
6 Analytical framework

This chapter provides an analytical framework for examining the costs and benefits of historic heritage conservation, and the appropriate role for governments in this conservation. Costs associated with the conservation of historic heritage places include: the costs to governments of administering heritage conservation systems; and costs to owners of explicit conservation and maintenance expenditure, opportunity costs arising from a decision to preserve the historic fabric of the place by not making structural changes or adapting it to an alternative use, and additional compliance costs associated with the statutory listing of a place. All those costs can be substantial.

Benefits of historic heritage conservation can accrue to the owner as well as to the more general community. While government intervention may occur on the basis of expected community benefits, the costs of such intervention (on either the owner or the wider community) have typically not been adequately evaluated when considering the type and extent of this involvement. It is therefore imperative that the systems include mechanisms for assessing net community benefit arising from heritage conservation before properties are included on statutory lists — systems that weigh both all the benefits and all the costs.

Ownership of a historic heritage place confers a number of potential benefits (chapter 2). These may be tangible (e.g., commercial use values) or intangible (such as enjoyment of its aesthetic appeal). Both these type of benefits may be reflected in the place's resale value. In many cases, perhaps most, these benefits provide adequate incentives to owners to undertake appropriate conservation activities. Benefits associated with historic heritage conservation also have the potential to extend to the wider community. Historic heritage places may contribute to a community's cultural identity by providing it with a tangible link to its past. Typically, such community-based benefits of historic heritage conservation will not be amenable to easy quantification because of their intangible nature.

It has been argued that these wider community benefits justify government involvement in historic heritage conservation. Where private benefits from conservation are too low to provide adequate conservation incentives, there may be

a role for government to either provide these incentives or to undertake the conservation itself. However, the effectiveness of government intervention will depend not only on the community-based benefits generated. It will also depend on the costs of such intervention and the availability of well-targeted policy instruments.

6.1 Private conservation activities

Although the most iconic historic places are generally publicly owned, in numerical terms most historic places are privately-owned. In addition to their heritage value, these places generally provide benefits to their owners as they are utilised in everyday activities. Historic homes, shops and hotels which are used for their original purpose are obvious examples ('working heritage places').

These use-values provide important incentives for owners to undertake conservation. Owners may also conserve historic places for their aesthetic appeal as this also enhances their use-value. Conservation may also be undertaken as a means of generating financial benefits. For example, tourist operators may help to conserve historic heritage places that are attractive for tourists to visit. Historic buildings may also be conserved because they have a distinctive character which can provide commercial or re-sale benefits. Individuals may preserve the historic character of their homes in the expectation that their neighbours will do the same and, in the process, create mutual gains. In all these cases, the interests of the owners or managers of heritage places coincide, to some extent, with those of the other beneficiaries of heritage conservation.

Businesses may also conserve heritage places as part of their social and environmental corporate responsibility. They may provide funds for heritage conservation as part of sponsorship arrangements, or undertake heritage conservation projects.

As the Department of the Environment and Heritage stated:

Much of Australia's historic heritage stock is owned and conserved by private individuals and firms. It can be assumed that individuals will behave in a way that maximizes their wellbeing and firms will act to maximize their profits. Holding this assumption as given, we can say that private individuals and firms will conserve historic heritage where they can capture the benefits from that conservation. For example, a private individual may conserve the historic heritage aspects of a site if there is an associated income perhaps from charging for access to the site, or because the private individual gains some personal utility from conserving the historic heritage values of the site due to a preference to live in a historic heritage house.

Many historic heritage assets have use values other than those directly associated with the heritage aspects of the asset. Where these are complementary to the heritage values, it is possible that private individuals and firms will conserve historic heritage while acting to maintain these non-heritage use values of the asset. (sub. 154, p. 51)

There are also a number of volunteer organisations involved in heritage conservation, such as the National Trusts. These organisations undertake heritage repair, maintenance and preservation work, either directly through members' voluntary work or through the funding of such activity. Voluntary community action may be motivated by the desire to pass on the benefits of historic heritage places to other members of the community and, in doing so, strengthen a sense of community spirit. These community activities, initiated by the private sector, are more likely to occur where social benefits are confined to a local community that can directly benefit from those conservation activities.

6.2 When should governments become involved in historic heritage conservation?

A central issue for this inquiry is the extent to which governments should participate in the conservation of historic heritage places and the principles which should guide that intervention. Government intervention can be warranted in the presence of market failure (that is, where the private benefits or costs of an activity do not fully reflect the social benefits or costs):

Where the private marginal costs and benefits differ from the social marginal costs and benefits the market is said to fail. For example, a property owner may decide to demolish a heritage property to build a new property because the private benefits of demolishing the property outweigh the private opportunity cost of the heritage loss. However, where the social benefits of the heritage building are such that the socially optimum outcome is for the building not to be demolished the market has failed. (Department of the Environment and Heritage, sub. 154, p. 51)

Australia ICOMOS argued that there was clear evidence of market failure in historic heritage conservation:

The reality is abundantly evident in Australia's capital cities. In the absence of effective historic heritage regulation in the mid-twentieth century, vast swathes of inner-city areas in Sydney and Melbourne were deprived of their rich stock of historic buildings, so as to make way for large-scale commercial developments that were themselves made possible through advances in building technology. Underlying land values, reflected in the 'developable potential' soared as the market did not value the existing historic building stock for its role as a 'public good'. (sub. 122, p. 9)

As government involvement should address the specific causes of any market failure, it is important to identify the impediments to an efficient market outcome when reviewing government policy (ORR 1998, COAG 2004). With respect to the conservation of historic heritage places, in order to assess what form of government action may be justified, market failures in the conservation of these places must be carefully identified and assessed.

While acknowledging the crucial role of the private sector in historic heritage conservation, the Chairs of the Heritage Councils of Australia and New Zealand also identified circumstances under which government intervention could be justified:

For the most part, the community voluntarily supports the conservation and maintenance of heritage places because they receive a range of benefits/value ... from such places. For example, many property owners see it as being in their financial interest to conserve their property's heritage characteristics.

However, the nature of some of these benefits mean that sometimes the market will not provide a socially optimal level of protection for historic heritage places. Such a 'market failure' exists when there is a divergence between the marginal social costs and benefits and the private costs and benefits of investing in conservation. In the presence of this divergence, there is a *prima facie* case for government intervention (i.e. to correct the market failure). (sub. 187, p. 4)

There are several areas of potential market failure which have been identified as requiring government intervention to solve. Arguably, the most significant are externalities, although it has also been argued that governments may be required to intervene:

- in response to public good characteristics of some historic heritage places;
- to redress problems associated with possible information asymmetries; and,
- to increase the welfare of future generations.

(see, for example, Department of the Environment and Heritage, sub. 154, pp. 51–5; Chairs of the Heritage Councils of Australia and New Zealand, sub. 187, pp. 5–8; the Australian Council of National Trusts, trans., pp. 379–80)

Externalities

As representatives of the community's interests, governments are in a position to consider the broader social benefits of heritage conservation which may not be taken into account by private decision makers. Thus, governments may undertake (or facilitate) conservation which, while socially valuable, would not be considered worthwhile from the point of view of a private property holder. Similarly, they may

be able to consider community benefits when deciding how best to manage their own historic heritage assets. A benefit which accrues to members of the community, other than those responsible for generating it, is known as a positive externality (box 6.1).

Box 6.1 Externalities

Externalities arise when the actions of an individual or firm affect the welfare of others and where those actions are not taken into account, in market transactions or in negotiations between the parties. These ‘spillover’ effects may be positive or negative. If they have a positive effect, it may be in society’s interest to encourage more. If the impact is negative, social welfare may be improved by a reduction in the harmful activity.

Provided transactions costs are not prohibitively high, an assignment of private property rights over the externality may lead to a market-based solution. For example, neighbours can negotiate, local communities can form ‘clubs’, firms can integrate. Where very large numbers of people are affected by externalities, private solutions may not be feasible. The high costs of negotiating solutions and the problem of ‘free-riding’ (that is, some people not paying their share) are two possible reasons.

Without an ability to enter into a bargain, or trade over the positive externality (which may result from an inability to enforce private property rights over the externality or from high transactions costs which preclude negotiations between the relevant parties) there will be no mechanism to ensure that those benefiting from the externality are able to encourage a socially-optimal level of the external benefit. Box 6.2 sets out the problem for the conservation of historic heritage places in a simple diagrammatic framework.

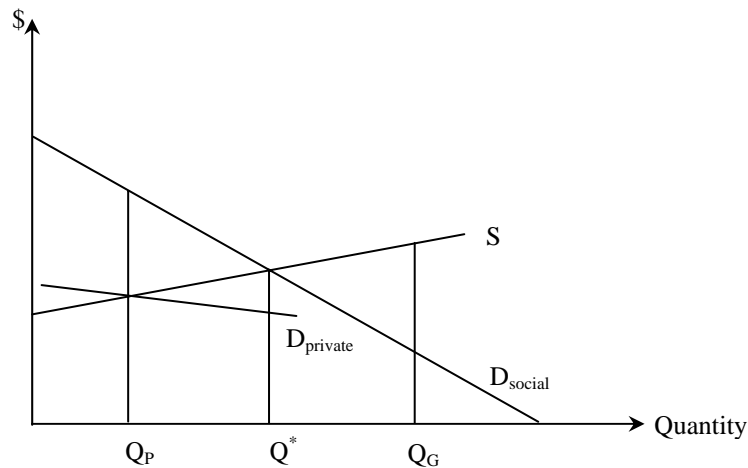
It is important to note that, while the existence of community-based benefits may provide a rationale for government involvement, it does not establish the case for such involvement. That is, the presence of market failure as a result of community-based benefits is a necessary, but not a sufficient, condition for government intervention. To establish whether intervention is warranted it is necessary to consider the costs and effectiveness of such intervention:

Decisions on preserving [cultural heritage] are continually taken by governments and public administrations. Preservation implies maintaining the stock and hindering its dilapidation and worsening. Keeping up the stock creates opportunity cost as the resources involved (labour and material inputs, and in the case of historic monuments especially the sites) could be used for alternative purposes. Current funds are needed to repair and safeguard the objects. In order to take these decisions rationally an evaluation of the value of cultural heritage (compared with relevant alternatives) is required. (Frey 1997, p. 31)

Box 6.2 Socially-optimal provision of historic heritage places

Demand and supply for historic heritage are stylised in figure 6.1. The value of benefits and costs are measured on the vertical axis. An index of historic heritage is measured on the horizontal axis. It is possible for the amount of heritage to increase if, for example, the heritage value of a dilapidated building is restored.

Figure 6.1



The supply curve (S) indicates the incremental costs of providing historic heritage. These costs include the opportunity costs of not allowing a historic heritage place to be used for an alternative use, as well as costs associated with maintaining the historic fabric of the property. Its upward slope reflects the fact that increased conservation activities increases the alternative use value of historic heritage places. Additional amounts of historic heritage can only be provided at increasing marginal cost.

Social welfare maximisation requires that historic heritage is supplied to the point where the additional costs of supplying it equal the additional benefits (inclusive of any social benefits) that it produces. Private conservators of historic heritage places, however, will base their decision on whether (and how much) to conserve on the private benefits of such conservation. This is indicated by the private marginal valuation schedule $D_{private}$. The D_{social} curve represents the aggregate willingness to pay (or the demand) for the benefits of historic heritage places — it sums the community valuation of these benefits and adds these to the private benefits. Its downward slope reflects the general preference of individuals to value something less at the margin as it becomes *relatively* more abundant. Although marginal benefits decline, total benefits (measured by the area under the demand curve) may still be very large.

Differences between the two demand curves measure the social benefits of conservation. As the marginal value of benefits falls as consumption increases, an socially efficient equilibrium exists that balances marginal costs and marginal benefits (Q^*) and involves a level of conservation greater than the private optimum (Q_P).

Other potential grounds for government involvement

Public goods

Public goods have similar features to externalities. A public good is non-excludable (those who do not pay for it cannot be prevented from using it) and non-rivalrous (consumption of the good by one person does not reduce consumption by another). The first of these characteristics, non-excludability, may lead to underprovision since suppliers who cannot recover the cost of provision are unlikely to provide it (or to provide it at socially optimal levels):

Public goods result in market failure because of the free-rider problem, where a consumer can enjoy a good that they have not contributed to. The market fails because the free-rider values the good but the private owner has no way of capturing this value and so will under supply the good compared to the social optimum. (Department of the Environment and Heritage, sub. 154, p. 52)

Public good characteristics may be particularly relevant for existence and bequest values¹ (chapter 2) associated with historic heritage conservation.

There are however some non-use values of historic heritage that have public good characteristics. For example, existence value is both non-excludable and non-rival. In which case it is not possible to stop free-riders resulting in an outcome below that which is socially optimal. (Department of the Environment and Heritage, sub. 154, p. 53)

Existence and bequest values are likely to be of greatest relevance for iconic historic heritage places, and can be captured for the community through government ownership of the property. For less iconic properties, particularly those which represent a category of heritage which is not unique, the existence and bequest values are probably less significant. For example, as a member of a local community, an individual may derive benefits from the conservation of a sandstone bank. However, the knowledge that this is one of many bank buildings conserved around the country would tend to diminish the existence and bequest values attached to that particular bank.

Information asymmetries

As stated by the Chairs of the Heritage Councils of Australia and New Zealand:

¹ Recall that existence values arise because people have the option of visiting a historic heritage place (whether or not they actually do so). Bequest benefits arise from the knowledge that a historic heritage place can be passed on to future generations.

Information asymmetries occur when one party in the market, usually the buyer, does not have sufficient information about the good they are considering purchasing, or the actions of the seller, to make a decision in their best interest. (sub. 187, p. 5)

It has been argued that information asymmetries may be problematic in the market for historic heritage conservation:

There are a number of characteristics of heritage goods that increase the risk of information-related market failure. In particular:

- heritage is a difficult attribute to define in any absolute way (and is often related to tastes and values), and as such can also be difficult to identify and value within a good, such as a house. For instance, a purchaser of a house may be informed that the house does or does not have heritage value, but it may be relatively difficult to assess this claim; and
- heritage places tend to be large, one-off or low frequency investments where the purchaser cannot necessarily rely on previous experience to determine the quality of the good. (Chairs of the Heritage Councils of Australia and New Zealand, sub. 187, p. 6)

In circumstances where a seller has more information about the quality of a good, adverse selection can occur. This type of market failure arises when buyers are aware that quality differences may exist but are uncertain which sellers are offering high quality products and which are offering low quality products. As a consequence, the likelihood of receiving a low quality item is factored into the market price. As the price declines, high quality sellers may leave the market, perpetuating a cycle of declining quality and prices until only poor quality remains and, potentially, the market ceases to function (Akerlof 1970). The Chairs of the Heritage Councils of Australia and New Zealand (sub. 187, p. 6) considered that the market for historic heritage places may be susceptible to such adverse selection.

However, the potential for market failure only arises where markets are unable to develop mechanisms for signalling quality. Warranties, guarantees and independent pre-purchase quality assessments are all mechanisms by which the buyer can receive information about product quality. Hence, it is not clear that asymmetric information would lead to significant market failure in the market for historic heritage places. Potential buyers can have the heritage values of a place evaluated by a heritage expert in exactly the same way as its structural soundness or energy efficiency. Organisations such as the National Trusts and the Royal Australian Institute of Architects maintain lists which provide information on the heritage values of some places.

While it is true that heritage attributes have more subjective elements to them than structural integrity or energy efficiency, it is also the case that there are objectively verifiable aspects of heritage (such as date of construction, history of occupancy,

and architectural style). An informed potential buyer can assess the value of two competing heritage places in exactly the same way as other attributes might be assessed between two competing properties (for example, whether a second bathroom or a double garage is more important to that buyer). The success of real estate markets lies in their ability to encourage potential buyers to reveal their valuations. Throughout the sale process, the seller has important incentives to reveal the valuable characteristics of the property; the potential buyer has equally strong incentives to verify these characteristics.

It may be that, as a result of this process, the potential buyer (or seller) reaches a different conclusion about heritage values than a heritage expert would have. However, this is not necessarily indicative of market failure. It may simply reflect the inherent subjectivity of defining heritage values.

Information asymmetries can be reduced by greater dissemination of information. Non-government organisations, such as the National Trusts, play an important role in this. Listing, when undertaken in a rigorous way, can reduce buyers' information gathering costs. However, when it is associated with use-restrictions (as it is with statutory listings) and a potential reduction in property value, the listing can prove counter-productive as sellers disguise or destroy heritage values to prevent listing or expend resources to remove the property from the list. Under these circumstances, the decline in property values, and consequent reduction in incentives to conserve, can be viewed as a government, rather than market, failure.

Markets fail to adequately consider the interests of future generations

According to the Chairs of the Heritage Councils of Australia and New Zealand:

An important aspect of historic heritage (in common with other types of heritage) is that intergenerational externalities are present (i.e. the actions of current generations result in spillover impacts on future generations). While the degree to which future benefits and costs should be discounted is controversial, a fundamental premise of heritage conservation is that heritage should be preserved for future benefit. If we accept that this includes future generations, then intergenerational externalities must be considered in choosing appropriate policy action. (sub. 187, p. 6)

Similarly, the ACT Heritage Council noted:

... the principles of intergenerational equity (heritage being for the current and future generations) would be lost in an unregulated market focussed on short-term returns. (sub. 147, p. 1)

Australia ICOMOS also questioned the ability of markets to pass on cultural value to future generations:

Historic cultural heritage is typically characterised in both statute and practice as value for future generations as well as for the present community. However, its concurrent role as potentially developable real estate does not necessarily accommodate this inter-generational perspective. Property owners, whether private or corporate, are ultimately investors who can take a myopic view and, in many cases, do not consider, let alone seek to retain, what may be of value to future generations, in an unregulated context. (sub. 122, p. 9)

The Australian Council of National Trusts noted:

If one supports the concept that in effect the conservation of heritage is the recognition that we all have a shared responsibility to take forward what we value today into the future, what we're really espousing and adopting is a principle of inter-generational equity ... when one is focusing on the values or the disadvantages of a heritage regime being placed over the heritage we have today, we are in a sense making a decision not just for our own generation but for future generations. (trans., p. 379)

In the event that the preferences of future generations coincide with the preferences of current generations, this argument can be viewed as an extension of the externalities argument outlined above. The benefits from the listing would not only be those accruing to the current generation, but also to all future generations.

However, it is much more difficult to sustain the argument that governments should intervene to anticipate the preferences of future generations. Governments may be no more successful in divining future preferences than markets. Indeed, they may face less incentives to cater for future preferences. Markets encourage owners to invest in attributes which may be considered valuable to future purchasers and users of a place, whether the purchasers and users are in the current generation or the next.

A useful reminder of the role that markets play in catering for the needs of future generations (albeit, at a less than optimal level) is the fact that the overwhelming majority of historic heritage places existed prior to explicit government involvement in historic heritage conservation and were therefore conserved through private initiative.

Where this source of market failure is identified it is also important to recognise that there are opportunity costs involved in conserving for future generations in the same way that there are opportunity costs involved in decisions to conserve for current generations. A decision to conserve a place, rather than put it to alternative uses, not only has immediate costs in terms of the forgone development opportunity but may

also prevent a development which would be considered heritage by future generations.²

The Tasmanian Government identified the costs and benefits involved in securing historic heritage places for future generations. It also noted that community attitudes towards heritage can evolve:

Our heritage today is a reflection of the fact that previous generations have valued it enough to ensure it is maintained. This legacy and examples of more contemporary heritage add to the mixture of heritage places, and places an onus in turn to protect it for future generations. This introduces a notion of cross-generational benefits and costs that also need to be recognised. Community and government priorities may also change over generations, resulting in different emphases on the kind of conservation, the priorities in heritage and the amount of funds allocated to such conservation. Infrastructure and administration costs are not necessarily small and have an impact on individual owners and local government in particular. (sub. 136, p. 13)

Similarly, the Department of the Environment and Heritage identified the potential for community attitudes towards heritage to change:

... with rising incomes, advances in knowledge and education and shifts in social attitudes it can be expected that there will be changes in the way in which the Australian community views historic heritage. It is likely that such changes will allow for new approaches to the conservation of historic heritage. (sub. 154, p. 51)

Establishing the case for government involvement

The case for government involvement must be based on a rigorous assessment of the relevant benefits and costs, including social benefits and the costs imposed on private owners by government intervention. Establishing that there is a divergence between social and private benefits in historic heritage conservation does not, of itself, establish the case for government involvement:

The mere fact that market failures are present in the historic heritage market is not justification enough for government intervention. Markets operate all the time in the presence of failures, buyers often have more information than sellers and most transactions have consequences for third parties, and yet governments do not intervene. This is because government intervention is not without cost. Intervention to correct the shortfall in the provision of historic heritage can only be justified where the benefits of intervention outweigh the costs. (Department of the Environment and Heritage, sub. 154, p. 53)

² For example, Bennelong Point, the site of the Sydney Opera House, was also the site of Fort Macquarie and later the site of a tram depot. Had the site been conserved on the basis of its historic use, the Opera House (which is soon to be nominated for inclusion on the World Heritage List) may not have been built on that site.

That is, it first has to be established that government involvement increases the social value of heritage conservation above that which would otherwise occur. In particular, government-initiated conservation activities only represent a social benefit to the extent that they would not have been voluntarily undertaken by the private sector. Similarly, financial assistance paid to individuals and businesses to undertake heritage conservation is not part of the benefit of government involvement if the conservation would have occurred anyway. It is simply a transfer from taxpayers.

Second, once the benefits of government participation are identified, it needs to be established that these benefits exceed the costs of government involvement. Among these costs are those associated with raising the funds used to subsidise heritage conservation and the costs to property owners arising from use restrictions or limits to structural modification placed on heritage buildings.

In cases where heritage conservation is not judged to be privately viable, government involvement may be justified either through financial assistance to make the project viable, or if the private benefits are small, by direct public conservation activities. Ideally, provision of financial assistance should also be sufficiently well targeted to ensure that commercially viable conservation projects are not recipients.

For example, community-based solutions may be found, with or without government involvement. The Victorian Government provided an example of a heritage building which, because of community pressure, was not demolished. The local community is currently raising funds for its preservation, to which the Victorian Government will also contribute:

The enthusiasm residents feel for significant places within their communities is most clearly demonstrated when places come under threat of demolition. A recent example that demonstrates this is the House of the Gentle Bunyip in Clifton Hill, which was saved from demolition by a strong community campaign over a number of years. The perseverance of the community demonstrated their aspiration to preserve local character and resulted in the retention of the house, which contributes to the social capital of the area. This example provides clear evidence of the social benefits that can be attained through heritage conservation. (sub. 184, p. 8)

However, the conclusion that the overall level of historic heritage conservation, resulting from private decisions, is less than the level which would maximise net benefits to society does not, of itself, imply that government involvement is warranted. Governments should become involved only if the benefits (both tangible and intangible) exceed the costs of that intervention. Since public assistance should be directed towards projects which are not commercially viable, and would not otherwise be undertaken by the private sector, the case for government involvement

will normally be based on consideration of the more intangible benefits of heritage conservation.

6.3 Assessing government policies

As discussed above, the socially optimal outcome is to ensure that conservation of historic heritage places occurs up to the point at which the extra benefits (inclusive of all community benefits) from such conservation equal the additional costs of their provision.

In those cases where existing government policy constrains private conservation effort, the efficient response of government may be to simply remove the policy distortion. Where private costs and benefits are affected by a lack of information or high costs of information, there may be a possible role for government in improving the dissemination of information (for example, in the provision of planning advice).

Where the problem is caused by a divergence between social and private benefits, policy intervention is more problematic. Government attempts to increase provision of an underprovided good may have unintended consequences for the incentives of those private decision-makers undertaking that provision. For example, financial incentives provided to the private sector may lead to individuals understating their willingness to undertake the conservation in order to receive a government subsidy. Under these circumstances, the government is effectively paying for work which would have been undertaken anyway.

Governments may intervene in a number of ways:

- identifying historic heritage places;
- articulating the heritage values of places so-identified;
- protecting these heritage values by placing use-restrictions on identified places (for example, preventing certain types of modifications to the property);
- provision of financial incentives; and
- management of their own historic heritage places.

Box 6.3 outlines some of the efficiency considerations in designing optimal policy interventions.

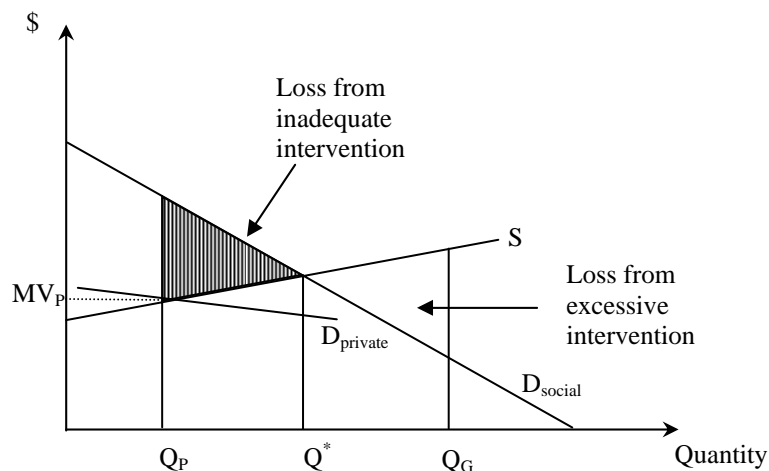
Financial incentives

Governments at all levels provide financial incentives for the conservation of

Box 6.3 Optimal policy intervention

In the stylised situation depicted in figure 6.2, private owners (considering only the private benefits and costs) will conserve up to Q_p . Further conservation activities, while desirable from the viewpoint of society as a whole, will not be undertaken because owners lack the incentives to do so. Provided the costs of government intervention are sufficiently low, there may be a role for governments to increase conservation activities.

Figure 6.2



Policy intervention which increased conservation undertaken from Q_p to Q^* would produce a net social benefit (equal to the shaded triangle). This could be brought about through:

- a subsidy (the efficient level of which is equal to the difference between marginal private benefits and marginal social benefits at Q^*);
- conservation activities directly undertaken by the government; or,
- regulations requiring private owners to undertake conservation activities.

Each of these policies has a cost. Subsidies and publicly funded conservation require expenditure of taxpayer funds which could be put to an alternative use. To be optimally implemented, these policies also require full knowledge of all relevant costs and benefits.

Financial incentives

Efficiency considerations suggest financial subsidies should only be paid to those places which would not be optimally conserved in the absence of consideration of their social value. In terms of figure 6.2, all places which have a private marginal valuation greater than that associated with Q_p (MV_p) have sufficient private benefits to ensure their ongoing conservation. It is only for conservation levels greater than Q_p , that the

(Continued next page)

Box 6.3 (continued)

divergence between social and private benefits leads to an inefficiently low level of conservation.

Regulation

Coercive regulation, intended to increase private conservation activities, may diminish private property rights. Not only does this represent a potential income transfer from an individual owner, it may undermine incentives for future private conservation undertakings. Where the costs of conservation are high in comparison to the benefits, a net social loss may arise. This outcome is more likely where costs are not fully accounted for. Under such an outcome, social welfare may be lower than it would have been in the absence of government intervention.

In terms of figure 6.2, governments would attempt to coerce private owners to undertake conservation activity up to Q^* . For some owners, specifically those with marginal benefits in excess of MV_p , the imposition of a coercive regulation of this type would not represent an undue burden because the private benefits of conservation exceed the costs.³ For owners with a lower marginal valuation, however, such a policy would represent an impost because they are required to undertake conservation for which the net benefits to them are negative.

Aside from the equity considerations arising from owners being coerced into providing benefits for others, the efficacy of such a policy requires the government to know the optimal level of conservation. This, in turn, requires rigorous assessment of all costs and benefits. In figure 6.2, if the government overestimates the optimal level of conservation, for example to Q_G , this will produce a net social cost (represented by the unshaded triangle between Q^* and Q_G and bounded by the social demand and the supply curve).

historic heritage places. Grants are the most common form of assistance. Grants are intended to offset direct conservation expenses and will typically be awarded in amounts less than the total cost of the conservation work. Governments also provide financial assistance through rate rebates, land tax revaluations and concessional finance. Advisory services may also be offered free of charge.

Governments may also jointly offer financial assistance. For example, the Melbourne Heritage Restoration Fund was established as a non-profit joint venture between the Victorian State Government and the City of Melbourne. This fund offers free conservation advice to owners, low interest rate loans for restoration or reconstruction works, grants for conservation work (offered as a

³ Although it could be argued that the introduction of such a policy might decrease the attractiveness of owning heritage places and thereby lower private rates of return. The issue of dynamic efficiency is discussed below.

proportion of the work undertaken) and grants to assist in the development of conservation management plans (City of Melbourne, sub. 18, p. 1).

Financial incentives may be difficult to target since it may not be possible to distinguish between those private owners who require incentives to undertake conservation and those who do not. There may also be equity and political considerations which suggest that any government assistance for historic heritage conservation should be made more generally available.

An income tax rebate for historic heritage conservation works was available from 1994 to 1999. According to Environment Protection and Heritage Council (2004, p. 7), it was abolished partly because of a National Commission of Audit finding that tax rebates were less ‘transparent’ and ‘accountable’ than direct financial assistance.

Regulation

Having identified historic heritage places worthy of conservation, based on their perceived benefit to the community, governments may restrict the use of those places as a means of ensuring the preservation of their historic value. The Chairs of the Heritage Councils of Australia and New Zealand identified the nature of regulation in historic heritage conservation:

... regulatory policy instruments use laws or other government ‘rules’ to influence the way that people behave. Regulation essentially involves ‘control of behaviour by directive means, imposed by an authority asserting the state’s role when private behaviour may not be in the public interest’. Regulatory instruments differ in their approach to other instruments in setting a requirement of action, and establishing negative consequences to not complying with this requirement (i.e. rather than purely setting an incentive for action, as with spending instruments). (sub. 187, p. 10)

Where such restrictions are imposed on privately-owned historic heritage places, the potential for encroachment of private property rights clearly arises (box 6.3). In the words of one participant:

... there is a question of principle. Is it correct for owners to have their property rights expropriated without compensation, through an arbitrary and capricious system? Certainty is a cornerstone of the law, yet owners can never predict what will next make the list ... This injustice infects community attitudes. It is easy to support listing something that ‘it would be nice to save’, when the entire cost is borne by the poor soul who owns it. Heritage becomes theft. (Alan Anderson, sub. 185, p. 2)

The issue is not simply one of equity. If those who receive the benefits of regulations on property use — and make the decisions on which properties should be regulated — do not also bear the costs, insufficient consideration of these costs is

likely to occur. Consequently, government intervention (especially regulation) to ensure a socially optimal level of conservation needs to fully reflect not only all the benefits, but also all the costs, involved.

In short, where incentives are not appropriately aligned, there is a commensurate reduction in the likelihood that a socially-optimal level of regulation will occur. Where the recipients of the costs and benefits differ in this way, it is important to have in place a rigorous process for assessing the costs and benefits of limiting private property rights.

Throsby (1997, p. 20) distinguished between ‘hard’ and ‘soft’ regulation in heritage conservation. ‘Hard’ regulation by government ‘comprises enforceable directives requiring certain behaviour’.⁴ Essentially, this kind of regulation involves legal restrictions on use and disposal of listed historic heritage places.

‘Soft’ regulation are policies designed to encourage socially optimal policies on the part of owners. Voluntary covenants on a property fall into this category. These agreements can be very specific and therefore able to allow for variations in local conditions. However, the transactions costs can be high when governments undertake negotiations with large number of property owners with a diverse range of historic heritage places. These transactions costs can be reduced by a clear articulation of the heritage values of the place and the use of standardised agreements. As noted below, negotiated outcomes have the advantage of encouraging both parties to a bargain to reveal information about their costs and benefits.

Regulation may not be able to encourage positive outcomes

There are also limits to the ability of governments to ensure that conservation is carried out. Regulations are typically implemented in a reactive fashion. That is, they are intended to prevent the destruction of the historic fabric of a place through substantial modification or demolition. While local government planning rules can prevent owners from converting a historic heritage place to an alternative use, governments typically have limited, or no, power to prevent ‘benign neglect’ under which insufficient resources are devoted to the maintenance of the property. For example, the City of Sydney acknowledged that governments may have limited ability to prevent the occurrence of this type of neglect:

... the other pressures that face the city in conserving historic places, the impact is largely seen by demolition by neglect due to a lack of maintenance of historic

⁴ In terms of general public policy, ‘hard’ regulation is often referred to as ‘command and control’ regulation (see chapter 7).

properties. The city faces pressure from owners who are letting buildings deteriorate and arguing that they need to have a development on site, which will then fund the restoration. This often leads to a subdivision of properties and inappropriate developments being placed beside historic items ... The curtilage consequently is lost in the process. Inappropriate developments can often be placed against significant heritage items. Their context and significance is diminished ... The city is really not in a situation to be able to deal with either the demolition-by-neglect process or, now, the potential loss of curtilage in a very easy manner ... (trans., pp. 1043–4)

Over time, insufficient maintenance may lead to irreparable damage to the historic fabric that gives the place its heritage significance. In general, there are significant practical limitations to governments conserving through regulation:

Overall, the prospects for successful regulation of the available stock of cultural heritage objects are not too good. But while ineffective rules are stubbornly maintained or nonchalantly broken, unique objects disappear daily. (Hutter 1997, p. 8)

Indeed, coercive regulation may also lead to perverse outcomes where owners destroy the heritage value of a place to prevent its listing and subsequent coverage by regulation. Richard Epstein, Professor of Law at the University of Chicago, noted some of the potential perverse effects of endangered species protection policy in the United States:

With respect to the current system of habitat designation, one important point is that loss of habitat *prior to* designation carries with it no adverse legal consequences. The anticipation effects in this market are therefore enormous. If there is any sense that private land will be subject to controls, then the best strategy for the owner is to destroy the habitat before it becomes protected: ‘shoot, shovel and shut up’ becomes the war cry. It may not work in all cases. Sometimes the habitat is too valuable to the owner; sometimes it is connected with the property rights of other individuals ... Absent strong ownership rights, the unmistakable incentive remains in all cases: destroy habitat now in order to preserve freedom of action later. (1996, p. 45) [emphasis in original]

Epstein further argued that, instead of quarantining designated habitats from alternative uses, negotiated solutions between governments and land owners could enable the owner to continue to derive benefits from land ownership while also ensuring the desired conservation outcomes:

Yet all that is lost because there is no negotiation to be had since the government is still in designation mode. Instead the critical variable is one which has the private owners ... lobbying government to make sure that designation does not take place, or at least does not take place quickly. So designation systems have two substantial costs: one is destruction before designation, and the other is the use of the political process to deny, delay or deflect the designations that might come. (1996, p. 46)

By limiting owners' property rights, coercive regulation can undermine longer-term conservation incentives for owners (who are typically best placed to undertake the conservation):

... When people can decide how to use their own property and can be confident of gaining returns from investment in their property, they have a greatly increased incentive and capacity to discover more effective uses of assets, indeed, to discover new assets. Decision-making is put in the hands of those most likely to be knowledgeable about the asset and with a direct incentive to extend and use that knowledge.

The more uncertain property rights are, either in their extent or security, the less incentive there is to invest in finding better uses for resources, particularly over the long term. Insecure ownership effectively raises time discount rates. (Hartley 1997, p. 450)

While there can be partial compensation for the loss of property rights implied by 'hard regulation' (such as grants for maintenance or rates rebates and concessions), the present value of these may be small when compared to the potential for capital losses in property values arising from the regulation (the issue of the impact of regulation on property prices is discussed below).

Negotiation to solve market failure

Coase (1960) recognised that regulation was not the only means of correcting market failure associated with externalities. Where transactions costs are small compared to the potential gains from reaching agreement, an allocation of property rights could result in a socially-optimal outcome as the parties affected by the externality negotiate a mutually-acceptable outcome.

Transactions costs are the costs involved in negotiating and enforcing agreements between the parties. These costs will typically be lower when there are fewer parties to the negotiation and where agreements can be designed to minimise the impact of opportunistic behaviour by any party. In contrast to regulation, incentives can be negotiated into the agreement to encourage the parties to contribute to a mutually successful outcome. This, in turn, can reduce the monitoring and enforcement costs associated with regulation.

The allocation of property rights to enable the affected parties to negotiate over outcomes has been successfully applied to the allocation of water rights; rights to pollute; access to common property resources such as fish stocks; and protection of endangered species.

In the case of historic heritage, where property rights traditionally rest with the owner, governments could represent the community interest in negotiating

conservation outcomes with private owners. Mutually-acceptable outcomes would be achieved whenever the community benefits of conservation exceed the costs (inclusive of any negotiation costs). If the beneficial externality from historic heritage conservation is small compared to the benefit accruing to the owner, only minimal, or no, incentives may have to be offered to ensure an optimal outcome. In cases where the public benefit is large, and the benefit to the owner is comparatively small, more substantial inducements may have to be offered.

If the valuation of the community benefits, as expressed through the government's willingness to pay for conservation, is less than the net conservation costs to the owner, no agreement will take place. Thus, the agreement process embodies a benefit–cost test. A successful negotiation will also ensure that the conservation activities are undertaken by the party capable of undertaking them at the lowest cost. Given that most historic heritage places are privately-owned and used, this will typically be the owner.

Government ownership of historic heritage places

Governments can lead by example through the management of their own historic heritage places. In most cases, examples of iconic heritage, whose primary values are the cultural benefits they endow on the community, are in public ownership (and likely to remain so). In other cases, the public sector manages historic heritage places for which the heritage value can be secondary to a functional use (historic courthouses, schools and town halls are examples) (Australia ICOMOS, sub. 122, p. 12).

In addition to conserving iconic places with extensive community benefits, governments may also have an appropriate role in conserving places with little private use-value. Examples include historic bridges, industrial sites and sewage sites. However, conservation of these types of heritage assets will still entail costs which need to be considered when deciding whether to retain the asset in public ownership (chapter 8).

6.4 Measuring the benefits of historic heritage conservation

The case for government intervention rests primarily on the desire to ensure that the community benefits associated with historic heritage places are provided at a socially optimal level. As discussed in chapter 2, these benefits may arise from the use of the place (for example, in the provision of a public service, as a basis for tourism or as an educational resource) or they may arise for more intangible

reasons, not associated with the use of the place (such as existence values or the ability to pass it on to future generations). The intangible nature of these benefits can make their measurement problematic:

... nonuse values ... are difficult to measure because the commodities being valued are not traded in markets, nor are individual actions affected by the particular nonuse values. Thus, even if some people have preferences that imply nonuse values, it is difficult to put a price tag on something that is never traded and does not affect individual actions in the normal manner. (Diamond and Hausman 1993, pp. 3–4)

This implies that a rigorous process of eliciting community valuations may be necessary to ensure that a socially desirable level of conservation is achieved and the level of government involvement is appropriate. Koboldt cautioned against accepting claims about the benefits of historic heritage conservation at face value:

... the external benefits commonly ascribed to the existence and use of cultural heritage have to be analysed very carefully and suspiciously, as the arguments more often than not are intended to justify public funding and are, therefore, results of rent-seeking behaviour rather than serious analysis. (1997, p. 57)

Issues in the measurement of benefits associated with historic heritage places

A number of participants in this inquiry have suggested that the Commission derive an estimate of the total value of historic heritage places. For example, the Australian Council of National Trusts (ACNT) presented the view that:

... the Commission would fail in its duty if it did not undertake an evaluation of the value Australians place on the preservation of their heritage (or at least recommend that such an evaluation be undertaken). The ACNT believes that such an evaluation will show the value is well above the direct valuation witnessed by such measures as income from visitations to heritage places. (sub. 40, p. 101)

Aside from the question marks over the accuracy of such data in representing community valuations (see below), there are also very serious concerns about the relevance of such a construct for policy making.

Invariably, attempts to measure community valuations of heritage, focus on attitudes towards iconic historic heritage places, such as the Royal Exhibition Building in Melbourne. However, the value and significance placed on these iconic items by the community is such that their continued conservation is normally beyond doubt. It is at the margin, where the benefits of places proposed for heritage designation will typically be finely balanced against the costs of conservation, that policy potentially has the greatest impact (the issue of public funding of iconic historic heritage places is discussed in chapter 8). If marginal cases are assessed in a

way that ensures the benefits (including all community-based benefits) exceed the costs, then a policy intervention which is necessary to ensure conservation should produce a net benefit.

Clearly, not all historic heritage places will have the same heritage value. Some places will be highly significant (and in some cases, be regarded having 'outstanding' heritage value (Australia ICOMOS, sub. 122, p. 100)). Others will be regarded as less significant. Some places will have primary significance to a certain group within the community, while others will have more general appeal.

Community attitudes are subject to change

In a physical sense, the stock of historic heritage places cannot be added to. By definition, these are places whose importance derives from their association with events in the past. With the passage of time, however, some places which were previously not regarded as of heritage value may be viewed by the community as having cultural importance. The reverse might also be true. Places which were once thought to be culturally significant could have their status altered with a change in community attitudes. According to the National Trust (NSW):

Listing cannot be comprehensive at any given point in time and ... our perceptions of value will alter over time. During the early years of the 20th century the Georgian Society in the UK deplored anything Victorian in design. That Society is now the Architectural History Society and no longer holds such prejudices. The National Trust is also regretting some decisions it made not to list in the early 1960s items whose loss is now deeply regretted such as the Regent Theatre in Sydney which was considered 'too recent' to list at that time. Time gives us a perspective that nothing else is able to do. Buildings of the 1960s however are in that transition time of being very recent to someone in their 70s but ancient history to someone in their 20s or 30s. (sub. 180, p. 2)

For policy purposes marginal valuations are important

When analysing 'heritage value' it is important to distinguish between the total value of all historic heritage places and the marginal value of listing one more place. As with any other 'good', the marginal value of heritage declines as more and more of it becomes available (box 6.1).

The total valuation of the existing stock of historic heritage places provides little, if any, relevant information about marginal places which might be added to the stock. The Sydney Opera House, for example, has outstanding cultural value. There would be close to total (if not complete) unanimity in the Australian community about its iconic status and the need for its preservation. However, a decision to list the Sydney Opera House does not usefully inform the decision as to whether or not to

list, for example, a suburban house whose potential significance derives from the fame of a person who once lived there or the architect who designed it (and, perhaps, many other houses).

The nature of the benefits is also likely to differ between types of historic heritage places. While iconic heritage items might fairly be said to have substantial existence and bequest values, the same would be more difficult to argue for lesser known historic places.

A number of factors determine the cultural value of historic heritage places. Historic heritage places which are scarce, or represent a category of heritage which has largely vanished, are more likely to be highly prized by the community. Scarcity value can also increase the return to private ownership.

It might also be argued that there is a ‘network externality’ present by which, up to a point, the identification of more historic heritage places raises the profile, and hence the community valuation, of the existing stock. In the words of the Chairs of the Heritage Councils of Australia and New Zealand:

The consumption of heritage is often a ‘shared experience’ so that, as more individuals ‘use’ heritage places the greater is the collective benefit of these places and their contribution to the common heritage value in a community. As a result, the proliferation of heritage knowledge and experience leads to common heritage value, social identity and cultural continuity. (sub. 187, p. 3)

A thematic approach to listing might create synergies between historic heritage places and have the effect of further raising the profile of these places. Of course, adding places which are not regarded by the community as having historic merit could have the opposite effect.

Complexities of historic heritage benefits suggests that the policy framework needs to be flexible

The complexities involved in assessing the benefits associated with historic heritage places strongly suggest that a ‘one size fits all’ approach by government would lack sufficient flexibility. The Chairs of the Heritage Councils of Australia and New Zealand, noting the inherent heterogeneity of heritage values, commented on the characteristics of appropriate policy intervention:

In thinking about the broader range of policy instruments to employ there is a temptation to embrace more market focused instruments, as has happened in the field of natural heritage protection. While less coercive, and hence likely to engender greater community support (an important goal given the public perceptions associated with listing), the scope for such a shift is more limited than in the natural heritage context. This is because:

-
- the level of homogeneity associated with heritage assets is often considerably lower than the homogeneity associated with the natural environment assets, and so there is not sufficient commonality to create a market of like assets; and
 - it is often difficult to specify the heritage outputs. For example, while the concepts of ‘condition’ and ‘integrity’ are used to classify heritage outcomes, there appears to be considerable potential for variation in interpretation.

As a result of these limitations, market-based policy instruments should not be seen as a default solution to the market failures associated with heritage places. Rather, market-based instruments should be seen as complementary tools in a broader suite of policy instruments. (sub. 187, p. 12)

However, the Commission believes that the existence of such heterogeneity, and the problems associated with measuring heritage values, are precisely the reasons why market-based solutions **should** be sought. Broadly speaking, market-based solutions are mechanisms by which the true costs and benefits to those involved in an activity are elicited.

Where governments intervene to restrict private property rights there may be no explicit mechanism for assessing the costs imposed on owners or for identifying the community benefits that governments are seeking to maximise. As discussed in above, it can often be a simple allocation of property rights which establishes the possibility of negotiating a mutually advantageous outcome. The identification of the costs and benefits to all parties (and consequently the extent of any mutual gains) is fundamental to any negotiated outcome.

In chapter 9, the Commission outlines a policy framework that encourages governments to be more explicit in weighing the added costs faced by owners with the expected extra community benefits when listing privately-owned places. Such a framework would also overcome the problems associated with community objections to coercive regulation (identified above by the Chairs of the Heritage Councils of Australia and New Zealand) and the difficulties arising from owners disguising or destroying heritage values in order to prevent listing.

6.5 Measurements of heritage value

There are a number of methods of quantifying the benefits of conserving historic heritage places. Observed differences in property prices may reflect heritage value to owners (‘hedonic pricing’). Choice modelling and contingent valuation methods can be used to estimate the value that the community places on historic heritage places.

Does listing increase property value?

The issue of whether heritage listing increases or decreases property values is a contentious one. A number of participants argued that listing will generally increase a property's value as potential purchasers are made aware of its heritage attributes.

The Chairs of the Heritage Councils of Australia and New Zealand (sub. 187, p. 16) quoted a study indicating that real estate agents did not believe that listing had a significant impact on property values and heritage attributes would generally be regarded as a positive attribute in selling a property. Both the National Trust of New South Wales (DR trans., p. 7) and Gary Vines (sub. DR198, p. 13) found evidence of heritage-listed properties being advertised for sale. The National Trust of New South Wales also quoted evidence from real estate agents that 'heritage' or 'historic' values could be positive for a marketing campaign.

Vinita Deodhar submitted that, based on evidence from the Ku-ring-gai Local Government Area:

On average, listed houses were found to have a 12% premium over unlisted houses after controlling for variations in property and location attributes. A statistically significant positive relationship was found to exist between heritage/cultural value and sale prices. (sub. 22, p. 1)

Summarising previous empirical studies, Dr Lynne Armitage and Janine Lyons concluded that the evidence did not indicate a strong relationship between listing and property values, although where neighbourhood amenity was likely to be preserved through the listing of a heritage precinct, there was greater likelihood of a positive relationship:

The effect appears generally marginal for residential property when taken as a whole — although the evidence indicates a tendency for the direction of value movement to be positive as opposed to negative — particularly where entire precincts are involved — though significant upside or downside value movements may be associated with individual cases. It may be surmised that there is a stabilisation effect occurring where heritage controls are being introduced within districts/neighbourhoods/precincts.

The effect of certainty may account for the positive influence on the property market's expectation of statutory intervention: owners are accorded greater protection particularly from future development; there is the expectation of increased consistency and greater certainty with the character of the area legally protected. With development and redevelopment tightly controlled, it may be more difficult for governments to neglect heritage listed precincts in residential areas with regards to the provision of services and infrastructure. (sub. 182, p. 11)

Statutory lists are, however, more than a 'signpost'. As discussed below, in addition to providing information, they also impose restrictions on use of the property. The restrictions may reduce the attractiveness of the property to future buyers.

Development controls associated with listing may reduce property prices

Other participants, however, argued that, since listing brings with it restrictions on the use of a place and its potential for redevelopment, inclusion on a statutory list may actually reduce value. Robert Clark noted the potential for heritage listing to restrict future development potential:

A major problem exists where an earlier building is listed as a heritage item in the midst of an area that has become zoned for higher density. The heritage item represents the low density of a much earlier, perhaps the first, phase of development and is by virtue of a heritage listing denied any chance of obtaining an equitable outcome in terms of the development potential of the site. (sub. 55, p. 1)

John Boyd (sub. 8, p. 2) obtained a property valuation which suggested that the value of his place could be reduced by around \$120 000 (or about 17 per cent of its current market value) if it was included on the local government list or the State heritage list. One owner of a heritage listed property commented that costs associated with listing provided a diminished incentive for ongoing conservation:

As soon as a modest property is heritage listed it loses sale value because few people are prepared to accept the financial burden for caring for something that, in effect, is really not totally their own (ie. they are regulated as to what they can do). I see the benefits in having regulations but there has to be some tradeoff or benefit to the owner also to keep the property in appropriate condition. (Margrit Stocker, sub. 3, p. 3)

Similarly, Saman Rahmani provided a valuation which indicated his property could be expected to decline in value by \$170 000 (or 22 per cent of the current value) (DR214, p. 3). The Commission received submissions from other participants who were concerned about the impact of listing on the value of their homes (Lou Parke sub. DR285; Noel McIntosh, sub. DR383; Nicholas Braithwaite, sub. DR402).

The Urban Development Institute of Australia, Western Australian Division (UDIA) expressed the view that listing generally had a negative impact on long-term property values:

... in regards to the impact of heritage listing on property values industry is of the view that the direct impact of listing is limited over the short term however it generally has a negative impact on value over the lifecycle of an asset, due to restoration and maintenance issues:

- Short-term impact – generally none
- Medium-term – maybe negative
- Long-term – negative

Heritage listing does, however, have a negative economic impact on the development potential of a site which has direct cost implications due to additional time, resources

and requirements necessary to obtain development approvals for heritage properties. (sub. 83, p. 2)

The UDIA acknowledged the benefits that could arise from the ownership of a historic heritage place:

In regards to additional marketing opportunities that might arise from the development of heritage properties it is evident that there is a sector of the market which appreciates and is attracted to the type of property which might be heritage listed, at whatever level. (sub. 83, p. 2)

Ultimately, whether listing has a negative impact on a property owner may depend on the flexibility of the planning process:

If a heritage listed property is allowed to be redeveloped in a sympathetic manner, the impact of the listing may indeed be positive, however the answer to this question lies in the ability of the property owner to realise these benefits through the heritage approval process. (sub. 83, p. 3)

After conducting a review of studies on heritage values, Dr Lynne Armitage and Janine Irons concluded that:

A property's development/redevelopment potential ... is frequently reduced or removed altogether as a result of heritage control. This has an impact on the price which the property can be sold for after the listing has been established, or when the possibility of such control is perceived ('blight'). Whilst this negative impact is borne by the current owner at the time of listing, it will remain with the property whilst it is relatively constrained compared to property in a similar use and location. (sub. 182, p. 13)

These participants also submitted that the evidence suggested that a negative impact arising from development controls is, on average, more likely to be associated with non-residential property. Similarly, the Chairs of the Heritage Councils of Australia and New Zealand noted the potential for development controls to impose significant opportunity costs on owners of commercial heritage property:

... if a planning scheme allows construction of a 40 level modern building on the site of the same heritage office building then there will be a distinct one-off financial benefit for the owner in building a new building in place of the heritage building. (sub. 187, p. 17)

Other participants noted that the impact of listing on property prices might be difficult to determine. For example, while noting rises in property values in some of the city's heritage precincts, the City of Perth submitted:

... it has been acknowledged that the City of Perth does not fully understand what the impact of listing has on property values. This includes

- isolated heritage places and places within precincts

-
- whether heritage is more sustainable than conventional places
 - what has been the impact of capital expenditure in heritage areas on the prices of heritage properties.

The City of Perth has initiated this research to determine if the perceptions by property owners of heritage owners that they are economically disadvantaged is true. (sub. 67, p. 7)

The Commission has undertaken its own study of the impact of heritage listing on property prices in two Sydney suburbs (appendix C). That study concluded that heritage listing had not had a significant impact (either positive or negative) on property prices.

Studies of the impact of listing on general property values need to be interpreted cautiously when extrapolating the results to determine the impact on individual properties. Studies which focus on residential areas, where neighbourhood amenity is valued and development pressures are low, may find evidence of a positive impact of listing on market values. The City of Stonnington distinguished between the impact of an individual property listing and the listing of a group of properties within a heritage precinct or area:

Heritage overlay controls over historic streetscapes (in which the value of the heritage place derives from the cumulative significance of a group of early dwellings) can provide financial rewards to owners. The Gascoigne Estate in East Malvern for example, has enjoyed disproportionately high growth in property values in recent years. It was the first Urban Conservation Area in the former City of Malvern and has subsequently achieved sale prices which outstrip those of similar suburbs nearby which have been allowed to evolve in response to market forces. Heritage Victoria has spent some time and effort tracking property values in areas of this type and has produced an authoritative paper confirming that this is the case more generally. The Heritage Victoria paper contradicts the frequently-heard assertion that heritage overlay controls exert downward pressures on property values.

... The available evidence suggests that some buildings of individual significance (as opposed to those under a broader precinct control) may be less likely to benefit financially from heritage controls. There are suggestions that some property values can suffer where development or subdivisional opportunities are blocked by heritage controls. (sub. 81, p. 4)

The Ballarat City Council also identified the greater prospect for an increase in property values when a heritage area is listed:

All other aspects of the real estate market being equal, it has been found that individual land owners can benefit financially from heritage conservation as a result of increased property values, particularly where a high percentage of the built form in a particular area has been conserved. Land owners in such an area can benefit from increased land value created by the incremental upgrade of heritage places in their locality. There are perhaps less obvious financial benefits where a heritage place is more isolated from

other heritage places, unless the land owner has benefited through use of the building using its heritage value as a market edge (eg restaurant, hotel, night club, theatre or conference centre). (sub. 100, p. 4)

In studies of average price movements it may also be difficult to distinguish between the impact of listing, per se, and the effects of the existing heritage attributes. A Walter Burley Griffin designed property might be listed because of the significance of the architect. The value of properties designed by Burley Griffin might also increase at a faster rate than the market average. In this case, the decision to list is correlated with an increase in market value, but did not cause it. It was the intrinsic value of the property which resulted in its listing and also caused an increase in its market value. The Western Australian Division of the Property Council of Australia commented:

There are some suggestions that a "heritage" listing on a place can add to its appeal or value. *This perception is simply not correct.* This added value derives specifically from the character of the place, and in most instances the fact of listing the place on a register does nothing to change this.

In fact, a heritage listing on a well kept, well maintained place may well enhance the value of the neighbouring properties (in that it will ensure that the ambience of the neighbourhood is maintained - and thus contribute to the value of other places), but the listing itself will do nothing to add to the value of the property receiving the "privilege".

At best, a heritage listing will "maintain" value in a heritage area, by ensuring that the heritage values of that area are maintained. Again, the value here derives from the existing nature of the properties, not from any listing process. (sub. 165, p. 2) [emphasis in original]

With the potential for listing restrictions to impact differentially on individual owners, studies of average price movements may disguise some of the negative impacts on individual properties:

Whilst the literature tends to demonstrate the problems of identifying the precise impact of listing, this is due in part to the relatively limited impact it has on the value of most property — that with development potential being the notable exception. Overall movements in the property market are a response to changes in market fundamentals such as supply and demand for property or changes in the macro-economic environment. Such indicators will almost certainly have more effect on the market values of property in general than any restrictions imposed by listing. What listing does is to affect relative values and this means some owners are affected more than their neighbours. The problem is to measure this at a property specific level. Individual property valuations may be able to assess this but it is very problematic at the aggregate scale, except when public cost or benefit is being measured. (Dr Lynne Armitage and Janine Irons, sub. 182, p. 13)

How listing impacts on property values will depend on the extent to which development controls associated with listing impose opportunity costs and offset

any potential benefits of being accorded official heritage status. It is therefore necessary to distinguish between the certification role of listing, and its possible role in preserving future neighbourhood amenity, and any development and/or use restrictions. It may be the case that, where neighbourhood amenity is valued, heritage listing ensures the continued preservation of the neighbourhood's character and so enhances value. However, in cases where development pressures are important, the private costs of listing may outweigh the benefits.

FINDING 6.1

While under some circumstances (particularly where neighbourhood amenity is to be preserved) heritage listing can have a positive impact on property values, the constraints on development potential associated with listing can have a significant negative impact on the prices of individual properties (or parts of a heritage conservation area). The potential for owner's detriment to arise from development controls can differ significantly between properties.

Measuring community benefits

Contingent valuation

Contingent valuation methods ask respondents to state how much they would be willing to pay for conservation. This valuation includes use values, non-use values and any option or existence values. However, there may only be a negligible, if not zero, probability that the people interviewed will have to pay the amount they bid, which may lead to inflated valuations.

Contingent valuation may also produce inconsistent community valuations of the benefits of undertaking conservation. Diamond and Hausman (1994, p. 46) discuss the 'embedding effect' where individuals' valuation of, for example, removing pollution from an individual lake is greater than that associated with removing pollution from a group of lakes (in which the initial individual lake is included).

The theoretical and practical limitations of techniques for valuing non-market environmental benefits have meant that the political process is often relied upon to infer the community's demand for historic heritage conservation, at least at a very broad level. However, that a majority may favour certain policies does not necessarily imply that the benefits of that policy exceed the costs, particularly if it is the minority that is being required to pay. In other words, majority voting does not necessarily elicit relative willingness to pay.

Choice modelling

Choice modelling involves offering individuals a number of hypothetical options and gauging their responses. In addition to being offered choices, the individuals are also informed of the consequences of their choices. For example, choosing to conserve more historic heritage places could involve higher taxes. Box 6.4 outlines the choice modelling methodology used by the Allen Consulting Group in preparing estimates of historic heritage values for the Chairs of the Heritage Councils of Australia and New Zealand.

The choice modelling exercise, undertaken by the Allen Consulting Group, produced a number of willingness to pay estimates which are summarised in table 6.1. As part of this exercise, respondents were reminded that the choices they made could involve a (hypothetical) financial cost to themselves.

Table 6.1 Willingness to pay estimates

<i>Attribute</i>	<i>Annual price per person</i>	<i>Units</i>
Places protected	\$5.53	per 1000 additional heritage places protected
Condition of places	\$1.35	per 1 per cent increase in proportion of places in good condition
Age mix of places	-\$0.20	per 1 per cent increase in the proportion of places that are over 100 years of age
Accessibility of places	\$3.60	per 1 per cent increase in the proportion of places that are publicly accessible
Development control	\$39.50	Change from 'demolition permitted' to 'substantial modifications permitted but no demolition'
	\$53.07	Change from 'demolition permitted' to 'minor modifications permitted only'
	\$2.38	Change from 'demolition permitted' to 'no modifications permitted'

^a Based on an on-line survey of 2024 adult Australians.

Source: Chairs of the Heritage Councils of Australia and New Zealand, sub. 187, p. 27.

As highlighted by the submission of the Chairs of the Heritage Councils of Australia and New Zealand, a number of interesting points emerge from these willingness to pay estimates. The willingness to pay estimates indicate that, while respondents are supportive of development controls that prevent demolition, they are less supportive of restrictions which prevent owners from making any modifications to their property. There is a negative marginal valuation associated

Box 6.4 Choice modelling

Choice modelling involves eliciting a respondent's stated preference in a hypothetical setting. Used commonly in the natural resources field, and by consumer product companies when developing new goods and services, survey respondents are presented with several different sets of two or more resource use options and asked to indicate which option they prefer in each of these 'choice sets'. One of the resource use options usually corresponds to the do-nothing option and is held constant over all sets of choices. The levels of the attributes characterising the different options varies according to an 'experimental design'. In many valuation applications, one attribute always involves a monetary payment and there would typically be two or more attributes. By observing and modelling how people change their preferred option in response to the changes in the levels of the attributes, it is possible to determine how they trade-off between the attributes. In other words, it is possible to infer people's willingness to pay some amount of an attribute in order to achieve more of another.

The Allen Consulting Group survey presented respondents with a series of choice sets in which they were asked to indicate their preferred option. The attributes related to:

- the number of heritage places protected from loss (Places Protected) — one aspect of managing our heritage is to protect important places from being lost. Listing places on an official heritage register is one way of helping this to happen. But it does not guarantee against loss;
- condition and integrity of places (Condition) — this refers to the structural and physical soundness of a place and whether the place has been preserved in a way that is faithful to the original features of the place. Places in poor condition may become an 'eyesore' and a public safety hazard. Similarly, places that have been poorly restored and managed may not maintain their heritage character;
- the age mix of places (Age Mix) — this attribute is a measure of the proportion of listed places that come from different historical periods;
- public accessibility (Accessibility) — this refers to whether or not the public is able to visit a historic place and get a hands-on experience at the place (e.g., photography, guided tours, workshops, open days, etc). Accessibility is more than just being able to view a place. It includes the opportunity to get a deeper appreciation of the place's value and meaning;
- development controls (Development Control) — this attribute refers to the level of controls on development in and around heritage places (including buildings, gardens, monuments, etc). Some form of control is necessary to protect heritage places, but the level of control could vary depending on the heritage outcomes being sought; and
- the respondent's additional levy payment each year (Cost) — the amount of money that the respondent would be required to contribute each year via a levy to achieve the outcomes specified by a particular option.

Source: Chairs of the Heritage Council of Australia and New Zealand, sub. 187, p. 22.

with an increase in the proportion of listed properties over 100 years of age. In terms of the policy framework, this may be indicative of a tendency over the past two decades to overlist this type of property.

The Allen Consulting Group uses these willingness to pay estimates to value a hypothetical policy scenario in which an additional 8000 places are added to heritage lists around the country; there is an improvement in the quality of existing heritage places; improved accessibility; a reduction in the proportion of places over 100 years of age and an increase in development controls imposed on owners. The aggregate value of this hypothetical scenario, based on the willingness to pay estimates provided, would be \$1.4 billion. It is important to note that this estimate does not include the costs involved in achieving the policy changes (sub. 187, p. 29). An evaluation of policy changes of this type would need to consider the costs involved, particularly those imposed on private owners.

This ‘broad sweep’ approach to historic heritage conservation at the national level may be of limited relevance in the current policy framework which embodies the principle of subsidiarity and delegates decision-making to the relevant level of government. When deciding whether to expand their heritage lists, governments, at all levels, assess historic heritage places on a case-by-case basis. Under these circumstances, it is difficult to interpret the willingness to pay valuation (of \$5.53) placed on an additional 1000 heritage places. Does it apply to 19th or 20th century heritage? To residential or non-residential property? To publicly or privately-owned places? For example, the aggregate willingness to pay estimate for the Australian community is of little relevance to a council determining whether, or not, to conserve one of its historic buildings and forgo redevelopment of the site with a new structure better suited to the contemporary delivery of council services. As noted by the Chairs of the Heritage Councils of Australia and New Zealand (among others), heritage is a heterogeneous concept and the community valuation placed on it could be expected to vary with the nature of the place.

6.6 The costs of conserving historic heritage places

This inquiry has received a number of submissions detailing the higher maintenance costs associated with historic heritage places. Some of this is unavoidable — these costs arise because of the nature of the place (for example, it is older and hence may require more maintenance than a more recent building, or use more expensive materials and methods). Any owner of an old building — whether heritage listed or not — anticipates this. However, there is a very different class of costs that arises because of policy decisions (such as a listing process) which impose additional unanticipated burdens on owners (for example, requirements to do additional or

more expensive works, and the administrative burden of undertaking more paperwork, more frequently and at greater expense than if the place was not listed). The UDIA identified the regulatory burden, and associated higher costs, imposed on property developers as a result of statutory listing:

... developers do factor approval delays into their feasibility of the development of a heritage site. This can, in turn be factored into purchase of site and would then directly impact on the property's value. According to UDIA members they would usually expect additional approval delays of 2 to 3 months if developing a heritage listed property. If delays go beyond this timeframe it can have serious impacts on the economic outcomes of a development project.

Additional costs also arise in the cost of extensive works that are required to renovate degraded and derelict heritage properties to the standards required by heritage agencies and to make them suitable for public use. It was commented by a UDIA member that it would often be cheaper to rebuild a heritage listed building to its original plan than to renovate it to the standard required. (sub. 83, p. 3)

Similarly, Christine Stewart, provided evidence that, in addition to restoration costs, costs of complying with heritage regulations could be substantial:

If one is to take on a heritage building and comply with all the provisions, one needs very deep pockets indeed. We had a grant of \$165,000 which was one of the most generous in Australia and the most generous in NSW but this was only a fraction of the final cost of well over \$1m. One of the things that adds immeasurably to the cost, is that so many conversations have to be had by the restorers to work out what is best to do — when 5 men are involved in a conversation that is a large expense for the owners. We found the most unreasonable demand of all concerned the archaeology. Even to obtain an archaeologist's report, which told us nothing at all, as it was based on the history that I myself had written, cost us \$2,500 for one page and a lot of padding. It said, reading between the padding, that nothing could be found until we had dug into the ground. (sub. 25, p. 2)

In addition to these explicit maintenance and conservation costs, there are implicit opportunity costs associated with retaining a place in its current use or form instead of modifying it for an alternative use:

In contrast to the possible benefits from using the cultural heritage, the costs can be defined more easily: in economic terms, it is the opportunity cost that must be attributed to the preservation and the use of those objects that are seen as belonging to the cultural heritage. This opportunity cost clearly does not comprise only outlays (for example for the preservation of a historic site). When determining opportunity cost, one also has to take into account benefits foregone from alternative uses of the territory covered by the historic site ... The opportunity cost ... must comprise the price or the rent for the area if it had been bought or rented from somebody whose next best alternative would have been to build a large supermarket or tennis courts. (Koboldt 1997, p. 57)

In some cases, particularly in urban areas, the opportunity cost, or the highest value alternative use, may be the value of the place if it was to be converted to an office block or high or medium-density housing. In cases where a historic heritage place has no alternative use in its current form (for example, industrial sites in an urban area) the cost of retaining its historic fabric can be particularly high.

The costs associated with owning a listed place, have been acknowledged by all levels of government (e.g., Tasmanian Government, sub. 136, p. 13; City of Ryde Council, sub. 27, p. 2; City of Newcastle, sub. 78, p. 5). The City of Sydney commented:

Heritage planning controls that are prepared by local government (and at times by state government) may restrict development as it relates to heritage items and therefore may restrict:

- The size or extent of extensions;
- Potential for demolition and the construction of new buildings;
- The size and scale of new buildings.

In individual cases, this may limit the value of properties that are designated as heritage. (sub. 143, p. 3)

The City of Ballarat submitted that the costs of owning a heritage listed property include:

- Applying for a planning permit (including application fees, engagement of an architect or building design practitioner, engagement of an expert heritage adviser etc.).
- Possible holding costs in some cases associated with delays caused by applying for a planning permit under the Heritage Overlay where otherwise no permit would have been required.
- Additional longer term maintenance costs associated with retention of timber materials and the like which are perceived as not being as durable as more modern building materials (eg brick, Harditex, Colorbond and concrete blockwork). (sub. 100, p. 10)

Over time, growth in urban populations tends to increase the cost of retaining historic heritage places. Losses in capital value associated with a designated heritage status can impact on the owner's ability to provide resources for maintenance. According to the City of Casey:

Casey is one of the fastest growing municipalities of Australia ... the rate of growth in the municipality is bringing significant changes in the land value. This places pressure on the land owners (of heritage properties) to take advantage of these values and thus heritage protection and maintenance are seen as the impost on the property. Heritage controls in the absence of financial incentives have negative economic impact on some of the places resulting in neglect and disrepair of the assets. Council often has to stretch

its resources, a lot, to bring in timely advice to avoid any loss of its heritage values/assets. (sub. 177, p. 1)

Opportunity costs also arise when a place is conserved so that current community members can visit it (the option value) or so it can be passed on to future generations (the bequest value) (chapter 2). Where option or bequest values are used to justify the continued conservation of a historic heritage place, these costs should also be acknowledged. In most cases, these opportunity costs will be faced by the property owner.

Similarly, where the benefits of conservation are said to include an existence value (where members of the community gain from the knowledge that the historic heritage place exists, irrespective of whether they intend to visit it), these benefits should be considered against the relevant opportunity costs. While some members of the community gain from the continued existence of the place, others may have gained from the alternative use to which the place could have been put. For example, where a historic heritage place is demolished and replaced by high density housing, some members of the community may gain from the knowledge that employment was created in the construction of the new development and that additional housing has been constructed (Portney 1994, p. 13).

6.7 Relating benefits to costs

The bulk of historic heritage places are not national icons such as the Royal Exhibition Building, the Sydney Opera House or Port Arthur. Thousands of historic heritage places, listed as locally significant, are homes or businesses which may be bought and sold as any other property. Market valuations will reflect not only the use value of the property, but also some intangible benefits which derive from its cultural value. In some cases, heritage status may increase the market value of the property. In other cases, recognition of historic heritage value might bring with it development controls which could limit its use value and depress its market price.

There are also historic heritage places which will not have a meaningful market valuation. These are the iconic examples of historic heritage, such as old Parliament House in Canberra, which either derive their value almost entirely from cultural benefits accruing to the general community and will never be sold, or are places which have always been (and presumably always will be) in public ownership.

However, irrespective of whether a relevant market valuation for a historic heritage place exists, it will not normally provide a complete valuation. Some of the potential benefits arising from the existence of historic heritage places (discussed above) can accrue to people who are not involved in the market transaction.

Intangible benefits — such as the value to a community in having a link to its past or the aesthetic appeal of heritage places — may be difficult, if not impossible, to quantify. The inability to accurately measure such benefits makes their inclusion in a benefit–cost analysis problematic. In marginal cases, where measurable costs and benefits are finely balanced, intangible benefits — even when they cannot be accurately measured — may usefully inform decision-making. However, where intangible benefits are the major (or sole) criterion for conservation, measurement issues become crucial. Under certain circumstances, approximate measures may be attached to the intangible benefits. For example, members of the community may be surveyed to obtain estimates of valuations placed on historic heritage places. Costs incurred in travelling to visit a historic heritage place may also be used as a minimum estimate of the value that visitors attach to that place.

Under current listing arrangements, governments list places on the basis of historic significance. Some proponents of heritage conservation argue that the costs of heritage listing are small and the current system assumes they are negligible when it fails to explicitly acknowledge them. However, governments, households, businesses and community organisations such as the National Trusts are well aware of the significant costs of conserving historic heritage places.

FINDING 6.2

Current methods of identifying historic heritage places for statutory listing focus on the benefits expected to accrue to the community. Typically, there is little, if any, consideration of the costs imposed either, on the owner or the community more generally.

6.8 Who should pay for the conservation of historic heritage places?

The question of ‘who should pay’ is not simply one of equity. As noted in the previous section, where the burden is placed for undertaking conservation activities can have a significant impact on the effectiveness of government policy. For example, a poorly targeted financial incentives scheme may simply transfer community resources to undertake conservation activities that the owners were prepared to undertake anyway. Similarly, a ‘hard’ regulation that potentially limits private property rights can lead to benign neglect, strategic demolition or, at best, grudging minimal compliance.

Are property owners compensated for the effects of other land-use restrictions?

Several participants have noted that the rights of property owners are often regulated through urban planning laws and zoning changes. For example, the Chairman of the Australian Council of National Trusts commented:

Understanding what the impact of a heritage listing and an imposed heritage management regime is on an owner of a heritage place, calls one to really look into the nature of property law in Australia. This is one of the greatest misconceptions in our legal system. There is a belief on the part of the lay community that property is a bundle of rights which are fettered when government seeks to impose the laws which say, "Look, you may or may not deal with your property as you would wish."

In reality, property has never been other than a bag of controls from which one has some entitlements to deal with property ... The fact that one is putting a constraint — if that is indeed the consequences of a heritage listing — on ownership of property to protect the heritage values in it, ought not be seen as anything different from the evolutionary process of ensuring that we have clean air or we don't pollute the streets or cause an issue of health and safety. Philosophically it is the same and is entirely consistent with the evolution of property laws over the centuries. (trans., pp. 378–9)

However, the Commission considers there are significant differences between a regulation which constrains activities which are harmful to others and regulation which coerces an individual to provide benefits for others (possibly at cost to themselves). While regulations are commonly used to prevent or reduce negative externalities, they are seldom, if ever, used to require the provision of positive externalities because of high monitoring costs and the difficulties of enforcing positive behaviour. Incentive measures, linked to the provision of the beneficial externality, are far more effective and appropriate for this purpose. As noted above, most participants (such as the Australian Council of National Trusts, the Department of the Environment and Heritage and the Chairs of the Heritage Councils of Australia and New Zealand) have identified positive externalities in historic heritage conservation.

In discussing natural conservation policies in New Zealand, one commentator distinguished between a duty not to harm and a responsibility to provide benefits:

... Mention of compensation has drawn particularly hot fire from [some]. Why, they ask, should land owners be compensated for not destroying habitat when there has never been any suggestion that there should be compensation for not polluting air and water. The answer is that air and water have always been in public ownership whereas much land is privately owned. There are rights and expectations that can't simply be trampled on because they're inconvenient ...

Even more problematic, from the regulatory standpoint, is the issue of effectiveness. Without an army of inspectors, councils have no way of knowing what is going on

down the back of the farm. The reality is that the land owner is the only effective guardian of any natural values requiring protection and if he's off-side he won't be doing much good. There are more ways of wrecking a forest than chopping it down ...

A blanket ban on anything that might affect a special habitat isn't the friendliest starting point. Neither is inaccurate information. Finding out what land owners want in exchange for permanent protection might reveal some quite modest demands: help with fencing, pest control and rates. There may be some trade-offs that are available — protection of habitat in return for development rights elsewhere.

But there will be cases where land owners have brought land with an expectation of development and insist that they should be able to proceed. In these cases councils are confronted with a choice: to regulate or negotiate. It's a judgment that is legally theirs to make, but negotiation has to be the first best strategy in all cases. Lack of it runs the real risk of wholesale destruction by land owners trying to beat the new rules coming into force. (quoted in Hartley 1997, pp. 272–3)

Australia ICOMOS noted that restrictions on land-use were generally accepted by the Australian community:

Property regulations are a fundamental part of landuse and planning systems in Australia. It has been recognised for decades and is now generally accepted in the community that land development and changes to real estate cannot proceed without limit or control. Australian society does not allow unregulated development; whether it be the location of an oil refinery or alterations to a domestic dwelling, the system of development control in all Australian jurisdictions seeks to adopt an informed and balanced view to community amenity, the rights of affected parties and the public interest. Good decision-making regarding historic heritage places falls comfortably within this milieu. In some cases, such as urban 'conservation areas', the act of regulation to retain and conserve historic houses in a streetscape can even serve to increase the land value, not only for a particular property but also for its neighbours. (sub. 122, p. 10)

Urban planning laws and by-laws are designed to internalise what are usually localised externalities. That is, where the effects are largely confined to neighbours. For example, the opportunity cost to one party of not being allowed to build a certain development may be broadly offset by the fact that their amenity will not be diminished by an adjacent development by a neighbour. While such reciprocity is unlikely to be exact, there is a rough symmetry of costs and benefits, which may explain the broad acceptance of those rules and the absence of compensation.

However, where individual properties are heritage-listed, any associated development restrictions will impact on the owner (and on the property's capital value). Any benefits, however, will accrue to the general community. Another consideration which reduces the validity of comparing general planning laws with heritage regulations is that, in many cases, changes to planning laws financially benefit landowners. Almost invariably, changes to zoning restrictions, in response

to pressure for urban development, are to the material advantage of landowners (for example, rezoning to medium or high density housing) and the issue of compensation is not relevant. While some have argued that recognition of heritage status can improve the resale value of a property, as discussed in section 6.5, the evidence suggests this is generally only the case where the property is part of a heritage precinct or area and where development restrictions are unlikely to impose a significant cost.

Further, as discussed above, where a beneficial activity is to be encouraged, financial incentives will typically be more effective than proscriptive regulation.

Negotiated outcomes form the basis for identifying costs and benefits

In summary, an analytical framework to examine the role of governments in the conservation of historic heritage places has been set out in this chapter. Benefits accruing to private owners of historic heritage places provide important incentives for conservation activity. However, there is also the potential for benefits to accrue to the wider community. It is these community benefits that may provide the rationale for government intervention in historic heritage conservation.

However, these benefits, of themselves, do not justify a role for government. Any role for government needs to be assessed against the costs of intervention and the effectiveness of the policy instrument. Policies which encourage property owner cooperation, and which recognise the costs imposed on owners, are more likely to be effective than those ‘command and control’ regulations which attempt to coerce optimal behaviour.

This is particularly the case when the optimal level of conservation is not known by the government. Under these circumstances, negotiations between owners and government provide a firm basis for identifying the costs and benefits associated with government intervention in historic heritage conservation and reduce the likelihood of inappropriate government involvement.

The next chapter will apply the principles outlined in this chapter and examine the strengths and weaknesses of the current policy framework for historic heritage conservation.