

# **Managing Australia's Historic Heritage: Looking to the Future**

Submission by the Chairs of the Heritage Councils of Australia  
and New Zealand

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Productivity Commission Inquiry Into the Conservation of Historic Heritage Places

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## Introduction

This is the second submission provided to the Productivity Commission on behalf of the Chairs of the Heritage Councils of Australia and New Zealand.

This submission is made by the Australian and New Zealand Heritage Chairs and does not necessarily reflect the views of State or Territory governments.

Drawing on research commissioned by Heritage Chairs and Officials of Australia and New Zealand,<sup>1</sup> this submission:

- complements submissions by individual jurisdictions, taking a broader first principles approach to some of the issues being addressed by the Commission — the body of the submission is framed as a response to six overarching questions that arise when considering historic heritage protection from an economic perspective:
  - Who benefits from historic heritage?
  - Why should governments intervene to conserve historic heritage places?
  - What policy instruments are available to governments?
  - What framework is necessary for managing government intervention to conserve historic heritage?
  - What value is there in conserving historic heritage places? and
  - Who pays for the conservation of historic heritage places?<sup>2</sup>
- draws out some key policy observations and suggestions in the final chapter.

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<sup>1</sup> The Allen Consulting Group 2005a, *Thoughts on the 'When' and 'How' of Government Heritage Protection*, Research Report 1, Heritage Chairs and Officials of Australia and New Zealand, Sydney; and The Allen Consulting Group 2005b, *Valuing the Priceless: The Value of Historic Heritage in Australia*, Research Report 2, Heritage Chairs and Officials of Australia and New Zealand, Sydney. These reports are available from <http://www.allenconsult.com.au>.

<sup>2</sup> The questions are derived from the seven questions posed in D. Throsby 1997a, 'Seven questions in the economics of cultural heritage', in M. Hutter and I. Rizzo (eds), *Economic Perspectives on Cultural Heritage*, St. Martin's Press, New York, pp. 13-29. That is: What is heritage? How much is it worth? Why should governments intervene? What instruments are available? Who benefits? Who pays? Who cares?

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## *Chapter 1*

# Who benefits from historic heritage?

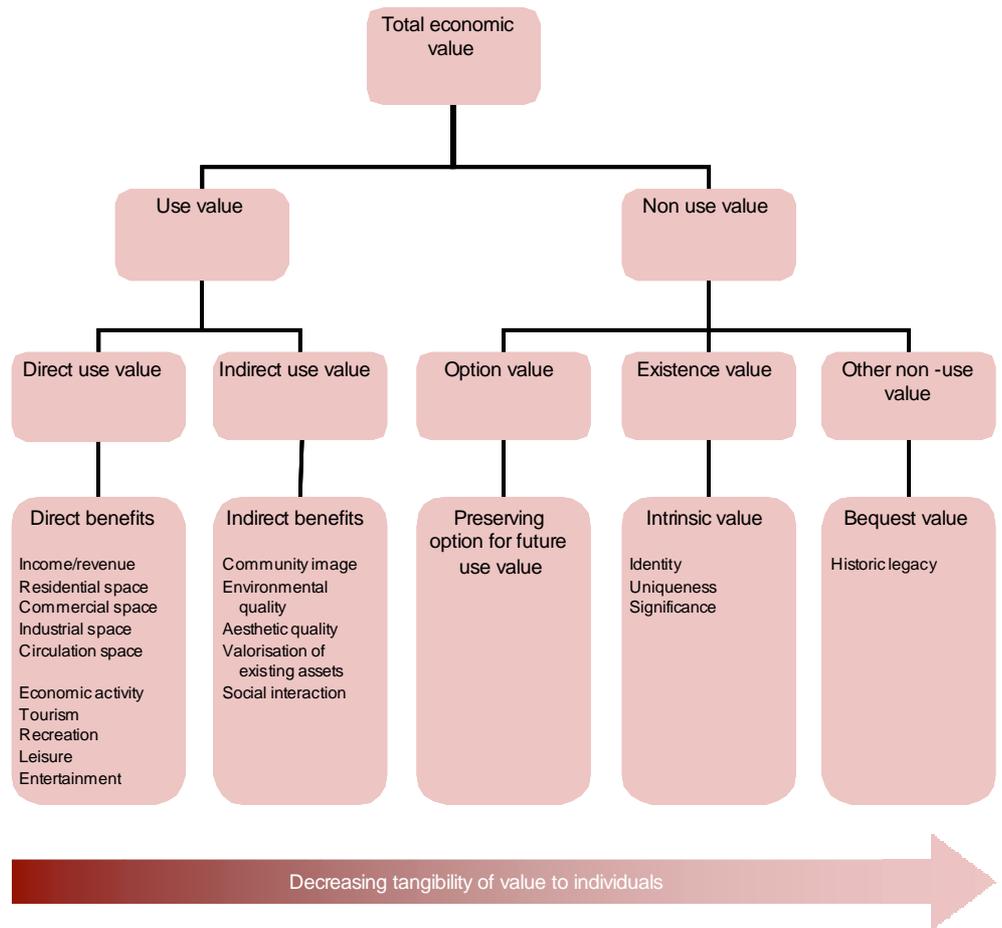
A heritage place may benefit three classes of people:

- those who make use of the place — the physical assets that embody historic heritage place (e.g. houses, churches, offices, public buildings, etc) have a ‘use value’ like any other physical asset. The heritage component may increase this use value, as people derive additional value from seeing it, visiting it, or living or working in it. The value derived from a heritage place’s use may also have spillover benefits for those who live and work in the vicinity of the heritage place (e.g. a heritage place may attract tourists, and so provide benefits for others in the area);
- those who do not directly or indirectly use a place, but gain some value from its existence — heritage assets are valued for a variety of intangible benefits that do not require a person to ever actually visit the place. Indeed, people may value (i.e. benefit from):
  - the simple existence of the place in that they would feel a quantifiable loss if it were destroyed;
  - the option to visit a heritage place, although they may not have immediate plans to visit it; and
  - the chance to bequeath a heritage place to future generations, as part of a shared cultural legacy (i.e. intergenerational value);
- future generations — the conservation of a heritage place for future generations means that they will also have the opportunity to benefit from its use and may also capture non-use benefits of the type described above.

These various categories of value can be organised as shown in figure 1.1 (next page).

Figure 1.1

**HISTORIC HERITAGE: CATEGORIES OF VALUE**



Note: While some may view the bequest value as being quite tangible, it is shown as being relatively more intangible because the value of the historic legacy cannot accurately be determined today (i.e. the value of existing conservation activities will only be accurately determined by future generations). Source: I. Serageldin 1999, *Very Special Places: The Architecture and Economics of Intervening in Historic Cities*, The World Bank, Washington.

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.<sup>3</sup>

<sup>3</sup> K. Sable and R. Kling 2001, ‘The double public good: A conceptual framework for “shared experience” values associated with heritage conservation’, *Journal of Cultural Economics*, vol. 25, pp. 77–89.

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## Chapter 2

# Why should governments intervene to conserve historic heritage places?

For the most part, the community voluntarily supports the conservation and maintenance of heritage places because they receive a range of benefits/value (see figure 1.1) 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 marginal 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).

Relevant market failures associated with heritage include:

- heritage values are public goods;
- information asymmetries; and
- positive externalities.

These are discussed in turn.

### 2.1 Public goods

A public good is a good that exhibits two particular features:

- 'non-excludability' — this means that people cannot be excluded from deriving a benefit from the good (or that the costs of doing so are prohibitive); and
- 'non-rivalry in consumption' — this means that the consumption of the good by one individual does not limit consumption by others (i.e. there is no scarcity).<sup>4</sup>

These properties significantly limit the incentive for private providers to supply a public good, resulting in an undersupply, or possibly no supply at all.

The degree to which heritage displays public good characteristics tends to depend upon whether the heritage-related benefits are:

- 'use benefits' (see chapter 1) — benefits that arise where physical access (or at least proximity) is required to enjoy a heritage place may or may not have public good characteristics:
  - consumers can be excluded by restricting access to a heritage place (e.g. historic places with a gate entry fee, or privately occupied

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<sup>4</sup> As an example, national defence is often seen as a public good because: once a country is defended it is difficult to deny the protection to any particular individual (i.e. it is non-excludable); and just because one person has the protection of national defence does not mean that the protection is 'used up' (i.e. it is non-rivalrous).

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historic homes). In addition, these places will also likely exhibit rivalrous consumption (at least once congestion limits are reached); but

- it is sometimes very difficult for private owners to exclude consumption. For instance, it is difficult to prevent neighbours from enjoying the visual amenity provided by a historic home.
- ‘non-use benefits’ (see chapter 1) — in the case of non-use benefits, the loss of one particular place would lower the overall value of the heritage or cultural identity of an area. That is, there is no feasible way of preventing people from benefiting from the knowledge that a heritage place is conserved, while at time such benefits are non-rivalrous.

Public goods result in market failure because of the ‘free rider’ problem. This occurs where a consumer can enjoy goods or services to which they have not contributed (i.e. ‘free ride’ on the expenditure of others). In a heritage context, a market failure may arise where a person places a certain (use or non-use) value on a historic heritage place, but the owner has no way of capturing this value and so may under-protect the heritage values of the place.

## **2.2 Information asymmetries**

In order to achieve an efficient outcome, markets rely on all parties having sufficient (but not necessarily perfect) information to make decisions in their best interests. If the transactions costs of obtaining information for either buyer or sellers in the market are prohibitive, it is likely that no exchange will occur.

In other cases, information is not just imperfect, but is asymmetrical. 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.

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.

Adverse selection appears to be most relevant to residential heritage places given that:

- investors may wish to purchase a residence with a heritage component, but have difficulty in assessing and comparing the relative value of the different heritage attributes of the properties on the market;
- it may also be difficult to determine, without incurring significant costs, the validity of heritage claims on properties;

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- the uncertainty of the quality and value of heritage properties potentially increases the risks of any investment in a heritage property, including the costs associated with conservation and maintenance. For instance, if an owner has an opportunity to invest in conserving or upgrading a heritage house, but has limited ability to signal the quality of this property over and above others in the market, the investment in the property's conservation and restoration is less likely to take place.

### **2.3 Externalities**

Externalities are those benefits (or costs) that are consumed by (or incurred by) third parties to any transaction. As such, these benefits or costs are not accounted for in the market demand-supply decision, leading to a potential under-supply or over-supply in the market.

In the case of heritage, there are privately captured benefits of owning a heritage place, and investing in heritage conservation, such as the ability to charge the public for access to the place, or the increased value of the property that comes from emphasising its heritage qualities. Equally, there are benefits from heritage places which accrue more broadly, including the contribution to cultural identity and social capital (see box 2.1, next page), the benefit from the place for a region, and the benefits to consumers of knowing heritage places are being preserved. In cases where these externalities are not captured, private owners of heritage places will only invest in conservation of the place to the point where they can realise benefits from this investment.

In theory, externalities could be resolved privately between stakeholders for such private resolution of externalities to work, three conditions must exist:

- property rights must be well-defined;
- the number of stakeholders must be small; and
- transaction (negotiation) costs must be small.

Unfortunately, the second and third conditions rarely hold where heritage is involved (even the first condition sometimes fails if 'rights' to heritage may not be clear). Externalities are diffuse, so the number of stakeholders is large and the transaction costs very high, in comparison to the efficiency loss due to externalities. Also, because of the public good nature of heritage, some of the stakeholders can free ride on the actions of others. As a result, situations in which private parties spontaneously resolve heritage externality issues are quite rare.

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.

**HERITAGE AND SOCIAL CAPITAL AS AN EXTERNALITY**

The Productivity Commission has previously noted that:

‘The social capital of a society includes the institutions, the relationships, the attitudes and values that govern interaction among people and contribute to economic and social development ... it is the glue that holds [institutions] together. It includes the shared values and rules for social conduct ... and a common sense of ‘civic’ responsibility that makes society more than just a collection of individuals.’

As noted by Cox and Caldwell, there has been significant debate about whether social capital can be considered a public good. The problem with such a definitional approach is that there is the potential for exclusion from the benefits of social capital.

Rather than a public good perspective, as noted in the Saguaro Seminar outcomes, social capital fits neatly within the externality framework:

‘social capital has what economists call ‘positive externalities’. That is, networks of trust and reciprocity not only benefit those within them, but also those outside them. Consequently, when social capital is depleted, people suffer in clear and measurable ways, and there is a ripple effect beyond a scattering of lonely individuals. Shoring up our stocks of social capital, therefore, represents one of the most promising approaches for remedying all sorts of social ills.’

Commentators such as Fukuyama, however, see limits in the ability of governments to develop social capital: ‘States do not have many obvious levers for creating many forms of social capital. Social capital is frequently a by-product of religion, tradition, shared historical experience, and other factors that lie outside the control of any government.’

As heritage is tangible evidence of this shared experience, governments can foster knowledge of a shared historical (i.e. heritage) experience and justify the support of heritage to further the development of social capital.

Source: Productivity Commission 2003, *Social Capital: Reviewing the Concept and Policy Implications*, Research Paper, AusInfo, Canberra, p. ix; E. Cox and P. Caldwell 2000, ‘Making social policy’, in *Social Capital and Public Policy in Australia*, ed I. Winter, Australian Institute of Family Studies, Melbourne, pp. 43-73, pp. 50-56; Saguaro Seminar 2001, *bettertogether: Saguaro Seminar on Civic Engagement in America*, 2<sup>nd</sup> edn, Cambridge MA, p. 8; F. Fukuyama 1999, ‘Social capital and civil society’, Paper presented at IMF Conference on Second Generation Reforms, Washington, 8-9 November.

## 2.4 Summary

The economic case for government involvement to conserve heritage places is clear; without intervention the level of heritage protected by the community will be less than optimal. Such an outcome arises because of the presence of a number of ‘market failures’:

- public goods — it is the non-use benefits of heritage that exhibit public good characteristics; people may not be excluded from enjoying the intangible benefits of heritage, and the enjoyment of heritage by one person does not stop enjoyment by another person;
- information asymmetries — if people are incorrectly under the impression that the market does not value heritage then they will maintain less heritage than would be optimal; and
- externalities — there are a number of benefits derived from heritage places which accrue to people other than the owner of the heritage place. In particular:
  - positive externalities contribute to the development of cultural identity of the nation and its people. That is, the stories associated with historic heritage places provide a mechanism by which people can forge a sense of

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common understanding and national spirit. Thus, the provision of a common cultural identity is an important foundation upon which the nation's social capital is constructed;

- intergenerational externalities are present. That is, the actions of current generations result in positive spillovers for future generations (i.e. where heritage places are adequately conserved) as well as negative spillovers (i.e. where heritage places are not adequately conserved).

While these market failures justify government intervention, it is important to look at the individual circumstances for which a failure is claimed to determine if the failure does in fact mean that the market is noticeably 'broken' (i.e. are the market failures material?).

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## Chapter 3

# What policy instruments are available to governments?

As the discussion in chapter 2 highlighted, markets in which heritage is a component share certain characteristics that may justify government intervention. Where a case for action is identified, the question then arises: what action should be taken?

While there are a range of policy instruments available to governments,<sup>5</sup> these generally relate to a government's ability to do at least one of four things:

- inform — governments use the provision of information as a policy tool when the presence of new or more accurate information will encourage individuals to change their behaviour in a way that provides a better outcome (perhaps to minimise risks to themselves, or reduce the cost of their own actions on others in society). Information instruments are primarily useful in situations where there is an information asymmetry in a market, where one party (usually the consumer) does not have sufficient information to make an informed decision of the relative quality of the products on the market;
- spend — fiscal measures are typically used to:
  - change incentives so as to alter the cost/benefit equation for investment in heritage. Typically administered through the taxation system, such an intervention may seek to address: inadequate incentives for investment, due to the inability of parties to capture externalities flowing from any investment; and inadequate incentive for parties to refrain from certain actions which would otherwise impose negative externalities on others;
  - overcome particular stakeholders' limited access to financial capital for investment, for reasons of information asymmetries, valuation risk and shallow markets. This requires government to play the role of financier (or augment private finance), providing grants, loans and loan subsidies, or establishing pools of reusable financial capital;
- provide services — direct service provision (including government ownership) is the traditional model of delivering government policy. While less popular in recent times, it may still be appropriate where:
  - there are political or cultural sensitivities which mean that society would not accept private ownership of assets;
  - private markets would not develop for certain services; or
  - direct provision is more cost-effective than other mechanisms;
- regulate — 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

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<sup>5</sup> See National Incentives Taskforce 2004, op. cit.

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state's role to act when private behaviour may not be in the public interest'.<sup>6</sup> Regulatory instruments differ in their approach to other instruments in setting a requirement of action, and establishing negative consequences to not complying with this requirements (i.e. rather than purely setting an incentive for action, as with spending instruments).

It is possible to matching these four possible forms of intervention with the market failures identified in chapter 2:

- The public good aspects of heritage (due to difficulties in excluding use and benefits derived from heritage buildings or places), are most commonly addressed through:
  - spending instruments which induce further private investment, or private ownership in a heritage building which would not have otherwise been a viable investment for the private sector; and
  - services instruments, such as ownership of buildings and places, which move the ownership, and therefore the responsibility for investment in conservation, to government.
- Information asymmetries in heritage markets are most clearly addressed through information instruments that provide appropriate quality signals in the relevant markets (i.e. markets for heritage places, services used to support the conservation of heritage places, etc). In some cases (e.g. listing), regulation may also be used as a signalling device.
- Externalities in heritage are primarily addressed through:
  - regulation instruments which are used to ensure that the positive externalities of heritage buildings are taken into account by private owners. Regulation also addresses the risks of negative externalities in regions with particular heritage characteristics, through zoning;
  - spending instruments which address the presence of externalities by providing incentives for private owners to increase their investment in heritage conservation to a level which takes into account the positive externalities of heritage which accrue to society (over and above the private benefits on which the private investment decisions is based).

The focus by Australian governments has been the:

- regulation (principally listing and zoning/planning requirements) by local and State/Territory governments; and
- funding by the Commonwealth, as it has had little direct control over heritage assets and, until recently, has had little regulatory power over heritage places.

The reliance on heritage listing as a tool to protect heritage places, without sufficient support from complementary policy instruments, has been problematic in a number of ways:

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<sup>6</sup> D. Throsby 1997b, 'Making Preservation Happen: The Pros and Cons of Regulation', in J. Schuster, J. de Monchaux and C. Riley (eds), *Preserving the Built Heritage: Tools for Implementation*, University Press of New England, Hanover, pp. 32–48.

- the lists are not comprehensive — as a result there may be some uncertainty for property owners and potential purchasers who would prefer certainty as to the heritage status of the place;
- the public is not sufficiently aware of what listing entails — the distinction between different heritage lists, and between different classifications within lists, is a subtlety too often lost on the community, with the result that people have little perception of the actual restrictions that listing entails; and
- sections of the public have negative perceptions of the impact of listing — while listing may reduce the value of properties in some cases, the weight of evidence suggests otherwise.<sup>7</sup> In some cases these perceptions have created perverse incentives to hide or destroy heritage values so as not to attract listing.

Failure to adequately support listing with a comprehensive (or at least improved) stocktake of Australia's heritage places, improved funding support mechanisms/incentives, and effective public education programs has undermined the effectiveness of listing. Indeed, it is reasonable to suggest that the insufficient support provided to heritage listing has actually exacerbated existing information asymmetries.

There is nothing wrong with listing serving as the centrepiece of heritage protection, and in fact it is important to get to the point where the lists are relatively comprehensive, but it must be adequately supported with a broader range of policy instruments.<sup>8</sup> Consistent with this view, the Environment Protection Heritage Council has suggested that the 'principal elements of best practice in incentives and other innovative policy instruments for historic heritage conservation'<sup>9</sup> are a suite of policy instruments rather than any single approach:

- i. Measures which provide effective support for owners of heritage places, provided either by the Commonwealth or States independently, or in partnership with Local Government, including:
  - Tax deductions for donations to approved funds;
  - Tax concessions for owners that enter into Heritage Agreements or other conservation covenants;
  - Tax rebates for qualifying private expenditure;
  - Land Tax remissions;
  - Local government rate rebates;
  - Grants;
  - Loan subsidies; and
  - Revaluation provisions for heritage listed places, based on the NSW and Victorian model.
- ii. Improved town planning practices at the state and local levels that promote historic heritage conservation by:
  - reducing disincentives to conservation in the form of incompatible zonings; and

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<sup>7</sup> V. Deodhar 2004, *Does the Housing Market Value Heritage? Some Empirical Evidence*, Macquarie Economics Research Papers, No. 3/2004, March.

<sup>8</sup> See D. Throsby 1997a, *op. cit.*, p. 27.

<sup>9</sup> National Incentives Taskforce 2004, *Making Heritage Happen: Incentives and Policy Tools for Conserving Our Historic Heritage*, Environment Heritage and Protection Council, Adelaide, p. 42.

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- making imaginative use of planning incentives wherever possible in sympathy with other planning objectives.
  - iii. Inclusion of historic heritage conservation as an integral element of Commonwealth, State or Local sustainability policies or strategies.
  - iv. Provision of an effective network of specialist heritage advisory services.
  - v. Ensuring information, promotion and awareness activities are given a high priority, with cooperation between States wherever possible.
  - vi. Establishment of special funding sources for heritage programs to supplement consolidated revenue appropriations (such as a share of lotteries or gaming revenue; or a share of Land Tax or another suitable tax).
  - vii. Establishment of Revolving Funds for the acquisition, restoration and disposal-undercovenant of historic heritage places.
  - viii. Mechanisms for measuring the effectiveness of financial incentive schemes for historic heritage in Australia.<sup>10</sup>

Given that most of these recommendations relate to the provision of increased incentives it is important that they are complemented by the full spectrum of potential government interventions (i.e. with governments acting to inform; spend; provide services; and regulate). Unless a balanced approach is adopted there is the real risk that certain market failures will not be adequately addressed; just as the market failures are multifaceted, so too must be the solutions.

In thinking about the broader range of policy instruments to employ there is a temptation to embrace more market focused policy 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 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,<sup>11</sup> there appears to be considerable potential for variation in interpretation.

As a result of the 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.

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<sup>10</sup> Ibid.

<sup>11</sup> J. Lennon, M. Pearson, D. Marshall, S. Sullivan, P. McConvell, W. Nicholls and D. Johnston 2001, op. cit., pp. 52-55.

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## Chapter 4

# What framework is necessary for managing government intervention to conserve historic heritage?

A consistent theme emerging from the submissions made to the Productivity Commission inquiry is criticism about inconsistency in the listing and management of historic heritage between the three levels government.

The key to the success of the three tiered system of heritage management in Australia is a clear and consistent:

- understanding about what heritage values make a place worthy of listing and the threshold for listing by each jurisdiction; and
- articulation of what is appropriate change to heritage places is fundamental to the communities understanding about the implications of listing and their experience in dealing with the system within the general planning framework.

The issue then becomes how the various jurisdictions administer their legislation (i.e. how they work together) to provide such consistency and clarity.

The initial policy driver in determining the interaction of levels of government is the 'principle of subsidiarity'. This principle suggests that a function should be carried out by the lowest level of government able to exercise it effectively, and thus as close as possible to the ultimate consumers to allow them choice in how they receive services.<sup>12</sup>

This general principle has a series of explicit and implicit qualifications:

- as noted in the description of the principle above, the government needs to be able to *effectively exercise* the relevant function. Effectiveness may be limited by a range of factors such as inadequate access to revenues and skills; and
- in some cases *national or regional considerations* will point to the higher level of government carrying a function, even though it is within the administrative capacity of the lower level.

Functions should generally rest with the lowest level of government with the appropriate capability, provided that the totality of the responsibilities of each level of government is broadly aligned with its effective command over revenues and other resources.

Where more than one level of government needs to be involved in a policy area like heritage policy:

- all levels of government need to work collaboratively to resolve national aspects of issues, in the interests of Australia as a whole, but with leadership and support provided by the Australian Government;

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<sup>12</sup> See the wide-ranging discussion of the subsidiarity principle in National Commission of Audit 1996, *Report to the Commonwealth Government*, AGPS, Canberra.

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- the Australian Government should have responsibility for supporting the conservation of places of national and international heritage significance;
  - the States and Territories should have primary responsibility for planning and funding allocation with respect to heritage places within their jurisdiction, even though many of the responsibilities for implementation exist with local government. The States should provide a leadership and support role to local government; and
  - local government has primary responsibility for delivery of on-the-ground heritage support to communities within the boundaries provided by the relevant State Governments.

Essentially, what is needed from all three levels of government is a genuine partnership.

In this regard, the Heritage Chairs recognise the need to reinvigorate the 1997 Council of Australian Governments' agreement for an integrated National Heritage Framework.

An integrated National Heritage Framework should include a number of specific policy agreements encompassing issues such as (but not excluded to):

- the need for a nationally agreed listing criteria and thresholds for all three levels of government jurisdictions to ensure national consistency;
- nationally agreed development guidelines to increase the consistency of decision making on the management of heritage places;
- nationally agreed measurable for state of environment reporting on historic heritage that can be used by all levels of government;
- agreed roles and responsibilities between the Australian Government and State and Territory Governments on policy issues; and
- a comprehensive and sustainable incentives program across all jurisdictions in accordance with the recommendation in *Making Heritage Happen*.

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## Chapter 5

# What value is there in conserving historic heritage places?

### 5.1 What is 'value'?

Understanding what is meant by value in a heritage sense is fundamental since 'Value has always been the reason underlying heritage conservation. It is self-evident that no society makes an effort to conserve what it does not value.'<sup>13</sup>

While there is no single approach to value when discussing heritage places (and cultural issues more generally), there is an increasing acceptance that the traditional distinctions established between different forms of value (e.g. economic value, heritage value, social value, environmental value, cultural value, etc) are often artificial categorisations.

In thinking about the value of heritage places there are three broad approaches:

- the first aggregates the use and non-use benefits of heritage (see figure 1.1) across all individuals in the community, quantifying them to the degree possible. In economic terms, heritage values are measured in terms of an individual's willingness to pay or accept compensation (i.e. for historic heritage places to have economic value, a person must be willing to pay an amount of money to protect the place or willing to accept an amount of money as compensation for its loss);
- while the first approach focuses on the values ascribed by individuals, the social capital approach seeks to identify the degree to which heritage places enhance social capital and community welfare more generally:

The social capital of a society includes the institutions, the relationships, the attitudes and values that govern interaction among people and contribute to economic and social development ... it is the glue that holds [institutions] together. It includes the shared values and rules for social conduct ... and a common sense of 'civic' responsibility that makes society more than just a collection of individuals.<sup>14</sup>

This analysis is predicated on the view that social and economic outcomes of individuals, families and communities are better in areas, and for groups, where there are higher levels of social capital.<sup>15</sup> Whereas the first approach provides scope for quantifying the impact of heritage, in practice this approach only allows for the identification of causality rather than the magnitude; and

- a third approach to the valuation of heritage places suggests that the value of heritage is absolute or intrinsic, such that their worth existed independently of any evaluation by the public, and potentially irrespective of any interaction of the public in a social capital sense. Despite the growing support for the concept

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<sup>13</sup> M. de la Torre and R. Mason 2002, 'Introduction' in *Assessing the Values of Cultural Heritage*, Research Report, The Getty Conservation Institute, Los Angeles, p. 3.

<sup>14</sup> Productivity Commission 2003, *Social Capital: Reviewing the Concept and Policy Implications*, Research Paper, AusInfo, Canberra, p. ix.

<sup>15</sup> Ibid.

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of intrinsic value in some policy discussions,<sup>16</sup> Throsby notes that ‘it is appropriate for present purposes to leave intrinsic value aside, and to regard value as something which is socially constructed, i.e., formed only by the instinctive and/or deliberate thoughts and actions of human beings’.<sup>17</sup>

## 5.2 Evidence from previous studies

The value (often used interchangeably with ‘impact’) of heritage places, and the protection of heritage places, has been studied extensively in Australia.<sup>18</sup> In many cases the studies have sought to address concerns that the costs of heritage protection exceeded the benefits for the owners of the heritage place.

Quantification studies (i.e. those studies looking beyond social impacts) have generally focused on one or more of the following classes of heritage places:

- residential buildings — numerous studies have sought to identify the degree to which heritage values contribute to the price of residential properties, and whether or not listing of such properties (i.e. seeking to ensure the maintenance of the heritage characteristics) affects property values. The general conclusions to be drawn from the studies are that:

other factors such as location, general amenity, level of ethnicity and crime are possibly greater influences on value than heritage designation. A survey of real estate agents active in historic residential areas, undertaken as part of this study, supported the view heritage listing generally has little impact on residential property values. Moreover, the heritage qualities of historic residential property are generally emphasised as a positive attribute in marketing campaigns by developers and agents.<sup>19</sup>

Indeed, if implemented in a coordinated manner (i.e. rather than in an *ad hoc* manner), heritage listing tends to enhance a heritage place’s value. For example, a recent study assessed the market price differential between heritage-listed and unlisted houses in Sydney’s upper north shore area.<sup>20</sup> After controlling for other property attributes, the 64 heritage-listed houses commanded a premium of 12 per cent on average. This premium is a measure of the combined value that the market places on their heritage character, their architectural style elements, and their statutory listing status. The study also examined the relationship between varying levels of heritage significance by conferring a higher premium to houses with a higher level of significance to the society. The level of heritage significance was also found to have a positive impact on the prices of heritage listed houses over time;

- commercial buildings — most studies have sought to address whether the use values of heritage exceed any additional heritage-related costs. For example, looking at property development from an investment perspective by weighing up the comparative returns for owners of heritage buildings versus modern buildings, Thomas concluded:

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<sup>16</sup> As an example, see K. McCarthy, E. Ondaatje, L. Zakaras and A. Brooks 2005, *Gifts of the Muse: Reframing the Debate About the Benefits of the Arts*, RAND Corporation.

<sup>17</sup> D. Throsby 2003, ‘Determining the value of cultural goods: How much (or how little) does contingent valuation tell us?’, *Journal of Cultural Economics*, Vol. 27, pp. 275–285, p. 278.

<sup>18</sup> For a summary of studies see The Allen Consulting Group 2005b, *op. cit.*

<sup>19</sup> Urban Consulting Group 1994, *Economic Effects of Heritage Listing*, North Melbourne, p. 1.

<sup>20</sup> Deodhar 2004, *op. cit.*

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Market evidence and cost analysis suggest that there is a marginal advantage in building a modern office block compared to recycling a heritage building in the short term, but as a long term investment, recycling heritage buildings can be advantageous. Heritage buildings tend not to age as quickly and require ongoing general maintenance compared to their modern counterpart, that requires expensive upfront refurbishment every fifteen years or so to compete in a competitive modern accommodation market. Cosmetic refurbishment of buildings compounds problems in the future in regard to structural fabric and diminishing returns... [Conversely] Most quality refurbishment in heritage buildings<sup>21</sup> will not date as quickly as their modern counterpart, which is susceptible to market fads.

More recently in the context of the Sydney central business district, where heritage properties have undergone development involving adaptive re-use:

The combination of financial incentive and the commercially-oriented nature of the adaptive reuse schemes in each of the Sydney CBD case studies outweighed any extra heritage-related costs and project risks<sup>22</sup> which arose, thereby resulting in positive economic outcomes each of our CBD examples.

Of course, such comparisons need to compare like with like. For example, a 5 level heritage office building will probably compare well with a modern 5 level office building with a similar floor space ratio on the same site. However, 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. It is in these circumstances that incentives are necessary to swing to cost-benefit assessment back in favour of the conservation of the heritage building; and

- tourist places — both domestic and international tourists are major visitors to historic heritage places (table 5.1). Indeed, some heritage places are tourist destinations in and of themselves (see table 5.2) and so capture revenues and economic activity associated with their use (table 5.3). For example, in 2004 domestic and international tourists who visited a heritage place spent an estimated \$7.8 billion on trips in which they visited at least one historic heritage place (see table 5.4).

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<sup>21</sup> D. Thomas 1994, 'Fitout of a modern building vs conservation of a heritage building: comparative cost evaluation', presented at ICOMOS conference, Hobart, May.

<sup>22</sup> C. Dominy 2001, *The Economics of Heritage Listings: Part B, The Impacts of Heritage Requirements on the Financial Viability of Individual Development Proposals*, Sydney, p. 175.

Table 5.1

**NUMBER OF VISITORS VISITING HISTORIC OR HERITAGE BUILDINGS, SITES AND MONUMENTS ('000)**

	Domestic tourists		Overseas tourists
	Number of visitors on overnight trips	Number of visitors on daytrips	Number of visitors
1998	4216	3476	NA
1999	3670	3297	1272
2000	3014	2543	1449
2001	2880	1974	1366
2002	2398	2121	1207
2003	3227	2698	1197
2004	3308	1993	1305

Note: Many visitors visited more than one historic or heritage site.  
Source: Bureau of Tourism Research, International Visitors Survey and National Visitors Survey, unpublished data.

Table 5.2

**TEN MOST VISITED ATTRACTIONS FOR INTERNATIONAL VISITORS (1999)**

Attraction	Total visitors to attraction	Is it a historic heritage place?
Sydney shopping	1 642 000	Parts
Darling Harbour	1 576 000	Parts
Sydney Opera House	1 427 000	Yes
The Rocks	1 180 000	Yes
Sydney Harbour cruise	867 000	Parts
Bondi Beach	780 000	Yes
Blue Mountains	754 000	Parts
Centrepoint Tower	685 000	Yes
Great Barrier Reef and islands	658 000	No
Theme parks on the Gold Coast	658 000	No

Note: The Blue Mountains and the Great Barrier Reef are World Heritage places.  
Source: B. Henrick and L. Johnson 2000, 'Visiting Australia's popular attractions — Measuring international day and overnight visitor activities', *Tourism Research Report*, vol. 2, no. 2, pp. 7-12, p. 9.

Table 5.3

**ENTRY FEES PAID BY TOURISTS AT HERITAGE PLACES (\$MILLION, 2004 PRICES)**

	1998	1999	2000	2001	2002	2003	2004
Domestic day	\$14.53	\$15.94	\$15.38	\$13.25	\$12.79	\$12.00	\$11.10
Domestic overnight	\$46.43	\$44.89	\$44.85	\$43.65	\$42.98	\$40.50	\$40.00
International	\$3.90	\$4.64	\$5.09	\$4.63	\$4.40	\$4.20	\$3.30
<b>TOTAL</b>	<b>\$64.86</b>	<b>\$65.48</b>	<b>\$65.33</b>	<b>\$61.53</b>	<b>\$60.18</b>	<b>\$56.70</b>	<b>\$54.40</b>

Note: Values are for entry fees while 'visiting historic or heritage buildings, sites or monuments'

Source: Bureau of Tourism Research, *International Visitors Survey* and *National Visitors Survey*, unpublished data.

Table 5.4

**TOTAL EXPENDITURE BY TOURISTS WHO VISITED HISTORIC HERITAGE PLACES (\$MILLION, 2004 PRICES)**

	1998	1999	2000	2001	2002	2003	2004
Domestic day	\$298	\$308	\$261	\$184	\$210	\$293	\$169
Domestic overnight	\$4,443	\$4,044	\$3,594	\$3,187	\$2,759	\$3,498	\$3,439
International	NA	\$3,869	\$4,615	\$5,064	\$4,610	\$4,446	\$4,199
<b>TOTAL</b>		<b>\$8,221</b>	<b>\$8,470</b>	<b>\$8,435</b>	<b>\$7,579</b>	<b>\$8,237</b>	<b>\$7,807</b>

Note: Values rounded to the nearest \$1 million and so may not sum; excludes expenditure on motor vehicles (domestic tourists) and prepaid airfares and international packages (international tourists).

Source: Bureau of Tourism Research, *International Visitors Survey* and *National Visitors Survey*, unpublished data.

While heritage tourism is clearly an important driver of the use benefits associated with historic heritage places, two qualifiers need to be made:

- It is difficult to apportion the degree to which heritage places specifically drive tourism attraction and expenditure. For example, Foo and Rossetto note that:

It is apparent that while approximately one in three cultural visitors went to an historic or heritage site while they were in Australia, they did so with a general level of interest (42 per cent very interested, 43 per cent fairly interested and 14 per cent somewhat interested). This finding supports the previous proposition that although visitor numbers to these sites exceed those to other sites, it is not necessarily the case that inbound visitors seek these experiences more than other experiences. Rather it is likely, at least to some extent, to be the availability of these attractions that makes them popular to inbound visitors.<sup>23</sup>

However, attempts have been made to determine the degree of expenditure at particular places that can be attributed to historic heritage. For example:

- Cegielski, Janeczko, Mules and Wells estimated that between 20 to 30 per cent of tourist expenditure in Maldon (Victoria), Burra (South Australia) and Charters Towers (Queensland) is related to visitors wanting to see heritage places;<sup>24</sup> and

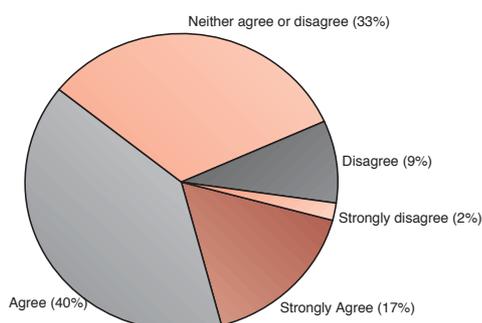
<sup>23</sup> L. Foo and A. Rossetto 1998, *Cultural Tourism in Australia — Characteristics and Motivations*, BTR Occasional Paper Number 27, Bureau of Tourism Research, Canberra, p. 54.

<sup>24</sup> M. Cegielski, B. Janeczko, T. Mules and J. Wells 2001, *Economic Value of Tourism to Places of Cultural Heritage Significance: A Case Study of Three Towns with Mining Heritage*, CRC for Sustainable Tourism, University of Canberra, Canberra, p. 68.

- Hughes, Carlsen and Wood estimate that historic heritage is the driver behind 63 per cent of tourist expenditure in Albany, 73 per cent in Fremantle and 75 per cent in New Norica.<sup>25</sup>
- While tourists are clearly major users of heritage places, and heritage places have a central role in the tourist experience (see tables 5.1 and 5.2), only 57 per cent of the community recognises the economic importance of historic heritage (see figure 5.1). This is a perception that needs to be addressed by heritage officials and the tourism industry itself.

Figure 5.1

**COMMUNITY RESPONSE TO ‘LOOKING AFTER OUR HERITAGE IS IMPORTANT IN CREATING JOBS AND BOOSTING THE ECONOMY’**



Source: The Allen Consulting Group 2005b, *Valuing the Priceless: The Value of Historic Heritage in Australia*, Research Report 2, Heritage Chairs and Officials of Australia and New Zealand, Sydney.

These two qualifiers reinforce the view that the historic heritage driven tourism is a relatively untapped market from both a tourist and community-wide perspective. That is, there is scope for additional marketing of Australia, and places within Australia, on the basis of built heritage, and a need to better explain the importance of heritage place tourism to operators<sup>26</sup> and the community more generally. There is also scope for heritage agencies to create mechanisms to provide information about heritage places directly into the market place and create new synergies between their work and that of the tourism industry.

### 5.3 Evidence from a survey of community attitudes to historic heritage

In order to gain a better understanding of the value provided by historic heritage the Heritage Chairs and Officials of Australia and New Zealand commissioned The Allen Consulting Group, with the assistance of AC Nielsen, to undertake an online survey of 2024 adult Australians.<sup>27</sup> The survey sought to:

<sup>25</sup> M. Hughes, J. Carlsen and D. Wood 2005, *Assessment of the Economic Value of heritage Tourism in Three West Australian Locations*, Heritage Council of Western Australia, Perth, p. 28.

<sup>26</sup> Some limited steps have been taken in this regard — Department of the Environment and Heritage 2004, *Steps to Sustainable Tourism: Planning a Sustainable Future for Tourism, Heritage and the Environment*, Canberra; National Tourism and Heritage Taskforce 2003, *Going Places: Developing Natural and Cultural Heritage Tourism in Australia — Issues Paper*, Canberra; and Australian Heritage Commission, Department of Industry, Science and Resources, and Cooperative Research Centre for Sustainable Tourism 2001, *Successful Tourism at Heritage Places: A Guide for Tourism Operators, Heritage Managers and Communities*, Canberra.

<sup>27</sup> The Allen Consulting Group 2005b, *op. cit.*

- 
- identify people's views on a number of matters, which would in turn point to some elements of social capital affected by historic heritage place protection; and
  - quantify the values that people attach to a number of attributes of protection afforded to historic heritage places (this was done using a technique called 'choice modelling' — see box 5.1, next page).

These two outcomes are discussed in turn.

### ***Indications of heritage-related social capital***

As noted earlier, the Productivity Commission has previously stated that:

The social capital of a society includes the institutions, the relationships, the attitudes and values that govern interaction among people and contribute to economic and social development ... it is the glue that holds [institutions] together. It includes the shared values and rules for social conduct ... and a common sense of 'civic' responsibility that makes society more than just a collection of individuals.<sup>28</sup>

The culture of a society is one of the underlying conditions upon which social capital sits.<sup>29</sup> In this respect, it is understandable that 93 per cent of the community see heritage as forming part of Australia's identity (figure 5.2).

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<sup>28</sup> Productivity Commission 2003, op. cit.

<sup>29</sup> Australian Bureau of Statistics 2004, *Information Paper: Measuring Social Capital — An Australian Framework and Indicators*, Cat. No. 1378.0, Canberra, p. 14.

**'CHOICE MODELLING' AND THE ALLEN CONSULTING GROUP SURVEY OF HISTORIC HERITAGE VALUES**

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.

By specifying different values for each of the attributes, different policy alternatives were constructed for managing the national system of heritage protection, and alternative 20 year outcomes for heritage conservation were specified. In this case, each choice set had three options, including a 'no-change' option and two alternatives. The no-change option referred to the outcomes that would eventuate if the current system of heritage protection remained intact, with no additional funding made available. It was included in the choice experiment as a benchmark against which to measure respondents' willingness to pay for changes in attribute provision.

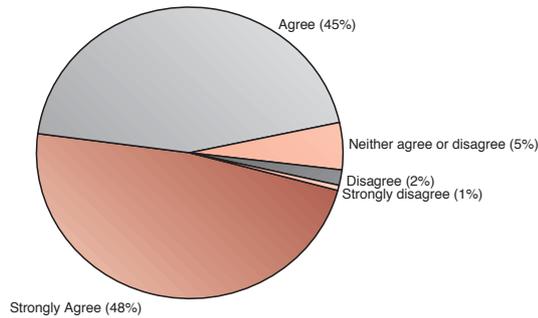
The attributes and their values were developed by The Allen Consulting Group, in conjunction with representatives of the Heritage Chairs and Officials of Australia and New Zealand, following focus group meetings in Perth, Sydney and Dubbo.

Note: For a general explanation of choice modelling see M. Morrison, R. Blamey, J. Bennett and J. Louviere 1996, *A Comparison of Stated Preference Techniques for Estimating Environmental Values*, Choice Modelling Research Report No. 1, University College, University of New South Wales, Canberra.

Source: The Allen Consulting Group 2005b, *Valuing the Priceless: The Value of Historic Heritage in Australia*, Research Report 2, Heritage Chairs and Officials of Australia and New Zealand, Sydney.

Figure 5.2

**COMMUNITY (ADULT) RESPONSE TO 'HERITAGE IS A PART OF AUSTRALIA'S IDENTITY'**



Source: The Allen Consulting Group 2005b, *Valuing the Priceless: The Value of Historic Heritage in Australia*, Research Report 2, Heritage Chairs and Officials of Australia and New Zealand, Sydney.

An important indicator of social capital is reciprocity (i.e. giving and taking), which is related to the concept of altruism: 'Actions that may be seen as demonstrating reciprocity include contributing time or money to the community, making charitable donations, and sharing support among friends and family'.<sup>30</sup> The degree to which reciprocity is evident in a heritage context is shown in table 5.5.

Table 5.5

**INDICATORS OF HERITAGE RECIPROCITY IN THE LAST 12 MONTHS**

Form of reciprocity	Percentage of adult population
Volunteered your time for heritage activities	9.3%
Donated to heritage causes	10.1%

Note: These indicators correspond to indicators of social capital (i.e. 1.1.2.2— Donating time or money) identified in Australian Bureau of Statistics 2004, *Information Paper: Measuring Social Capital — An Australian Framework and Indicators*, Cat. No. 1378.0, Canberra, p. 32. Source: The Allen Consulting Group 2005b, *Valuing the Priceless: The Value of Historic Heritage in Australia*, Research Report 2, Heritage Chairs and Officials of Australia and New Zealand, Sydney.

Common purpose, which is comprised of social participation, civic participation, community support, friendship and economic participation, is another element of social capital. In this respect, participation in a historic society of club is one indicator of community support (see table 5.6).

<sup>30</sup> Ibid., p. 31.

Table 5.6

**INDICATORS OF COMMUNITY SUPPORT FOR HERITAGE ACTIVITIES**

Form of support	Percentage of adult population
Member of a historic society or club	4.1%

Note: This indicator corresponds to an indicator of social capital (i.e. 1.2.3.8 — Membership in clubs, organisations or associations) identified in Australian Bureau of Statistics 2004, *Information Paper: Measuring Social Capital — An Australian Framework and Indicators*, Cat. No. 1378.0, Canberra, p. 60. Source: The Allen Consulting Group 2005b, *Valuing the Priceless: The Value of Historic Heritage in Australia*, Research Report 2, Heritage Chairs and Officials of Australia and New Zealand, Sydney.

While the survey results presented in tables 5.4 and 5.5 are useful in pointing to the degree of social interaction regarding historic heritage matters, their value as standalone indicators is limited at this time. However, their value will emerge if the indicators are monitored over time.

**Community values of use and non-use benefits**

One question in the survey asked people to agree or disagree with a series of statements. As shown in table 5.7, some of the statements can be mapped against the types of values identified in figure 1.1.

Table 5.7

**COMMUNITY VIEWS AND PERCEPTIONS OF HERITAGE-RELATED VALUES**

Value type	Statement	'Strongly agree' and 'Agree'	'Strongly disagree' and 'Disagree'	Neither agree or disagree
Direct use value	Looking after heritage is important in creating jobs and boosting the economy	56.1%	11.0%	32.9%
Indirect use value	My life is richer for having the opportunity to visit or see heritage	78.7%	4.6%	16.8%
Option value	It is important to protect heritage places even though I may never visit them	93.4%	1.5%	5.0%
Existence value	Heritage is part of Australia's identity	92.3%	5.3%	2.3%
	The historic houses in my area are an important part of the area's character and identity	80.2%	5.2%	14.5%
Other non-use values	It is important to educate children about heritage	96.9%	0.3%	2.8%

Source: The Allen Consulting Group 2005b, *Valuing the Priceless: The Value of Historic Heritage in Australia*, Research Report 2, Heritage Chairs and Officials of Australia and New Zealand, Sydney.

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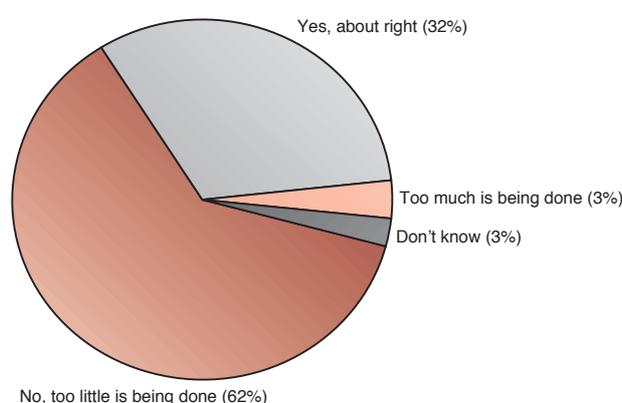
Of the statements identified in table 5.7, given the statistics presented in section 5.2, the most interesting result relates to the degree to which people do not see the economic value associated with heritage-related tourism. In particular, only 16.6 per cent of the community strongly agrees with the statement ‘Looking after heritage is important in creating jobs and boosting the economy’.

Overall, the survey indicates that the majority of the community believes that inadequate support is provided to heritage conservation (see figure 5.3). In essence, the majority of the community derives greater benefits from additional government commitment to heritage conservation.

Figure 5.3

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**DO YOU THINK THAT ENOUGH IS BEING DONE TO PROTECTION HISTORIC HERITAGE ACROSS AUSTRALIA?**



Source: The Allen Consulting Group 2005b, *Valuing the Priceless: The Value of Historic Heritage in Australia*, Research Report 2, Heritage Chairs and Officials of Australia and New Zealand, Sydney.

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The choice modelling was undertaken to look behind general statements about heritage to see the degree to which the population is willing to financially support the call for a greater commitment to heritage protection, and which historic heritage conservation outcomes they particularly value.

*General observations on how people value aspects of heritage conservation*

Using the preferred form of choice model,<sup>31</sup> all the heritage protection attributes (*Cost, Places Protected, Condition, Accessibility, Age Mix and Development Control* — see box 5.1) are statistically significant in explaining respondent choice. This is important because it means that, on average, survey participants considered each of the six attributes in making their choices.

The general conclusions from the choice modelling are:

- Respondents were conscious of the financial impost a heritage levy would mean for them should they choose a different level of heritage protection than currently provided.
- Respondent utility<sup>32</sup> is increased by:

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<sup>31</sup> The model specification is described in more detail in The Allen Consulting Group 2005b, op. cit.

<sup>32</sup> ‘Utility is the level of satisfaction that a person gets from consuming a good or undertaking an activity. Utility has an important psychological component because people obtain utility by getting things that give them

- 
- an increase in the number of heritage places protected;
  - an increase in the proportion of places that are in good condition; and
  - an increase in the proportion of places that are accessible to the public.
  - Respondents prefer heritage protection outcomes in which there is a greater mix of young and old places, relative to outcomes where most places are over 100 years old.
  - As the assumed level of *Development Control* under the ‘no change’ option is ‘demolition permitted subject to assessment’:
    - a shift away from the *status quo* to a tighter control policy of ‘no modifications permitted’ would reduce utility; but
    - intermediate control policies where minimal or substantial modifications are permitted are shown to increase utility.

Eight individual characteristics were included in the modelling to help explain the variation in preferences across individuals, of which five<sup>33</sup> were found to be statistically significant:

- *Gender* — males are, on average, less willing than females to support change from the *status quo* level of heritage protection.
- *Pro heritage* — people with a pro heritage disposition (i.e. if in the past 12 months the respondent has had any affiliation with heritage organisations, been a member of local council or donated time/money to heritage causes) are more likely to support additional heritage protection.
- *Heritage house* — people living in heritage homes are, on average, more willing to support heritage protection.
- *Education* — less educated respondents are less willing to support additional heritage protection.
- *Income* — the willingness to pay for additional heritage protection increases with income.

#### ***Implicit prices for historic heritage conservation***

The choice modelling allows implicit prices to be assigned to each of the changes associated with the attributes. Table 5.8 summarises the implicit prices estimated for each attribute, with a brief description following.

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pleasure and by avoiding things that give them pain.’ — R. Pindyck and D. Rubinfeld 1995, *Microeconomics*, 3<sup>rd</sup> ed., Prentice Hall, New Jersey, p. 85.

<sup>33</sup> The three socio-economic characteristics found not to be significant at the 5 per cent level were: *Age*, *Metropolitan* (versus regional place of residence) and *Citizen* (Australian citizenship versus other nationality).

Table 5.8

**ATTRIBUTE IMPLICIT PRICES**

Attribute	Annual price per person	Units
Places protected	\$5.53	per 1000 additional heritage places protected
Condition of places	\$1.35	per 1% increase in the proportion of places in good condition
Age mix of places	Minus \$0.20	per 1% increase in the proportion of places that are over 100 years of age
Accessibility of places	\$3.60	per 1% increase in the proportion of places that are publicly accessible.
Development control		
- Change to level 1	\$39.50	Change from 'demolition permitted' to 'substantial modifications permitted but no demolition'.
- Change to level 2	\$53.07	Change from 'demolition permitted' to 'minor modifications permitted only'.
- Change to level 3	\$2.38	Change from 'demolition permitted' to 'no modifications permitted'.

Average willingness to pay for the protection of additional places from loss is estimated to be \$5.53 per person each year for every 1000 places protected. While this does not seem to be a substantial sum of money, 1000 additional places represents only about a 0.5 per cent increase in the current inventory of listed places.

Respondents are also willing to pay for improvements to the condition and public accessibility of places:

- A one per cent increase in the proportion of places in good condition is valued at \$1.35 per person per year.<sup>34</sup>
- A one per cent increase in the proportion of places that are accessible to the public is valued at \$3.60 per person per year.<sup>35</sup>

This result indicates that people, on average, value accessibility more highly than condition.

With respect to *Age Mix*, respondents signaled a preference for a mix of places from old and more recent periods. The results indicate that an increase in the proportion of heritage places exceeding 100 years old would *reduce* respondent welfare (i.e. income) by \$0.20 per year for every 1 per cent increase in the proportion of places aged 100 years or more.<sup>36</sup>

<sup>34</sup> In the survey the assumed 'no change' level is 15 per cent of properties in good condition by 2020 (i.e. a fall from the existing 20 per cent).

<sup>35</sup> In the survey the assumed 'no change' level is 5 per cent by 2020).

<sup>36</sup> The 'no change' level for this attribute was an 85:15 mix of old (i.e. 100 years of age or greater) and new (i.e. less than 100 years of age) places.

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*Development Control* was included in the choice experiment because focus group discussions during the design phase of the questionnaire revealed a mix of public opinion about the merits of more stringent controls on what modifications can be made to heritage places. In the background information provided with the questionnaire, survey participants were told that:

Some form of control is necessary to protect heritage places, but the level of control could vary depending on the heritage outcomes being sought. Under the current system, substantial modifications are permitted to heritage places, although approval for demolition is rare. Over the next 20 years, demolition approvals may become more common as it is becoming more difficult to control development.

Thus, the ‘no change’ level for this attribute is ‘demolition permitted subject to assessment.’ Based on the focus group discussions (see box 5.1), it was hypothesised that a move to more stringent development controls would be viewed as a cost by many respondents, either incurred personally (for those living in a heritage listed property) or indirectly (due to restrictions on what could be built in heritage areas). However, the results indicate otherwise.

On average, respondents are willing to pay \$39.50 per person per year to change the level of development control from one of ‘demolition permitted’ to a slightly more stringent protection policy of ‘substantial modifications permitted — but no demolition’. Respondents are willing to pay an additional \$13.57 per person for a further tightening of controls such that only ‘minor modifications’ are permitted. However, going the next step to ‘no modifications permitted’ reduces utility. Relative to the base case in which demolition is permitted, respondents are only willing to pay \$2.38 for this scenario. These results suggest that people perceive development controls to be an important policy instrument for protecting heritage and are not in favour of demolition but do value a system that allows property developers/owners the flexibility to undertake minor modifications.

#### *Valuation of alternative historic heritage outcomes*

The implicit prices associated with the attributes (see table 5.8) allow a wide range of different outcome scenarios to be evaluated in terms of respondent willingness to pay for changes relative to a base case.

Table 5.9 provides an illustrative example of how the implicit prices can be used in this way:

- The second column outlines the assumed current level of each attribute (as provided to respondents in the questionnaire).
- A hypothetical package of attribute changes — to be delivered by 2020 — is listed in the third column.
- The unit values for each of these changes are listed in column four (sourced from table 5.8).
- The last column contains the average amount respondents are willing to pay per person, each year, for the change. In this example, on average, people are willing to pay slightly more than \$105.90 each year for a relatively modest

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package of changes. When aggregated to the national population aged 18 years or older, this value equates to \$1.4 billion per annum.<sup>37</sup>

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<sup>37</sup> This value is a gross benefit. The costs of achieving the changes detailed in table 5.8 would need to be netted off this figure to determine the net value of the policy. Given that costs would accrue through time, this analysis should be performed within a benefit-cost framework, with an appropriate discount rate applied.

Table 5.9

**EXAMPLE SCENARIO VALUATION**

Attribute	Current level	Change by 2020	Implicit price (per person, per year)	Units of attribute change	Annual aggregate value (per person)
Places protected from loss	200 000 places on heritage lists <sup>a</sup>	8000 extra places on heritage lists	\$5.53	per 1000	\$44.27
Proportion of sites in good condition	20%	20% point increase in the sites in good condition	\$1.35	per 1% increase	\$27.04
Age Mix (proportion of sites over 100 years old)	80%	15% point reduction in the number of houses over 100 years of age on heritage lists	\$0.20	per 1% reduction	\$3.04
Proportion of places accessible to the public	10%	5% point increase in the number of places accessible to the public	\$3.60	per 1% increase	\$17.98
Development Control	Substantial modifications permitted	Only minor modifications permitted	\$13.57		\$13.57
				<b>TOTAL</b>	<b>\$105.90</b>

<sup>a</sup> The figure of 200 000 is for context purposes only as many places on heritage lists are not guaranteed of protection.

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## Chapter 6

# Who pays for the conservation of historic heritage places?

Heritage conservation (i.e. maintenance, restoration, reconstruction and adaptation) is overwhelmingly paid for by private interests (i.e. households, corporates and non-profit bodies) in a couple of ways:

- voluntarily — this may be as a result of:
  - owners who desire to live, work or invest in a heritage place. This is undertaken when the marginal benefit of such conservation exceeds the marginal costs;
  - visitors to heritage places contributing to their maintenance — table 5.3 shows estimated tourist expenditure at heritage sites over recent years; or
  - people who contribute to heritage conservation (e.g. through donations, etc) out of a sense of altruism or societal philanthropy.

On its own, however, voluntary support for heritage conservation will provide an inadequate level of protection because of the existence of a number of market failures (see chapter 2);

- non-voluntarily — through the process of listing or other regulatory intervention some owners will be required to expend resources in a manner that they would not otherwise choose. This may be either:
  - a positive requirement (e.g. to spend money to maintain the condition and integrity of a place); or
  - a negative requirement (e.g. to not use a place in a way that they would otherwise choose to).

Heritage protection is also supported by spending by all three levels of government, although spending appears to have declined in real terms in recent years (see table 6.1, next page).

Given that the vast majority of heritage places are in private ownership, it is reasonable to suggest that private expenditure on heritage conservation exceeds explicit government expenditures by orders of magnitude.

There is, however, a general understanding that existing government support for historic heritage places is insufficient to adequately support public and private maintenance of heritage places that are not being voluntarily conserved by private parties. This is likely to be a growing concern given the real decline in government funding for historic heritage conservation (see table 6.1).

Table 6.1

**EXPENDITURE BY AUSTRALIAN GOVERNMENTS ON THE HISTORIC ENVIRONMENT**

	2001-02		2004-05	
	Expenditure	Expenditure per capita	Expenditure	Expenditure per capita
Commonwealth	\$103 million	\$5.24	Not available	Not available
NSW	\$29 million	\$4.37	\$29.5 million	\$4.35
Victoria	\$9 million	\$1.85	\$8.2 million	\$1.63
Queensland	\$3 million	\$0.81	\$4.1 million	\$1.05
WA	\$3.4 million	\$1.76	\$6.1 million	\$3.08
South Australia	\$3.6 million	\$2.37	\$4.1 million	\$2.66
Tasmania	\$2.4 million	\$5.08	\$2.5 million	\$5.30
ACT	\$1.8 million	\$5.59	\$1.4 million	\$4.20
NT	\$1 million	\$5.05	\$2.6 million	\$12.60
<b>TOTAL</b>	<b>\$156.2 million</b>	<b>\$7.95</b>		

Note for 2001-02: The Commonwealth value includes \$70 million of Federation funding. The NSW value includes only expenditure by the Historic Houses Trust (\$20 million) and the Heritage Office (\$9 million which includes a one-off grant program of \$1.7 million). The Victorian figure represents only the combined operating and project budgets of the Heritage Council and Heritage Victoria. Abnormal items not included: one-off State/Commonwealth funding of \$33 million for National Heritage Trails in Queensland; and \$8.3 million in one-off grants to the National Trust of WA.

Note for 2004-05: The NSW value includes only expenditure by the Historic Houses Trust (\$21.8 million which includes a capital amount of \$2 million for the conservation of the Mint buildings) and the Heritage Office (\$7.7 million). The Victorian figure represents only the combined operating and project budgets of the Heritage Council and Heritage Victoria. The ACT value reflects actual expenditure for 2004-05 rather than the combined budget estimates for \$1.629 million for 2004-05 comprising the heritage component of the Department of Urban Services (up to November 2004) and the Chief Minister's Department (from November 2004). The WA figure includes a \$1.45 million grant to the National Trust.

Source: National Incentives Taskforce 2004, *Making Heritage Happen: Incentives and Policy Tools for Conserving Our Historic Heritage*, Environment Protection and Heritage Council, Adelaide, p. 40; Budget estimates figures from each state and territory accessed online; Australian Bureau of Statistics 2003, *Population Projections, Australia*, Cat. No. 3220.0, Canberra.

Also, there is a concern that the current heritage arrangements result in a degree of cross-subsidy. In particular, involuntary payments by private landowners are being used to pay for non-use benefits captured by the community now and in future generations (i.e. the cross-subsidy is inter-temporal).<sup>38</sup> In effect, owners of heritage properties provide a significant portion of funding for non-use benefits captured by the wider community.

However, this cross-subsidy may not be as broad or significant as it may first appear. This is because:

- any costs associated with listing are likely to be a one-off occurrence:

Where there is a fall in value associated with listing ... then this tends to be a one-time cost, normally borne by the owner of the building at the time of listing. After listing, the property market tends to inform itself of the implications of listing and factor this into value calculation.<sup>39</sup>

<sup>38</sup> Protection of world heritage places by governments also likely results in cross-subsidy between Australian taxpayers and overseas residents — D. Throsby 1997a, op. cit., p. 26.

<sup>39</sup> Urban Consulting Group 1994, op. cit., p. 132.

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- the community's perception of the longer term costs associated with listing tend to be overstated, particularly if listing is part of a structured heritage strategy rather than an isolated one-off listing.<sup>40</sup>

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<sup>40</sup> See The Allen Consulting Group 2005b, *op. cit.*

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## Chapter 7

# Summary and recommendations

### 7.1 Concluding observations

Historic heritage places are an integral component of our social identity. This is not simply the views of the historic heritage community, but is accepted by the vast majority of Australians (see figure 7.1). Indeed, the level of community understanding about the social value derived from historic heritage places (as revealed by the survey commissioned by the Heritage Chairs and Officials) shows a depth of understanding about historic heritage that has not necessarily been appreciated to date (although there are some notable gaps related to heritage tourism and the protection of more recent heritage places).

Figure 7.1

#### PROPORTION OF RESPONDENTS WHO 'AGREED' OR 'STRONGLY AGREED' WITH THE FOLLOWING STATEMENTS



Source: The Allen Consulting Group 2005b, *Valuing the Priceless: The Value of Historic Heritage in Australia*, Research Report 2, Heritage Chairs and Officials of Australia and New Zealand, Sydney.

Consistent with the findings in figure 7.1, the majority of the community voluntarily supports the conservation and maintenance of heritage places because they receive a range of benefits (i.e. value) from such places (see table 7.1 for a typology of heritage benefits/values). In particular, most property owners see it as being in their (financial and other) interest to voluntarily conserve their property's historic heritage character.

Table 7.1

**BENEFITS/VALUES ARISING FROM HISTORIC HERITAGE PLACES**

	Use values		Non-use values		
	Direct use values	Indirect use values	Option values	Bequest values	Existence values
Definition	Outputs that can be consumed directly	Societal or off-site benefits	Potential future direct and indirect use values	Value of availability for future generations	Value from knowledge of continued existence
Examples	Use of a heritage place by an owner as a home, a business Use of the heritage place for tourism, recreation, leisure, entertainment, etc	Broader benefits related to community image, environmental quality, aesthetic quality, social interactions, etc	Conservation of a heritage place for potential future use	Conservation of a historic legacy for future generations	Identity, uniqueness, significance

Source: I. Serageldin 1999, *Very Special Places: The Architecture and Economics of Intervening in Historic Cities*, The World Bank, Washington.

However, the nature of some of the benefits identified in table 7.1 means that the market may not always provide a socially optimal level of protection for historic heritage places (i.e. the market can fail). In particular, the market may fail to provide adequate protection because of the public good nature of heritage, inadequate information in the marketplace regarding the benefits and costs of built heritage and its conservation, and the failure of heritage owners to account for the benefits for current and future generations. In such circumstances, there are grounds for government to assist the market in providing the optimal level and scope of heritage protection.

The community also sees a major role for government in heritage conservation. Indeed, when presented with an overview of the current state of play in heritage conservation, 61.9 per cent of survey respondents suggested that ‘too little is being done’ to protect historic heritage (see figure 5.3).<sup>41</sup>

Importantly, the choice modelling analysis demonstrates that the public is willing to pay for improved historic heritage outcomes.<sup>42</sup> For instance, on average, survey respondents were willing to annually pay:

- \$5.53 per 1000 additional heritage places protected by 2020;
- \$1.35 per one per cent increase in the proportion of places in good condition in 2020;
- \$3.60 per one per cent increase in the proportion of places that are publicly accessible in 2020; and
- \$39.50 to change the forecast development controls by 2020 from ‘demolition permitted’ to ‘substantial modifications permitted but no demolition’.

<sup>41</sup> The Allen Consulting Group 2005b, op. cit.

<sup>42</sup> Ibid.

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However, respondents signaled a preference for a mix of places from old (i.e. 100 years of age or more) and new (i.e. less than 100 years of age) heritage places, and so an increase in the proportion of heritage places exceeding 100 years of age would *reduce* respondent welfare (i.e. income) by \$0.20 per year for every 1 per cent increase in the proportion of places aged 100 years or more.

As an example, governments could commit the resources to achieve the following historic heritage outcomes by 2020 — 8000 extra places protected; an increase from 20 per cent to 40 per cent of historic heritage places in good condition and integrity; a reduction in the percentage of protected historic heritage places over 100 years old from 80 per cent to 65 per cent (i.e. a more diverse age mix of protected historic heritage places; an increase in the proportion of historic heritage places accessible to the public from 10 per cent to 15 per cent; and a tightening of development controls so that only minor modifications are permitted to historic heritage places.

On average, people are willing to pay slightly more than \$105.90 each year for such a package of changed outcomes. When aggregated to the national population aged 18 years or older, this value equates to a willingness to pay of \$1.6 billion per annum.

When considering how government can best assist in the conservation of historic heritage places, the Heritage Chairs of Australia and New Zealand suggest that the following interrelated factors to be taken into account:

- The level of government financial support for historic heritage protection is inadequate to support a comprehensive and equitable system of heritage protection.
- Heritage needs to be seen as an integral part of a comprehensive planning process, rather than an adjunct. The rights of development are not unfettered for a large range of policy reasons (e.g. transport, zoning, etc), and heritage should be integrated so that it is seen on a consistent basis with the other constraints.
- Listing should remain the core policy instrument for the protection of heritage places. In this regard, however, there are a number of specific observations:
  - Listing needs to remain a mandatory process (i.e. owners of properties should not be provided with discretion as to whether their property is listed). Ownership is transitory, but the permanent nature of heritage characteristics means that a degree of permanency and compulsion is required.
  - There is a need to increase the comprehensiveness of the listings so as to reduce uncertainty for the community. However, research to increase the comprehensiveness of the lists should be targeted at gaps in the heritage listings, rather than focusing on absolute coverage as a goal in itself.
  - Listing needs to be complemented by a suite of policy instruments tailored to the particular market failures that exist.
  - Listing should be seen as a signal for future management (as intended), rather than a blanket prohibition on development. In this regard, there is a need to increase the community's understanding of what listing actually entails. A starting point for this is for lists to more clearly identify the heritage characteristics that are the reason for the listing.

- To measure the effectiveness of heritage protection there is a need to undertake regular assessments of the state of heritage places throughout Australia. In this regard, the *State of the Environment Report*<sup>43</sup> should be supported as the key performance monitoring mechanism.
- Heritage is a shared responsibility across the three levels of government:
  - all levels of government need to work collaboratively to resolve national aspects of heritage policy, in the interests of Australia as a whole, but with the Australian Government providing a leadership and support role;
  - the Australian Government has responsibility for supporting the conservation of places of national and international heritage significance;
  - the States and Territories should have primary responsibility for planning and funding allocation with respect to heritage places within their jurisdiction, even though many of the responsibilities for implementation may exist with local government. The States should provide a leadership and support role to local government; and
  - local government has primary responsibility for delivery of on-the-ground heritage support to communities within the boundaries provided by the relevant State Governments.
- There is a need for additional support for:
 

the collection of data and the development of reliable estimates of the economic impact of heritage tourism activities, at both national and regional levels. Reliable estimates would assist in effective policy development, raise awareness in tourism and in government of the economic benefits which accrue from Australia's heritage assets, and provide a benchmark against which to assess future industry performance.<sup>44</sup>
- Public interest in heritage is on an upward trajectory. Thus, policy developments need to be framed to meet the community's current needs, but also its expanded future needs.

## 7.2 Recommendations

The Chairs of the Heritage Councils of Australia and New Zealand recommend that:

1. The National Heritage Framework should be reinvigorated and agreed by the Environment Protection and Heritage Council. The approach needs to be developed and supported by all levels of government, with the Australian Government providing leadership and support.
2. The National Heritage Framework should include a number of specific policy agreements encompassing issues such as (but not excluded to):
  - agreed roles and responsibilities between the Australian Government and State and Territory Governments on policy issues;

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<sup>43</sup> J. Lennon, M. Pearson, D. Marshall, S. Sullivan, P. McConvell, W. Nicholls and D. Johnston 2001, *Natural and Cultural Heritage, Australia State of the Environment Report 2001 Theme Report*, CSIRO Publishing on behalf of the Department of the Environment and Heritage, Canberra.

<sup>44</sup> P. Robins 2000, 'BTR research relevant to heritage tourism: Past findings and future potential' in *Conference Proceedings — Heritage Economics: Challenges for Heritage Conservation and Sustainable Development in the 21<sup>st</sup> Century*, Australian Heritage Commission, Canberra, pp. 93-97, p. 96.

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- nationally agreed listing criteria and thresholds for all three levels of government;
  - national guidelines for the conservation, development and management of heritage places;
  - the framework for the collection of data and the development of reliable estimates of the economic impact of heritage tourism activities, at both national and regional levels; and
  - nationally agreed measures for state of environment reporting on historic heritage that can be used by all levels of government.
  - a comprehensive and sustainable incentives program across all jurisdictions in accordance with the recommendation in *Making Heritage Happen*.
3. The *State of the Environment Report*<sup>45</sup> should be confirmed as the key ongoing performance monitoring mechanism for the conservation of historic heritage places, with appropriate financial support provided to match its status to facilitate this at all levels of government.
  4. Recommendations identified in the National Tourism and Heritage Taskforce's *Going Places: Developing Natural and Cultural Heritage Tourism in Australia*<sup>46</sup> should be advanced without further delay through the Environment Protection and Heritage Council and the Heritage Chairs and Officials of Australia and New Zealand.
  5. A sustainable and comprehensive historic heritage incentives programme, in accordance with the recommendations and potential actions identified in the National Incentives Taskforce's *Making Heritage Happen: Incentives and Policy Tools for Conserving Our Historic Heritage*<sup>47</sup> should be advanced without further delay through the Environment Protection and Heritage Council and the Heritage Chairs and Officials of Australia and New Zealand.
  6. The National Tourism and Heritage Taskforce should investigate the findings of the research, commissioned by the Heritage Chairs and Officials of Australia and New Zealand,<sup>48</sup> which indicates that the relationship between cultural heritage and tourism is not well recognised in the public realm.

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<sup>45</sup> J. Lennon, M. Pearson, D. Marshall, S. Sullivan, P. McConvell, W. Nicholls and D. Johnston 2001, op. cit.

<sup>46</sup> National Tourism and Heritage Taskforce 2003, op. cit.

<sup>47</sup> National Incentives Taskforce 2004, op. cit.

<sup>48</sup> The Allen Consulting Group 2005b, op. cit.

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## Appendix B

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