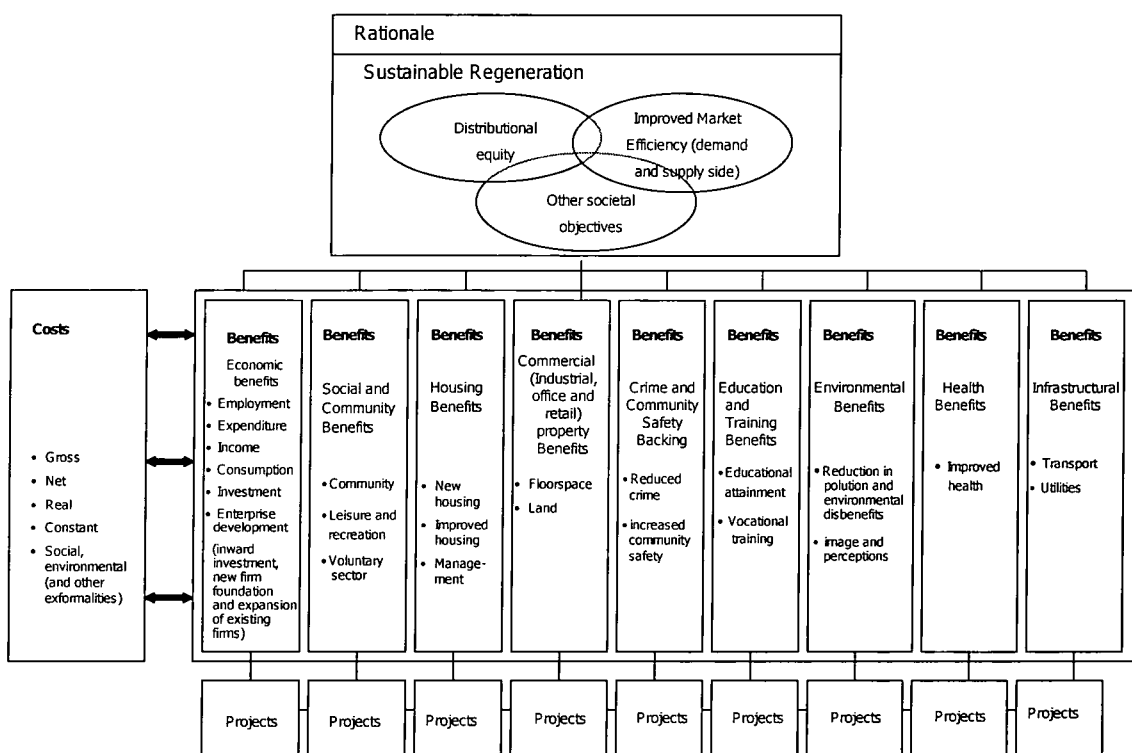
### 8.3 Cost benefit account framework

#### 8.3.1 Overview

The costs and benefits of a regeneration programme or project will be assessed and presented in the form of a cost benefit account - with the full economic and wider costs and benefits being assessed. This will be set out in a clear and easily understood summary of the costs and benefits of the regeneration programme.

The proposed cost benefit account framework is summarised in Figure 18 below. It seeks to combine a clear understanding of the rationale for the regeneration programme and the full range of potential benefits and costs.

**Figure 18: Cost benefit account framework**



### 8.3.2 *Assessing Additionality*

#### *(i) Overview*

The definition of additionality and its component parts was detailed in Chapter 5 above.

The approach used to assess the net additional impact of the City Challenge programme is discussed below. In addition, in order to further illustrate the practical issues involved in assessing the additionality of a regeneration project a hypothetical worked example is set in Appendix F. The appendix explores each of the areas that need to be addressed in order to appraise the net additional construction employment associated with a project.

The evaluation of City Challenge considered the extent to which the programme created outputs and outcomes that were additional to the City Challenge and other spatial areas. Five key issues were explored in this respect:

- the level of **full-time equivalent** employment;
- economic **multiplier** effects associated with the employment created;
- the extent to which activity (in this case employment) is lost from the area (i.e. **leakage**);
- the degree to which the supported activity would **displace/substitute** similar activity elsewhere in the area; and
- the degree to which partnership activity was over and above what would have happened anyway in the area (i.e. **deadweight**).

#### *(ii) Full time equivalent employment*

In order to directly compare the costs of creating a job with previous programmes, an adjustment was made to convert part-time jobs to full time equivalent jobs. The results of the City Challenge beneficiary survey included information on the level of full and part-time employment in supported businesses. This data was used to adjust total employment to estimate full time equivalent (FTE) jobs. The scalars used are highlighted below in Table 12.

<b>Table 12: FTE Scalers</b>		
<b>Projects</b>	<b>New</b>	<b>Safeguarded</b>
Business Support	0.84	0.92
Development Projects	0.77	0.85

This approach does not though reflect the potential additional benefits of the accessibility of part-time employment to particular groups in society such as single parents. Neither does it tell us anything about the quality of the jobs created. Thus, the analysis of net additional impact should also be undertaken using total jobs created. Further supporting information concerning the wages/salary, occupations and duration (for example, permanent or seasonal) should also be included.

*(iii) Multiplier effects*

The City Challenge evaluation assumed that employment multiplier effects would apply to the following project types and outputs / outcomes:

- Development (number of jobs)
- Training and education (number of jobs)
- Business support (number of jobs).

Primary data on the scale of local multipliers was not collected as part of the surveys and therefore based upon H.M. Treasury guidance<sup>31</sup> and the results of previous evaluations, it was assumed that a composite employment multiplier of 5% was appropriate at the City Challenge level and 24% at the Local Authority District level.

The use of proxy measures is not unreasonable but greater understanding of the particular impacts of the City Challenge programme could have been gained through questioning beneficiary firms about the nature and scale of local purchases and about their salary costs and workforce. In this way multipliers could have been estimated for each City Challenge area<sup>32</sup>.

*(iv) Leakage*

In terms of establishing the net additional local employment impact, it is also necessary to adjust for the leakage of employment created out of the area. Again, the beneficiary data

<sup>31</sup> HM Treasury (1995), A Framework for the Evaluation of Regeneration Projects and Programmes.

<sup>32</sup> See, for example, MDC (1997)

was used to scale the proportion of people getting a job that were local. The scalars in Table 13 below were used to adjust the new and safeguarded jobs.

<b>Table 13: Employment leakage rates</b>	
<b>Areas</b>	<b>Estimated Leakage</b>
City Challenge	38%
Local Authority District	11%

In the City Challenge evaluation leakage effects were only considered in terms of employment and thus spatial leakage. Consideration should though also be given to leakage in terms of the target group for specific projects. Thus, for example, a number of City Challenge Partnerships developed programmes targeting young people and the extent to which this group actually benefited should have been given greater consideration.

*(v) Displacement/substitution*

In the City Challenge evaluation, information on the level of displacement/substitution associated with different project types was gathered from three sources - the chief executive, programme/project manager consultations and the beneficiary survey. Only those project types where displacement within a market (either in terms of products/services or factors of production) has taken place were included. However, as the City Challenge evaluation noted this is a complex issue and requires careful interpretation. For example, in the case of business support, displacement could refer to the displacement of private sector business support employees (e.g. high street bank business advisors) as well as the displacement of market share (and employment) in competitor firms.

Displacement/substitution was considered to be very low at the City Challenge level, but increased rapidly beyond the local area. At the UK level, only housing was thought to be a fully displacing activity from elsewhere (see Table 14).

<b>Table 14 : Displacement/substitution rates</b>						
<b>Project Type</b>	<b>Within City Challenge Area</b>	<b>Immediately adjoining area</b>	<b>District</b>	<b>County</b>	<b>Region</b>	<b>UK</b>
Development	17%	21%	38%	71%	89%	91%
Housing	10%	19%	38%	84%	100%	100%
Training and Education	8%	17%	31%	77%	78%	80%
Business support	8%	19%	31%	49%	75%	75%

The programme addressed a number of supply-side constraints. As a result it was considered unlikely that the programme was fully crowding out economic activity. As such, it is estimated that in the case of development, 9% of outputs are believed to be wholly additional at the national level. However, the evaluation would have benefited from further evidence of the supply-side improvements.

*(vi) Deadweight*

The assessment of what would have gone ahead anyway in the absence of the Programme was based upon two key sources - the City Challenge beneficiary survey and programme/project manager consultations. An allowance was made for scale (for example, would more or less have been done?) and timing (for example, would it have happened at the same time or later?) effects, which were recorded by researchers/respondents.

The results were remarkably consistent, although it is clear that the beneficiaries had a more positive impression that less of the outputs would have arisen without the City Challenge programme than the Programme/project managers (refer to Table 15 below).

<b>Table 15: Deadweight by project type</b>			
<b>Project Type</b>	<b>Project Manager</b>	<b>Beneficiary</b>	<b>Average</b>
Development schemes	40	16	28
Housing	41	10	26
Transport	27	12	25
Environment and amenity space	39	21	30
Business support	15	36	26
Training and access to labour market	16	15	15
Community and social	14	15	19
Crime prevention	21	16	19
Health	30	23	27
<b>Total</b>	<b>32</b>	<b>17</b>	<b>24</b>

On average it is estimated that around a quarter of City Challenge activity was believed to be deadweight.

*(vii) Net additional*

Table 16 sets out the gross<sup>33</sup> and net additional outputs of the City Challenge Programme. In relation to the latter the net additional outputs at the City Challenge and District level are presented. The movement from gross to net outputs was based upon the adjustment

<sup>33</sup> The gross job outputs have been adjusted for full-time equivalence.

for multiplier, leakage, displacement/substitution and deadweight effects, where appropriate.

<b>Table 16 : Gross and net outputs of the City Challenge Programme</b>			
	<b>Gross Output:</b>	<b>Net Outputs</b>	
		<b>City Challenge Area</b>	<b>District</b>
Development (floorspace - sq m)	3,259,838	2,343,172	2,343,172
Development (FTE new and safeguarded jobs)	66,819	26,101	32,767
Housing (units completed)	22,426	15,083	10,367
Housing (units improved)	71,159	47,858	32,895
Transport (roads improved/ constructed - km)	646	487	487
Environment (land improved - ha)	1,945	1,363	1,363
Training and education (qualifications)	127,133	107,447	107,447
Training and education (trainees gaining FTE jobs)	58,631	29,777	37,783
Business support (FTE new and safeguarded jobs)	44,409	19,826	25,157
Business support (start ups)	5,428	3,723	2,786
Business support (advised)	166,654	114,291	85,545
Crime (security systems)	52,144	42,387	42,387

*Note: the 15,000 or so jobs created or safeguarded through housing, crime prevention, health, community and environmental project types and the 21,000 jobs associated with training and access to the labour market projects have been excluded in view of concerns that they may relate to project delivery. In many cases these will require on-going public funding. Since these costs have not been included in the assessment of cost effectiveness, the employment created has also been excluded.*

*Source: Russell et al (2000)*

The effect of adjusting the aggregate outputs reduces the local impacts of the programme quite considerably for some indicators. For instance, the net number of jobs at the City Challenge level from development and business support (excluding trainees gaining jobs) is estimated at 46,000 as opposed to the 111,000 gross fte jobs

As a comparison, the total new jobs created (after excluding jobs safeguarded) is slightly lower than the estimated aggregate reduction in unemployment that the top down analysis (see Section 8.5.2 below) suggests can be attributed to the Programme (29,000 to 39,000). However, if allowance were made for the local jobs created through other project types (see note to Table 16) and part-time jobs, the figures would be very similar at 33,000.

### 8.3.3 Cost benefit account NPV

#### (i) Overview

The cost benefit account should in most cases include an estimate of the net present value of the costs and benefits of the programme. Two approaches are proposed to valuing the external costs and outcomes and incorporating them within a cash flow analysis, together with the financial costs and benefits. The first involves the use of benchmark cost per unit outcome ratios from previous evaluations as a measure of the minimum value of the benefits, whilst the second involves the use of techniques to value external costs and benefits.

#### (ii) Cost benefit account Net Present Regeneration Value

An approach is proposed which uses the idea of benefit transfer to derive an implied valuation of the net total outputs/outcomes of a programme. These outcomes of the programme are converted to a cash flow by multiplying each of them by appropriate benchmark costs from other programmes to calculate the benchmark regeneration value. Thus, the analysis uses cost per unit output/outcome data derived from previous programmes to provide an indication of the minimum value of a basket of outcomes. It is fully accepted that it will be extremely difficult to capture and value all of the costs and benefits associated with a major regeneration programme. However, it is possible to assess and value many of the major costs and benefits and bring them together into a net present value calculation.

Table 17 below illustrates the analysis for the City Challenge programme and shows that the *regeneration value* of the net outputs is therefore significantly higher than the total public sector expenditure on the Programme, particularly since City Challenge delivered far more than just jobs, training, housing and land renewal.

<b>Table 17: Regeneration value of net outputs (£million)</b>			
	<b>City Challenge net outputs</b>	<b>Benchmark costs (£000)</b>	<b>Regeneration Value (£m)</b>
Implied value of City Challenge net jobs	81,000	25	2,025
Implied value of City Challenge net dwellings	63,000	10	630
Implied value of City Challenge hectares of land improved	1,400	150	210
Implied value of City Challenge trainees gaining a qualification	107,000	1.8	193
<b>Total</b>			<b>3,058</b>

However, the approach applied in the City Challenge evaluation, whilst using constant prices, did not take account of the concept of time preference. Therefore, as part of this thesis the analysis has been further extended to create a net cash flow of the programme, after deducting the costs incurred, and then discounting this at the social discount rate to produce an estimated net present regeneration value for the programme. The calculation is not a full socio-economic cost benefit analysis – for example, it focuses on public sector costs not resource costs. Rather it is another component in the various approaches being used to evaluate a programme. On the basis of the costs and benefits profile of the City Challenge Programme and using only the four outcome areas identified above, the Net Present Regeneration Value (NPRV) of the programme (after discounting back to the start year of the Programme) is estimated to be £19 m. Again, given the other benefits that are not captured in this analysis this would suggest that City Challenge represented good value for money.

The cost benefit account NPV produces a simply calculated estimate of the net present regeneration value of the stream of public sector costs and benefits generated by a regeneration programme. Thus, benchmark regeneration values from previous evaluations would then be applied to the profile of outcomes over the programme period. To this could then be added any measure of the environmental or other costs and benefits that may have been generated (see below), although care would need to be taken to avoid double counting. The resulting cost and value cash flows would then be discounted, using the appropriate H.M. Treasury discount rate, to derive a net present regeneration value for the programme.

*(iii) Cost Benefit Analysis and the valuation of costs and benefits*

For some regeneration projects it is possible to undertake a full socio-economic CBA. Whilst this was not undertaken for the City Challenge Programme, an example of the application of a CBA approach to a regeneration project is included in Appendix G. This highlights how techniques such as the Travel Cost Method can be used to value the consumer surplus associated with certain regeneration schemes.

**8.3.4 Multi-criteria analysis**

As the earlier sections have shown, in many cases a range of costs and benefits will be difficult to quantify, let alone value. In these cases the proposed approach is to develop a multi-criteria scoring and weighting system. The criteria against which the costs and benefits of the project or programme will be assessed should be debated and agreed with

local stakeholders, so should the weights and scores to be accorded to each. The programme effects should be assessed as should the likely base case or counterfactual scenario.

A matrix approach is therefore proposed which involves developing a scoring, weighting and ranking system to allow the wider costs and benefits to be measured. This avoids the various difficulties associated with allocating a cash value to each benefit, but is still a more sophisticated form of analysis than a simple 'balance sheet' approach (which simply lists and describes outputs and outcomes). There are, however, weaknesses in the matrix approach, namely the question of how far downstream benefits can be attributed to the project, and the degree of subjectivity involved in the scoring and weighting of each element. To overcome this the assumptions used in weighting and scoring will need to be set out as transparently as possible. For each area of impact, evidence and a justification of the score given will need to be provided.

This approach was not utilised in the published evaluation of City Challenge. However, as part of this thesis a multi-criteria analysis has been undertaken of the Programme. Table 18 sets the results of this weighting and scoring assessment. Scores are based on a scale of -10 to +10; with +10 being a very significant positive effect and -10 a very significant negative effect. Weightings out of 10 have also been estimated for each type of impact.

<b>Table 18 : Multi-criteria weighting and scoring analysis of City Challenge</b>					
Impact	Weight	Base case/counterfactual		With Programme	
		Score	Weighted score	Score	Weighted score
Community cohesion	9	-6	-54	7	63
Empowerment	8	-6	-48	9	72
Regeneration catalyst	8	2	16	7	56
Employment	10	2	20	7	70
Environment	7	-1	-7	5	35
Heritage	5	-7	-35	5	25
Community safety	10	0	0	4	40
Tourism	4	-3	-12	4	16
Enterprise	6	2	12	7	42
Education/training	9	-5	-45	6	54
Image	5	-4	-20	5	25
Social	8	-5	-40	7	56
Process/ partnership	7	-5	-35	6	42
<b>TOTAL</b>		<b>-36</b>	<b>-245</b>	<b>79</b>	<b>596</b>

The weighted scores can be used to assess the relative impact of the programme or project in relation to each of the criteria. The weighted score can also be used in a cost utility analysis (i.e. cost per unit score).

### 8.3.5 *Summary Cost Benefit Account*

The summary cost benefit account would then include the results of the preceding analyses and would summarise the programmes:

- costs
- benefits
- wider impacts – including as assessed through a weighting and scoring system
- cost benefit account NPRV

Table 19 presents a cost benefit account of the City Challenge programme.

<b>Table 19: City Challenge : A summary costs benefit account</b>	
<b>Costs (Constant 1998 prices)</b>	
Total (all sectors)	£7.6 billion
Regeneration programme	£1.2 billion
Other public sector	£1.8 billion
Private sector	£4.6 billion
<b>Benefits</b>	<b>Impacts</b>
<b>Key Outputs/Outcomes</b>	<ul style="list-style-type: none"> <li>▪ increased economic activity and investment</li> <li>▪ improved business confidence</li> <li>▪ changed local markets - created a potential for growth</li> <li>▪ substantial improvements to the physical infrastructure and environment</li> <li>▪ increased 'citizenship' and empowerment within communities</li> <li>▪ reduction in recorded crime</li> <li>▪ reduction in unemployment and improved opportunity and capability of securing a job</li> <li>▪ improved 'quality of life' - better amenities, health and welfare provision</li> <li>▪ improved capacity to engage in succession regeneration work</li> <li>▪ created a potential for sustainability</li> <li>▪ significant improvements in the quality of the housing stock</li> <li>▪ increased confidence of those who participated in City Challenge</li> </ul>
Net number of jobs safeguarded/created	81,000 (fte jobs)
Net number of dwellings improved/completed	63,000 units
Net number of businesses helped/start-ups	114,000/3,700
Net floorspace improved/completed	2,300,000 sq m
Private sector investment	£4.6bn
Net land reclaimed	1,400 ha
Net roads improved/ constructed	490 km
Net qualifications obtained	107,000 qualifications
Net security systems installed	42,000 systems
<b>Multi-criteria analysis (illustrative only)</b>	
With programme weighted score	596
Base case or counterfactual	-245
Net additional weighted score	+841
<b>Cost Benefits Account NPRV</b>	
PV of Public sector Costs	-£2,591 m
PV of Regeneration Benefits	+£2,610 m
Net Present Regeneration Value	+ £19 m

## 8.4 Multi-criteria value for money

### 8.4.1 Overview

The value for money analysis comprises an appraisal of:

- (i) *Effectiveness* - The extent to which the objectives of the programme or project have been achieved;
- (ii) *Equity/market impacts* - The distributional effects of the programme or project and/or their impacts on relevant markets;
- (iii) *Efficiency* - (a) the ratio of outputs to inputs, or cost effectiveness and (b) administrative efficiency; and (c) economy;
- (iii) *Overall value for money* - The final economic and social benefits of the project in relation to costs.

The value for money framework proposed includes a composite approach using both objective and subjective methods of assessment.

### 8.4.2 Effectiveness

The effectiveness of the programme and its component parts would be assessed through subjective analysis of the extent to which each of the programme aims and objectives have been achieved. In each case judgements would need to be made by the evaluator, but these should be supported by evidence and be consistent with the results from the other analyses.

Almost all programmes will have a number of aims and objectives and in the vast majority of cases no weighting will be attached to these. As such a two stage approach will often need to be developed, which involves:

- assessing the extent to which each individual objective has been achieved in isolation; and then
- analysing the original bid document and other contemporary information to identify the key priorities for the programme area and link these to individual objectives; then

consider the degree to which the objectives and, in particular, the highest priority, have been met.

On the basis of the evaluation results Table 20 below considers the extent to which each of the City Challenge Programme aims were achieved.

<b>Table 20 :Achievement of programme aims</b>	
<b>Aims</b>	<b>Comments</b>
<ul style="list-style-type: none"> <li>▪ to support strategies for a defined area that will assist the area to attract outside investment that will stimulate wealth creation and widen social provision;</li> </ul>	<p>City Challenge was a spatially targeted regeneration programme. Funding was provided to support a diverse range of areas and activities. All of the Partnerships attracted significant other public and private sector investment to their areas. In some cases this was very substantial. New facilities and services were provided as a result of the Programme and a significant number of net additional local jobs were created/safeguarded. Social provision has been extended and local wealth creation increased as a result of City Challenge. Despite this there was some indication that a weaker element of City Challenge in some areas was the creation of employment opportunities for local people, with many jobs going to non-local residents. This aim was, on this basis reasonably well achieved.</p>
<ul style="list-style-type: none"> <li>▪ to create a climate of environmental quality and enterprise culture likely to attract people to live and work there;</li> </ul>	<p>Environmental projects were generally well regarded by local stakeholders. These projects provided a key and effective input to achieving this aim. In addition, a significant number of the development projects involved the re-use of derelict and vacant sites and premises. In some cases these buildings were listed. Substantial improvements were also made to the housing stock. This resulted in a reduction in voids and an increase in demand in the case of some social housing schemes. The business support projects were also well regarded by beneficiaries. Crime was still identified as a problem by many residents, which was not consistent with achieving this aim. However, even here significant reductions in the level of recorded crime were reported in many areas. Another weaker element of the Programme was the degree to which an 'enterprise culture' had been developed in some areas. For example, there was an indication from the resident's survey that the level of business start-up opportunities were believed to be limited. However, overall it is considered that this aim was again reasonably well achieved.</p>
<ul style="list-style-type: none"> <li>▪ to support the development and implementation of locally devised and time limited plans for the regeneration of disadvantaged areas within our cities which will significantly benefit the residents of those areas and</li> </ul>	<p>City Challenge contributed very effectively to the achievement of this objective. Locally based regeneration strategies were developed. However, as a result of the bidding timetable the level of stakeholder involvement in many of these was less than it might have been. Despite this, the strategy evolved and stakeholder and partner input increased. Those directly involved in City Challenge projects indicated the significant benefits of the programme. More generally, there is an indication that the areas concerned were believed to have deteriorated at a slower rate than SRB areas and the Survey of English</p>

<p>provide added value to current public and private initiatives in the area;</p>	<p>Housing average. Given the high levels of deprivation and spirals of decline present in many of these areas, this can be seen as a positive result. The evidence at the project level is that the Partnerships succeeded to a large degree in adding value and complementing mainstream public sector funding. Additional public sector resources were “bent” into the area. The Partnerships worked with the private sector in a variety of ways to maximise the level of private sector investment in the areas. This aim was, it was believed, substantially achieved.</p>
<ul style="list-style-type: none"> <li>▪ to promote effective mechanisms for delivery of these plans including effective co-ordination of the resources available to the area;</li> </ul>	<p>Partnerships used a number of mechanisms to deliver their projects. The local authorities were central to many of the projects, although a very wide range of partners were involved. These mechanisms generally worked very well. The level of leverage generated through the programme - both private and public - increased the size of the initiative by six times. Some concern was expressed by a number of consultees about the level of integration at a project level. However, overall the Partnerships were, it was considered, effective at maximising and co-ordinating the resources available. On the whole, City Challenge contributed effectively to the achievement of this particular aim.</p>
<ul style="list-style-type: none"> <li>▪ to promote successful partnerships for the delivery and development of the plans between local authorities and all those that have a stake in the area, including public, private and voluntary bodies and local communities; and</li> </ul>	<p>Evidence from the evaluation highlighted the extensive efforts partnerships made to ensure effective networks for communication and involvement with stakeholders. Inevitably these developed over time. However, on the whole they were believed to be effective. In many cases City Challenge was the first time that local stakeholders had actively participated in local regeneration. There was though a concern, in some areas, that not everyone was fully involved in the process, whilst in other cases, the networks became too unwieldy. There was substantial evidence of the partners having learnt from each other as a result of City Challenge. This should provide the basis for better working in the future. The results of the consultations also ascribed a high level of additionality to the partnership’s contribution to regeneration. Taken together, the evidence from the evaluation supports the view that successful partnerships had been developed through City Challenge. Exceptions to this were rare and were mainly associated with excluding particular groups (for example, young people), which many partnerships later addressed. Accordingly, it was considered that this aim has been substantially met.</p>
<ul style="list-style-type: none"> <li>▪ to develop the capacity within the areas selected for self-sustaining regeneration and self help which will continue after the period of the funding</li> </ul>	<p>Substantial progress has been made in terms of developing local capacity and with this increasing self-help within the local community. The evidence from the focus groups and review of succession strategies is mixed in terms of whether sustainable local structures have been established. However, more generally, it is believed that the City Challenge programme has created the foundations in many areas for sustainable regeneration. This will only be achieved with continued regeneration and other funding. Again, overall this aim has, it was believed, been fairly well met.</p>

### 8.4.3 *Equity and market impacts*

The impact of the Programme on the quality of life and the efficiency of local markets must also be assessed.

In the case of the City Challenge it is evident that the Programme generated a substantial number of outputs. However, it is the extent to which it created outcomes - or increases in the welfare of residents and businesses - that is the critical measure of the Programme's achievements. Therefore, on the basis of the evidence gathered during the evaluation, the impact of the Programme on the efficiency of local markets and on quality of life was assessed, as follows:

#### ***City Challenge Evaluation – Equity, market effects and sustainable regeneration***

##### ***Equity***

- *Local satisfaction* - the focus group meetings in particular identified that the satisfaction of local people and groups within the areas had increased. There was a high degree of enthusiasm and commitment evident in all of these discussions. In comparison with data from the SRB evaluation, the City Challenge areas had a higher level of net satisfaction (refer to Table 21 below).

**Table 21 : Resident's survey results - 'Overall, how satisfied or dissatisfied are you with living in this area'**

	Satisfied	Dissatisfied	Net satisfied
City Challenge case study areas	74%	19%	55%
Main SRB areas	69%	24%	45%
Survey of English Housing 1995/96	87%	8%	79%

However, in comparison with the English average the level is lower. In terms of net change in the local area the City Challenge areas have deteriorated at a lower rate than either the SRB areas and the English average (refer to Table 22 below).

**Table 22 : Resident's survey results - 'Would you say this area has improved, got worse or stayed about the same during the last five years'**

	Improved	Got worse	About the same	Net improved
City Challenge case study areas	31%	35%	30%	-4%
Main SRB areas (over 2 years)	16%	26%	51%	-10%
Survey of English Housing 1995/96 (over years)	10%	28%	54%	-18%

- *Citizenship* - a key feature of the value added contribution of City Challenge was the way

that it brought together communities. Partnership and community involvement was not without its problems. However, all of the Partnerships attempted to secure grass root involvement and to varying degrees promote local empowerment. As such they sought to re-integrate excluded groups and individuals. In some cases this was achieved through targeting support on particular groups, such as young people;

- *Community capacity* - this was an area where many partnerships made a significant and concerted effort. The focus groups and other elements of the research identified the substantially enhanced capacity of many local stakeholders. This, in some cases, was not just a benefit for the individuals themselves but provided a basis for on-going self-help in the area;
- *Wealth* - the Programme is believed to have added considerably to personal and 'collective' wealth. It generated a substantial number of net additional local jobs. In addition, individuals secured improved qualifications, thereby enabling them to compete for higher paid jobs. The housing improvements will also, in some cases, have contributed to greater personal wealth;
- *Amenities* - the evidence from the research is that local amenities and facilities were substantially improved as a result of City Challenge. The Partnerships contributed to improving a wide range of local facilities, including shopping, parks, community centres, youth centres, sports/leisure centres and public transport. However, the residents survey suggest a somewhat contradictory view - with a number of respondents indicating that local services/facilities had deteriorated. It is though uncertain how they would have rated these in the absence of City Challenge;
- *Quality* - there was clear evidence that what had been achieved was of very high quality. A phrase coined during one particular consultation was '*a non-minimalist approach*'. Local residents and others were, therefore, provided with a very good standard of regeneration projects. However, concerns were expressed about the ability of partners to maintain the outputs to this high standard;
- *Crime* - this was perhaps the weakest, but also one of the most difficult elements, of the Programme. However, there was evidence of positive change. Many respondents indicated that these areas would have got worse in the absence of City Challenge. Furthermore, the Programme promoted a partnership approach to tackling crime and nuisance, involving the Police and other agencies. This type of approach is required as part of the 1998 Crime and Disorder Act;
- *Health* - the Programme supported a range of health related projects. The evidence from

the final and local evaluations is that these have had a beneficial impact on local residents.

- *Housing* - substantial investment was made in the housing stock as a result of the City Challenge Programme. (Total investment in housing is estimated to be £2.3 billion.) These improvements will have resulted in substantial enhancement in the quality of life of local residents and tenants.
- *Confidence* - morale and self-esteem was low in the Challenge areas prior to the Programme. The degree to which this has changed is difficult to assess. However, the research highlighted the personal pride in what had been achieved of those who participated in City Challenge.
- *Environmental* - the City Challenge Programme involved a number of themes that impacted upon the environment. The vast majority of these were positive in the form of reclaimed land, the re-use of derelict buildings, the introduction of energy efficient measures and the provision of energy efficiency advice. In some cases, such as Hulme, dramatic transformations were achieved in the physical environment of the area.

#### ***Market effects***

All the City Challenge areas had been experiencing a decline in their local markets. The extent to which the Programme had impacted upon this has been assessed, as follows:

- *Economic activity* - in total 46,000 net new fte jobs were created or safeguarded and 30,000 trainees secured employment as a result of the Programme. These net additional jobs will have been supported by additional economic activity at the City Challenge and wider level. For indicative purposes it is estimated, based on average regional GDP per capita that as much as £1.3 billion might have been added to the economies of City Challenge areas and £1.6 billion to the economies of local authority districts<sup>34</sup>.
- *Investment* - the City Challenge areas secured substantial levels of investment as a result of the Programme (total private sector investment accounted for £4.4 billion). In turn this has influenced tertiary investment decisions and improved investor confidence in the area. The City Challenge Partnerships were identified as important by some firms in their decision to locate in the area. However, for some areas a lack of, in particular, private sector investment remains an on-going problem.
- *Property market* - the survey of property agents identified varying property market impacts as a result of City Challenge. In some cases, such as Tipton and Leicester, City

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<sup>34</sup> These figures are based upon the net additional jobs created and it is assumed that training jobs are wholly additional to those created through other projects. This is unlikely to be the case and this figure therefore is a maximum.

Challenge was identified as substantially changing the areas concerned. In Tipton, for example, the Partnership was identified as vital to improving the residential property market. However, in certain locations, such as Batley, where agents indicated that demand levels were generally low, the impact of City Challenge was more limited. In other areas the Programme was believed to have slowed or stopped the rate of decline in the local property market. In Blackburn the Partnership was identified as a catalyst for certain improvements in the property market, albeit that greater importance was attributed to the construction of the M65 motorway. Many of the Partnerships reclaimed derelict and contaminated sites and thus addressed negative externalities. Overall, the Partnerships appear to have had a positive impact on local property markets, although the scale and nature of these effects has varied.

- *Labour market* - the evidence here is somewhat mixed. A substantial number of outputs had been achieved - with, for example, 130,000 trainees gaining a qualification. As such the human capital of the area has increased significantly as a result of the Programme. In addition, as noted above a significant number of net additional local jobs have been created. Certain projects, such as the one-stop-shops, sought to improve the functioning of the local labour market and were generally well regarded by consultees/beneficiaries. However, a number of consultees referred to a concern that those people who benefited from training or were helped back into the labour market then left the area when they could afford to do so. The residents' surveys also highlighted a concern about the level of employment opportunities available locally. Despite these reservations the Partnerships would seem to have had a range of positive effects on local labour markets.
- *Business confidence* - except for continuing concerns over crime, businesses were generally happy with the City Challenge areas as a place from which to conduct their business. Many expressed positive expectation of future growth. The businesses surveyed had a relatively positive perception of the programme and its impact on the local market.
- *Sustainability* - while local issues remain for almost all the City Challenge areas, the evaluation has identified that all of them have more sustainable markets than they had prior to the programme. This is further reinforced by the high levels of additionality.

#### *Self Sustaining regeneration*

The City Challenge Partnerships were very conscious of the need to deliver long-lasting benefits and create the conditions where improvements would be sustained beyond the life of the programme. However, the areas concerned were amongst the most deprived in England. The task was therefore a very difficult one, particularly since many of the areas had suffered from decades of decline. Despite this, in many of the areas the Partnerships have created the

conditions for sustainable regeneration.

The beneficiary survey overwhelmingly indicated that in the view of respondents what had been achieved would be long lasting. Equally, only a small minority (8%) of programme/project managers thought that the benefits would be only short term. The residents survey was though less positive about the longer term impacts.

However, in order to achieve fully sustainable regeneration further regeneration funding was required in many areas. In addition, a robust forward strategy needed to be developed. Whilst many areas have secured further resources (often through the SRB Challenge Fund), the forward strategies developed by many of the Partnerships were weak.

As part of the sustainable regeneration issue, a clear problem was identified with regards to maintaining the knowledge and expertise of the executive team. There was evidence that highly effective project teams were disbanded at the end of the period.

#### *Conclusions*

The Evaluation therefore suggests that the programme had a very significant and positive effect on the well being of local people and firms. It has also improved the performance of a number of local markets, through addressing a range of market failures. Significant improvements were made in the City Challenge areas and that in many cases the foundations for self-sustaining regeneration are now in place. However, sustainable regeneration has not been secured.

#### **8.4.4** *Efficiency*

##### **8.4.4.1** *Cost effectiveness*

###### *(i) Overview*

The difficulty of handling multiple outputs and funding sources when assessing cost effectiveness has already been highlighted. As such consistent approaches need to be developed to assess the cost per unit output and outcome of programmes with differing objectives and components. Three alternative approaches were used in the City Challenge evaluation as follows:

- a matrix of allocated costs and outputs – this involves an assessment at project level, focusing on the primary outputs and outcomes associated with project of a particular type;
- an aggregate measure of cost effectiveness (i.e. a purchasing power or basket approach); and
- a weighted basket unit cost.

In addition, the extent to which the Programme has levered in other public sector and private sector investment was also assessed.

*(ii) Unit cost analyses by project type*

Table 23 overleaf considers the relationship between the net outputs achieved through City Challenge activity and the costs incurred by project type. This is undertaken at two levels - the partnership and district levels. Additionality varies at different spatial levels and jobs are expressed as full time equivalents.

Table 23: Cost effectiveness of selected outputs

Project Type	Outputs			Expenditure (£000s)			Cost per net unit of output (£)				Cost per gross unit of output (£)
	Gross	Net		Public		Private	CC Area		District		
		City Challenge Area	District	City Challenge expenditure	Total Public Sector		City Challenge expenditure	Total Public Sector	City Challenge expenditure	Total Public Sector	
Development (floorspace) sq m	3,259,838	2,343,172	2,343,172	333,168	800,902	2,457,912	142	342	142	342	246
Development (jobs)	66,819	26,101	32,767	333,168	800,902	2,457,912	12,765	30,685	10,168	24,443	11,986
Housing (units completed)	22,426	15,083	10,367	67,520	543,558	996,150	4,477	36,039	6,513	52,432	24,238
Housing (units improved)	71,159	47,858	32,895	254,006	444,729	297,551	5,307	9,293	7,722	13,520	6,250
Transport (roads improved/constructed) km	646	487	487	59,346	175,864	157,298	121,747	360,779	121,747	360,779	272,242
Environment (ha of land improved)	1,945	1,363	1,363	75,868	138,071	81,197	55,661	101,297	55,661	101,297	70,988
Training & education (qualifications)	127,133	107,447	107,447	179,271	370,711	73,564	1,668	3,450	1,668	3,450	2,916
Training & education (trainees gaining jobs)	58,631	29,777	37,783	179,271	370,711	73,564	6,020	12,449	4,745	9,812	6,323
Business support (jobs)	44,409	19,826	25,157	59,678	145,828	448,197	3,010	7,355	2,372	5,797	3,284
Business support (start ups)	5,428	3,723	2,786	7,161	64,164	67,230	1,924	17,237	2,570	23,029	11,821
Business support (advised)	166,654	114,291	85,545	52,517	81,664	380,967	459	715	614	955	490
Crime (security systems)	52,144	42,387	42,387	42,992	67,135	15,276	1,014	1,584	1,014	1,584	1,287

The analysis presents the public sector cost per net additional output. Other previous evaluations have often used gross outputs, except in the case of employment. If gross outputs were to be used in the case of City Challenge, the cost per unit output would fall significantly. For example, in the case of development related jobs the ratio would fall from £31,000 per job at the City Challenge level to £12,000.

This approach does though have its problems. In particular, many regeneration projects have multiple outputs. In focusing on only the primary outputs of a project other benefits may not be counted.

*(iii) Purchasing Power*

The purchasing power method sets out the range of outputs that are 'bought' by the Programme for a given level of expenditure. Thus, in the case of the City Challenge evaluation consideration was given to what £20,000 or £50,000 of regeneration expenditure bought in terms of net outputs/outcomes (see Table 24).

<b>Table 24: Gross additional outputs / outcomes per £50,000 and £20,000 of public sector expenditure</b>							
<b>Public Sector Expenditure</b>	<b>Jobs</b>	<b>Floor Space (sq m)</b>	<b>Housing units Completed (no's)</b>	<b>Housing units Improved (no's)</b>	<b>Land reclaimed (ha)</b>	<b>Training qualifications</b>	<b>Community facilities</b>
£50,000	3.0	64.3	0.43	1.52	0.07	2.32	0.10
£20,000	1.2	25.7	0.17	0.61	0.03	0.93	0.04

This analysis shows the significant 'basket of outputs' purchased through City Challenge. The number of net additional jobs 'bought' per £20,000 in City Challenge was 0.7 compared to 0.6 under SRB for the same amount of money; this therefore represents comparable value for money.

Whilst this approach has the benefit of being able to reflect the diverse range of outputs from a particular regeneration programme it is not easily comparable between programmes.

*(iv) Weighted 'basket' unit cost*

A composite analysis of cost effectiveness takes the efficiency analysis further. Here an attempt is made to benchmark the cost ratios to create an individual weighted unit cost for the Programme, which is compared with a benchmark average. The analysis was

undertaken on a weighted basis. Thus, the programme specific and benchmark cost effectiveness ratios would be scaled down in relation to the proportion of total programme expenditure accounted for by that project type. The overall weighted unit cost effectiveness was then calculated by summing the weighted unit costs by project type.

This analysis provides two key considerations of cost effectiveness. Firstly, it identifies whether each output has been created more cost effectively as part of an integrated programme than if they had been delivered separately. Secondly, it also benchmarks the overall cost effectiveness of the Programme. It therefore provides an overall assessment of the comprehensive and integrated approach. The results of these analyses are shown in Table 25. A lower and upper benchmark range was used, drawn from a variety of other programmes.

The benchmark costs are only adjusted for constant prices. They are chosen for 'best fit' in terms of Programme and methodology used to calculate unit costs. However, where methodologies differed, the City Challenge figures were adjusted. In this respect, the following is relevant:

- *housing* - assumed no displacement; and
- *business start-ups and advice* - assumed no displacement.

In addition, the multiplier effects differed significantly. The City Challenge unit costs would have improved again if these were brought in line.

<b>Table 25: Cost effectiveness - benchmarking a basket of City Challenge outputs and outcomes</b>			
	<b>City Challenge weighted cost per net unit of output</b>	<b>Benchmark 1 weighted cost per unit of output</b>	<b>Benchmark 2 weighted cost per unit of output</b>
<b>Outputs</b>			
Development - floorspace	136	179	319
Housing - improved dwellings	2,570	1,973	3,330
Transport - km of road	16,481	9,685	29,693
Environment - ha of land improved	3,243	1,921	8,005
Training - qualification	259	131	185
- jobs	906	288	2,985
Business support - start ups	1,223	384	769
- advice	51	35	115
<b>Total</b>	<b>24,862</b>	<b>14,597</b>	<b>45,401</b>
<b>Average benchmark total</b>		<b>30,000</b>	
<b>Outcomes</b>			
Development – net additional jobs	12,223	11,565	17,484
Business support - net jobs	566	84	3,286
<b>Total</b>	<b>12,789</b>	<b>11,649</b>	<b>20,770</b>
<b>Average benchmark</b>		<b>16,210</b>	
<b>Total outputs / outcomes</b>	<b>37,561</b>	<b>46,210</b>	

The analysis shows that in broad terms, for the same ‘basket’ of outputs and outcomes, a ‘benchmark’ of individual programmes would have been potentially less cost effective. Indeed, if the analysis were undertaken at the district level, City Challenge performance was comparable with a ‘minimum’ benchmark.

This approach enables the evaluator to directly compare the cost effectiveness of a programme with a range of other past programmes. However, it is relatively complex and there are often significant difficulties in ensuring that the methodology used, for example, to assess additionality are comparable.

(v) *Leverage*

The extent to which the programme or project has levered additional private, other public, voluntary /community and individual's resources into its area, provides a further measure of efficiency. In the case of City Challenge in addition to the direct project leverage, many regeneration Partnerships also secured significant non-project related resources from other partners. The resources include: secondees; 'equipment' from partners; 'top-up' funds often towards operating costs; and accommodation.

Table 26 below provides summary results of both City Challenge (CC) and total public sector (TPS) leverage of private sector investment (PSI).

<b>Table 26 : Overall private and public sector leverage by City Challenge (real terms)</b>				
	<b>Expenditure</b>	<b>Leverage</b>	<b>Leverage</b>	<b>Leverage</b>
	<b>CC (£000s)</b>	<b>CC:PSI</b>	<b>CC:PS</b>	<b>TPS:PSI</b>
TOTAL EXPENDITURE	1,218,398	1:3.78	1:1.45	1:1.54
Development schemes	333,713	1:7.37	1:1.40	1:3.07
Housing	322,068	1:4.02	1:2.07	1:1.31
Transport	59,444	1:2.65	1:1.96	1:0.89
Environmental and amenity space	75,992	1:1.07	1:0.82	1:0.59
Business support	59,775	1:7.50	1:1.44	1:3.07
Training and access to labour market	179,570	1:0.41	1:1.07	1:0.20
Crime prevention	43,063	1:0.35	1:0.56	1:0.23
Health	21,702	1:1.76	1:4.64	1:0.31
Community and social	123,070	1:0.30	1:0.39	1:0.22

In comparison with previous development related initiatives the leverage ratio for the City Challenge Programme (total public to private sector investment) is lower but not significantly so. In particular, since only a proportion of the development projects were gap funding in nature the City Challenge leverage ratio is considered to be good. There was also evidence of significant 'bending of mainstream programmes' in health, housing and transport projects. Overall, the results were believed to be very positive indeed.

However, if the £1.2 billion investment by Siemens were excluded (Siemens have subsequently closed their plant in North Tyneside) the City Challenge and total public sector to private sector investment leverage ratios would be 1:2.1 and 1:1.1 respectively.

In total, the Partnerships were thought to have levered additional non-project resources

worth approximately £12 million - around £400,000 per partnership over the five years. This provides a further indication of the 'value' partners attribute to the partnership approach.

#### 8.4.4.2 *Administrative efficiency*

Three key sources of information were used to assess the administrative efficiency with which City Challenge projects were delivered - the beneficiary survey, the resident/business surveys and the range of partnership consultations undertaken as part of the evaluation. The results from each of these are outlined below.

##### *City Challenge Evaluation – Administrative efficiency*

###### *Beneficiaries*

The beneficiary survey highlighted that an overwhelming majority (91%) of respondents had no difficulty getting involved in City Challenge. There seemed to be no significant problems with any of the project types considered. The weakest response was associated with crime projects, although even in this case the majority (84%) indicated no problem becoming involved. The key problems cited were lack of information/understanding or funding. 15% highlighted administrative problems. In two thirds of cases, the administrative problems were thought to be effectively addressed. The reverse seemed to be the case if the problems were related to funding, legal or information issues, which may reflect the limited flexibility at least in relation to the first two of these. Generally therefore from a beneficiaries point of view, the projects seemed to be administered effectively.

###### *Residents and Business survey*

While this survey provides less direct information on the administrative efficiency of programme delivery, it provides contrasting results to those from the beneficiary survey. Respondents were asked about their knowledge of City Challenge and whether they had sufficient opportunity to contribute. Whilst on the whole there was a high level of awareness of the partnership's work, understanding beyond this level was limited. In addition, the majority of those who expressed an opinion commented that they had also made limited input into the programme.

###### *Consultations*

Finally the series of consultations undertaken with the Chief Executives, programme/project managers, partners and the focus group meetings provided a consistently positive message about the administration of the programme. Generally,

the response here was that the programme had been delivered well. This is also supported by the very small variance in outturn expenditure against targets. Even so, a third of project managers indicated that some improvement could have been made to the delivery process. Whilst these were likely to be at the margin they cited the following main areas:

- fast-tracking - in some cases the potential for the local authority to fast track decisions was not believed to have been fully exploited;
- information - they also confirmed some of the survey results by suggesting that more could and should have been done to keep people informed of certain developments;
- systems - comments were made about the savings which should have been found through limiting the information requirements of the programme; and
- timing - there was a clear concern about the limited time available to deliver on a fixed budget.

There were areas where Partnerships got into difficulties. However, in the majority of cases they eventually managed to deal with these problems. Overall, the evidence suggests that the programme was delivered well given a set of potentially difficult local and practical circumstances.

The assessment of administrative efficiency should ideally include quantified measures of performance, such as the number of cases handled per case officer, which can be compared and benchmarked. However, such ratios are difficult to construct for many regeneration programmes where each project is different and the nature and scale of interventions will be determined by local circumstances.

#### 8.4.4.3 *Economy*

The extent to which the funding provided was the minimum required to generate the outputs and outcomes secured will need to be tested at two levels:

- firstly, the individual projects; and
- then secondly the programme overall. Clearly this can be assessed through an aggregation of all individual project assessments. However, normally only a sample would be assessed.

In the case of the City Challenge evaluation these issues were considered at the level of the individual project. However, overall consideration was given to the extent to which

the Partnerships met their expenditure targets. All of the City Challenge Partnerships were expected to spend £37.5 million on regeneration activity with a 'flat' profile of £7.5 million over five years. Table 27 considers the extent to which this was achieved. It indicates that the programme was delivered to within 2% its overall budget.

For such a large programme covering a period of 6 years and disbursed across 31 areas, this is an impressive performance. The range in variation between the individual partnerships was from -9.6% to +0.3%.

<b>Table 27: Variation between actual and budget - City Challenge programme expenditure (cash terms)</b>			
<b>Partnership</b>	<b>Actual (£ 000s)</b>	<b>Variation</b>	<b>Maximum in year variation</b>
Bradford	37,451	-0.1%	+12.2% in year 3
Deame Valley	37,293	-0.6%	+15.2% in year 4
Deptford	37,603	0.3%	-8.7% in year 5
Liverpool	37,437	-0.2%	+10.3% in year 2
Hulme	37,493	0.0%	+25% in year 2
Middlesbrough	34,450	-8.1%	-30.5% in year 5
Newcastle	37,317	-0.5%	-6.0% in year 5
Nottingham	37,307	-0.5%	-13.0% in year 5
Bethnal Green	36,854	-1.7%	-16.0% in year 1
Wirral	37,036	-1.2%	-6.7% in years 2 and 3
Wolverhampton	35,905	-4.3%	-41.6% in year 5
Barnsley	37,485	0.0%	+19% in year 5
Newton South Aston	37,275	-0.6%	-7.6% in year 1
Blackburn	37,356	-0.4%	-4.0% in year 1 and 2
Bolton	37,409	-0.2%	6.1% in year 3
Harlesden	37,195	-0.8%	-15.0% in year 3
Derby	37,453	-0.1%	+27.3% in year 2
Hackney	37,538	0.1%	+13.2% in year 1
Dalston	37,363	-0.4%	-7.1% in year 4
North Kensington	37,435	-0.2%	-5.3% in year 4
Batley	37,298	-0.5%	-13.3% in year 1
Brixton	33,882	-9.6%	-25.3% in year 1
Leicester	35,654	-4.9%	-29.3% in year 1
Newham	36,369	-3.0%	-14.9% in year 2
North Tyneside	34,861	-7.0%	-35.3% in year 5
Tipton	37,320	-0.5%	-6.6% in year 5
Sefton	37,295	-0.5%	-10.9% in year 1
Stockton	34,328	-8.5%	-34.3% in year 3
Sunderland	37,623	0.3%	-6.7% in year 5
Walsall	36,950	-1.5%	-10.3% in year 5
Wigan	37,445	-0.1%	+3.8% in year 1
<b>Total</b>	<b>1,141,680</b>	<b>-1.8%</b>	

The expenditure profiles for Pacemaker and Round 2 Partnerships were somewhat different. With the exception of Bethnal Green, none of the Pacemaker Partnerships

under-spent significantly in their first year (1992/93). By contrast, three of the Round 2 Partnerships - Batley, Brixton and Leicester - each under-spent by more than £1million of City Challenge funding in year one (1993/94). Evaluation discussions with the Partnerships indicate that this was caused by a combination of problems in establishing systems/teams and the lack of 'lead in' time to establish projects. Those concentrating on higher risk programmes (such as those dependent upon large development schemes) at the start were therefore more likely to be exposed to problems. However, by the end of the Programme the Partnerships met their expenditure targets to a very high degree.

The focus on expenditure and targets could be seen as a further measure of administrative efficiency and future evaluations would benefit from more aggregate information on the extent to which expenditure was the minimum necessary. This might include, for example, analysis by project type. Thus, for development projects a quantity surveyor may review the costs and specifications for a sample of schemes.

#### **8.4.5 Overall value for money**

The evaluation of the City Challenge presented an overall qualitative assessment of the programme's value for money based upon all of the evidence collected. A further development of this is proposed with the use of a multi-criteria weighting and scoring analysis, which is simple and transparent but inherently subjective. The results of this extended analysis are presented below.

A two-stage process was undertaken. The first stage involved weighting and scoring the programme, relative to the base case or counterfactual, in terms of its effectiveness measured against the original objectives and its impact on equity and markets (economic efficiency). Again local stakeholders should be directly involved in the weighting and scoring, although this was not feasible in this case. The weighted stage one scores were summed and expressed as a percentage.

In the second stage a weighted score was calculated for the economy and efficiency with which the programme was delivered. The stage one and two scores were then added together and expressed as a percentage.

At this stage, since this system has not been applied to major regeneration programmes it would not be possible to benchmark the resulting score. However, over time this should be possible as more programmes are evaluated using this method or past programmes are re-assessed based on evaluation results, where suitable data is available.

The overall value for money of the City Challenge Programme has been scored out of a potential score of 200; a maximum score of 100 each towards the two stages. The scores were interpreted as follows:

Score	Value for Money
<40	- Very poor
40-50	- Poor
50-60	- Reasonable
60-70	- Good
70-80	- Very good
80+	- Extremely good

Table 28 below summarises the value for money account assessment.

<b>Table 28: Overall Value for Money assessment – Stage 1</b>	
	<b>Score</b>
<b><i>Effectiveness</i></b> <b><i>Maximum of 100 points</i></b>	
To attract outside investment that will stimulate wealth creation and widen social provision; (15)	9
To create a climate of environmental quality and enterprise culture; (15)	9
To support the development and implementation of locally devised and time limited plans for the regeneration of disadvantaged areas which will significantly benefit the residents and provide added value to current public and private initiatives in the area; (20)	13
To promote effective mechanisms for delivery; (15)	12
To promote successful partnerships for the delivery of development of the plans between local authorities and all those with a stake in the area; (15) and	10
To develop the capacity within the areas selected for self-sustaining regeneration and self help. (20)	12
Overall VFM effectiveness score (a)	65
<b><i>Equity, market and sustainable regeneration effects</i></b> <b><i>Maximum of 100 points</i></b>	
Equity (40)	29
Market (economic efficiency) (30)	20
Sustainable regeneration (30)	19
Overall VFM efficiency score (b)	68
<b>Overall stage 1 score (out of 100) (a = b/2)</b>	<b>66.5</b>

Table 29 below shows an illustrative example of the stage 2 analysis.

<b>Table 29: Overall Value for Money assessment – Stage 2</b>	
	<b>Score</b>
<b><i>Efficiency</i></b> <b><i>Maximum of 100 points</i></b>	
Cost effectiveness (50)	32
Administrative efficiency (25)	21
Economy (25)	17
Overall VFM efficiency score (a)	70
<b>Overall stage 2 score</b>	<b>70</b>

The overall value for money scaled and weighted score is summarised in Table 30 below. This analysis assumes that equal weight is given to effectiveness and efficiency, although alternative weightings could be developed. More generally, it will be important to consider the individual weighted scores – in particular, a

Programme that is ineffective, but efficiently delivered, cannot be considered to represent good value for money.

<b>Table 30: Overall Value for Money assessment – Combined score</b>	
	<b>Score</b>
<i>Stage One – Effectiveness and economic efficiency/equity</i>	66.5
<i>Stage Two – Cost effectiveness, administrative efficiency and economy</i>	70
Overall VFM efficiency score (a)	136.5
<b>Overall stage 2 percentage (a)/2</b>	<b>68.25</b>

The City Challenge Programme thus achieved a weighted score of 68 and would be rated as being at the upper end of the “good” category.

## 8.5 What works, how and why?<sup>35</sup>

### 8.5.1 Descriptive analysis

#### *(i) Simple ranking – factors influencing performance*

As part of the evaluation of City Challenge, Partners were asked which factors were important in influencing the performance of the partnerships. The results of this analysis are presented in Table 31 below. Whilst all factors were highly rated, the most important were identified as: quality of the individuals/team, clear regeneration strategy, partnership approach/working and targeting resources.

<b>Table 31: Factors influencing performance</b>		
		<b>Score</b>
1	quality of individuals/team	8.78
2	clear regeneration strategy	8.76
3	partnership approach/working	8.74
4	targeting resources	8.62
5	comprehensive/holistic approach	8.60
6	leadership	8.47
7	delegated authority	8.33
8	linking need and opportunity	8.02
9	external networking	7.98
10	locally based solutions	7.98

Max Score = 10 Lowest Score = 1

<sup>35</sup> This sub-section refers to various econometric analyses undertaken as part of the Final Evaluation of City Challenge, the results of these were set out in various unpublished KPMG and Pion Economics’ reports and tabulations. Further details are available from the author.

*(ii) Econometric analysis - factors influencing performance*

A further analysis was undertaken as part of the City Challenge evaluation to assess the extent to which particular characteristics of Partnerships explained good or poor performance. This analysis applied multinomial and logit regression and discriminant analysis to the following variables:

Measures of Performance (dependant variable)		Characteristics (independent variable)	
1	Evaluator's assessment	1	Population
2	DETR performance banding	2	Area
3	Output performance against targets	3	Population density
		4	Type of programme/objective
		5	Unemployment
		6.	Educational attainment
		7	Owner occupation
		8	Crime (burglaries per 1000 households)
		9	Leadership/quality team (KPMG assessment)
		10	Corporate structure
		11	Community involvement (KPMG assessment)
		12	Region
		13	Regional GDP growth
		14	Pre-existing partnership
		15	Round
		16	Total investment
		17	Investment per capita

The analysis indicated a very high positive correlation between leadership/quality team and performance<sup>36</sup>. However, in terms of the statistical tests only four variables were statistically significant, as follows:

- **unemployment** - this was strongly negatively correlated to the DETR's final performance banding. (It was also negatively correlated to the evaluator's assessment of performance and employment output variations, although not significantly). Thus, a high unemployment rate at the baseline is likely to lead to a poorer performance. In terms of regeneration policy it is important that expectations of future regeneration performance are tempered in areas of very high unemployment. Moreover, it may mean that alternative approaches are required in

<sup>36</sup> Where variables are highly correlated this leads to test statistic results that can be misleading.

such areas, which radically address the problems;

- **population** - this was negatively correlated with the DETR's final performance banding of partnerships. Interestingly, the correlation with evaluator's assessment of performance (which was based more upon outcomes), was slightly positive but not significantly so. Since the performance banding was based principally upon process issues this would suggest that focusing resources on a small target population is likely to be administratively more efficient. However, the relationship between population and outcomes is less clear;
- **pre-existing partnership** - a significant, positively correlated variable final performance banding to DETR, but not evaluator's assessment. The existence of a partnership before the bid was also identified as an important factor in explaining good administrative performance; and
- **community involvement** - whilst there was a correlation between this and other variables which led to potentially misleading test statistics a straightforward correlation analysis suggests that low levels of community involvement are associated with poor performance in terms of both the DETR's performance banding and evaluator's assessment. However, very high levels of involvement were not necessarily related to good performance.

None of the other independent variables were statistically significant. This would tend to suggest that achieving successful regeneration (in terms of outcomes in particular) requires the development of a strategy, which effectively addresses local needs and opportunities, and is delivered by a high quality team with strong leadership.

### *(iii) Time series indices*

Assessing the extent to which a regeneration programme has resulted in changes in local socio-economic conditions is a difficult task for a number of reasons, including:

- severe limitations on the availability of robust local data;
- problems in how to discern changes, which were attributable to programme and not some other factor; and
- the multiple objectives of the programme and Partnerships.

Changes in the time series data for each area (City Challenge area, host local authority and host region) can be shown graphically. The unemployment data was indexed to a particular date, thereby allowing the variation in cyclical patterns of unemployment to be compared between areas. An analysis of the per cent differentials in the index values between the various areas (including the non-targeted sub-areas of the host local authorities) can then be interrogated to determine whether it provides prima-facie evidence that the programme has influenced the relative performance of the area or not.

As part of the City Challenge evaluation *relative change* in a number of indicators was also compared to a perceived 'benchmark' - the average for England. Much of the data that could be assembled was not available consistently over time nor did it match the City Challenge area boundaries. Therefore, best fit (or proxy) area data had to be used. In the main, this was for the host local authority. Changes at this level provide, at best, an indication of the direction of change at the City Challenge level. The indicators used to assess relative change include: scale of Income Support (taken as an indicator of poverty); number of pupils attaining none or D - G GCSEs grades (education); under 75 years of age standard mortality rates (health); VAT registrations and deregistrations (enterprise/economic environment); change in housing stock (housing); change in insurance rates (crime) and change in unemployment (labour markets). Benchmarking change in these indicators against the average for England provided a mix of results as Table 32 below demonstrates.

<b>Table 32: Relative change in host local authority areas compared to the English average</b>				
<b>Indicators</b>	<b>Better than Average</b>	<b>Average</b>	<b>Below average</b>	<b>Missing data</b>
Poverty	22	1	8	
Housing	22	-	-	9
Training (1)	5	2	24	
Training (2)	7	-	19	5
Enterprise/economic environment (VAT registrations)	8	0	23	
Enterprise/economic environment (VAT deregistrations)	12	0	19	
Unemployment	13	2	16	
Health	11	2	18	
Crime rates	27	0	4	
<b>Total area scores</b>	<b>120</b>	<b>7</b>	<b>112</b>	<b>14</b>

*Notes: Indicator (1) is consistent with the rest of the indicators used for the analysis. Indicator (2) is different and uses data for the City Challenge area. It therefore presents a more accurate indication of relative change for the programme.*

The key results from this analysis were as follows:

- Poverty - all of the host local authority areas experienced a decrease in the level of Income Support, with 22 falling at above the English average rate and eight at a lower rate;
- Housing - the change in the housing stock was also greater than the English average for all areas, where data was available;
- Education - two indicators were used here. The host local authority performed relatively worse than average. The analysis of data for the City Challenge areas themselves shows better performance than the host authority in at least two cases;
- Enterprise/economic environment - the indications here are that the host local authorities under-performed in relation to the average. It is noteworthy that authorities in the London area made up the majority of those performing 'above' average;
- Unemployment - a slightly larger number of host local authorities performed below average than above;
- Health - the analysis shows a relative deterioration in the health indicator compared with the average; and
- Crime - the results indicate relatively good performance within the host local authority areas.

Overall it is difficult to draw any conclusive results from these findings. However, more areas performed relatively better than the English average.

***(iv) Econometric analysis of survey data – Logit and multinomial logit***

A series of statistical tests were also undertaken of the survey data collected as part of the City Challenge evaluation. These sought to identify any linkages between the characteristic of respondents and their responses to the surveys.

Use was made of both logit or multinomial logit techniques, which were developed to accommodate limited choice and limited dependent variable scenarios.

The logit model was applied in situations where two outcomes were possible. Logit analysis takes these responses and attempts to determine the probability that an individual with a given set of characteristics will provide one view rather than another. In doing so it provides an indication of which characteristics are important in determining responses.

The multinomial model extends the choice individuals have to more than two options. The modelling of more than two choices eats into degree of freedom. The multinomial can therefore only be used where sample sizes are relatively large.

The following main conclusions emerged:

- 16/17 year olds were identified as reporting positive impacts in terms of tackling particular types of crime and better local facilities, such as community and leisure centres;
- ethnic groups were highlighted as perceiving particular improvements in the general environment, health and community facilities;
- there were clear linkages between certain groups' perception of deteriorating local conditions, especially in terms of crime. Ethnic groups had a more negative view of the level of general crime and racial harassment;
- businesses also seemed to perceive a greater increase in crime rates, particularly those which had been in the area for a long time. An adverse view in relation to crime also tended to be associated with a poorer perception of the area as a location from which to do business;
- the analysis also identified a clear distinction between length of residence and the perception of the scale of improvement locally - those who had been in the area for longer periods of residency identified a much higher scale of improvement;
- those who were actively involved in the local community also tended to view changes more positively; and
- there were some inconsistencies in the results between residents and beneficiary surveys. However, these would seem to be related to the positive impacts of directly benefiting from a project.

## 8.5.2 *Causal relationships*

### *(i) A regression analysis of unemployment data*

Claimant unemployment is one of the data that is available over time at postcode and ward level for the host local authority and other areas. However, use of the series is not without its difficulties. Boundary changes mean that there are comparability problems at ward level for data up to and following 1995. The lack of accurate, up-to-date information on economic activity at the ward level makes it difficult to establish a basis from which to calculate unemployment rates. Finally, there are well-rehearsed concerns regarding the process of eligibility for claimant status. Nevertheless, through careful design the data series is sufficiently robust to allow econometric analysis.

The ultimate objective of the regeneration programme is to encourage a sustained structural adjustment in the relative performance of marginalized or under-performing areas. Any analysis of performance must therefore seek to examine whether the areas receiving support have demonstrated any propensity towards relative improvement.

The evaluation of the impact of a regeneration programme like City Challenge on unemployment required that some view is taken of the counterfactual or policy off situation – what would have happened in the absence of the programme.

There is potentially a wide range of techniques available to determine the counterfactual position. However, in reality the time-series information (assuming only a single annual observation) is likely to be limited. Thus, in order to retain the largest degrees of freedom available the model used for the impact assessment must be a simple one. Thus, in the case of City Challenge an Ordinary Least Squares regression was used to regress the total number of claimants in the regeneration area against the number of claimants in the local authority area.

The results of the analysis produced highly statistically significant estimates of City Challenge's contribution to reducing unemployment. In other words a reduction in local unemployment occurred, which was believed to be attributable to the Programme.

The scale of the City Challenge effect is estimated to lie between an average annual reduction of 4,800 to 5,500 unemployment claimants off the register - 29,000 and 39,000 in total over the programme period. This level of impact is in line with the results produced through the bottom up analysis presented above.

**(ii) Hedonic pricing**

A further approach that could have been used in the City Challenge evaluation, but was not due to data costs, was hedonic pricing. A discussion of the issues associated with the application of hedonic pricing to a regeneration project is set out in Appendix H. The appendix shows how hedonic pricing valuation techniques can be applied to certain regeneration projects.

## 8.6 Reporting and dissemination

The structure of the report must reflect the multi-dimensional nature of comprehensive regeneration programmes. The contents of the final evaluation of City Challenge report is detailed below.

***Report Structure - Final evaluation of City Challenge***

*Executive Summary*

1 *Introduction*

Overview of the programme, purpose and terms of reference for the evaluation and approach to the evaluation

2 *Context*

Aims and objectives of the Programme, Characteristics of the Programme and of the individual Partnerships

3 *Partnership case studies*

Review of case study partnerships, outcomes and impacts and factors explaining variations in performance

4 *Regeneration projects*

Review of project types – profiles, key issues, impact, duration of benefits

5 *Implementing the Regeneration Programme*

Responding to the programme, operating arrangements and systems, implementing the strategy and maintaining the partnership, and succession arrangements and closing the partnership

6 *Overall impact of the Programme*

Expenditure, outputs, additionality, outcomes, unsuccessful bid areas, factors influencing performance, top-down analysis, social exclusion and sustainable regeneration

7 *Cost Benefit account and value for money assessment*

Cost benefit account and value for money (effectiveness, equity/market impacts, efficiency

and economy)

8 *Key lessons and conclusions*

A clear programme of dissemination was developed for the evaluation of City Challenge in order to ensure that the lessons of the programme or project were learnt. This included various conference and seminar presentations, as well as the distribution of the executive summary and main report.

## 8.7 Conclusion

This Chapter has detailed a proposed alternative evaluation framework that builds upon economic theory and seeks to address the limitations identified through the analysis of various recent evaluations. The framework comprises a cost benefit account, multi-criteria value for money and what works assessment, within a combined macro (top-down) and micro (bottom-up) approach. The framework has been successfully applied in the national evaluation of a major regeneration programme.

## 9 Conclusions and Recommendations

This thesis has set out an alternative and original evaluation framework for regeneration programmes and projects, based upon a review of welfare economics, current guidance and a critical analysis of recent evaluations. The framework has been applied in part to the national evaluation of the £1.14 billion City Challenge programme. This evaluation has shown both the feasibility and significant added value of the alternative evaluation framework. The thesis has proposed further refinements to the framework based upon the lessons learnt from its application to the City Challenge programme.

Regenerating areas where deprivation is concentrated is an important priority for the UK Government and has attracted significant public sector funding. Regeneration is defined as the process of improving the physical, economic and social characteristics of a given geographical area. It involves a wide range of interventions across a number of policy domains. Furthermore, regeneration projects are to be integrated with mainstream Government programmes. More recently, the Government has placed increasing importance on involving local stakeholders in the development and delivery of regeneration programmes.

As a result of their complexity and breadth, regeneration programmes will often involve projects that seek to meet a number of societal objectives, including economic efficiency and equity, to varying degrees.

Effective evaluation is critical if the public sector is to ensure that the net social benefits of regeneration are maximised. However, the evaluation of regeneration programmes is extremely difficult for a number of reasons. For example, there are problems in quantifying and valuing many regeneration outputs. The attribution of outputs in a context with overlapping policies and initiatives is also difficult. Evaluation is further complicated by the existence of multiple objectives often with no weighting.

The thesis has developed a typology of evaluation methodologies and techniques. It has also critically reviewed current public sector guidance on evaluations in regeneration and identified a number of key evaluation issues.

The thesis has found that recent evaluations of regeneration programmes have significant weaknesses and failed to fully address key evaluation issues. For example, many did not assess the fundamental rationale and impacts of intervention. Coverage of distributional effects has also been limited, even though equity is, in most cases, the principal societal

objective of a regeneration programme. The weakest area though has been the overall evaluation of the programme. Therefore, this thesis has proposed an alternative approach to the evaluation of regeneration projects and programmes that seeks to address these issues, which is founded upon economic theory but also draws on other social sciences.

Complex regeneration programmes need a multi-faceted framework to effectively evaluate them. The approach proposed is therefore based upon a combined multi-criteria value for money, cost benefit account and what works analysis of programmes and projects using both macro (top-down) and micro (bottom-up) approaches and provides the basis for more insightful and meaningful evaluations. The advantages of the alternative evaluation framework proposed in this thesis over recent evaluation practice include:

- a multi-dimensional evaluation framework, which can reflect and respond to the complex nature of regeneration programmes;
- specific consideration of the rationale for intervening and assessment of the impact on economic efficiency and equity;
- an assessment of the social costs and benefits through the cost benefit account;
- a multi-criteria value for money analysis that allows the effectiveness, efficiency, equity/market impacts, and economy of the programme to be evaluated; and
- specific research to identify what works, how and why in order to inform future policy.

The thesis has integrated the theoretical framework and the practice of evaluation. It is based upon a critical assessment of the social objectives of intervening, including in particular economic efficiency and equity. In the case of the former, the cost benefit account and elements of the what works analysis are founded on consumer and producer welfare theory. The multi-criteria value for money component of the proposed evaluation framework specifically considers equity and market impacts, including consideration of market failures and the distributional effects of a programme or project. Other elements of the value for money assessment, such as the analysis of the extent to which the public sectors objectives for the programme or project have been achieved, draw upon wider social and political theory.

The framework is though itself subject to limitations. In particular the complex nature of

regeneration programmes means that uncertainty about cause and effect will remain in some circumstances. However, through approaching the evaluation in a number of ways the framework enables the evaluators, policy makers and others to make informed judgements. The framework would also benefit from further refinement and development including:

- the extension of the cost benefit account to include greater valuation of the wider benefits and development of a full CBA approach. Any such CBA would need to consider including careful use of weighting factors attached to different social groups;
- further critical examination of the underlying theory of change, which forms the basis for the strategies and projects being implemented by the regeneration partnership;
- approaches to actively involving stakeholders in the evaluation and, in particular, in the multi-criteria value for money analysis; and
- increased use of non-standard data sources such as the BT Yellow Pages database to overcome some of the limitations of published statistical data.

As the framework is used more widely, benchmark values, such as for multi-criteria weighting and scoring, will become available, enabling greater comparative analysis.

The alternative framework also has policy implications for the design of regeneration programmes themselves. Specific objectives should be set for regeneration programmes, with a weighting given to each objective. The review of past evaluations and the evaluation of the City Challenge programme has shown that in some cases clear objectives were not set out at the commencement of a programme, while in others, they lacked precision. This inevitably makes the task of undertaking ongoing or ex-post evaluations more complex and difficult. A detailed evaluation framework, tailored to the particular characteristics of the programme, also needs to be developed before its commencement. In this way appropriate monitoring and other systems can be established. More generally, evaluations would be more effective if they were conducted on an on-going basis, with adjustments made to the programme informed by action research.

The thesis has also highlighted a number of wider issues, which require further consideration and research, including:

- an analysis of the merits or otherwise of an area focused approach as opposed to targeting mainstream programmes on individuals in particular circumstances;
- the basis upon which resources should be allocated between regeneration and other national policy areas; and
- the need to further develop and refine techniques such as multi-criteria weighting and scoring and benefits transfer, not just in the context of regeneration but in the wider evaluation of public policy decisions.

Overall, the thesis sets out the results of distinctive and original research into the evaluation of regeneration programmes. The alternative framework proposed is well founded upon economic theory, but also provides a practical approach to evaluation that has been successfully applied and represents a significant improvement over past practice.

## **Appendix A**

### **A Review of Regeneration Programmes in the UK**

## ***Regeneration Programmes – An Historic Review***

This appendix presents a review of the development of regeneration programmes over the last two decades. It is not intended to be comprehensive, but rather to highlight the evolution of regeneration programmes and in particular to indicate their substantial number and diversity.

### ***(i) Urban Programme***

The Urban Programme was introduced in 1969 and supplemented local government spending in deprived areas of cities and towns. Grants were payable to local authorities for capital and revenue expenditure on approved projects.

The 1978 Inner Urban Areas Act marked the introduction of new legislation concerning the inner city. Under it designated local authority districts were classified as either Partnership Areas (containing special areas), Programme Areas (to prepare inner area programmes) or other districts with special needs. Partnership and programme authorities were granted block allocations of Urban Programme resources; they were not eligible to apply for grants under what was renamed the Traditional Urban Programme. Other designated districts submitted an annual bid for resources.

The Urban Programme was at the core of urban policy for some thirty years. In its latter years the focus of Urban Programme activity was largely on economic and environmental projects, although ministerial guidelines continued to allow for around one third of expenditure on social and housing related projects. The Urban Programme ended in the mid 1990's.

### ***(ii) European Structural Funds***

European Structural Funds have been a very important source of funding for the UK's deprived areas. Structural Funds are the European Union's main instruments for supporting social and economic restructuring across the Union. They account for over a third of the European Union budget. The UK's allocation from the Structural Funds for the period 2000 - 2006 is over £10 billion.

Most structural fund spending is targeted on specific regions, known as Objective 1 and 2 regions. There are separate national Objective 3 programmes in England, Wales, Scotland and Northern Ireland. The national and regional bodies responsible have been preparing the new programmes for the UK for 2000 - 2006. The European Commission

must approve the programmes.

Eligible Objective 1 areas are those that have less than 75% of EU average GDP. It is the highest level of regional funding available from the EU and is aimed at promoting the development and structural adjustment of the EU regions most lagging behind in development. Areas that qualify in the UK are Merseyside, South Yorkshire, Cornwall and the Scilly Isles, and West Wales and the Valleys. In addition to these areas, the UK also has two transitional Objective 1 areas, the Highlands and Islands and Northern Ireland, which also qualifies for a unique PEACE programme. In total the UK will receive over £3.9 billion of Objective 1 money between 2000 - 2006.

Objective 2 aims to support the economic and social conversion of areas facing structural difficulties. It is the second highest level of funding available from the EU. Areas qualify for Objective 2 under four strands - industrial, rural, urban and fisheries. This objective covers nearly fourteen million people in the UK. In addition, areas that had Objective 2 or 5b status in the previous programming period are eligible for transitional funding until 2005. Including transition, Objective 2 covers well over nineteen million people in the UK. In total, the UK will receive over £3.1 billion for UK Objective 2 and transitional Objective 2 areas for the period 2000 - 2006.

Objective 3 involves only the European Social Fund and operates outside Objective 1 areas. It aims to develop labour markets and human resources and in addition, will help firms and workers adapt to new working conditions and so compete more effectively in global labour markets. It is directed at the long-term unemployed and those facing particular barriers to finding fulfilling employment because of their disability, racial origin, or sex. The UK will benefit from just under £3 billion of Objective 3 money for 2000-06. The English operational programme was adopted on the 18th of July 2000 and projects have already been approved in a number of regions.

A region may have access to one or more of the four structural funds, depending whether it has Objective 1 or 2 status; all regions have Objective 3 status. The aims of the funds, and in which priority 'Objective' area they can be spent, are set out below: -

- The European Regional Development Fund (ERDF) - aims to improve economic prosperity and social inclusion by investing in projects to promote development and encourage the diversification of industry into other sectors in areas lagging behind. This fund is available in Objective 1 and 2 areas.

- The European Social Fund (ESF) funds training, human resources and equal opportunities schemes to promote employability of people in both Objective 1 and 3 areas. In Objective 2 areas ESF may be used to complement the ERDF activities.
- The guidance section of the European Agricultural Guidance and Guarantee Fund (EAGGF) - is available in rural Objective 1 areas to encourage the restructuring and diversification of rural areas, to promote economic prosperity and social inclusion, whilst protecting and maintaining the environment and rural heritage. In areas outside Objective 1, the EAGGF (Guarantee section) provides funding within the England Rural Development Plan.
- The Financial Instrument for Fisheries Guidance (FIFG) - funds projects to modernise the structure of the fisheries sector and related industries and to encourage diversification of the workforce and fisheries industry into other sectors. It also aims to ensure the future of the industry through achieving a balance between fisheries resources and their exploitation.

***(iii) Derelict Land Grant***

Derelict Land Grants (DLG) have been available throughout the post-war period and for the majority of this time they were used as an instrument to combat environmental and safety problems. It was not until the late 1970s that DLG became a facet of the government's wider urban regeneration scheme. DLG was available for the reclamation of derelict land to bring it into use or improve its appearance.

***(iv) Housing Investment Programme***

The Housing Investment Programme (HIP) was designed to create a comprehensive 'package' of measures for local authority council stock. Like the Urban Programme, the intention was to draw-up an annual plan for central government-funded expenditure on housing.

***(v) English Estates***

English Estates was a DTI agency designed to manage an industrial and commercial land and property portfolio. It ran a number of programmes with substantial resources, only one of these – the Managed Workspace Programme (MWP), launched in 1988 – was geared specifically towards inner areas. English Estates was subsumed within English Partnerships (see below) at its formation in 1993.

***(vi) Regional Selective Assistance***

Regional Selective Assistance (RSA) is provided to firms in the 'Assisted Areas' of Great Britain under Section 7 of the Industry Act 1982 (formerly the Industry Act 1972). Section 7 states that the objective of the scheme was 'to provide, maintain or safeguard employment in any part of the Assisted Areas'. The range of purposes for which assistance can be provided is listed as: promotion of development, modernisation, efficiency, expansion, reorganisation, and orderly contraction of an industry.

RSA is the Department's main instrument of direct financial assistance to business. Delivery of the scheme in England is primarily through the Government Offices with Business Links playing a signposting role and also acting as advisers to applicants in some cases. Grants are discretionary on projects with fixed capital expenditure over £500,000, and which create or safeguard jobs in the Assisted Areas. Scheme criteria apply, such as the requirement that a company must demonstrate that without a grant the project would not go ahead. The project must be undertaken within one of the designated Assisted Areas. The project must also involve capital expenditure of more than £500,000 on fixed assets, such as property, plant and machinery and must create or safeguard jobs. The higher the skills and the more investment is put into improving the skills base, the greater the value put on them in grant consideration.

There have been various changes in the Assisted Areas in England. The European Commission agreed a new Assisted Area map in the summer of 2000.

***(vii) Enterprise Zones***

The Enterprise Zone (EZ) programme was designed as an 'experiment', which began in 1980. It set out to test the degree to which industrial and commercial regeneration might be promoted through the streamlining and simplification of planning procedures and administrative controls, and through the introduction of fiscal advantages (exemptions against rates and capital allowances) for companies in EZ sites. Various rounds of EZs were designated during the 1980's and 1990's.

***(viii) Urban Development Corporations 1981 – 1995***

Urban Development Corporations (UDCs) were introduced under the Local Government, Planning and Land Act 1980 in a limited number of inner city areas within which Central Government felt the redevelopment process had not proceeded sufficiently rapidly. The Corporations' objectives were: to bring land and buildings into effective use; to encourage the development of existing and the introduction of new industry and commerce; to create an attractive environment; and ensure that housing and social facilities are available to encourage people to live and work in the designated areas.

To secure these objectives UDCs had wide ranging powers to:

- acquire, hold and manage and dispose of land and other property;
- carry out building and other operations;
- provide water, electricity, gas, sewerage and other services; and
- carry on any business or undertaking in or for the purpose of the Corporation and generally do anything necessary for the purpose of achieving its objectives.

London Docklands and Merseyside were the first two designated development corporations, established in 1981, followed by a further eight UDCs throughout England in the course of the 1980s. A ninth UDC, Birmingham Heartlands, was created in 1992. The main role of the UDCs was to concentrate on physical regeneration, allowing high profile operations and flagship developments to lead regeneration strategies. All of the UDCs in England were wound up in the mid-late 1990s.

***(ix) Urban Development Grant, Urban Regeneration Grant, City Grant and Partnership Investment Programme-***

Urban Development Grant (UDG), Urban Regeneration Grant (URG) and City Grant were provided to major private sector capital schemes which would be unable to proceed because, as a result of their inner city sites and locations, costs exceed values. Priority was given to projects in the 57 designated Urban Programme Areas (UPAs). Within these areas, projects were generally located within the inner areas.

The aims of City Grant were to “promote the economic and physical regeneration of inner urban areas by leveraging private sector investment into such areas”. Urban Development Grant projects were also expected to “make a demonstrable contribution to

meeting the special needs of inner urban areas and creating a climate of confidence for the private sector”.

A wide range of development projects were eligible, including industrial, commercial, leisure and housing. The benefits of the schemes were in the form of jobs, private housing and other facilities. City Grant was replaced by English Partnership's Partnership Investment Programme (PIP). In 1999, PIP was declared a State Aid by the European Commission.

***(x) Estates Action***

Estate Action began life as the Urban Housing Renewal Unit, set up by Sir George Young in 1985 to offer 'a wide range of approaches for revitalising rundown estates and transforming unpopular properties into decent homes' (DoE, 1986). While Estate Action resources tended to be targeted towards estates in inner city areas, ministerial guidelines for the programme recognised that there were some estates outside the inner urban areas (and outside the 57 UPAs), which were suitable for Estate Action support. Estate Action, along with a number of other top-slices (e.g. Green House energy programme and the rural initiative) was an element of the Housing Investment Programme.

***(xi) Ethnic Minority Business Initiative***

The Ethnic Minority Business Initiative (EMBI) was a national programme, established in September 1985, with the twin objectives of encouraging ethnic minority entrepreneurship, and providing ethnic minority communities with business development services which offer a more accessible alternative to conventional agencies.

While EMBI was not geographically targeted in any formal sense, the geography of ethnic minority communities means that, in practice, a large proportion of EMBI expenditure is directed towards inner city areas.

***(xii) City Action Teams***

City Action Teams were first designed to act as a co-ordinating mechanism for the range of urban policy initiatives provided under the auspices of the Departments of Trade and Industry, Environment, Employment and the Training Agency. In addition to this co-ordinating role, CATs also had small budgets, which they used to fund specific initiatives, often in conjunction with other bodies such as government departments, local

authorities and the voluntary and private sectors. CAT activity was primarily confined to the inner areas of UPAs.

***(xiii) Task Forces***

The DTI launched Task Forces in 1986 under its Inner Cities Initiative, with the aim of boosting economic opportunities in inner city areas and assessing how best this might be achieved through existing government programmes. The areas targeted for Task Force support were chosen on the basis of high rates of long-term unemployment, industrial development potential and the size and needs of constituent ethnic minority communities.

***(xiv) Housing Corporation***

The Housing Corporation provides funding for a range of housing providers, including housing associations and co-ops. Much of the Housing Corporation activity is focused geographically on areas of housing stress.

***(xv) Safer Cities***

The Safer Cities programme was established in 1989 with the aim of alleviating crime and fear of crime, and improving home and workplace safety in designated cities. Policy was derived locally through steering committees comprising representatives of the likes of local communities, the police, probation service, the voluntary sector, the business community, ethnic minority organisations, Task Forces and City Action Teams.

***(xvi) City Challenge***

The City Challenge Programme was launched in 1991 with the aim of transforming specific rundown inner city areas and improving significantly the quality of life of local residents. The Programme ran between 1992 and 1998.

The aims of the City Challenge Programme were:

- to support strategies for a defined area that will assist the area to attract outside investment that will stimulate wealth creation and widen social provision;
- to create a climate of environmental quality and enterprise culture likely to attract people to live and work there;
- to support the development and implementation of locally devised and time limited plans for the regeneration of disadvantaged areas within cities which will

significantly benefit the residents of those areas and provide added value to current public and private initiatives in the area;

- to promote effective mechanisms for delivery of these plans including effective co-ordination of the resources available to the area;
- to promote successful partnerships for the delivery and development of the plans between local authorities and all those that have a stake in the area, including public, private and voluntary bodies and local communities; and
- to develop the capacity within the areas selected for self-sustaining regeneration and self help which will continue after the period of the funding.

Local authorities, in partnership with private, public and voluntary sector organisations and the local communities, were invited to develop a comprehensive strategy for the sustainable regeneration of key areas of deprivation and to compete for resources to implement their strategy. The strategies were to be based upon a clear vision for the area.

Two City Challenge competitions were held - with in total 31 bids being accepted. Eleven so called Pacemaker Partnerships started on 1 April 1992 and were wound up in March 1997. The twenty Second Round winners commenced operation on 1 April 1993 and finished on 31 March 1998. Each City Challenge Partnership received £37.5 million over a five-year period, depending upon the satisfactory achievement of annually agreed targets and objectives. The programme has been delivered through approved annual Action Plans.

The local authority, together with its partners, were responsible for delivering the agreed programme for their area. Each Partnership set up a City Challenge management board, which included representatives of the various partners to implement their programmes. Twenty one of the thirty one Partnerships were companies limited by guarantee, while the other 10 partnerships remained unincorporated.

***(xvii) Single Regeneration Budget (SRB)***

The SRB provides resources to support regeneration initiatives in England carried out by local regeneration partnerships. Under Rounds 1 – 5 over 750 schemes were approved, worth over £4.4 billion in SRB support over their lifetime of up to 7 years.

The Round 6 bidding guidance (DETR 1999) noted that the SRB supports initiatives that build upon best practice and represent good value for money. The types of bid would differ according to local circumstances, but they must include some or all of the following:

- improve the employment prospects, education and skills of local people;
- address social exclusion and improving opportunities for the disadvantaged;
- promote sustainable regeneration, improve and protect the environment and infrastructure, including housing;
- support and promote growth in local economies and businesses; and
- reduce crime and drugs abuse and improve community safety.

The SRB is administered at the regional level by the Regional Development Agencies (see below), but is managed locally by an SRB Partnership. The SRB partnerships are expected to involve a diverse range of local organisations, including local businesses, the voluntary sector and the local community, in the management of their schemes.

Like SRB Round 5 a two tier funding approach was retained under round 6. 80% of new resources were allocated to the most deprived areas, to support large comprehensive schemes. The definition of the most deprived areas was based upon the Index of Local Deprivation. The new larger funding packages in these areas was to provide the ‘critical mass’ of activity that the Regeneration Spending Review concluded was necessary to make a real and sustainable difference in the most deprived areas. The plans announced provided for more than 50 such schemes to be running.

The remaining 20% of SRB resources were to fund schemes tackling smaller pockets of need outside the most deprived areas. These included schemes in rural areas, and the former coalfield areas and coastal towns not included in the Index of Deprivation.

Although most SRB funds were to go to area-based schemes, thematic bids would also be supported.

The re-launched SRB included a new emphasis on building the capacity of local partnerships to devise and implement regeneration initiatives. The release of funding was dependent not just on partnerships demonstrating such capacity and achieving adequate management systems and competence in project appraisal, but also on local communities being directly involved and supportive of the regeneration activities planned.

There are to be no further Rounds of SRB following Round 6. The Government's main local area regeneration policies will now be delivered through the Neighbourhood Renewal Unit and include programmes such as New Deal for Communities.

#### ***(xviii) Neighbourhood Renewal***

The New Commitment to Neighbourhood Renewal: National Strategy Action Plan was launched in January 2001 after two and a half years of consultation. A Neighbourhood Renewal Unit has been established in DETR to oversee the policy's implementation. The aim of the strategy is to revitalise the most deprived neighbourhoods in England and make them places where people will want to live and work.

The strategy is based upon targets (the Public Service Agreement (PSA) targets) for improvement in housing, crime, health, employment, education and the environment to focus efforts on raising standards. By hitting these targets the Action Plan will raise the standard and better co-ordinate public services and support communities by putting them at the heart of the process. It is envisaged that the Local Strategic Partnerships will bring together all the key players at every level to ensure that the targets are delivered upon.

The Government also recently launched its new Neighbourhood Renewal Fund, targeted at the 80 most deprived local authorities, as measured by the Index of Multiple Deprivation.

#### ***(xix) New Deal for Communities (NDC)***

Resources of £800 million have been allocated for the New Deal for Communities initiative, which offers intensive help to the most deprived neighbourhoods. It aims to bring together regeneration and housing programmes at the local level, enhance economic and employment opportunities and offer better neighbourhood management

with increased community decision-making. In total 39 NDC partnerships have been designated – 17 Pathfinder Partnerships that received their funding in April 2000 and 22 Round 2 Partnerships, funded from April 2001.

***(xx) English Partnerships***

The Urban Regeneration Agency (known as English Partnerships) was established on 1 April 1994 taking over the functions of English Estates, City Grant and Derelict Land Grant. Its key task was to promote the regeneration of vacant, contaminated and derelict land and buildings in partnership with the private sector, local authorities and communities.

English Partnerships promotes job creation, inward investment and environmental improvement, reclamation and development of vacant, derelict and contaminated land in areas of need throughout England, within a framework of sustainable development.

English Partnerships merged with the Commission for New Towns on 1 April 1999. The regional roles, functions, staff and assets of EP were taken over by the RDAs on the same date; except London which were transferred in April 2000. Its role in relation to regeneration has thus been substantially reduced. However, it continues to play a key co-ordinating role in relation to the regeneration of coalfield areas and has also been important in the establishment of the Urban Regeneration Companies (URCs).

***(xxi) Regional Development Agencies (RDAs)***

The RDAs were formally launched in eight English regions on 1 April 1999 and in London in April 2000. They are responsible for co-ordinating regional economic development and regeneration, in order to and enable the English regions to improve their relative competitiveness. The RDA's statutory purposes are:

- economic development and regeneration;
- business support, investment and competitiveness;
- skills, training and employment; and
- sustainable development.

The functions of the Agencies are: formulating a regional strategy in relation to their purposes; regional regeneration; taking forward the government's competitiveness

agenda; taking the lead on regional inward investment; developing a regional Skills Action Plan to ensure that skills training matches the needs of the labour market and taking a leading role on European funding.

As new agencies it has taken them some time to become established. Their future role in relation to local regeneration will be significantly reduced as SRB comes to an end – in particular, since the Government Office for the Region oversees NDC and Neighbourhood Renewal in each region.

### ***(xxii) Urban Regeneration Companies (URCs)***

The Urban Task Force (UTF)<sup>37</sup>, which was chaired by Lord Rogers, recommended the creation of Urban Regeneration Companies “*to redevelop and bring investment back to the worst areas in our cities and towns.*” However, it set out few details about the companies, their structure or role. In response three pilot URCs were agreed and established in Liverpool (Liverpool Vision), Manchester (New East Manchester) and Sheffield (Sheffield One). The three companies were set up at different times – Liverpool in June 1999, Manchester in October 1999 and Sheffield in February 2000.

The tasks facing Liverpool Vision and Sheffield One are similar in nature, with both focusing on under-performing City Centres. However, New East Manchester’s remit is very different, covering a large run-down residential and industrial area to the east of Manchester City Centre.

The pilot URCs are independent companies involving partners from the public and private sectors. Each of the pilots has had the same three core partners – the local authority, the Regional Development Agency (RDA) and English Partnerships. The pilot URCs have developed a comprehensive strategy for their areas. However, their emphasis is on physical and economic regeneration. The URC approach is resource intensive and involves substantial partner commitment. It concentrates effort within an agreed area. However, becoming a URC does not bring with it any additional powers and resources beyond those that the partners are willing to commit. Much of the added value of the approach is therefore expected to result from the company’s co-ordinating, influencing and facilitating role.

The early development of the pilot URCs was subject to an initial process evaluation, (M.Parkinson and B.Robson, 2000), which monitored the establishment of the

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<sup>37</sup> Urban Task Force (June 1999), *Towards an Urban Renaissance*

management and representational structures and the creation of the master plans or strategies. The process evaluation concluded that *“The initial phase of this new experiment appears to hold out considerable promise for the URC ‘model’ as a vehicle for strategic planning and for the delivery of large regeneration programmes”*.

In November 2000 the Urban White Paper *Our towns and cities: the future*, announced a proposed programme of around 12 new URCs over the next three years, with a limited number in each region.

***(xxiii) Other initiatives and agencies***

In addition to the above regeneration programmes a substantial number of other changes have taken place that have affected local regeneration programmes. For example, a range of training programmes has been provided for the unemployed. In 1991 Training and Enterprise Councils (TECs) were established. The TECs have recently been replaced by the Learning and Skills Council (LSC).

The formation of the Government Offices for the Regions also took place in 1994. The existing network of Government Offices was combined into integrated regional offices<sup>38</sup> to provide a more accessible and comprehensive service. The Government Offices played an important role in administering the City Challenge and SRB Challenge Fund programmes.

In terms of business support the functions of the Business Links and TECs have been taken over by the Small Business Service (SBS).

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<sup>38</sup> The Departments brought together were the Department of Trade and Industry, DETR and Department for Education and Employment (DfEE).

## **Appendix B**

### **The Causes of Market Failures**

## ***The Causes of Market Failures***

### **1.0 Barriers to entry or exit**

Markets may fail to operate efficiently as a result of barriers to entry or exit. These barriers may result from a number of factors, including:

- adjustment problems (short run inelastic supply) - for example, within the housing market. Thus, the supply of housing in any given area is fixed in the short and medium term. Adjustments to changes in the pattern of demand are therefore difficult to achieve except over the longer term;
- scale economies - marginal incremental improvements by one developer may be insufficient to ensure financial viability. However, commensurate action by other landowners/developers may demonstrate a location's viability;
- first mover and 'Free rider' syndrome - for example, initial developers face prohibitive costs and risks and, as such, a first mover problem and linked to this 'free rider' problem exists; and
- absolute cost advantages and sunk costs.

As a result of barriers to entry and exit imperfect competition arises, including in some circumstances monopolistic or oligopolistic competition. Firms operating in these markets may behave in a strategic way by, for example, adopting a predatory pricing policy, which may then exacerbate the situation.

### **2.0 Imperfect information**

Restriction on the availability of information to producers, consumers or suppliers of resources can result in sub-optimal decisions about resource allocation. Again imperfections in the availability of information can arise in a number of ways:

- in certain cases problems may arise because of the public good nature of some information and as a result of the economies of scale associated with the production of some information;
- information asymmetries – this is associated with a lack of information to one side in a transaction and can lead to problems of adverse selection and moral hazard;

- risk and uncertainty – the lack of information will mean that risk averse investors will demand high rates of return on high risk investments. Where excess returns can be made on low risk investments, investors will avoid projects with a high risk due to the uncertainties of investing in areas requiring regeneration;
- bounded rationality – outmoded rules of thumb may be used by owner or employers. This may result in ownership constraints, due to an unwillingness to dispose of freehold land; and
- signalling problems - the adverse external perception of the area can create a range of signalling problems. For example, particular postcodes can become stigmatised placing those living within those areas at a disadvantage within the labour market.

### 3.0 Externalities

An externality is a benefit or cost which is not reflected in market prices. Both negative and positive externalities may occur:

- Negative externalities – pollution is an example of a social cost imposed on society which is often not incorporated in the private costs of producing a good or service. Thus, significant contamination and dereliction may, for example, have been left by previous occupiers and owners in the areas which prevent its cost effective redevelopment. Congestion costs are another example of a negative externality; and
- Positive externalities – examples of positive externalities include the social benefits of training and technology spill-over and of secondary effects associated with supply linkage and income multiplier effects.

### 4.0 Public and merit goods

#### *(i) Pure public goods*

Thus far the commodities discussed exhibit the principle of exclusivity. The owner can exclude others from enjoying it. Commodities have also been rival, in that their production involves some extra costs of production. Public goods are those which are non-rival in consumption and imperfectly excludable. Therefore pure public goods must have two critical properties:

- it is impossible to exclude individuals from enjoying the benefits of the goods; and

- it is undesirable to exclude individuals from enjoying the benefits of goods, since their enjoyment of these goods does not detract from that of others.

Once such goods are produced, no one can be excluded from the benefits and additional households may use it at virtually zero marginal cost.

A public good should be provided in such an amount that the aggregate marginal willingness to pay for the good is equal to the marginal cost of providing it. It thus contrasts to a strict private good, which is produced in an amount such that the individual marginal willingness to pay for the good is equal to the marginal cost. The strict private good is consumed by a single individual as opposed to all households.

An ordinary demand function can be derived for a public good, as for a private good. Unless the public good is a Giffen good demand will therefore decrease if the tax price increases. However, the level of provision is sensitive to payment system used (i.e. who pays and how much).

Defence is one of the few examples of a pure public good, since it meets both criteria. Only relatively few components of a regeneration programme might be considered to be pure public goods, such as good quality urban design. It is thus difficult to exclude people from benefiting and their enjoyment does not in most circumstances detract from that of others.

### ***(ii) Impure public goods***

Many goods have one or other of the two critical properties of a pure public good to a varying degree. Thus, for example, exclusion may be feasible but costly. Imposing user charges may result in an under-utilisation of public facilities. Private markets will either not supply or will provide an inadequate supply of public goods.

For some publicly provided goods some method of rationing may be used other than the price mechanism. For others, the goods are simply provided in fixed quantities. Both methods entail inefficiencies. Efficient management of government is a public good in its self.

Regeneration programmes are composed of a number of impure public goods, such as, the provision of public open space and improved road access.

***(iii) Merit Goods***

These are goods and services that Government compels the individual to consume, such as compulsory education, decent housing and an absence of crime. Such interventions have been described as paternalistic, although they are in most cases associated with an information problem and as such can be seen as addressing a market failure. Thus, it can be argued that consumers do not consume a particular good or service because they lack sufficient information concerning their benefits. Merit goods are though open to criticism for adversely affecting consumer preferences or choice. In addition, a fear has been expressed by those who oppose what they believe are paternalistic intervention that the imposition of one group's will on another may lead to abuse by special interest groups.

In most cases regeneration programmes are not directly concerned with merit goods, but they are indirectly. Thus, for example, most comprehensive regeneration programmes will contain projects designed to increase the impact of compulsory education or vocational training in a given spatial area.

## **Appendix C**

### **Review of Data Sets**

## ***Review of Data Sets***

This appendix reviews a number of the key data sources<sup>39</sup>.

### **Economic and Employment Indicators**

#### ***Total Employment***

Source: Annual Employment Survey (AES) – now replaced by the Annual Business Inquiry

Data coverage: Employment by industry sectors, number of business units

Spatial area: National down to ward/ postal sector (with Chancellor's notice)

Timing: Annual

Comments: Employer based sample survey, the latest available results are for 1999

Source: The Business Database - Yellow Pages

Data coverage: Company name, address, postcode, industry grouping, premise types and employee numbers for over 1.5 million businesses throughout the UK.

Spatial area: postcode level, UK

Timing: quarterly updates

Comments: The data includes all businesses with a business telephone line. Quarterly updates include insertions (new businesses), changes (amendments to an existing record) and deletions (closures). Companies that elect to be suspended from the database are included if the data is used for analytical purposes only.

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<sup>39</sup> Note: the analysis is based upon unpublished work undertaken for the Government Office for the North West.

Source: Labour Force Survey (LFS)

Data coverage: Employment and occupation

Spatial area: National down to local area (annual database)

Timing: Quarterly (although access to some data is annual – e.g. district level information)

Comments: The Labour Force Survey is a household survey covering the UK. In any three month period, a nationally representative sample of 120,000 people aged 16 years or over in around 61,000 households are interviewed. The survey also covers students in halls of residence and people living in NHS accommodation. Comprehensive and regular. It is not very reliable at more disaggregated levels.

### ***Business Units***

Source: Annual Employment Survey (AES) – Now replaced by Annual Business Inquiry

Data coverage: Number of business units

Spatial area: National down to ward/ postal sector (with Chancellor's notice)

Timing: Annual

Comments: See above.

Source: The Business Database - Yellow Pages

Data coverage: Company names, addresses, postcodes, industry groupings, premise types and employee numbers for over 1.5 million businesses throughout the UK.

Spatial area: postcode level , UK

Timing: quarterly updates

Comments: See above

Source: VAT Registrations and deregistration  
Data coverage: Stock, registrations and deregistrations by industry  
Spatial area: National, county and district  
Timing: Annual  
Comments: Comprehensive and well-established but does not cover very small firms.

Source: Trends Business Research Ltd: Business Start Ups and Closures  
Data coverage: By sector  
Spatial area: By postcode  
Timing: Upon request  
Comments: Uses data from Dun and Bradstreet updated every six months.

***Gross Value Added***

Source: Office of National Statistics (ONS)  
Data coverage: Gross Value Added – (all economies and sectors)  
Spatial area: National, regional and county, Local Authority, ward  
Timing: Annual  
Comments: Data for 1998 and 1999 at 1998 electoral ward level will be freely available via ONS website in the summer of 2001

Source: Annual Business Inquiry (Production and Construction)  
(formerly Census of Production)  
Data coverage: Wide range of economic statistics for the production and construction sector  
Spatial area: Standard geography – Government Office Region  
Timing: Annual  
Comments: Sample size relatively limited

### ***Inward investment***

Source:	Regional Development Agencies and Local Authorities
Data coverage:	Relocations and enquiries
Spatial area:	Often available as project specific information
Timing:	Continually updated
Comments:	Available on request

### ***Economic Forecasts***

Source:	Cambridge Econometrics, Business Strategies Limited and other commercial providers
Data coverage:	Local area projections can be provided in detail. In the case of Cambridge Econometrics this includes: <ul style="list-style-type: none"><li>- output and employment by 49 industries (defined on SIC92)</li><li>- employment by status (male, female, full-time, part-time etc)</li></ul> Employment by occupations  The software includes a number of 'simulation frameworks' to consider issues including replacement demand for occupations, double-jobbing, commuting and the future skill and qualification requirements of workers.
Spatial area:	Analysis/data is available to district level. Bespoke projects in the area of local economic analysis are also undertaken.
Timing:	Annual

### ***Company specific performance***

Source:	Dunn & Bradstreet, ICC
Data coverage:	Company accounts
Spatial area:	Data can be consolidated by postcode and sector
Timing:	Continuously updated. Most recently filed accounts
Comments:	Problems arise in relation to multiplant business / head offices

### ***Local research***

A number of sources of local research will often exist including, for example, economic assessments by the Training and Enterprise Council or local authority.

## **Unemployment Indicators**

Source:	Office for National Statistics
Data coverage:	On/Off flows, age, gender, duration and rates (to district level)
Spatial area:	National down to postcode level
Timing:	Monthly
Comments:	Age and Duration data is only available for Computerised Claimants only (Data can be specially requested at postcode level).

## **Infrastructure – Property, Land and Premises**

Source: PMA; International Property Database; Estates Gazette Interactive; Jones Lang LaSalle (JLL) 50 centres report; Property Index.

Data coverage: Property values, floorspace; rents; yields; etc

Spatial area: Various including cities/towns, down to individual developments

Timing: Bi-annually; Quarterly; some data on-line and constantly updated

Source: Valuation Office Property Market Report

Data coverage: Rents, yields, capital values and land values. Residential, commercial and industrial.

Spatial area: National, regional, cities, towns

Timing: Bi-annual (1<sup>st</sup> April 1<sup>st</sup> October)

Source: Department of the Environment, Transport and the Environment

Data coverage: Contains information on the number of hereditaments and floorspace by bulk class and by local authority district. Regional information is available by bulk class and size group of hereditaments. Floor area information by age of hereditament.

Spatial area: Local Authority District

Timing: Last provided by the Valuation Office Agency, December 1994.

Comments: This product will be updated in 2001.

## **Skills, Training and Education**

### ***GCSE Results***

Source:	Local Education Authorities
Data coverage:	GCSE results
Spatial area:	Local authority districts
Timing:	Annual
Comments:	Available by residential postcode on request

### ***Proportion staying on at school / Year 11 Destinations***

Source:	Career Service
Data coverage:	Year 11 Destinations
Spatial area:	Local authority districts
Timing:	Annual

### ***Proportion Entering Higher Education / Year 13 Destinations***

Source:	Career Service
Data coverage:	Year 13 Destinations
Spatial area:	Local authority district
Timing:	Annual

### ***NVQ Statistics***

Source:	Labour Force Survey (LFS)
Data coverage:	Attainment of NVQ Level 3+ and NVQ Level 4+
Spatial area:	Local Authority District, North West, Great Britain
Timing:	Annual & Quarterly
Comments:	See above

Source:	Local Learning and Skills Council - Attainment towards the National Learning Targets 2002.
Data coverage:	19 year olds qualified to level 2; 21 year olds qualified to level 3; Adults qualified to level 3; Adults qualified to level 4
Spatial area:	Local Authority District, LSC area, regions, Great Britain
Timing:	Annual
Comments:	The data for young people is sourced from the Labour Force Survey and data for adult attainment FEFC and DfEE data. The figures provided are only estimates.

### ***Number of IIP Businesses***

Source:	IIP UK
Data coverage:	IIP commitments; IIP recognitions
Spatial area:	By postcode
Timing:	Monthly

## **Social Exclusion**

### ***Index of Deprivation***

Source:	DETR
Data coverage:	Six domains of deprivation: - Income, Employment, Health Deprivation and Disability, Education, Skills and Training, Housing and Geographical access to Services.
Spatial area:	National Down to (1998) Ward level
Timing:	DETR are hoping to update it annually

### ***Household Income***

Source:	CACI
Data coverage:	Household Income Profiles, Mean, Median and Mode Income
Spatial area:	National to local level
Timing:	Annual
Comments:	Needs to be ordered at a cost, restrictions on passing on the data to third parties.

### ***Income Support Claimants***

Source:	DSS
Data coverage:	Income support claimants including figures for pensioners, lone parents, and disabled people.
Spatial area:	National to Ward level
Timing:	Latest figures are for 1998. 1999 data due to be released during 2001
Comments:	Non standard geographies can be specially requested if a list of postcodes are supplied.

### ***Benefits***

Source:	Local Authorities
Data coverage:	Housing benefit claimants, dwellings in receipt of Council tax benefits, Free School Meals Claimants
Spatial area:	Postcode
Timing:	Annual

### ***Crime and disorder Statistics***

Source:	Police Authority
Data coverage:	Recorded Crime Data, sometimes Command and Control Data and Offender Data
Spatial area:	Police Beats, but may also be available at different spatial levels

### ***Health Data***

Source:	Health Authorities
Data coverage:	Standardised Mortality Ratios, Low Birth weights
Spatial area:	Wards
Timing:	SMRS usually cover an aggregate of 3 years

## **Environment**

### ***Derelict land as a proportion of total land area***

Source:	National Land Use Database – local authorities
Data coverage:	Derelict land
Spatial area:	Local Authority
Timing:	Last data relates to 1998. DETR has requested local authorities to collate data for 2001

### ***Waste Recycling & Waste Arisings: industrial and commercial***

Source:	Waste Survey – Environment Agency
Data coverage:	Amounts of different materials from household sources collected for recycling by local authorities - domestic only
Spatial area:	Local Authority
Timing:	Survey undertaken every 3 years - last survey 1998/1999
Comments:	Included in the Strategic Waste Management Assessment

***River Water Quality: General Chemical and Biological Quality Assessment***

Source:	Environment Agency
Data coverage:	Biological river quality; Chemical river quality:
Spatial area:	By river basin
Timing:	Every five years

***Bathing Water Quality: Compliance with EC Directive Standards***

Source:	Bathing Waters Directive Database (DETR)
Data coverage:	Details on 472 coastal and 9 inland bathing waters within England and Wales. It holds analysis data on monitoring samples taken for each site which are then used to classify the bathing waters
Spatial area:	Local beaches/bathing areas
Timing:	Annual

***No. of Air Pollution Days***

Source:	UK Air Quality Statistics Database (supported by DETR) / NETCEN (National Environmental Technology Centre)
Data coverage:	Air Pollution in the UK (by pollutant type)
Spatial area:	By national air pollution monitoring network sites
Timing:	Annual

***Biodiversity Action Plans (BAPs)***

Source:	Local Biodiversity Action Plan (BAP) Database (DETR)
Data coverage:	Species and Habitat Action Plans
Spatial area:	Region
Timing:	Regularly updated
Comments:	The local BAPs database has been collated for the UK Biodiversity Group by The Wildlife Trusts and Royal Society for the Protection of Birds. It lists information on local biodiversity initiatives throughout the UK, providing details of progress, species and habitat action plans written or under development and a named contact for each entry.

***Habitat Conservation: No. and extent of designated areas (hectares)***

Source:	DETR/JNCC Research English Nature (SSSI)
Data coverage:	By protected site
Spatial area:	By protected site
Timing:	Regularly updated
Comments:	Special Areas of Conservation (SACs) Special Protect Areas (SPAs), Sites of Special Scientific Interest (SSSI), Convention on Wetlands of International Importance, Especially as Waterfowl Habitats (Ramsar) Natura 2000

***No. of Listed Buildings and Scheduled Ancient Monuments***

Source:	National Monuments Record (English Heritage) & Local Authorities
Data coverage:	By Building, Monument
Spatial area:	By Building, Monument
Timing:	Periodic updates
Comments:	Often an interval of several years between updates.

***No. of Listed Buildings on the “at risk” register***

Source:	The English Heritage Register of Buildings at Risk
Data coverage:	Grade I and II* listed buildings, and scheduled ancient monuments
Spatial area:	Building name, street, Local Authority District, County
Timing:	Periodic updates
Comments:	The Register brings together information on all the grade I and II* listed buildings, and scheduled ancient monuments (structures rather than earthworks), known to English Heritage to be 'at risk' through neglect and decay, or redundancy.

***Electricity Consumption per Sector***

Source:	Digest of United Kingdom Energy Statistics (DTI)
Data coverage:	Electricity Consumption by Sector
Spatial area:	UK
Timing:	Annual
Comments:	More data may be available from electricity supply companies. However information may be suppressed as commercially confidential

***Electricity Generated from Renewable Sources***

Source:	Digest of United Kingdom Energy Statistics (DTI)
Data coverage:	Electricity Consumption by Sector
Spatial area:	UK
Timing:	Annual
Comments:	Detailed data may be available from electricity supply companies.

***Percentage of Journeys made by Public Transport***

Source:	Local Passenger Transport Executive/Local authority
Data coverage:	Mode of travel
Spatial area:	Local Authority District level
Timing:	Irregular

### ***Freight Transport by Mode***

Source:	Transport Trends 2000 Edition (DETR).
Data coverage:	Region
Spatial area:	UK
Timing:	Annual

### ***Extent of adoption of Environmental Management Systems***

Source:	DETR
Data coverage:	Bodies certified to ISO 14001
Spatial area:	By organisation
Timing:	Regularly updated
Comments:	ISO 14001 is the International Standard for Environmental Management Systems. An Environmental Management System (EMS) is a system which manages the environmental impacts of an organisation.

## **Tourism**

Source:	Tourist Boards (Research)
Data coverage:	Visitor Expenditure, visits and bednights
Spatial area:	Local Authority District, County
Timing:	Annual

**Appendix D**  
**Cost Benefit Analysis**

## ***Cost Benefit Analysis – a brief review***

This appendix presents a review of the key elements of Cost Benefit Analysis (CBA).

CBA compares the gains and losses associated with an investment project, such as a new road, or a programme. It is used to measure the preferences of the individuals who are affected rather than those, say, of the decision takers. All relevant costs and benefits should be monetized and included (Willis, 1980). Its aim is to identify the extent to which projects either add to or detract from the total of social utility.

Hanley and Spash (1993) describe the typical structure of a CBA as follows:

***Stage 1: Definition of project*** - this will normally comprise the identification of the resources to be reallocated and the population of gainers and losers. It may also be used to determine the boundaries of the analysis.

***Stage 2: Identification of project impacts*** - all those impacts resulting from implementation.

***Stage 3: Which impacts are economically relevant?*** - what to count is based upon the neo-classical welfare economics, and, in particular, the social welfare function that society is attempting to maximise (i.e. the weighted sum of utilities across its members). CBA aims to select projects that add to social utility. Thus, benefits are positive impacts which will either be increases in the quantity or quality of goods that generate a positive utility or a reduction in the price at which they are supplied. Costs or negative impacts include any decreases in the quantity and quality of goods, or increases in prices.

***Stage 4: Physical quantification of relevant impacts*** - determining the physical amounts of costs and benefits flows of a project and when they occur over time. A key issue here is the extent to which the impacts are truly additional.

***Stage 5: Monetary valuation of relevant effects*** - in order for physical measures to be co-measurable, they must be valued in monetary terms. As a result the evaluator will need to:

- predict prices for value flows into the future;
- correct market prices where necessary; and
- calculate prices where none exists.

**Stage 6: Discounting of costs and benefits** - in order to convert to present value. Greater weight is attributed to earlier rather than later benefits and costs. There are several reasons that could be suggested to explain the concept of time preference, including:

- uncertainty - it is not certain that promised money will be received until it has actually been paid;
- inflation;
- subjective time preference - an individual attaches more weight to current pleasures than to future ones; and
- future returns - money is invested now to make profits in the future (opportunity cost of capital).

Unlike the private sector, where firms pay a market interest rate, social costs and benefits are discounted, using a social discount rate. There is no agreement as to how to practically define the rate or its relationship with the market rate of interest. However, a number of principles are generally agreed, as follows:

- if the individuals who benefit from the project are the same as those who pay the costs, the marginal rate of substitution can be used, since this illustrates their willingness to trade-off current consumption for gains of future consumption. Since this will be directly related to the rate of interest at which they can borrow or lend, the market rate of interest can be applied to the net increase in consumption.
- if the public sector displaces a private sector project of the same size, then an opportunity cost view can be adopted. In this case it is the producer's rate of return that should be used in the evaluation.
- for long life projects those who benefit will often not be those who paid for them. This raises issues of intertemporal and intergenerational distributions. One approach is to use a social welfare function<sup>40</sup>, which shows the trade-offs between individuals of different generations. However, since the market does not have optimality properties, there is no systematic relationship between the market rate and society's marginal rate of substitution between this generation's

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consumption and the next generation's, therefore it is not necessarily appropriate to use the market rate.

The discount period or time horizon for the appraisal is also important. It should normally be sufficiently distant to encompass all important costs and benefit differences between options. In relation to a tangible asset it will usually be based upon its physical or economic life.

**Stage 7: applying the Net Present Value (NPV) test** – the criterion applied to test whether projects or policies are efficient in terms of their use of resources is the NPV test. Does the sum of the discounted gains (B) exceed the sum of the discounted losses (C)? If so the project is an efficient shift in the allocation of resources, given the data used in the CBA. Thus, the decision rule is if  $NPV > 0 = \text{accept}$ .

$$NPV = \sum B_t(1+i)^{-t} - \sum C_t(1+i)^{-t}$$

The NPV is the value obtained by discounting all relevant cash flows by a chosen target rate of return or discount rate (i.e. the opportunity cost of capital). The discount rate should reflect the private sector's cost of capital. However, for projects involving public sector support a risk adjusted rate should be applied to reflect the fact that the private sector will bear a lower risk because of English Partnerships' involvement.

Alternative decision rules include the Internal Rate of Return (IRR) and benefit-cost ratio. IRR shows the rate of return on resources used up in a project and is compared with the opportunity cost of investment funds. The IRR of the project is the discount rate that produces a zero NPV. It is a measure of the profitability of the investment. When the IRR of a project exceeds the rate of return of a project in the same 'risk class', it is usually considered profitable to proceed with the project. However, IRR is flawed as a measure for resource allocation for two reasons. There are often multiple IRRs and the IRR is unreliable when comparing performance across many projects in a portfolio. The benefit-cost ratio is another way of presenting the NPV of a project. If the benefit-cost ratio exceeds unity then accept.

**Stage 7: Weighting** - a further element may be to change the weights in the NPV function. CBA, taking the existing distribution of income as given, concentrates on efficiency. Distributional weights can be attached to different social groups within the

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<sup>40</sup> This is a function of the welfare of each consumer. In order to construct a social welfare function it is necessary to aggregate each consumer's preference into a community preference ordering.

CBA. These can be related to the rate at which marginal utility of income diminishes. The elasticity of marginal utility is the percentage by which marginal utility decreases as a result of 1% increase in income. The NPV measure assumes implicitly the existing distribution of resources is acceptable unless weights are applied. This is because benefits and costs are expressed in terms of willingness to pay, which depends not just on preferences, but also on ability to pay. However, society may place more importance on each £1 impact on poor groups rather than rich groups. This is the Bergson social welfare function.

There are though significant difficulties. What weights should be used? In addition, all weights must sum to unity otherwise the NPV will be overstated or understated. It will often be difficult to assess how each group will be affected. However, the use of distributional weights may be important for regeneration programmes.

**Stage 8 - Sensitivity analysis** – it is important to test the sensitivity of the NPV calculation to variations in key parameters.

CBA is subject to a number of criticisms. The difficulties summarised below are those which are most relevant to an ex-post evaluation. Additional concerns have been expressed about its use in ex-ante appraisals, such as, its ability to handle uncertainty and irreversibility.

Concerns have been expressed about the reliability of the valuations of non-market goods. In addition, as Pearce (1998) notes the “science of economic valuation has evolved and still is evolving, uncertainty is endemic in the estimates”. In addition, there is often an emotive and irrational objection to monetization. Although research which claims to show that individuals do not trade off environment and other goods (so called lexical preferences) may provide a more rationale basis for this view.

CBA has also been criticised for its lack of transparency, with highly varied costs and benefits reduced to single financial numbers. Whilst this criticism has some validity, it could be overcome through the reporting process and through sensitivity analyses. Where benefits do continue on into the future then the issue of what discount rate to use and concern that discounting may violate the rights of future generations has also been raised. Various overlapping generation modelling approaches have been developed to address this issue (a discussion of the issues associated with these is presented in Johnson, 1993). There are also concerns about institutional capture. Is CBA a truly objective way of making decisions, or can institutions capture it for their own ends?

Perhaps the most difficult criticism to counter is that CBA (without weights) is concerned to assess economic efficiency. However, economic efficiency is not the only goal. Employment creation, community development and involvement in the process of decision making, amongst others, are all important objectives of regeneration programmes. CBA is not well placed to accommodate multiple objectives. However, it does have significant merits as an approach and can be supplemented by other complementary analyses. It can usefully inform the decision-making process, when combined with other approaches.

## **Appendix E**

### **Implementing the Alternative Evaluation Framework**

## *Implementing the Alternative Evaluation Framework*

### 1.0 Overview

The key components required to implement the evaluation framework are summarised in Figure E1 below and the issues associated with each element are considered in turn below.

**Figure E1: Approach to evaluation**

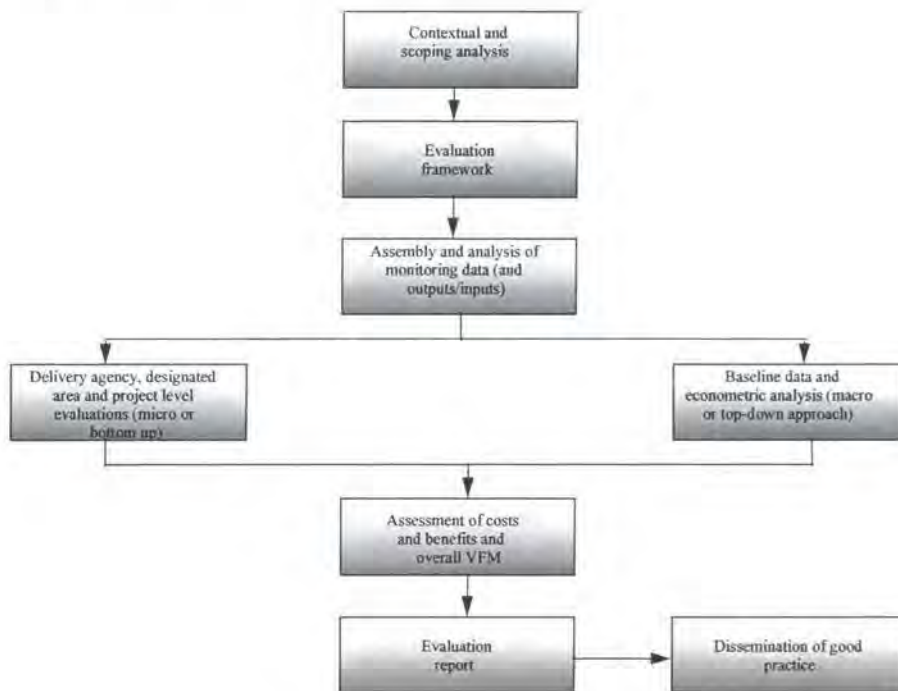


Table E1 below shows how the various components of the approach would provide data in order to inform each of the key evaluation issues.

TableE1: Addressing the key evaluation issues	
Evaluation issue	Relevant elements of approach
Rationale	All elements
Contextual conditions	Baseline data Secondary source data
Aims and objectives	Contextual and scoping review
Costs and benefits Additionality Economic efficiency and equity	Surveys (residents, firms, firm focus groups, beneficiary tracking studies, project participants/beneficiaries, partner focus groups, property agents, residents panel and residents/community/voluntary organisations) Consultations (Chief executive, project managers, partners and voluntary/community groups) Project level evaluations Quantitative evaluation
Administrative efficiency	Surveys (beneficiary tracking studies, project participants/beneficiaries, partner focus groups, and residents/community/voluntary organisations) Consultations (Chief executive, project managers, partners and voluntary/community groups)
Value for money	All elements
Policy lessons	All elements

## 2.0 Contextual and scoping analysis and evaluation framework report

This would involve a review of the Government's own guidance and statements on the Programme, local baseline data, bidding documents, strategies and delivery plans. Face-to-face structured discussions would be conducted with the Chief Executives of each partnership, relevant Government Offices and key partners. These analyses would provide the foundation for the evaluation and the basis for the preparation of a detailed evaluation framework report.

## 3.0 Assembly and analysis of expenditure and output monitoring data

The output monitoring and expenditure data sets for the programme or project will need to be assembled and analysed at a variety of levels including partnership, round and programme.

## 4.0 Micro or bottom-up approach

### 4.1 Delivery agency and designated area level evaluations

#### (i) Surveys

An integrated programme of surveys will, in the case of large regeneration programmes, form a key component of the evaluation. The programme is likely to comprise some or all of the following:

- *Resident surveys* - As well as questions concerning overall improvements in the quality of life of individuals, a proportion of the sample will also be project beneficiaries - either directly or indirectly. The objective of the survey would be to assess changes within the area from the perspective of residents;
- *Firm surveys* - exploring issues such as the improvements in the area's competitiveness, as well as specific themes such as crime;
- *Firm focus groups* - allowing group discussion and debate around a structured agenda;
- *Partner focus group* - with key partners and agencies involved in regeneration to discuss views on performance and impact;
- *Property agents' surveys* - the issue of gross and net impact on property market sectors will be explored;
- *Panel surveys*; and
- *Residents and community/voluntary organisation focus groups* - panel interview and/or focus group of local residents and community/voluntary groups in the area. These focus groups would explore issues such as participation and capacity building, as well as views on the overall impact of the programme or project.

Where possible the survey work will be more robust when it is undertaken as part of a series conducted throughout the life of the regeneration programme, although ideally commencing before the designation of the area and continuing afterwards. In many cases a time series approach will not be possible and one-off surveys incorporating retrospective, current and forward looking questions will need to be conducted.

Whichever approach to survey work is undertaken it will be important to, as far as possible, benchmark the results against those from analogous or omnibus surveys.

The survey instruments could also be designed to inform either a contingent valuation or travel cost assessment of the programme or project.

### **(ii) Consultations**

A programme of consultations using semi-structured survey instruments would need to be conducted with the following:

- Chief Executive or lead officer;
- Board members;
- Key partners/local agencies; and
- Voluntary/community groups.

In addition, in order to ensure factual accuracy and to contribute to dissemination and continuous improvement, debriefing sessions with Chief Executives or lead officers and other partners, as appropriate, would be organised to discuss the emerging results of the evaluation.

### *4.2 Project level evaluations*

Depending upon the scale of the programme it will also be important to undertake project level evaluations. These will need to be stratified by project type - the exact typology may vary but is likely to include the following: development schemes; inward investment; land reclamation and site servicing; housing; transport/infrastructure; environmental and amenity space; business support and enterprise development; training and access to the labour market; crime prevention and community safety; education; health; and community and social projects.

For each project the following issues would need to be assessed:

- rationale (equity and/or market failure/missing markets) and objectives;
- process issues (administrative performance of delivery agency in relation to individual projects, how improvement could have been made, etc);
- economy - expenditure on projects;

- characteristics of beneficiaries;
- outputs and outcomes;
- additionality - deadweight and displacement;
- supply linkages;
- direct impacts - e.g. employment, business performance;
- wider costs and benefits (negative and positive externalities); and
- good practice lessons and/or perceived barriers to success.

The project case studies would comprise:

- *Project manager interviews* – collating data on each case study project and exploring issues associated with their delivery and impact;
- *Beneficiary tracking studies* - assessing over a given time period the subsequent employment history and other conditions of beneficiaries following their completion of a project;
- *Project participants/beneficiary survey* - addressing issues such as the efficiency of the process, deadweight, displacement, outputs and impacts, as well as qualitative responses, for example, concerning areas for improvement.

## 5.0 Macro or top-down approach

### *(i) Overview*

The fact that the macro analysis does not rely on the analysis of direct outputs from the programme means that any approach adopted produces an ‘implicit’ rather than ‘explicit’ account of policy effects. Econometric analyses can be used to test the casual relationship between an intervention and changes in local conditions.

### *(ii) Baseline and secondary source data assembly*

Assessing the impact of intervention for a spatially targeted policy requires that whatever set of indicators are employed are available:

- across a hierarchy of geographies accommodating the programme areas and the wider areas (administrative or economic) in which they are nested;
- prior to and during the period of policy intervention; and

- on a consistent definitional basis across both geography and time.

In many cases this relatively modest set of requirements will exceed the capacity of the existing information base. Thus, a macro analysis of a regeneration programme targeting relatively small spatial areas (say 1,000 hectares) may well be severely constrained by a series of data problems, including:

- the very concentrated spatial focus of the programme means that Ward or postcode level data should ideally be reviewed and aggregated back to the relevant area base;
- the differing nature and scale of the host administrative area (local authority) is unlikely to provide an appropriate basis against which to assess relative performance;
- there have been various changes in ward and postcode definitions which raises some concern over the temporal comparability of data; and
- the level and quality of certain information at local partnership level is variable and there exist substantial issues of comparability with more established and centrally collected data series.

The baseline and other data assembled by the agency or partnership responsible for delivering the programme or project will need to be reviewed. If this is comprehensive and robust updated indicators will need to be assembled for the designated area. If this is not the case, then both baseline and updated data will need to be collated.

### ***(iii) Quantitative evaluation***

The top-down, econometric based analyses would include an assessment of the:

- relative performance of the area(s) across a number of global economic and social indicators;
- relative performance of the area(s) within the context of its host local authority or other relevant spatial area performance over the period of the programme;
- relative performance of the area(s) against a set of local information through discriminant analysis;
- relative progress through non-parametric methods using matched designated areas and groups against comparator areas/groups; and

- changes in overall life quality within designated areas - for example, using an index approach.

In most cases the socio-economic indicators would be assessed using a relative indexation process. Indicator values for the regeneration area/host local authority would be placed in a ratio relative to the local authority/regional (or UK) average at two points in time, corresponding as closely as possible with the beginning and end of the programme period. The ratio of the later year would then be divided by that for the base year to produce an index value. The change in the index value would provide a broad assessment of relative improvement or otherwise.

Where more robust time-series data is available, such as unemployment claimant information, it will be possible to conduct more detailed econometric or statistical analyses.

## **6.0 Unsuccessful bid areas**

The progress of regeneration within a number of areas that were unsuccessful in their bid for funding would also need to be assessed. Consultees would be asked about what had subsequently happened to the proposed regeneration area, their success in securing alternative regeneration and other resources and their views on the effect of not obtaining the regeneration programme funding.

## **Appendix F**

### **Assessing Additionality – A Worked Illustrative Example**

## ***Assessing Additionality – A Worked Illustrative Example***

This appendix sets out an illustrative, worked example of the steps involved in appraising the net additional construction related employment associated with a grant aided development scheme, such as a major retail food store. The analysis is sub-divided into six stages as follows:

- direct expenditure and employment
- indirect employment
- induced employment
- gross impact
- additionality
- net additional impact

A discussion of the issues associated with each component is set out below, followed by a numerical worked example.

### ***(i) Direct expenditure and employment***

The gross effects of the construction phase would be estimated by identifying the total value of construction works, the value of construction expenditure won by local contractors and the level of locally recruited labour. The development costs would be sub-divided, say, between: ground preparation; building construction and site servicing (on and off site), landscaping and car parks; fit-out finishes and building completion works; professional fees and any other development related expenditure, such as site facilities and security. Information would be sought on the number of persons employed on the contract, their place of residence and the numbers employed who would have stayed overnight in the local area during construction. Where this information is not available, ratios of employment to expenditure from published statistics could be used to assess the level of employment created. The ratios can be derived from a combination of surveys of contractors and secondary source data, in particular, Department of Trade and Industry (Dti) statistics. The employment effects will be expressed in terms of person years of construction employment.

In addition, the duration of the construction period would be identified, together with issues associated with any disruption, complaints, mitigating measures and best practice employed in respect of 'good neighbour' issues.

**(ii) Indirect employment**

The extent of second round purchases made from within the local economy would be estimated based upon the survey of contractors. The proportion of second round purchases sourced from local suppliers would probably, unless more detailed information was available, then be assumed to be the same at each subsequent round of purchases. Through estimating an indirect multiplier<sup>41</sup> and indirect expenditure, the person years of employment supported would be calculated by applying an employment to expenditure ratio. The ratio would be derived from the survey of contractors and published secondary source data.

**(iii) Induced person years of employment**

The survey of contractors would also provide information on the proportion of expenditure (or turnover) paid on average in net local income. This would be applied to the total direct and indirect local expenditure to estimate the total first round income going to local residents.

The customer survey and published data from, for example, the Family Expenditure Survey would be combined to estimate the proportion of induced income spent on average on local purchases (i.e. within the study area). This would then be used to estimate the total local resident induced, first round expenditure within the local economy. To this would need to be added the non-resident workers induced expenditure. The latter would be estimated based upon the wages of non-resident workers and the proportion of these spent within the study area. An induced multiplier<sup>42</sup> would be calculated, using the ratios of local wages to turnover and of local purchasing, in order to estimate total induced expenditure in all rounds. An employment to expenditure ratio derived from published Dti data would then be used to estimate the person years of employment supported.

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<sup>41</sup> *Indirect multiplier* - Employment and income generation in other local firms which arises from the expenditure of the food store on products or services and then from subsequent local purchases through the supply chain. If the purchases made at each particular point in the supply chain is  $x$  per annum and a portion  $S$  is spent on local inputs, the effect down the remainder of the chain is then estimated as :  $x(1 + S + S^2 + S^3 \dots S^n)$  or  $x / (1 - S)$ .

<sup>42</sup> *Induced multiplier* - Employment and income generation associated with the expenditure of those who derive incomes from the direct and indirect impacts of the food store. Estimates can be made on the assumption that behaviour is similar at each stage of the "ripple" process through which consumption expenditure works through the local economy. If the total net direct and supply linkage multiplier increase in local business turnover is  $E$ , a proportion  $m$  of this turnover is paid on average in net local incomes, a proportion  $q$  of net local incomes is on average spent on the products of local businesses, then the total impact on turnover, including induced effects, may be estimated as:  $E(1 + mq + m^2q^2 + m^3q^3 \dots m^nq^n)$  or  $E / (1 - mq)$ .

**(iv) *Gross impact***

A summary analysis of the total gross impact would be calculated by summing the direct, indirect and induced employment impacts.

**(v) *Additionality (deadweight and displacement)***

In order to assess the extent to which the construction activity generated is additional a series of further adjustments need to be made. The contractors surveyed would be asked to identify the level of direct turnover that they believe they would otherwise have secured from other sources. However, we cannot simply take the inverse of this ratio to approximate additionality since it is likely that a proportion of this work would have been won at the expense of other local contractors. As such a further adjustment needs to be made to reflect this potential product market displacement. In addition, the level of factor market displacement also needs to be estimated. This would be informed by a review of local unemployment data and the survey of contractors, with consideration given for example to the ease with which labour was recruited and the relative costs of factor inputs.

**(vi) *Net additional employment impact***

The estimated proportion of employment generated that is additional would then be applied to total gross employment impact in order to identify the net additional employment impact.

*Assessing the net additional employment impact - An illustrative example*

**Gross Direct Person Years of Construction Employment**

a	Development costs		
		Infrastructure	£3,000,000
		Construction	£5,000,000
		Other	£2,000,000
		Total	£10,000,000
b	Proportion of total value awarded to local contractors		
		Infrastructure	20%
		Construction	20%
		Other	20%
c=a*b	Value of local contracts		
		Infrastructure	600,000
		Construction	1,000,000
		Other	400,000
		Total	2,000,000
d	Expenditure to person years of construction employment		
		Sub-structure	100,000
		Construction	75,000
		Other	50,000
e=a/b	Total gross direct person years of construction employment		
		Sub-structure	30
		Construction	67
		Other	40
		Total	137
f	Proportion of those employed who lived within local area		
		Sub-structure	25%
		Construction	50%
		Other	5%
g=e*f	Gross local direct person years of construction employment		
		Sub-structure	8
		Construction	33
		Other	2
<b><u>Gross Local Indirect Person Years of Construction Employment</u></b>			
h	Proportion of purchases from within local economy by suppliers (weighted average)		5%
$I=1/(1-h)$	Indirect multiplier		1.05
$j=a*I$	Indirect expenditure		526,316
k	Ratio of expenditure to employment		50,000
$l=j/k$	Gross local indirect person years of employment		11
<b><u>Gross Local Induced Person Years of Construction Employment</u></b>			
m=c	Value of local contracts		2,000,000
n=j	Indirect local expenditure		526,316
o=m+n	Total direct and indirect local expenditure		2,526,316
p	Proportion of direct and indirect turnover paid on average in net local income (wages)		25%
$q=o*p$	Total first round induced income going to local residents		631,579
r	Proportion of induced income spent on average on local products/services		20%

$s=r*q$	Local resident workers induced expenditure (first round) within local economy	126,316
$t=(a-c)*p$	Non-resident workers income	2,000,000
$u$	Proportion of non-resident workers income spent within local economy	5%
$v=t*u$	Non resident workers induced expenditure (first round) within local economy	100,000
$w=v+s$	Total local induced expenditure	226,316
$x$	Ratio of expenditure to employment	30,000
$y=w/x$	Gross local induced person years of construction employment (first round)	7.5
$z=1/(1-p*r)$	Induced multiplier	1.05
$aa=w*(z-1)$	Induced expenditure (second and subsequent round effects)	11,911
$bb=aa/x$	Gross local induced person years of construction employment (second and subsequent round)	0.4
$cc=y+bb$	Total local induced person years of construction employment impact	7.9
<b><u>Summary analysis</u></b>		
$dd=g$	Gross local direct person years of construction employment	43
$ee=l$	Gross local indirect person years of construction employment	11
$ff=cc$	Gross local induced person years of construction employment	7.9
	Total gross person years of construction employment, including multiplier effects	61.3
$gg$	Additionality ratio	70%
$hh = ff \times gg$	Net additional local person years of construction employment, including multiplier effects.	42.9

## **Appendix G**

### **An Example of a CBA Analysis of a Regeneration Project**

## *An Example of a CBA Analysis of a Regeneration Project*

The report into the Costs and Benefits of the Restoration of the Rochdale Canal (Barrett, Russell and Athey, 1991) presented a cost benefit analysis (CBA) of the project. A summary of the analysis is presented in Table G1.

<b>Table G1: Rochdale Canal restoration project – cost benefit analysis (30 year appraisal period)</b>	
<b>Costs</b>	
Capital cost of restoration (excluding Dale St Basin to Union St, but including £2.5m for Tuel Lane)	£15.9m
Additional revenue cost	£0.25m per annum
Present value of total costs	£17.3m
<b>Benefits</b>	
Revenue generation potential	£0.125m
Tourism benefits (taken as 10% of additional tourist spend)	£0.72m
Development and property enhancement benefits	£6.7m
Local amenity and environmental benefits	£0.16m
Employment benefits	£13.6m
Present value of total Benefits	£29.2m
Net present value	£11.9m

Source: Barrett, Russell and Athey (1991)

In some cases it will also be possible to assess and value the positive externalities of a regeneration programme or project. In general these cases are likely to be those where the wider, less tangible benefits are expected to be significant and because of the cost of undertaking such exercises the Programme is sufficiently large or important to warrant a high level of expenditure.

Each of the valuation techniques identified in Chapter 3 of the thesis can be used. For the purpose of illustrating how these can be practically applied to regeneration programmes or projects a worked example of the use of travel cost method is set out below.

A number of regeneration programmes have included significant environmental projects – such as the restoration of a canal (for example, the Huddersfield Canal, the Rochdale Canal and Brindley Place in central Birmingham). Where research into the origin, motivations and expenditures of visitors to these restored facilities is available – for example, through research into the local tourism market – then it may be possible to

estimate the value of the resulting environmental and amenity benefits, using the travel cost method. The logic being, as was seen earlier in the thesis, that the environmental and amenity benefits - which are not reflected in any market transaction - may be inferred from the larger amounts which people from a wider area may be prepared to pay to travel to the restored canal.

The following visitor numbers, visitation rates, travel and travel time (various estimates of these costs are available in the form of DETR Highway Evaluation Notes) and total cost from different zones are assumed.

Zone	Total annual visitors	Visitors per million (visitation rate)	Travel cost	Time cost	Total cost
A	100,000	250,000	£1.50	£1.00	£2.50
B	50,000	25,000	£4.75	£5.50	£10.25
C	15,000	2,000	£6.50	£7.50	£14.00
D	5,000	250	£10.00	£10.00	£20.00
E	500	10	£15.00	£15.50	£30.50

Zone A is the area nearest to the restored canal, while zone E is say all areas over 150 miles from the canal. In simple terms (using numerical approximation) if we consider just Zones A and B, 25,000 people per million in Zone B are willing to pay £10.25 for their visit and it may be inferred that a similar proportion of Zone A would be willing to pay a similar amount. They therefore derive a consumer surplus from only having to pay £2.50. This if the population of Zone A were 2 million people the total consumer surplus, considering just these two zones, would be £387,500 per annum, calculated as follows:

$$cs = vr * PopA(m) * (tcb - tca)$$

$$cs = 25,000 * 2 * (10.25 - 2.50) = 387,500$$

Where: cs = Consumer surplus

vr = visitation rate per million

PopA(m) = Population of zone A in millions

tca = Total average costs per Zone A visitor

tcb = Total average costs per Zone B visitor

This simple numerical approach could then be extended to each of the other zones. However, a more robust approach would be to fit a statistical relationship to the data and use this to estimate willingness to pay and consumer surplus.

The resulting total consumer surplus value can then be incorporated into the CBA or cost benefit account net present value calculation.

Amongst the limitations of this analysis is that it assumes implicitly that people in different areas have a similar knowledge of the facility. Whilst this may be true for, say, St Paul's Cathedral, it will probably not be so for a restored canal. However, the approach can be relatively easily implemented and is replicable.

## **Appendix H**

### **Using Hedonic Pricing to Assess a Regeneration Project**

## ***Using Hedonic Pricing to Assess a Regeneration project***

For some schemes it may also be appropriate to undertake an analysis of relative house price movements. Time-series data on house prices by type and location (down to postcode sector) are available from financial institutions such as the Halifax and Nationwide Anglia. As a result it will often be possible to conduct an hedonic pricing analysis.

Many regeneration programmes have included transportation improvements in order to enhance the attractiveness of an area as a location for economic or residential investment. An analysis of house price movements in areas benefiting from improved accessibility can be undertaken to investigate the hypothesis that transportation improvements cause an increase in the demand for (and thus the price of) residential property.

Data on residential property prices is readily available from financial institutions such as the Halifax, at a local level (down to postcode definitions). The information is available on a time-series basis and by property type (such as three bedroomed semi-detached) and is based upon client transactions. However, the data suffers from certain shortcomings. Firstly, if the institution does not have a very large presence in a given area its share of total transactions may be very small and therefore its data on house price movements may not be very representative of total movements in the area. This would introduce potential bias into the analysis. Secondly, if the regeneration area in which the improvement occurs cannot be spatially defined because of its small scale it may be inappropriate or misleading to use data for a larger area.

A time-series regression model can then be used to test the hypothesis, by comparing house price movements in regeneration areas benefiting from improved transport infrastructure with general price movements at say the District, county or regional level. Dummy variables could be included in the appropriate years to identify above average house prices movements that could reasonably be attributed to the transport improvement. As a further element of the analysis, house price movements in a set of control areas (areas not benefiting from transport improvements) with similar population and locational characteristics could also be examined to ensure that any above average movements observed in the preceding analysis were not simply part of a wider sub-regional movement.

Care needs to be taken in interpreting the results. For example, an above average upward movement in prices can be due to extraneous factors. Thus, in the south east of England

there may have been increased pressures on house prices as a result of the outward shift in commuting patterns.

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