



Making heritage happen

Incentives and Policy Tools for
Conserving Our Historic Heritage

National Incentives Taskforce
for the



EPHC
Environment Protection and Heritage Council

April 2004

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Any views expressed or recommendations made in the report are those of the Taskforce, and do not represent the views or policies of Commonwealth, State, Territory or Local Governments.

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Section One

Introduction

1.1 Background

On 2 May 2002, the *Environment Protection and Heritage Council* (EPHC), consisting of Commonwealth, State and Territory environment and heritage ministers, requested that a taskforce be established to examine incentives and other policy tools to promote heritage conservation, and to develop recommendations on the application of these tools.

Accordingly, the purpose of this report is to survey the historic heritage incentives currently offered in Australia and internationally; compare them with incentives for nature conservation; examine their effectiveness or otherwise; and draw conclusions about potential reforms that should be considered to support Australia's historic heritage.

'Historic heritage' is taken to include heritage buildings, structures, sites and areas. However, in this report there is an emphasis on historic buildings. The report does not cover heritage objects or intangibles such as languages, folklore and legends.

The Heritage Incentives Taskforce was established with the following members:

- David Conlon (Chair), Heritage South Australia
- Ian Baxter, Heritage Council of Western Australia
- Susan Bell, Environment ACT
- Meg Switzer, Commonwealth Department of the Environment and Heritage
- Stephen Sutton, Northern Territory Office of Environment and Heritage

- Ray Tonkin, Heritage Victoria

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1.2 Pressures on historic heritage places: the nature of the problem

To analyse and implement effective conservation solutions, it is useful to understand the nature of the problem and the pressures that face heritage properties.

Trends in the state of the historic heritage are best measured in terms of condition, integrity, and the rate of loss (through demolition).

Condition and integrity

The report *Natural and Cultural Heritage: Australia State of the Environment 2001* highlighted the fact that there is no comprehensive information available on the condition and integrity of Australia's historic heritage.

However the report did include a sample survey of historic places in the Register of the National Estate which found that:

- 5.6% of places were in poor condition;
- 8.6% of places had low integrity (ie. the intactness of the original fabric that gives heritage value was low); and
- 6% of places were vacant.¹

The finding of a 2001 survey by the Heritage Council of WA, which sampled 56% of registered places in that state, was that 13% of places were in “At-Risk” condition. At-Risk places were either in Poor Condition, or in Fair Condition but vacant.²

Loss of heritage places

A comprehensive survey of the loss of heritage places at a national level has not been attempted in Australia. The State of the Environment report noted that 54 historic places had been removed from the Register of the National Estate because of destruction or loss of values, during the five-year reporting period.³

However the Register of the National Estate represents only a very small part of Australia’s historic heritage, the majority being identified in local heritage lists. For instance, in Victoria alone, there are over 80,000 places covered by ‘heritage overlays’ in local planning schemes.

Some local governments have recorded the rate of demolition in local State of the Environment (SOE) reports or in heritage study reviews. For instance, the City of Orange reports the loss of 5 items in the five years to 2002 from the 110 places in the Local Environment Plan. The City of Fairfield in Sydney reports the loss of 7 places in the five years to 2002, from 105 places identified in the Fairfield Heritage Study. In the Town of Cottesloe in Perth, 24 places in the local heritage inventory were demolished in the seven years between the compilation of the inventory in 1995 and its review in 2001/02 (24 of 370 places, a rate of loss of nearly 1% per annum).⁴

A pointer to the likely *national* trend can perhaps be drawn from an overseas study commissioned by the Department of Canadian Heritage in 1999, which found that 22% of Canada’s pre-1920’s historic heritage had been demolished in the 29 years since 1970.⁵

The precise rate of demolition occurring nationwide in Australia cannot be stated with confidence, without comprehensive analysis of the kind undertaken in the Canadian study, or without a comprehensive ‘state of the environment’ audit.

However on the basis of partial evidence offered at the local level, it is possible that the continuation of current trends could lead to the loss by 2024 of 10-15% of the heritage places that are extant in 2004.

Sources of pressure

The *State of the Environment* report identified a number of factors that contribute to the loss of historic heritage places including:

- urban redevelopment pressures;
- urban consolidation affecting the heritage character of older suburbs;
- abandonment of rural structures because of changing technology and new markets or products;
- loss of cultural landscapes through changing rural use patterns;
- population losses or gains;
- declining public sector budgets;
- public building redundancy, especially in rural areas (eg. railways, post offices, banks, schools);
- information and awareness failures; and
- market and policy failures (eg. market failure occurs where the level of conservation work undertaken is less than if account was taken of the full environmental, social and economic factors).⁶

1.3 Why conserving historic heritage is important

Australians are becoming more aware of the importance of conserving our historic heritage. Heritage places and objects provide us with cultural and physical links to the past. They help us understand the broad scope of our past, 'enrich people's experiences and understanding' and reflect 'the community's sense of cultural identity'.⁷

Heritage assets can also contribute to sustainable economic development and prosperity, by:

- providing landmarks that serve as economic development foci and community 'touchstones';
- providing one of the most important tourism drawcards in urban centres and regional areas;
- assisting small-scale and short-stay regional tourism such as local bed and breakfast businesses, small art and craft galleries and open garden schemes;
- attracting people and investment by enhancing the amenity or 'liveability' of towns and cities;
- creating proportionately more jobs than new construction and providing better local expenditure retention;
- providing environmental benefits through reduced demolition waste and reduced resources required to demolish-and-rebuild.⁸

Tourism plays an important part in the Australian economy, and it relies heavily on the continued sustainability of Australia's natural and cultural heritage assets. In turn, tourism provides owners and managers of heritage assets with income to maintain these assets. The EPHC has established a separate taskforce to consider the issues surrounding heritage tourism, which has reported separately in the 2003 report "Going Places".

1.4 Why we need incentives and other policy tools

Heritage listing and heritage protection is ultimately a 'public good' driven by the broader community. As such there is a strong expectation in the community that all levels of government should accept a significant part of the responsibility to ensure that places of heritage value are conserved. That expectation extends not only to the regulatory side of listing and protection, but also to financial aid and assistance.

In an environment with limited resources, regulation may appear attractive because it appears relatively 'cost free'. Governments can simply 'require someone to do something'. That may be the reason that regulation has traditionally been the predominant conservation tool in some countries, including Australia.

However, an effective heritage system is founded on a balance of 'sticks and carrots'. The lack of a meaningful level of 'carrots' undermines support from property owners for the system, makes regulation more difficult, and misses opportunities for garnering private investment.

Specifically, the purposes of heritage incentives are to:

- ensure that owners are not unduly disadvantaged by the constraints or extra expense that the regulatory system may impose;
- leverage private capital investment in conservation;
- generate additional conservation activity than would otherwise occur;
- counteract land use policies or other government programs that threaten heritage places; and
- ensure that as far as possible a 'level playing field' exists between restoration work and new construction.



Section Two

Incentives and tools

2.1 Introduction

This report examines a wide range of incentives and other policy tools.

The main focus of the report is on Government-led schemes, incentives and policies at the Commonwealth, State and Local Government levels. The report has not attempted to catalogue *every* approach that is being employed within Australia or internationally, but rather it focuses on the most well-established, effective or innovative approaches.

The report addresses to a more limited extent, some of the tools that non-government organisations and owners of heritage properties can utilise.

The report examines eleven main tools:

1. Tax incentives
2. Grants and loans
3. Planning incentives and other planning instruments
4. Heritage agreements
5. Revolving funds and conservation trusts
6. Encouraging use of heritage properties
7. Technical assistance
8. Labour and volunteers
9. Recognition and promotion
10. Client and customer relationships
11. Government-to-government assistance

For ease of presentation, each of these approaches is discussed individually. However, it should be recognised that a *combination* of complementary tools may produce 'synergistic' outcomes. For example, a grant or tax incentive scheme will work more effectively if supported by a technical advisory service, or may complement a heritage agreements program.

Separate chapters examine the questions of:

- funding sources for heritage incentives and other tools; and
- how to evaluate the effectiveness of heritage incentives.

While most of the tools discussed are more applicable to places in private ownership (eg. taxation benefits), other approaches can equally be applied to the conservation of public buildings (eg. grants, volunteer programs, improved client relationships).

2.2 Tax incentives

Tax incentives generally have one of three objectives: (a) to reduce the cost of maintenance or restoration; (b) to reduce the 'opportunity cost' of retaining a building rather than demolishing-and-rebuilding; or (c) promoting the flow of resources to non-profit bodies (in cash or property).

Tax incentives fall into four main groups, of which the first three are the most common:

- Property tax abatement schemes;¹
- Income tax rebates or credits for conservation work;
- Tax deductions for donations to heritage organisations or funds; and
- Other miscellaneous tax benefits.

2.2.1 Property tax abatements

How they work

This approach involves a full or partial reduction, freezing, or deferment of property taxes or rates. It can be achieved by adjusting the mill rate (ie. the tax rate per dollar of assessed value of property or land), by assessing land value at current use rather than highest and best use, by assessments at a set percentage of full value, by complete exemption, or by deferment. These forms can be applied for a specified time or indefinitely.

Access to property tax abatement schemes can be based on a requirement to undertake conservation work, or can be an automatic entitlement for all eligible properties. They are usually 'as of right' incentives rather than fully discretionary ones.

Such schemes are widely employed in North America, and a list of known schemes appears at Appendix 1, including available details of:

- the level of government which offers the incentive (Federal, State or Local); and
- the amount of funds involved.

■ Examples

In the United States, property tax reductions and freezes include the following:

- In San Antonio, Texas, owners of commercial properties receive a 100% reduction on their taxes for five years after a restoration project, plus a 50% reduction for a further five years. Owners of residential properties receive a 100% reduction for 10 years.
- Abilene Texas offers an interesting mix of 'entitlement' and 'performance-based' tax incentives: a 20% reduction of property taxes indefinitely for all listed properties; plus an additional reduction of 50% following a restoration project.
- In Alabama, property tax is set at 10% of the market value, instead of 20% for non-historic properties.
- Owners in Georgia or Florida are eligible for an 8-10 year freeze in taxes following a restoration project.
- In Washington DC, historic properties are assessed for rating purposes according to their actual rather than 'highest and best' use;
- Tax assessors may consider any reduction in property values attributable to easement restrictions in New Jersey, Tennessee and Virginia.
- Maine offers reimbursement of property tax in exchange for an owner's agreement to maintain a property.

- In Minnesota, local governments offers partial or full abatement depending on the age of the property; partial abatement on houses over 35 years old and full abatement for houses over 70 years old (but limited to houses valued under US\$150,000).

In West Germany, heritage properties are taxed at 40% of their value, or at 0% in some cases, with the level of abatement dependent on the cost of maintenance and the level of public access provided. In France owners receive a 50% tax credit for maintenance and restoration expenditure.

In Turkey, heritage properties are completely exempted from property taxes.

In the Northern Territory, all owners of declared heritage places are entitled to rate rebates - 75% of rates for residential properties and 25% for commercial properties.

Legislation in most Australian States and Territories provides for the Revaluation of heritage listed properties on the basis of actual use rather than 'highest and best' use. This can lead to reduced land tax assessments. A full summary of arrangements across Australia appears at Appendix 2.

In Victoria and Western Australia, the state heritage agency can grant land tax and rate remissions for places included in the register. However, the administrative procedures stipulated in the legislation are complex, and the tool has only been used in a limited number of cases.

Effectiveness

Property tax abatements are favoured by some governments internationally because they generally don't involve positive expenditure, help to contain growth in outlays, and maintain an illusion of being 'costless'.² Tax abatements can be seen by the public as an overt sign of government commitment to heritage conservation.

Property tax abatements are effective in offsetting the direct annual cost of maintaining a heritage property. However they tend to provide 'incremental' incentives that don't by themselves compensate property owners for foregone development opportunities on sites with high development potential.

The experience in the United States is that they are highly effective both in generating additional conservation activity, and on equity grounds.

Local Governments in Australia have traditionally been reluctant to offer municipal rate abatements out of concern for erosion of their revenue base, and to a lesser extent because of concern at being seen to 'play favourites'. Similar concerns over the use of Land Tax incentives have been expressed at the State Government level in Australia. However American analysis suggests that the cost to revenue is substantially offset by the strong multiplier effect associated with additional conservation activity.³

The Revaluation incentive is particularly effective on equity grounds, although mainly in relation to high-value commercial properties in central business districts.

2.2.2 *Income tax rebates or credits*

How they work

This incentive offers income tax credits or rebates for conservation work performed by tax-paying individuals or corporations. A tax credit applies a uniform percentage break to all qualifying expenditure, typically in the range of 20-30%.

This form of incentive is very common in the United States, with a long standing Federal scheme, and also many schemes offered by State Governments. Unlike their Australian counterparts, most American states levy income tax, at a rate around 4-5% of taxable income.

■ Examples

The US Federal Government offers tax credits of 20% of expenditure on approved heritage restoration work. In 2001 the total cost of the credits was \$520 million US (\$895 million AUS).

Approximately 18 US State Governments offer income tax credits of 20-50% of expenditure on approved restoration work, usually in addition to the Federal tax credits. If the owner's income tax is too low to allow the credit to be claimed in one year, the credit can be carried forward for an extended period (usually up to 10 years). Many States cap the cost of the tax credits at around \$3 million US per annum; however the state of Missouri budgets \$20 to \$40 million US per year for the scheme.

France offers owners a tax credit of 50% for expenditure on maintenance and improvement, or a 100% tax credit if the building is open to the public for a specified number of days each year.

Austria and West Germany offers 100% credits, spread over 10 years in both cases.

In Australia, an income tax rebate scheme, *Tax Incentives for Heritage Conservation*, operated from 1994-1999. The 20% rebate paid to applicants was capped at a total of \$2 million, thus potentially generating \$10 million of additional conservation works. An approved applicant had two years to complete the work and to claim the tax rebate. The scheme was discontinued partly due to its own lack of success, and partly as a Commonwealth policy response to the 1996 report of the National Commission of Audit, which argued that tax expenditures are less 'transparent' and 'accountable' than direct outlays.

Effectiveness

Income tax rebates are well suited to assisting owners with the ongoing cost of conserving a

heritage property. By comparison, performance-based *grants* provide less certainty for owners, and are better suited to assisting with major restoration projects that arise intermittently.

The effectiveness of tax credit schemes in the United States has been well documented and is discussed further in Section 4. The analysis of such schemes shows that:

- The schemes have been successful in generating conservation activity that would not otherwise have occurred.
- As a result, Governments offering such incentives may receive a net gain in tax revenue.
- The US Federal tax scheme experienced a major decline in its attractiveness as a result of 1987 rule changes that limited the amount of credit a taxpayer could use in one year to \$7,000, reduced the rebate from 25% to 20%, and increased the minimum threshold for project expenditure.⁴

The effectiveness of the Australian tax rebate scheme of the 1990s was limited by a number of factors:

- Administration of the scheme was unwieldy, involving decisions by multiple government departments, extensive paperwork, and lengthy waiting periods for applicants.
- The scheme was capped at a low level, which meant that it offered no benefit to large conservation projects (the Commonwealth and State heritage officials involved in designing the scheme recommended a cap of up to \$28 million, but instead it was set by the Commonwealth Government at only \$2 million).⁵ This also made the scheme a competitive process.
- The scheme did not allow for carrying forward of the rebate beyond one year, and

hence owners with a low annual tax liability in some cases forfeited part of the value of the rebate.

- Because of concerns for the confidentiality of tax information, individual success stories could not be used to promote the scheme.

Consequently, the statistical information available indicates a very low take-up rate. Nevertheless, the case for such a scheme still exists, and the *Report of the Built Heritage Conservation Resources Working Party* (1998) recommended its retention as a 'fair and efficient incentive scheme'.⁶ Schuster (1997) notes that 'a system built around tax-based indirect incentives...is a more certain one for intended beneficiaries. They can tell relatively easily if they will qualify to use one or another tax incentive, and their access to the incentive is often automatic'.⁷

While the *Australian Tax Incentives for Heritage Conservation* (TIHC) scheme was converted into an outlays program in 1999 (the *Cultural Heritage Projects Program*), the Landcare tax rebate/deduction scheme was retained until June 2001. The Commonwealth set aside \$80 million for the Landcare scheme, although it was undersubscribed. The Agrans Review of the Landcare Rebate noted the shortcomings of the scheme, made suggestions for change, but recommended its retention.⁸

While the TIHC scheme was replaced by the Cultural and Heritage Projects Program, the total level of Commonwealth incentive declined. The National Estate Grants Program and the TIHC scheme together provided approximately \$6 million in 1995; in 2002 the Cultural Heritage Projects Program provided \$3.6 million.

This report recommends (supported by the majority of the Taskforce) the revival of the *Tax Incentives for Heritage Conservation* scheme, under arrangements designed to improve its effectiveness, as follows:

- i. The cap on total annual rebates should be set at not less than \$20 million;
- ii. Administrative procedures and accountability checks should be simplified, preferably with application-assessment delegated fully to the State heritage agencies;
- iii. Applications should be accepted on an ongoing basis, not limited to once-per-year;
- iv. The recipient should be able to carry forward the rebate over multiple financial years.

The Commonwealth is not supportive of the reinstatement of the tax rebate scheme, on the grounds that (a) such schemes still require application-assessment processes and therefore may be more efficiently, effectively and transparently delivered through grant programs, and (b) grant programs allow taxpayers funds to be better targeted at heritage conservation projects that are of highest priority.

2.2.3 Tax deductions

How they work

Tax deductions take two main forms:

- (a) A tax concession that allows the value of donations to be deducted from the taxable income of donors, thereby increasing the flow of resources to non-profit historic heritage organisations; and
- (b) A tax concession that allows an owner to claim an income tax deduction for any *decrease in land value* as a result of entering into a conservation covenant.

Examples from overseas and from nature conservation in Australia are summarised below, followed by an overview of the relevant tax law in Australia.

■ Examples

In the United States, individual or corporate property owners can claim as a tax deduction the reduced value of a property that is the subject of a 'preservation easement' (essentially the equivalent of a Heritage Agreement or covenant in Australia). The pre-and-post easement values must be assessed by a licensed valuer. This form of deduction has been extensively used since the 1970s, and is comparable to the tax deduction for conservation covenants introduced in Australia in 2001 (see below).

In addition, donations of cash or property to non-profit historic preservation organisations such as Revolving Funds, qualify for Federal income tax deductions, and are the subject of considerable philanthropic giving.

In the United Kingdom, donations of property to the National Trust, English Heritage or other non-profit bodies are exempted from inheritance tax.

In Spain, individuals can claim as a tax deduction, 20% of the value of cash or property donated to a heritage-related foundation or association. Companies can claim a full deduction of 100% of the value of a donation.

In Singapore, donations to the National Heritage Board are tax-deductible. In addition, the Heritage Central Fund Scheme established in 2002 allows approved non-profit bodies to open tax-deductible accounts with the National Heritage Board.

In Australia, donations to environmental organisations of property valued at \$5,000+ are tax-deductible. Any taxpayer can claim a donation (an individual, trust or company). Deductions may be apportioned over five years so that tax benefits are not lost when a donor's income in a single year is less than the value of the gift.

Donations must be to an eligible organisation that appears in the Register of Environmental Organisations. There were approximately 300 organisations in the Register in June 2003, comprising corporate bodies, cooperative societies, trusts, and unincorporated bodies established for a public purpose by a Commonwealth, State or Territory. Statutory authorities are not eligible if their enabling legislation provides that its property 'be given or transferred to the Crown as the body's beneficiary or controller'.

In addition, amendments to the tax law in October 2001 allow an owner to claim an income tax deduction for any *decrease in land value* as a result of entering into a conservation covenant.

In the United States, where bargain sales of land to conservation trusts take place, the gap between full market value and the price paid by the charity is considered a donation, and is therefore tax deductible.

Effectiveness

Tax deductions for donations to historic heritage conservation in Britain and the United States have proven effective in increasing the flow of resources (in cash or property) to heritage organisations, and to the projects that they undertake. For instance, the National Trust of England received donations totalling over £3,300 million in 2002/03, and English Heritage received donations totalling £654 million in the preceding year.⁹

The same is true of more recent tax reforms for nature conservation in Australia, as evidenced by the success of the revolving funds for nature in the last five years.

A divergence of view exists in the Taskforce on the issue of donations to *government* heritage funds. The view of the states and territories is that donations to government funds should be tax

deductible, on the grounds that (a) specific projects are capable of attracting donations; (b) suitable funds already exist in most states (or if separate funds are required that could readily be achieved); and (c) various other government activities and entities already enjoy tax deductible status, such as museums, libraries, art galleries, and public hospitals.

The Commonwealth is not supportive of donations to government funds being tax deductible, 'on efficiency and effectiveness grounds'. Environment Australia contends that 'providing deductible gift recipient status to government funds would require a number of actions, including changes to the Tax Act, the establishment and administration of separate gift funds in each jurisdiction (as required under the Tax Act), and potentially some legislative change within States and Territories to establish these gift funds. It is unlikely that the public will make significant (if any) donations to government funds, thus calling into question the cost effectiveness of making the relevant legislative changes and establishing and administering the gift funds. Furthermore, where donations are made to government funds, it may be at the expense of donations that would otherwise have been made to non-government organisations'.¹⁰

Other relevant issues in Australian Tax Law

Other relevant issues in Australian tax law include the following:

- The tax deductibility of donations to organisations in the Register of Cultural Organisations, specifically excludes historic heritage. The Register covers arts, literature, performing arts, crafts and movable cultural heritage.
- The tax deductibility of donations to the National Trusts in each State and Territory, under section 30-55 of the Tax Act, does not

rely on the Trust being included in the Registers of environmental or cultural organisations. A practice has developed in some states for the National Trust to conduct conservation appeals on behalf of other organisations for heritage listed churches, cemeteries and community buildings.¹¹

- The Report of the Inquiry into Charitable and Related Organisations released in June 2001, recommended among other things that 'charitable purposes' should include 'the advancement of culture, which ... includes the promotion and fostering of culture and the care, preservation and protection of the Australian heritage' (Recommendation 13). In the Commonwealth Government's Response to the Inquiry, the Government announced that it would enact a legislative definition of charity. Within that definition, charitable purposes would embrace 'the advancement of culture' which includes the historic heritage.¹²

The deductibility of donations for environmental heritage and moveable heritage is separate to the definition of 'charitable purposes' in the Tax Act. However the charities inquiry may have implications for the review of deductibility for historic heritage that is recommended in this report.

In July 2003 the Federal Treasurer issued the *Charities Bill 2003* as an exposure draft. The Heritage Chairs and Officials made a submission to the Board of Taxation, who reported to the Treasurer on all submissions in December 2003.

2.2.4 Other miscellaneous tax benefits

Stamp duty exemptions

How they work

This approach involves full or partial reduction of stamp duty on sales of heritage listed properties, with the aim of encouraging investment in heritage conservation.

In the case of New South Wales where stamp duty on conveyances ranges from 1.25% to 4.5% on sales of more than \$300,000, and 5.5% for sales greater than \$1 million, a 50-100% reduction would represent a significant saving for purchasers.

■ Examples

In the United Kingdom, an exemption from duty when buying or leasing a property or buying shares applies to:

- a charitable body;
- English Heritage; and
- the Trustees of the National Heritage Memorial fund.

In the United States, transfer taxes are waived for transfers to or from Revolving Funds in some states.

In Victoria, transfers from the *Trust for Nature* are exempt from Stamp Duty.

Some Australian states have provided stamp duty exemptions or rebates for purposes *other than* conservation, such as the rebate for First Home Buyers in NSW, Victoria, and WA; or the exemption for donations to superannuation funds in WA.

Sales tax exemptions

How they work

Some governments exempt or reduce sales tax payable on goods purchased for heritage restoration work.

■ Examples

In Nova Scotia, the provincial government provides a rebate of 53% on sales tax paid on the purchase of building supplies for heritage conservation projects.

This option is not applicable in Australia, since sales taxes were superseded by the Goods and Services Tax in 2001, and the Commonwealth Government is committed to retaining an across-the-board application of the GST.

Accelerated depreciation and bond issues

How they work

The 1998 Report of the Built Heritage Conservation Working Party recommended consideration by government of two incentives:

- An increase in the depreciation rate for heritage-listed buildings to 10% (equivalent to an effective life of 10 years), compared with the depreciation rate of office and retail buildings of 2.5% (40 years) and industrial and hotel buildings of 4% (25 years). This reform was also recommended by the Report of the Working Party to the Planning Ministers in 1986, which proposed an 8% depreciation rate.¹³
- Approval by the Tax Office of 'Heritage Bonds', designed to attract investment into heritage conservation projects by offering high rates of return and tax deductions.

■ Examples

In the United States, conservation bonds, annuities and share issues receive favourable taxation treatment especially in relation to capital gains and estate taxes.

In Australia, Infrastructure Bonds were created in the 1990s to encourage investment in major projects such as Melbourne's Transurban CityLink, but were discontinued in 1996. Bonds issues prior to 1996 were exempted and continue to roll over.¹⁴

Infrastructure Bonds functioned in the same way that Heritage Bonds would, save that they promoted investment in infrastructure projects rather than heritage conservation projects.

Effectiveness

The Heritage Bonds proposal may be problematic, as the Infrastructure Bonds program was discontinued by the Commonwealth in 1996 because of concerns over abuse of the scheme.

The proposal for an increase in the amortisation rate for heritage buildings may merit further consideration. It would increase tax deductions from value added to heritage buildings through restoration, and complement a tax rebate scheme.

Capital tax exemptions

How they work

Capital tax exemptions take one of two basic forms:

- Exemption from tax payable on assets from a deceased estate (inheritance tax or other relevant taxes); and
- Exemption from Capital Gains Tax payable on the lump sum profit arising from an asset re-sale.

■ Examples

In the United Kingdom, exemption from Inheritance Tax can be claimed where the transfer involves qualifying heritage assets, including historic buildings. Exemption is also available where qualifying heritage assets are transferred into an approved trust fund established for maintenance purposes. Exemptions depend upon certain undertakings: usually limited public access (eg. 1 open day per year), and a maintenance agreement.

In Australia, gifts of property bequeathed in a will to an eligible nature-conservation organisation are exempt from capital gains tax, under changes legislated in May 2000.

Effectiveness

Of the 'Miscellaneous tax benefits' outlined above, those with the best-established record in increasing the flow of resources to heritage organisations, or increasing the level of conservation activity, are:

- Exemptions from stamp duty for sales of heritage places in specific circumstances; &
- Exemptions from inheritance tax payable on heritage properties.

Australia does not have inheritance taxes; however the capital gains tax exemption for properties bequeathed in wills to nature conservation organisations, could be applied to historic heritage.

2.3 Grants and loans

Grants schemes, and to a lesser extent loan schemes, are the most common forms of assistance provided by governments.

The following chapter discusses the various options available.

A list of grant and loan schemes known to be in operation in Australia is shown in Table 1 and 2 below. For comparisons between Australian and overseas incentive schemes, see Section Five.

Table 1 - COMMONWEALTH, STATE & TERRITORY GRANTS & LOANS - 2001/2002 *

| INCENTIVES | C/Wealth | NSW | VIC | QLD | WA | SA | TAS | ACT | NT |
|---|---------------|---------------|---------------|-----------|-----------|-------------|-----------|-----------|-----------|
| Recurrent' Grants | | | | | | | | | |
| Cons'n works (private) | \$1,312,000 | \$382,000 | \$352,000 | \$20,000 | \$349,000 | \$407,000 | \$250,000 | \$31,000 | \$253,000 |
| Cons'n works (public) | \$1,959,000 | \$1,589,000 | \$4,057,000 | \$28,000 | - | \$1,300,000 | | \$39,000 | \$114,000 |
| Survey, planning, advisory services | \$348,000 | \$829,000 | \$750,000 | \$202,000 | \$99,000 | | | \$169,000 | - |
| S/Total | \$3.6 million | \$2.8 million | \$5.2 million | \$250,000 | \$448,000 | \$1,707,000 | \$250,000 | \$239,000 | \$367,000 |
| Loans | | | | | | | | | |
| Direct loans | | | \$174,000 | | - | | | | |
| Subsidised loans | | | | \$250,000 | | | | | |
| Cost of loan subsidies | | | | \$7,500 | | | | | |
| Other Grants | | | | | | | | | |
| Rural Hotels Program | \$5 million | | | | | | | | |
| Federation Fund Cultural & Heritage Projects Prgm | \$70 million | | | | | | | | |
| END NOTE | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 |

* This table provides information on grant and loan schemes (ie. incentives to third parties) provided by Commonwealth, State and Territory and heritage agencies. It does not provide a comprehensive analysis of all forms of expenditure on heritage conservation by governments or non-government organisations.

The Commonwealth's Federation Fund Cultural & Heritage Projects Program, and Rural Hotels Program, are one-off initiatives, not ongoing programs.

Table 2 - *LOCAL GOVERNMENT GRANTS & LOANS IN AUSTRALIA - 2001/2002* ²⁴

| LOCAL GOVERNMENTS OFFERING INCENTIVES | Grants or Rate rebates per yr | Av. Grant or rate rebate | Loans per yr | Av. loan size | Local heritage inventory |
|---|----------------------------------|-----------------------------|--------------|---------------|-----------------------------|
| NSW | | | | | |
| Armidale Dumares | \$5,000 | | | | 500 |
| Bankstown City | \$20,000 | | | | 48 |
| Bathurst City | \$12,500 | | | | |
| Baulkham Hills Shire | \$20,000 | \$2,000 max | | | |
| Bega Valley Shire | | \$2,000 max | | | 109 |
| Bellingen Shire | \$10,000 | \$1,000 max | | | 2 |
| Berrigan Shire | \$10,000 | \$1,000 max | | | |
| Blacktown City | \$1,000 | | | | 6 |
| Bland Shire | | \$500 max | | | |
| Blayney Shire | | \$1,000 max | | | 41 |
| Boowara | | \$500 max | | | |
| Botany Bay City | | \$1,000 max | | | 96 |
| Bourke Shire | \$10,000 | \$3,800 max | | | 25 |
| Brewarrina Shire | \$7,965 | | | | 7 |
| Broken Hill City | \$22,000 | \$300 | \$7,000 | \$1,000 | 356 |
| Cessnock City | \$20,000 | | | | 14 |
| Cobar Shire | \$15,000 | | | | 8 |
| Cowra Shire | \$5,000 | | | | 5 |
| Deniliquin | \$10,000 | \$1,000 max | | | 22 |
| Golburn City | \$60,000 | \$2,500 max | | | 2 |
| Greater Taree City | | \$1,000 max | | | 54 |
| Gundagai Shire | \$10,000 | | | | |
| Hastings | \$10,000 | | | | 51 |
| Hawkesbury City | \$28,301 | | | | |
| Hay Shire | \$40,000 | | | | 825 |
| Jerilderie Shire | \$10,000 | \$1,000 max | | | |
| Kiama Municipal | | \$2,500 max | | | |
| Ku-ring-gai | \$10,000 | \$1,000 max | | | 700 |
| Lecton Shire | | \$2,500 max | | | 34 |
| Lithgow City | \$5,000 | | | | 19 |
| Lockhart Shire | | \$2,000 max | | | 12 |
| Maitland City | \$10,000 | | | | 300 |
| Mosman Municipal | \$20,000 | | | | |
| Nambucca Shire | \$10,000 | | | | 23 |
| Newcastle City | \$5,000 | | | | |
| Orange City | \$10,000 | | | | |
| Parramatta City | \$20,000 | \$1,000 max | | | |
| Port Stephens | | \$1,000 max | | | 97 |
| Rockdale City | \$15,000 | \$1,000 max | | | 56 |
| Rylstone Shire | \$10,000 | \$1,000 max | | | 10 |
| Sutherland Shire | \$40,000 | | | | 400 |
| Tamworth Shire | \$10,000 | | | | |
| Temora Shire | \$10,000 | | | | 20 |
| Weddin Shire | \$10,000 | \$2,000 max | | | |
| Wentworth Shire | | \$1,000 max | | | 7 |
| Wingecaribee Shire | | \$1,500 max | | | |
| Wollongong City | \$11,200 | | | | |
| NSW Heritage office reports than another 20 local govts have small grant schemes of a similar scale. | | | | | |

Table 2 - **LOCAL GOVERNMENT GRANTS & LOANS IN AUSTRALIA - 2001/2002** ²⁴ cont...

| LOCAL GOVERNMENTS OFFERING INCENTIVES | Grants or Rate rebates per yr | Av. Grant or rate rebate | Loans per yr | Av. loan size | Local heritage inventory |
|---|-------------------------------|--------------------------|--------------|---------------|--------------------------|
| VICTORIA | | | | | |
| City of Melbourne | | | Yes | \$50,000 max | |
| City of Greater Geelong | \$31,000 | \$5,000 | Yes | \$10,000 max | 8,000 |
| City of Manningham | \$10,000 | \$1,000 | - | - | 1,200 |
| Moyne | | | Yes | \$5,000 max | 37 + 2 precincts |
| Approx. 8 local govts have small loan schemes (Ballarat, Beechworth, etc; the schemes are generally inactive) | | | | | |
| QUEENSLAND | | | | | |
| Townsville | \$9,000 | \$3-5,000 | | | |
| Mackay | Yes | | | | |
| WESTERN AUSTRALIA | | | | | |
| City of Kalgoorlie-Boulder | \$30,000 | \$4,000 | | | 350 |
| Perth | \$200,000 | New scheme | | | 300 |
| WA Local Govt Association (18 L/Govts) | | | \$250,000 pa | Not known | 5,500 |
| SOUTH AUSTRALIA | | | | | |
| City of Adelaide | \$1,000,000 | \$20,000 | | | 1,950 |
| City of Onkaparinga | \$15,000 | Max \$2,000 | | | |
| City of Tea Tree Gully | \$10,000 | Max \$2,500 | | | |
| Holdfast | \$10,000 | Max \$2,500 | | | |
| Mount Gambier | \$25,000 | \$500 | | | 160 |
| TASMANIA | | | | | |
| Hobart | \$10,000 | Av. \$2,400 | | | |

2.3.1 Grants

Grants schemes are the most common form of financial assistance provided by governments. While they take a wide variety of forms, they can be categorised into three main types:

- entitlement grants;
- discretionary grants; and
- performance grants.

In practice, discretionary grants and performance grants overlap with each other, and to some extent performance grants can be considered a sub-set of discretionary grants.

These broad categories can also be applied to the *tax incentives* covered in the previous section. For instance, tax rebates given in return for conservation expenditure are 'performance based' incentives; whereas revaluations are 'entitlement' incentives.

Entitlement grants

How they work

This type of grant is given to any owner whose property meets pre-set eligibility criteria. Equal benefits are paid to all, not discriminating between those managing their properties to a high standard and those that simply meet the criteria.

■ Examples

The Netherlands Department of Conservation (RDMZ) provides property owners with as-of-right grants towards maintenance and restoration, with the contribution varying between 20% and 70% of cost, dependent on the circumstances. The scheme is substantially funded at approximately 80 million guilders per year (\$64 million AUS).²⁵

In Salzburg and Graz in Austria, local laws establish protection zones in the town centres, within which landlords have an automatic entitlement to grant assistance from a Historic Town Centre Preservation Fund.

In Denmark, every owner of a listed building has an equal right to benefit from the grant system, with the grants calculated according to the owner's additional expenses over and above the 'normal cost' of maintenance and repair of non-listed buildings. A benchmark rate of 'decay per year' has been developed for the various types of heritage buildings. Grants are calculated accordingly, ranging from 20-50% of the full cost of repair.

Discretionary grants

How they work

Discretionary grants have flexible guidelines and applicants must compete for selection. Typically, a grant assessment committee or board determines the most worthy projects to be funded.

This is probably the most common approach to grants schemes, at all levels of government. A small selection of the variety of such schemes appears below.

■ Examples

Most Australian State Government heritage agencies operate grant schemes for owners of registered heritage places. In Western Australia the grant scheme provided \$1 million per annum from 1997-2001 (now reduced), in South Australia the scheme offered \$250,000 per annum, and in Victoria \$300,000 per year for private property owners. The New South Wales Heritage Assistance Program has been more generous, averaging \$1.5 million in recent years.

Many grant schemes are offered in the United Kingdom. The largest are the Heritage Lottery Fund which offers £142 million per annum in England alone, (\$395 million AUS), and the English Heritage grants programs which total £40 million per annum (\$105 million AUS). In some rural areas, the Regional Development Agencies provide grants of 25% of the cost of converting or rehabilitating a building that is unused or unsuitable for business use (to a maximum of £75,000, or \$197,000AUS).

Most states in the United States have grant schemes at the state or local level, or both. Colorado has the most generous state-based scheme, with over \$63 million in grants provided from 1993-2001 (an average of \$7 million per year, with \$13 million provided in one year alone, in 2000). Florida provides \$10-\$15 million per year in grants. At the Federal level, the Historic Preservation Fund makes grants totalling \$93 million per annum, although half of these are grants to the States (see section 2.12 for more details). Many of these grant schemes are additional to tax incentives.

In New South Wales, approximately 70 rural local governments operate a heritage fund which provides small grants and/or loans, generally co-funded by NSW Heritage Office. Total grants are typically not greater than \$10-15,000 per year, while the total fund is generally less than \$150,000.

The City of Adelaide has operated perhaps the most well-known local grant scheme in Australia since the 1980s, offering owners up to \$1,000,000 a year in discretionary grants, with the maximum grant capped at 20% of the cost of a restoration project.

The Commonwealth Department of the Environment and Heritage provides grant

funding under its Cultural Heritage Projects Program, to \$3.6 million per annum nationwide. Funding is available on a competitive basis, mainly for physical conservation works.

Performance grants

How they work

Performance grants operate with strict criteria that define the types of conservation project that will be supported (eg structural repairs, external restoration).

This approach requires considerable administrative support to screen applications and monitor performance, but can be a way of targeting limited budgets to priority areas.

■ Examples

The City of Roanoke in Virginia offers matching grants for projects that restore the facade of dilapidated heritage building and provide increased employment opportunities for low-to-middle income earners.

The City of Phoenix in Arizona provides a grants scheme offering a 50% contribution to the cost of restoring residential property within historic districts. The scheme is funded to \$1 million US per year, and applies to projects costing between \$2,000 and \$5,000.

Effectiveness (of Grants)

The effectiveness of a grant scheme is in the first instance dependent on the *quantity* of grants provided, in relation to the size of the total heritage stock and the level of demand.

In Australia, grant schemes provided by Commonwealth, State and Local Governments are quite limited, when compared with:

- (a) the number of places that the schemes target;
- (b) the resulting scale of the demand;
- (c) the level of government assistance provided in the natural environment; and
- (d) the level of comparable assistance provided in other countries.

The issue of *oversubscription* is discussed in more detail in section 4.3.

It has been argued that entitlement grants are not as effective as performance grants, as they are not targeted, spread the available money thinly, and may not oblige the recipient to spend the grant directly on conservation works.

Conversely, entitlement grants have advantages in giving greater certainty for owners; compensating all owners for the universal imposts associated with heritage listing; addressing the burden of ongoing maintenance as well as intermittent restoration projects; and avoiding any perceptions of favouritism, bias or inconsistency in grant allocations.

Performance grants tend to be best suited to assisting major restoration projects that arise from time to time ('lumpy' projects).

2.3.2 Loans

Subsidised finance can be provided to property owners in the form of:

- direct loans; or
- loan subsidies.

Direct loans

How they work

Loans are made to the property owner, at a lower interest rate than would be commercially available. Funds can be lent on a long-term or short-term basis, and may be secured against the property if necessary.

The advantage of direct loans over grants is that once repaid, the money can be re-used to finance more loans. However, there is generally a high level of administrative support and expertise required to establish and operate such loan schemes. This can be partially overcome where a partnering financial institution provides the lending service.

■ Examples

In the United States, numerous states provide concessional loans from loan funds. New Mexico has established a revolving fund from which low interest rate loans are made available to heritage property owners. Similarly, Rhode Island provides low interest loans for restoration or acquisition of an endangered historic property.

In New South Wales and Victoria, a number of local governments provide concessional loans for heritage conservation work. The City of Broken Hill provides small loans of up to \$15,000 over 3 years, with an interest rate which is half the prevailing commercial rate. The City of Greater Geelong has a similar scheme that has provided over 50 loans since 1990 at an average size of \$5,000.

The Melbourne Restoration Fund is a larger loan scheme established in 1988 with funding from the State Government, City of Melbourne and Bicentennial Program. Loans are repayable over 5 years for amounts less than \$50,000, and 3 years for amounts greater than \$50,000. The interest rate is set at 50% of the prevailing Commonwealth Bond Rate (between 0% and 3% in recent times).

The City of London in Ontario Canada has since 1986 provide interest free loans for conservation works to exteriors of commercial buildings, to a maximum value of \$30,000. Loans may be amortised for a period up to 10 years, and can be transferred to a new owner if a property is sold.

Loan subsidies

How they work

Loan subsidies provide essentially the same effect as direct concessional loans, except that the loan finance is supplied by a commercial lender, while the interest rate 'gap' is funded by the heritage organisation.

■ Examples

The Victorian Heritage Council offers an option for assistance in the form of subsidised interest payments to owners who take out commercial loans for conservation works. The interest subsidy is paid to the property owner in the form of a grant, equivalent to approximately 3% of the interest rate.

The WA Local Government Association in partnership with 18 local governments, the Heritage Council of WA and Statewest Credit Society, established a loan subsidy scheme in 2003. Funds are lent by the Credit Society to approved borrowers for conservation works, at a rate of 3% below the prevailing market rate, in amounts up to \$50,000. The Credit Society collects the cost of the interest gap from the Local Government Association/Heritage Council deposit. The scheme allows for a choice of personal loans, long-term secured personal loans or mortgage-based loans.

In the City of Roanoke in Virginia USA, a loan subsidy of 2% is provided for commercial loans of up to \$100,000, with a maximum repayment term of seven years. The scheme was established in 1989 as a partnership between the City, Downtown Roanoke Preservation Inc., the Roanoke Valley Preservation Foundation and local commercial lenders.

In the County of Cuyohago in Cleveland Ohio, the Heritage Loan Program offers subsidised home improvement loans through a local bank, KeyBank. The low rate of 3.5% is made possible by a lump sum deposited by the county, which accrues interest and 'pays off' some of the interest on funds lent to approved borrowers. Between 2001 and 2004 the scheme made over 100 loans valued at over \$3.6 million, in amounts ranging from \$3,000 to \$150,000.

Effectiveness (Loans)

The effectiveness of a loan scheme, like a grant scheme, is in the first instance dependant on the *quantity* of loans or loan subsidies. Most loan incentive schemes provided in Australia have been limited by the very small amount of funds available.

Nevertheless, loans and loan subsidies can be useful tools in 'leveraging' increased private investment. Loan subsidies tend to involve smaller recurrent outlays than grant schemes, while direct loan schemes tend to require a larger capital base.

The advantage of the loan *subsidy* approach over loans made direct by a heritage organisation itself is that (a) much of the administrative cost falls to the partnering financial institution; and (b) no capital is required to be set aside (with the cost of the subsidies met on a recurrent basis).

2.4 Planning incentives and other planning instruments

Local Governments and other planning authorities have a pivotal role to play in promoting historic heritage conservation, as the majority of Australia's heritage places and areas are listed and protected at a local level.

The local planning scheme is a powerful tool that can promote conservation, or alternatively act as a major disincentive, through:

- Zoning control;
- Planning incentives; and
- Transfer of development rights.

2.4.1 Zoning controls

How they work

High-density zonings and plot ratios directly undermine the goal of conserving heritage buildings on the land, a common issue in business districts and some inner-urban residential districts. The issue became very topical in Melbourne in the 1990s, as illustrated by the formation of the 'Save our Suburbs' lobby group.²⁶

Local Governments and other planning authorities can promote conservation of heritage places by ensuring that incompatible zonings of this kind are minimised.

Zoning controls are generally applied over extended urban areas, but 'spot zonings' are employed in some jurisdictions.

■ Examples

The City of Swan in Western Australia reduced the residential zoning from R20 (20 dwelling units per hectare) to R10 throughout the suburb of Guildford, to protect the houses in the Guildford Conservation Area. The zoning reduction was effected in 1991 and has proven successful in promoting retention of existing housing stock, together with a high level of refurbishment. Property values have performed strongly over the past decade.

The City of Sydney Local Environment Plan provides that for places in the Heritage List, the

maximum floor space ratio is the floor space ratio of the existing buildings on the site, save that vacant land can be improved with new construction.²⁷

The City of New York undertook one of the world's largest 'downzonings' in 1989, in response to concern in the city's low density residential areas about incompatible high-density infill developments, often with a 'boxy' design. A comprehensive zoning amendment reduced the allowable floor space area, eliminating the incentive to build to the maximum density; encouraged contextual new development by introducing height limits; provided incentives for attic conversions (creating extra space in existing houses); and created six new low-density zones.

The City of Roanoke in Virginia operated until the late 1980s with a 1960s-era zoning ordinance that allowed for high densities in residential heritage areas; industrial and commercial uses in residential areas; and raised the minimum lot size above the prevailing size of older lots. In 1988 the City introduced a new zoning ordinance with conservation objectives, that reduced densities in residential areas, adjusted minimum lot sizes, and established new 'historic districts' with design standards. The already-strong central district heritage provisions were augmented with incentives for inner-city residential conversions, and reduced height limits in some areas.

2.4.2 Planning incentives

How they work

Planning authorities can also assist by relaxing planning provisions where those provisions may act as a disincentive for conservation. This is particularly the case for commercial properties.

Off-street parking or open space requirements and building code provisions may discourage the conservation of a heritage building, particularly where heritage properties are being restored for

new uses. In such cases, flexibility with parking and building requirements is needed, while ensuring that health and safety is not compromised.

■ Examples

In New South Wales, if a property is listed in a local environment plan, the owner may be entitled to parking, building site ratio and land use concessions.²⁸

The Victoria Planning Provisions allow for otherwise non-complying uses to be permitted in developments that involve conservation of heritage places.²⁹

In South Australia under the *Development Act 1993*, Councils have the ability to relax planning and building requirements to encourage use or conservation of a heritage site. This could include relaxing parking requirements, allowing a use that would not ordinarily be permitted, or allowing variation to the usual safety and/or disability requirements. However, the provision is under-utilised.

An example of planning incentives in action is the Coronado Hotel in Claremont, Western Australia. A vacant former hotel building in Art Deco style, acquired for demolition and redevelopment as a car-yard site, was restored and adapted as a medical suite. Local planning scheme requirements were varied to allow changes of use and a density bonus, such that the vacant land at the rear was subdivided for the construction of residential units. The development provided a sound economic return for the owner as well as a conservation outcome.

2.4.3 *Transfer of development rights*

How they work

Planning authorities can provide an incentive for heritage conservation through transferable

development rights (TDR). An owner of an historic property may sell unused development rights to a developer of another site. Subject to other planning requirements, this may enable the developer to construct a larger building on the 'recipient site' than would normally be allowed. The owner of the historic property may use part or all of the proceeds to pay for repairs and maintenance.

■ Examples

The City of Sydney operates the Heritage Floor Space (HFS) scheme. Under the HFS, an owner of a heritage property may be awarded an amount of HFS by conserving the property. Once all conservation works are completed to the council's satisfaction, the HFS can then be sold or exchanged to enable additional floor space to be built in a new development. Between 1990 and 2001, around 78 sales of HFS took place under the scheme accounting for 119,000m². Sale prices varied, but averaged around \$608 per square metre in 2000 and \$450 per square metre in 2001.³⁰

Adelaide City Council operates a Transferable Floor Area program. Eleven transactions were approved between 1988 and 1993, with none since. The Adelaide CBD is experiencing an economic downturn with a surplus of office space, and hence there is no demand for heritage floor space transfers. The Adelaide City Council is now considering an alternate approach using transferable floor area as a means of obtaining other planning dispensations.

Effectiveness

The effectiveness of TDR schemes depends on the presence of a buoyant market for development rights, usually in the central business district of large cities. TDR schemes can be undermined

where the planning provisions for building density, height limits and bonuses are too generous. Sydney is the only capital city in Australia where TDR has proven a useful incentive over an extended period of time.

2.5 *Heritage agreements*

How they work

A heritage agreement is a legally-binding contract intended to ensure the long-term conservation of a heritage place. The agreements are generally signed in perpetuity and are therefore binding on current and future owners. The agreement will set out approaches to restoring and/or managing the property, and may provide the owner with access to incentives such as rate remissions, land tax reductions, grants or planning concessions.

■ Examples

- (i) The Heritage Council of Western Australia operates a heritage agreement scheme with around forty-six agreements having been executed, with a similar number currently under negotiation. Property disposal by the Western Australian Government is one of the main sources of heritage agreements such as those for the Claremont Fire Station, Geraldton Railway Station and Victoria Park Police Station.
- (ii) The Heritage Act of South Australia provides for heritage agreements, with six agreements in place. In most cases the heritage agreements have been successful. However, in one case the conditions of the heritage agreement have not been met and the property has fallen into disrepair. Although heritage agreements are legally enforceable, legal action has not been taken because of the potential costs and negative

publicity. This highlights one of the potential shortcomings with such agreements.

- (iii) The equivalent of Heritage Agreements is frequently used in the United States, in the form of 'preservation easements'. The easements are authorised under state historic preservation laws, and may be made in favour of state government preservation agencies, or a variety of non-profit bodies. They give rise to tax benefits, in cases where the value of the property falls as a result of the easement. These may include income tax deductions, lower property taxes and reduced inheritance taxes.

Effectiveness

Heritage agreements are a potentially useful tool to encourage, as their name implies, 'conservation by agreement'. Agreements can be a useful mechanism for providing certainty for property owners, and for contracting an exchange of 'obligations and incentives'. However they can require significant resources to administer, monitor and enforce.

Agreements are negotiated within each jurisdiction and as such, Commonwealth, State, Territory and Local Governments should assess if a heritage agreement program is appropriate for their circumstances.

2.6 *Revolving Funds and Conservation Trusts*

How they work

Revolving funds are a successful way of encouraging conservation of historic heritage properties in the United States and the United Kingdom. A revolving fund is 'a pool of capital created and reserved for a specific activity, such as historic preservation.' The capital is used to either:

- acquire (by donation or purchase), safeguard, and re-sell historic properties with a conservation covenant attached; and/or
- lend to individuals or organisations to buy, restore and protect historic properties.

The monies from the sale or repayment of the loan are returned to the fund to be reused for similar activities, hence the term 'revolving'. The acquisition and re-sale approach is the most common form of fund.

A revolving fund presents two main challenges. Firstly, an initial capital injection is required to get the scheme up and running. This can be obtained through government funding (either from general revenue or other sources such as lotteries, bond issues etc); donations or bequests (cash or property); and fund-raising or borrowings. The second challenge is that management of a revolving fund needs considerable expertise, including real estate, marketing, finance and heritage expertise.

The tax deductible status of donations to such funds is important to their viability in Britain and the USA, and may also be important for any similar schemes established in Australia in the future.

■ Examples

The Preservation North Carolina (PNC) Revolving Fund is one highly successful example of the approximately 90 funds in the United States.

PNC acquires endangered historic properties through an option to buy, by donation or by outright purchase, and then finds purchasers willing and able to rehabilitate the properties. The placement of covenants and other restrictions on properties that are *sold* ensures restoration and ongoing conservation of properties.

PNC's role is to 'take-on troubled properties' that many developers or real estate agents are not willing to tackle. PNC is also able to reach a broader market than most local real estate agents, through its connections with prospective owners with a heritage interest. Nearly 500 properties have been handled through the fund, totalling about US \$100 million in value.

The Historic Landmarks Foundation of Indiana (HLFI) runs a similar acquisition and re-sale scheme as PNC, and also operates a statewide revolving loan fund. The HLFI makes low interest loans to individuals and organisations to purchase historic buildings that are under threat. Repayment of the loan is made once the property has been restored and re-sold.

In the United Kingdom around 170 Building Preservation Trusts exist, having become widespread in the 1970s. They range from very small local organisations, to much larger organisations operating across a local government, region or even nationally. One of their main sources of funds is the Architectural Heritage Fund which is an independent national charity first established in 1976 with an endowment fund of £1 million. This is itself a form of revolving fund, and it has now grown to £9 million. Between 1976 and 1997 it was used to make loans to Preservation Trusts totalling £23 million, for 337 projects.

Centralised support to the trusts is provided by the Architectural Heritage Fund and the UK Association of Preservation Trusts, in the form of finance, advice, networking and advocacy.

Other models for revolving funds can be found in the funds established in Australia to purchase land with special conservation significance, such as the Trust for Nature in Victoria and Nature Conservation Trust of New South Wales. Covenants are employed to ensure the future sustainable use of the land, before it is resold to sympathetic individuals.

The Federal Government has contributed to establishment of several nature-conservation funds and they now exist in all Australian States.

In New Zealand, the Dunedin Railway Station was acquired by the City of Dunedin in 1994. Restoration works were undertaken 1996-98, and today the station is home to a restaurant, the Sports Hall of Fame, and the Taieri Gorge Railway, which runs daily tourist trains. A Foundation has been formed to assist in the maintenance and administration of the station.

Effectiveness

The effectiveness of revolving funds is demonstrated by their widespread operation in Britain and the United States, and more recently in Australia for nature conservation.

Their strength lies in fulfilling a role that does not always sit comfortably with private enterprise *or* with government heritage agencies. Revolving funds take a number of different forms according to the circumstances of the heritage 'market' they operate in. Their flexibility allows them to operate either (a) in co-operation with government agencies from outside; or (b) in a minority of cases, within government.

2.7 *Encouraging use of heritage properties*

How it works

One of the problems facing historic buildings is their deterioration through non-use. Historic heritage buildings are more likely to be well maintained if they are occupied. Of the unoccupied heritage buildings in Australia, 39% have been found to be in poor external condition.³¹

The term 'adaptive re-use' describes 'a heritage building previously used for another purpose being refurbished and converted to another use, without compromising its heritage qualities'.³² New uses can include commercial, residential or community uses.

Planning authorities can encourage adaptive re-use of historic properties through various mechanisms (eg. zoning flexibility, relaxation of building code requirements, rate and land tax discounts, financial assistance for conservation works, transferable development rights etc).

However, it should be recognised that adaptive re-use is not always the appropriate answer. There are historic places where adaptation is not possible and an owner's personal objectives for a property cannot be achieved without unacceptable interference with historic fabric. Furthermore, there are community attitudes to be considered, with some community members objecting to major adaptations or changes of use, particularly in residential areas.

The Heritage Canada Foundation examined the environmental and financial implications of restoring and using existing buildings, compared with demolition-and-rebuild. The Foundation argues that by conserving existing buildings, demolition waste is reduced, extraction of new materials from the environment is reduced, and the embodied energy within an existing structure is conserved.³⁵

It is estimated that it takes around 30 years for a *new building* to realise energy savings when compared with the option of renovating an older building'.³⁶

Government policies and decision-making can encourage re-use of existing buildings through:

- environmental impact assessment processes that require developers to prove that an historic building cannot be adapted to new uses;
- environmental impact assessment processes that compare energy and material requirements for new developments and use of an existing structure;
- inclusion of energy savings accruing from use of historic buildings as tradeable credits in any

tradeable certificate scheme for greenhouse emissions;

- stricter environmental protection requirements on construction and demolition waste to landfill (construction and demolition waste contributes around 40% of landfill volume in Australia); and
- introducing product stewardship responsibilities for developers whereby developers are responsible for recycling some proportion of demolition waste.

The literature on adaptive reuse is considerable, both overseas and in Australia. Some specific examples of successful re-use projects are described below.

■ Examples

- (i) The Old York Flour Mill in York, Western Australia was built in 1892. It was in a derelict state when bought by Jah Roc Furniture Company. Seeing the potential of the building as a showroom for their furniture designs (towering brick walls and hand-hewn timbers) they undertook a wholesale restoration and adaptation of the building. Apart from the manufacture and display of the furniture, the mill also houses a collection of galleries and studios, a café and three retail stores providing an important attraction for York and the Avon region.
- (ii) The West End Methodist Church in Ipswich, Queensland, had fallen into disrepair after not being used as a church for more than 20 years. With advice and assistance from the local heritage adviser, the church was restored and converted into a photographic studio.³³
- (iii) In the 1850s a barracks for prison guards was built in Fremantle in Western Australia. One hundred and fifty years later the 'terminally ill' ruin was transformed into two residential apartments that incorporate the 'old world feel' of large open spaces, re-pointed stonework, timber beams and wooden floors.
- (iv) The Fire Station Inn in North Adelaide, South Australia, was originally a shop built in 1866 and altered in 1904 for use as a fire station. The two-storey bluestone building was conserved and adapted to three, five-star self-contained suites. The Fire Engine Suite includes an original 1936 Diamond T Fire Engine and a firefighter's pole as part of the furnishings.
- (v) In St Leonard's Park, Sydney, the music shell/stage that was used for outdoor events fell into disuse. Retaining the distinctive facade, the North Sydney Council converted it into a youth centre.³⁴
- (vi) The Treasury Building in Adelaide, South Australia was originally built in 1839 and was used by the government until 1995. A \$20 million hotel redevelopment was completed in 2001 incorporating many of the historic features of the building. The development includes 80, five-star serviced apartments, a restaurant, indoor swimming pool, conference facilities and a gymnasium. Originally surrounded by controversy, it is now being recognised as an innovative and successful urban development project.
- (vii) In Canada, policy changes in relation to increased housing provision through re-use of older housing stock is being promoted by the Canadian Housing and Mortgage Association.

2.8 Technical assistance

How it works

The provision of technical knowledge and expertise is an important tool for conserving heritage.

Property owners can be provided with the services of people with relevant skills and expertise, either free-of-charge, or for a subsidised fee. Services may be offered by Government or non-government organisations.

■ Examples

Monumentenwacht is a successful non-government organisation established in the Netherlands in 1973 to prevent the deterioration of historic buildings, by providing in-depth maintenance advice to owners. Historic building owners subscribe to the service and receive an initial inspection of a property with a prioritised maintenance report. This is followed by annual inspections.

Each year, forty inspection teams inspect 13,000 listed buildings - which represents around a quarter of the Netherlands' listed buildings.³⁷ The scheme promotes regular maintenance as a cost effective alternative to government grants programs that may favour emergency repairs. Based on this successful model, a similar organisation has been established in the Flemish region of Belgium; and in the United Kingdom, a non-profit body called 'Maintain our Heritage' has been established to promote and trial a similar scheme.

In Australia, advisory services are provided through networks of publicly funded, regionally-based heritage advisers (New South Wales, Northern Territory, South Australia, Victoria, Western Australia). Heritage advisers can be funded by local councils or jointly with State

Governments. The heritage advisers assist Local Governments, property owners and other community interests.

The Australian Capital Territory Government has an alternate approach to providing heritage advice. Philip Leeson Architects Pty Ltd has been contracted by the Australian Capital Territory Government to provide free heritage advice to heritage property owners or potential buyers about renovating or extending heritage properties.

A closely related issue is ensuring the supply of people with the appropriate expertise in conserving heritage properties. Some jurisdictions are involved in providing formal training through technical colleges and other educational institutions.

■ Examples

The New South Wales Government has developed the *Heritage Trades Training Strategy 2000-2005*.³⁸ The strategy aims to encourage interest in heritage trades in response to a decline in traditional building skills. The strategy states that 'buildings are at risk of degradation or loss simply because there is a lack of skilled tradespeople available to conserve them'. The training aspect of the strategy targets qualified tradespeople in the building and construction industry, particularly through courses in heritage bricklaying, carpentry, joinery, painting, decorating, stonemasonry, plastering and roof plumbing.

A variation of this approach was taken with the restoration of the Ghinni Ghinni Post Office near Taree, New South Wales that was built in the early 1870s. The project team was made up of young unemployed people who were not trades qualified. Under the leadership of a Technical and Further Education (TAFE) teacher, the team studied general carpentry and heritage modules through TAFE in addition to the work they

undertook in moving and restoring the post office. They were able to use around 60% to 70% of the original material and it now serves as an administration office for the Ghinni Ghinni Public School.³⁹

Another important tool is to provide technical information on heritage maintenance and conservation, direct to property owners. Most jurisdictions produce written material, seminars and workshops.

■ Examples

The Tasmanian Heritage Council (www.tasheritage.tas.gov.au) provides web-based information for owners on issues such as sanding floors, colour schemes and what to do about rising damp.⁴⁰

The New South Wales Heritage Office has an information series including publications such as *How to Carry out Work on Heritage Buildings and Sites*, *Directory of Conservation Suppliers and Services* and *Guidelines for Photographic Recording of Heritage Sites, Buildings and Structures*.

In April 2000 the New South Wales Heritage Office ran a two-day workshop *Material Evidence: Conserving Historic Building Fabric*.

Heritage South Australia runs education and training seminars ranging from courses that educate participants on the regulatory framework and planning processes to workshops covering specific techniques or materials. These workshops may be attended by planners, building surveyors, architects, councillors, tradespeople and property owners.

The Australian Capital Territory conducts conferences and workshops in specialty areas

such as fire safety and event management and marketing for heritage owners.

It is also important that those making planning and development decisions are provided with appropriate information and advice.

■ Examples

An approach taken by many local governments is to establish Heritage Advisory Committees, as is the case with Bendigo in Victoria, Parkes in New South Wales and the Barossa in South Australia. Such committees are generally set up to advise councils on development applications and planning issues, to prepare and implement heritage strategies and to raise awareness of heritage issues within the local area. Membership is generally drawn from councillors, community groups, non-government organisations, State government and the general community including those with particular expertise (eg architects, real estate agents, historians etc).

2.9 Labour and volunteers

How it works

One of the great success stories with the *natural* environment is the level of involvement by the community, particularly in the form of volunteer labour. Volunteers have become a vital part of environmental works within Australia.

A large contingent of volunteers is already involved with historic heritage particularly in the areas of fund-raising, providing guide services at historic buildings as well as restoring heritage properties. Work generally focuses on individual projects or sites. However, the potential exists to establish larger and more structured networks.

■ Examples

The *Hands-on-Heritage* program was created by the Heritage Council of Victoria in partnership with Conservation Volunteers Australia. The program encourages and coordinates the involvement of volunteers in projects that conserve historic buildings, gardens, parks and monuments. Volunteers are involved in a variety of labour-intensive tasks including painting, landscaping, repairing signs and other infrastructure; and the program contributes management and materials. In Victoria, more than 20 heritage listed sites have received assistance, such as:

- preserving maritime artefacts at the Queenscliff Maritime Museum;
- painting 'Emoh' Youth Hostel in Port Fairy;
- grave-site identification and cataloguing at an early Bendigo cemetery;
- assisting with building works at the Cape Otway Lightstation; and
- archeological conservation and collection support at the Heritage Victoria Laboratory.

In Canada, *Young Canada Works* is an initiative of the Department of Canadian Heritage that offers up to 350 young Canadians (16 to 18 years old) the opportunity to gain work experience during the summer break in national parks and at national historic sites across Canada. This can involve areas such as archaeology, history, tourism, heritage preservation and special events planning. The scheme has been operating since 1998.

Effectiveness

The *Hands-on- Heritage* program in Victoria has proven successful, in spite of being constrained

by a lack of funding, limited awareness of the program and limited availability of suitable projects that involve labour-intensive and lower-skilled work.

There is significant potential for a more structured approach to engaging volunteers in the historic heritage conservation in Australia. Discussions have taken place between states and territories about the potential of *Hands-on-Heritage* becoming a national program. Some projects are being run in the Australian Capital Territory, while New South Wales, Tasmania and South Australia plan to follow.

2.10 Recognition and promotion

How it works

The importance of information and awareness strategies is often undervalued, and yet can be an important catalyst of community interest in, and political support for, heritage conservation. There is no better illustration of this than the community support fostered for environmental issues in Australia in the 1980s, the formation of hundreds of environmental groups, and subsequent developments in government policy and programs.

Government and non-government organisations can encourage understanding and appreciation of Australia's heritage in a range of ways.

■ Examples

- (i) Heritage festivals are held in each State and Territory. Each year in the Australian Capital Territory a Canberra Heritage Festival is held. The festival is organised by Environment ACT and runs for about two weeks. Its purpose is to celebrate and promote local heritage and raise awareness of the ongoing need to look after it. It showcases the diversity of heritage through

a program of walks, talks, tours, workshops and exhibitions. In 2002 this included behind-the-scenes museum tours, tours of local cemeteries, arts workshops, archeological site visits and stories from the dreamtime.

- (ii) Although not targeted specifically at heritage gardens, Australia's Open Garden Scheme has benefited many individual heritage properties, and the concept could be readily adapted to the historic heritage. The scheme has a national marketing program and provides garden owners with some additional income through entrance fees. There are around 5,000 gardens on the scheme's books (www.opengarden.org.au/).
- (iii) *Sydney Open* is a highly successful annual event organised by the Historic Houses Trust of New South Wales. People can visit up to 50 new architectural projects and some of the city's best-loved heritage buildings including the Commonwealth Savings Bank in Martin Place, the Darlinghurst Courthouse and the Central Railway clock tower.⁴¹
- (iv) The National Trust is strongly involved in education activities aimed at students and the broader community. For example, State and Territory trusts have designed educational programs to support State curricula in a wide range of subject areas. Web-based and CD-ROM programs provide students with the opportunity to explore and experience heritage places such as Old Melbourne Gaol, Ayers House in Adelaide, Old Government House in Parramatta, and Clarendon in Tasmania.⁴²
- (v) The Heritage Unit of Environment ACT conducts a heritage education program for primary and secondary schools including class projects based on local heritage sites.

(vi) In Queensland, the Heritage Trails Network has been established to encourage visitors to explore more of Queensland and to encourage visitors to appreciate Queensland's 'unique social history, culture and natural wonders'.⁴³ The network includes the Overlander's Way from Townsville to Tennant Creek: it is 1,500 kilometres long and offers visitors indigenous heritage, gold rush heritage, a tour of a mine, fossils, and exploration routes.

- (vii) Awards are a cost effective means of gaining community support for heritage conservation and at the same time recognising the community's contribution. This is further enhanced if there is media coverage of the event and/or if high profile people present the awards. The South Australian Government is running a Heritage Awards event in 2003 that will showcase heritage conservation achievements and contributions. A number of councils within SA also run heritage awards.
- (viii) Stories in local newspapers and agency newsletters can greatly assist in keeping heritage in the minds of the community. This might include good news stories about local residents successfully restoring their house or general information and updates on heritage issues.

2.11 Client and community relationships

How they work

A strong focus on achieving sound and cooperative client relationships is an effective conservation strategy. To some extent this represents a shift in focus from the more traditional 'enforcement and policing' model of heritage administration.

Facing the cost of enforcement and litigation (time and dollar costs), program managers have sought other means of achieving strategic outcomes. As such, the option of developing negotiated solutions with owners and managers of heritage places has become increasingly attractive.

Sound client relationships require a conscious effort, and need to be incorporated into heritage agencies' strategic and business planning. Key objectives should include:

- to seek to assist owners achieve their personal goals with respect to their properties; and
- to help owners meet requirements associated with heritage listing, and clear away misconceptions about the implications of heritage listing.

■ Examples

In South Australia there has been a move away from 'policing' toward positive extension work by heritage program officers. Once a reasonable level of mutual understanding has been achieved, a cooperative approach regularly results in more cost effective outcomes than might otherwise have been possible.

A client relationship approach coupled with a modest range of incentives such as rate relief and grants or low interest loans has resulted in substantial changes in community perception of heritage in Alice Springs in the Northern Territory. The establishment of a 1940's heritage precinct in the centre of the town was initially met with considerable objection by owners within the precinct. The situation is now reversed with many owners now being keen supporters of heritage. Most importantly, these 'converts' are now leaders and initiators of conservation work and management programs.

2.12 Government-to-government assistance

How it works

Assistance from one level of government to another is an important tool, serving to:

- (a) stimulate participation at a 'lower' level; and
- (b) ensure the provision of incentives and other services in the most effective and efficient way, by the agencies that are 'close to the client'.

Extensive use of this tool is made in a number of countries, as described in the following examples.

■ Examples

In Australia, the National Estate Grants Program (NEGP) was from 1975 to 1996 funded by the Commonwealth but disbursed through State Government heritage agencies. (The NEGP has since been replaced by a direct-funding model, in the form of the Cultural Heritage Projects Program).

In Australia, state heritage agencies fund local heritage advisory services in concert with local governments, generally on a 50-50 basis. New South Wales has a network of over 110 advisory services, and Victoria 70 services.

Heritage incentives disbursed at the local level have been partially funded by state governments in Australia, such as the Melbourne Heritage Restoration Fund and the WA Heritage Loan Scheme.

In the United States, much of the State Historic Preservation Office network is funded with Federal money from the Historic Preservation Fund (HPF). The Fund is administered by the National Park Service, and in 2001 it contributed \$46 million US to the operation of state offices.

In the United States the Certified Local Government Program is run by the Federal National Parks Service with assistance from the states. Local Governments whose preservation programs meet certain standards are eligible to apply through their State Historic Preservation Office for at least 10% of each State's annual Historic Preservation Fund (HPF) allocation. Projects funded include local heritage surveys, assessments, building reuse and feasibility studies, design guidelines and educational publications. Over 1,200 Local Governments participate in the program nationwide.⁴⁴

In Canada, the Quebec Provincial Government shares the cost with the City of Quebec of the tax incentives scheme in that city.

In *nature conservation* in Australia, the Commonwealth Government has provided contributory funding for the establishment of revolving funds in each state, and funded various assistance programs through State and/or Local Governments, such as the Coastcare program.



Section Three Funding sources & mechanisms

All of the incentives and tools described in the preceding section, come with a cost. At a time when government budgets for historic heritage are increasingly constrained, an important question is 'how can new funding sources can be identified?'

Budget appropriations for historic heritage in Australia have generally stagnated or declined over the last decade.¹

Overseas, the success of the larger incentive programs often springs from their alliance with the broader 'quality of life' movement. In many American states, funds for historic preservation are raised as part of larger nature conservation, open space or farmland conservation programs. In the United Kingdom, English Heritage and the Heritage Lottery Fund have tied parts of their granting programs explicitly to economic regeneration, particularly in neglected urban areas.

Examples of some of the strategies employed are set out below.

■ Examples

In the United Kingdom, the Heritage Lottery Fund operates as part of the National Lottery (since 1993). The National Lottery raises money for a range of causes (arts, heritage, sports, health, etc), while every pound spent on a lottery ticket distributes 4.66 pence to the Heritage Lottery Fund. The Fund assists building repairs and conservation work, acquisition of land and buildings, and projects to improve access.

To date, more than 9,000 grants have been made under the Heritage Lottery Fund, totalling over £2 billion, and the annual allocation for historic heritage now stands at £142 million.

A comparable program on a much smaller scale is operated by the Lotteries Commission of Western Australia. A fixed percentage of the net revenue from WA lotteries (after prizes are allocated and operating costs are covered) is allocated to public hospitals, the arts, sports and a direct grants program. The direct grants include heritage funding of \$1 to \$1.5 million per year.

In the United States, a proportion of proceeds from various Federal and State taxes and charges is dedicated to heritage programs, such as:

- offshore drilling royalties (provides funding for various environmental programs including *US\$100 million per annum* to the Federal Historic Preservation Fund);
- lottery proceeds (eg. the Arizona Heritage Fund underwritten by a proportion of State Lottery proceeds - *US\$1.7 million per annum*);
- real estate transfer tax (eg. Arkansas State Heritage Fund - \$2.20 for every \$1,000 of real estate sold, and 1/8 cent of every dollar from State sales tax);
- mortgage registration fees (eg. Kansas Heritage Trust Fund - 1 cent per \$100 mortgage registered);

- state gambling tax revenue (eg. Colorado State Historical Fund is funded by 28% of all State gambling tax revenue to historic preservation; collects *US\$20 million per annum*);
- sale of 'conservation and heritage' licence plates (eg. Indiana and New Hampshire where *US\$1.1 million* has been raised from the sale of around 37,000 licence plates);
- royalties, rentals and other revenues relating to mineral extraction (eg. Louisiana Land Acquisition Trust Fund - funds acquisition of land for State parks, historic sites or preservation areas);
- bed taxes (eg. Montana Tourism Infrastructure Investment Program funds grants for rehabilitating historic tourism and recreation attractions); and
- sale of government bonds to investors to fund heritage programs (eg. Missouri, New Jersey, Florida); in Florida the annual bond issue of US\$300 million includes an allocation of approximately *\$30 million per annum* for historic preservation).

In the province of Baden-Wurttemberg in Germany, heritage funds are sourced from a specified portion of the income of the state lottery.

In Vienna, Salzburg and Graz in Austria, an Historic Town Centre Preservation Fund is funded from the proceeds of a 10% tax on radio and television licence fees.

Schemes *considered* in Australia but not implemented include:

- The establishment of a permanent national heritage fund with seed funding from Commonwealth, State and Territory Governments. The main aim would be to act as a vehicle or catalyst for donations from private interests, possibly on a tax deductible basis.²
- The dedication of a set proportion of a state land-related tax for heritage purposes, along similar lines to the Metropolitan Region Improvement Fund in Western Australia. The latter is sourced from a defined portion of Land Tax, and raises approximately \$20 million per annum. The current balance in the fund is over \$100 million.³



Section Four

Evaluating the effectiveness of incentives

4.1 Introduction

The central questions in evaluating effectiveness are:

- i. 'to what extent does an incentive induce conservation outcomes that would not have occurred in the absence of that incentive'?
- ii. 'to what extent does an incentive provide equity for the owners of heritage places'?
- iii. 'how effective are heritage incentives in relation to other forms of government expenditure'?
- iv. 'how effective is one form of incentive compared with another'?

It should be noted that an incentive may still be deemed effective, even if it does *not* induce additional conservation activity. 'Public policy may [simply] dictate that the public should share the cost of that preservation activity from which the public derives value'.¹

Heritage incentives, particularly grants, have rarely been subjected to systematic research and analysis in Australia. The costs, pre-planning and extended time-frames involved serve as a deterrent. Nevertheless, this work is an important ingredient in influencing public policy; and in ensuring that incentives schemes survive, once established.

Where effectiveness evaluations have been attempted overseas, they have sometimes focussed on outputs ('x buildings were restored and y dollars were invested'), rather than on the key questions listed above.

In the following section, examples are given of studies undertaken that have addressed the key questions. Other examples are listed in the Bibliography.

This section also looks at the issue of the effective quantity of incentive schemes, in relation to the size of the heritage stock and the level of demand. A summary of key themes concludes this section.

4.2 Effectiveness studies

Victorian Government Heritage Restoration (Grants) Program

Heritage Victoria commissioned Sinclair Knight Mertz in 1998 to undertake an evaluation of the impact of the Government Heritage Restoration Grants Program.² The report made a number of key findings that confirmed the effectiveness of the program:

- "in most cases the GHRP provided funds that would not have been otherwise available to undertake basic conservation and restoration";
- "in some cases, conservation repairs were carried out earlier than they otherwise would have been under the Department/Agency cyclic maintenance program so that risk of further deterioration was minimised";
- "the projects provided a demonstration to Departmental/Agency staff and the community on what can be done which, therefore, led to a higher priority for heritage conservation."

Missouri Historic Preservation Tax Credit (USA)

The St Louis Regional Chamber and Growth Association commissioned a firm of accountants and financial analysts to study the tax credit scheme.³ The study included among other things, examination of three case studies, conducted over the three-year life of the projects 1998-2001, and projecting expenditure and revenue impacts forward 20 years.

The main conclusions were:

- In 2000, the tax credits cost \$20 million dollars in revenue foregone, but generated an additional \$30 million in state and local taxes.
- Over an extended period, the program generates positive cash flow for the state government: \$1.78 in extra revenue for every \$1.00 spent on the credit.
- The suggestion that assisted projects “would have happened anyway” without the credit wasn’t borne out: most of the expenditure was new expenditure.
- The latter conclusion is corroborated by the Missouri’s experience with the winding back of the *Federal* tax credits system in 1985. After a major increase in restoration expenditure in Missouri in the late 1970s that reached as high as \$188 million in 1982, the level dropped away markedly to only \$3.5 million in 1995. Since the introduction of the State tax credit in 1998, total restoration expenditure had grown again and totalled \$295 million over three years (annual average \$98 million).

Maryland Heritage Rehabilitation Tax Credits (USA)

Preservation Maryland commissioned a firm of real estate and valuation consultants to study the Maryland tax credit scheme in 2001.⁴ The study included an analysis of the 247 projects awarded tax credits in 2000 and 2001, a more detailed

examination of three sample commercial projects, and a user survey.

The main findings were:

- The tax credits cost \$39.9 million dollars in revenue foregone over two years, but generated an additional \$20 million in state and local taxes, of which the state government received \$13 million.
- Each \$1.00 invested in the tax credits generated total public revenues (including state and local taxes) of between \$1.00 and \$5.02 (varying from project to project).
- The tax credits generated restoration work that was substantially new: in the case of commercial projects, 93% were reported to need the tax credits to proceed.
- Each \$1.00 in state investment generated \$4.00 in construction spending and significant other employment and development activity benefits.

Municipal Property Tax Abatements in Texas (USA)

Thirty towns and cities in Texas offer local property tax credits, some since the 1980s. A detailed study of their economic impact was commissioned collaboratively in 1999 by local governments and the Texas Historical Commission. The study was undertaken by the Center for Urban Policy Research at Rutgers University and found among other things that:

- In Abilene, \$23,000 in forgone revenues generated more than \$5,000,000 in reinvestment in historic neighbourhoods in Abilene.
- Dallas’ tax incentive program generated more than \$260 million in conservation work with forgone revenues of less than \$20 million.
- For every \$1 million spent on heritage conservation work in Texas-

23 jobs are created;

\$639,026 of income is generated;

\$52,291 in state taxes are generated;

\$51,056 in local taxes are generated;

The Gross State Product increases by \$872,000.

Federal Rehabilitation Tax Credits (USA)

This incentive was first established in 1976, revised in 1981, and then significantly weakened in 1986 (among other things, a \$7,000 maximum-credit cap was introduced). The scheme was highly effective from 1976 to 1986, but less so after the changes made in 1986:

- The incentives were credited with spawning more than 21,000 rehabilitation projects and stimulating more than \$14 billion in private investment from 1976 to 1989.
- A 1990 National Trust survey of 322 economic development professionals and preservationists showed that approximately 90% of those surveyed who reported a decline in restoration activity cited the tax reform changes of 1987 as a major reason.⁵
- The decline in the level of rehabilitation activity having been attributed to the reduction of the federal tax scheme, a number of state governments responded by introducing their own tax credit schemes to shore up the incentive 'gap'.⁶

Washington State Historic Preservation 'Special Valuation' incentive (USA)

The Washington Office of Archaeology and Preservation completed a detailed study of the program in 1993, including an economic analysis and user survey.⁷ The study found that:

- As of 1991, 122 historic properties took up the credit, costing \$3 million in foregone

property tax over the life of the credits.

- The 122 projects would over 10 years 1991-2001 produce a *net gain* of \$16 million in state and local government tax revenue, including \$6 million in property taxes, plus \$10 million in other tax revenues associated with new economic activity.

Conservation Areas Partnership Scheme (CAPS grants) and the Heritage Economic Regeneration Scheme (HERS grants), United Kingdom

These schemes are funded and run by English Heritage, who reported analysis of their success from 1994 to 2002 in two reports, the *Heritage Dividend 1999* and the *Heritage Dividend 2002*. The analysis was undertaken by a private urban development firm with assistance from the London School of Economics. Among the findings:

- "Conservation-led regeneration works. We can prove it! ...Using the same indicators as those used by Government to measure the impact of regeneration programs, we found that our investment is achieving high economic returns as well as enhancing the fabric of our villages, towns and cities...but above all, conservation-led regeneration works because people like it and popularity brings prosperity".
- Every £10,000 of English Heritage investment (a) leverages £48,000 in additional funding from private and public sources and (b) delivers on average 177 square metres of improved commercial floorspace, plus 1 new job, 1 safeguarded job and 1 improved residence.
- The schemes have invested £65 million in approximately 600 projects in England, consistently increasing confidence amongst nearby properties and businesses to generate a 'virtuous circle'.⁸

Commonwealth Tax Incentives for Heritage Conservation (Australia)

The economic analysis commissioned for the Planning Ministers' Conference in 1986 concluded among other things that:

- “Tax rebates offer the prospect of a good public sector pay off to the Commonwealth Government...[because] Measures which induce property owners to undertake heritage conservation work they would not otherwise have begun, serve to employ [unused] resources, generating jobs, income and taxation revenue”.
- “Matched tax concessions can encourage a much higher value of private expenditure than the cost of the public sector input....This report estimates total tax receipts per dollar of new private expenditure of 31.7 cents, and welfare savings of 16 cents, a total of 47.7 cents”.
- Expressed another way, “for each \$1 million of new expenditure in the construction industry, 64 jobs are created which generates \$316,870 of tax receipts and savings of \$160,000 in social security payments”.
- In noting that “not all of the private expenditure that is generated by a tax incentive will be ‘new’ work; some of the expenditure would take place anyway”, the report concludes that nevertheless “the probability of a positive financial return to the Commonwealth Government is high [in addition to]...the benefits that flow to others beside the government”.⁹

4.3 Quantity of incentives

An important issue in the effectiveness of an incentive scheme is the quantity of incentive provided.

Most of the grant, loan and tax schemes provided in Australia have been quite small, and have fallen well short of the amount required to make a significant impact on heritage conservation activity within a state or locality. (See Tables 1 and 2 in section 2.3, and Table 3 in Section 5.1).

Oversubscription is the norm for grant and loan schemes in Australia.

For instance in WA, a 7:1 oversubscription of the annual grant scheme of \$1 million was the average from 1997-2001, and that scheme subsequently fell by over 50% in size. The Australian Heritage Commission reported an oversubscription of 12:1 in the 1997/98 National Estate Grants Program; the Tax Incentives for Heritage Conservation round 3 was oversubscribed 5:1; and the NSW Heritage Assistance Program is typically oversubscribed by 12:1.¹⁰

This disproportion between applications and available funds masks the broader pool of applicants who do not even bother to apply, because the quantity of available funding is manifestly too low.

Oversubscription can lead to disenchantment, particularly given the paperwork involved in making applications.

For grant schemes targeted at State Registered places, it suggested that *a suitable minimum quantity would be \$2.5 million in grants per annum per 1,000 places in the State Register; and an oversubscription ratio of less than 3:1.*

[By comparison, the National Heritage Lottery in England offers £142 million per annum, (\$395 million AUS), covering a stock of 30,200 Grade 1 and Grade II* listed buildings, and reports a success rate for applications of 62%, ie. an oversubscription ratio of only 1.6:1)].

In the case of loan schemes targeted at State Registered places, it is suggested that *a suitable minimum quantity would be a minimum of \$1 million in subsidised loans per annum per 1,000 places in the State Register; and an over-subscription ratio < 3:1.*

In the case of local advisory services, it is suggested that a suitable minimum level of service would be:

- services in 75% of local government areas of a state or territory; and
- an average of 15 hours service per month for each of the local governments serviced.¹¹

4.4 Key themes

A number of themes emerge from the comparison of alternative financial incentives and other policy tools in this report, including the following:

- Ideally, a financial incentive program involves a mix of as-of right ('entitlement') incentives and discretionary incentives, so that the program addresses the various related goals of equity; public certainty and confidence in the program; and directing incentives to priority 'targets'.
- Tax incentives are widely employed overseas, particularly in the United States and Europe, where they are preferred to large grant schemes because of their 'entitlement' aspect and their effect of containing direct outlays by Government.
- Conversely, grant schemes can be set up to achieve similar effects, if the level of funding commitment exists. The grant schemes administered by the Dutch Department of Conservation (RDMZ), and the British Heritage Lottery Fund, are examples of this.
- No single financial incentive or other policy tool offers a 'magic wand' solution; rather, a combination of complementary tools produces the best results. Ideally, a comprehensive heritage program incorporates strong financial incentives; advisory services for owners; a planning regime that is sympathetic to conservation outcomes, or at least neutral; promotion of conservation outcomes through a system of 'revolving' acquisitions, donations, and restorations; and a strong focus on community promotion, information and demonstration.
- Without a strong commitment by government, an incentive scheme or policy tool will tend to be a 'token' program that raises public expectations only to disappoint them. Some governments have reinforced their commitment to a scheme by underwriting it with a dedicated funding source. The funding sources take many forms including lottery funding, gambling revenue, royalties from offshore drilling or mining, real estate transfer taxes, mortgage registration fees or the sale of Government bonds.



Section Five Comparisons and conclusions- the Australian experience

5.1 Australia compared with the western world

Precise comparison of public investment in heritage incentives in different countries is difficult because of differing financial aid arrangements and differing public sector structures generally.

However, some valid comparisons can be made, when population, government budgets, and the size of heritage inventories are taken account of.

Australia's public investment in incentives for historic heritage compares unfavourably with that of many countries, particularly in North America and Western Europe.

Table 3 *COMPARISONS OF AUSTRALIAN AND OVERSEAS INVESTMENT IN INCENTIVES 2001/02*¹

| | | | | SIZE OF JURISDICTION | | |
|-------------------------|----------------------------|------------------------------------|------------------|-------------------------|------------------|--|
| Jurisdiction | Schemes | Incentive per yr (\$000,000) | Success ratio | Population (000,000) | Public budget | Heritage listings |
| <i>NATIONAL:</i> | | | | | | |
| England | Heritage Lottery Fund | 395 | 62% | 60 | | 30,000 Gr I&II* listings |
| England | English Heritage Grants | 105 | 60% | 60 | | 450,000 other listings |
| USA | Federal Tax Credits | 895 | 95% | 260 | | 77,000 listings |
| | Historic Preservation Fund | 93 | | 260 | | |
| Holland | RDMZ grants | 64 | 70% | 16 | | 40,000 listings |
| Australia | CHPP grants | 3.6 | 13% | 20 | | 10-15,000 listings |
| | Rural Hotels Program | 5 | 36% | | | N/A |
| | Federation Fund | 70 | 5% | | | N/A |
| <i>STATE:</i> | | | | | | |
| Colorado | Grants | 24 | 65% | 4.3 | 13,800 | |
| | Tax credits | 0.6 | | | | |
| Florida | Grants | 15 | 70% | 16 | 53,00 | |
| | Tax credits | 3 | 94% | | | |
| Missouri | Tax credits | 25 | 57% | 5.5 | 19,000 | 16,000 listings (incl. 120 districts) |
| Maryland | Tax credits | 20 | 99% | 5.2 | 16,000 | 55,000 listing (incl. 183 districts) |
| | Grants | 2 | | | | |
| New Jersey | Grants | 7 | 32% | 8.5 | | 1,400 listings |
| Delaware | Tax credits | 3 | 99% | 0.8 | 2,800 | |
| NSW | Grants | 1.5 | 8% | 6 | 8,000 | 20,000+listings |
| Victoria | Grants | 4.5 | | 5 | 8,000 | 80,000 listings |
| SA | Grants | 1.7 | | 2 | 1,500 | 5,800 listings |
| WA | Grants | 0.5 | 12% | 1.5 | 3,000 | 16,000 listings |

Notes:

- * \$ amounts expressed in \$AUS except for the US figures which are in \$US.
- CHPP is the *Cultural Heritage Projects Program* and is an ongoing annual program. The *Commonwealth's Federation Fund (Cultural & Heritage Projects Program)* and *Rural Hotels Program*, are one-off initiatives, not ongoing programs.
- The 'success ratio' refers to the proportion of applications that were funded by each program in 2001/02 (total incentives granted ÷ total incentives applied for).
- The figure of 10-15,000 listings at the Australian National level comprises the Register of the National plus State Registers, their overlap being discounted. The figures for the Australian States include all local as well as State listings.

5.2 Historic heritage compared with natural heritage

It is readily apparent that there is a huge disparity in the public resources devoted to the historic vs. natural environments in Australia.

While beyond the scope of this study to provide an exhaustive inventory of the public resources devoted to the historic and natural environments in Australia, the following table summarises expenditure on the principle public programs at the Commonwealth and State levels.²

Table 4

COMPARISON OF AUSTRALIAN EXPENDITURE ON THE HISTORIC AND NATURAL ENVIRONMENTS IN 2001/02²

| Jurisdiction | Natural Environment (\$million) | Historic Environment (\$million) | Relativity |
|--------------------|---------------------------------|----------------------------------|------------|
| Commonwealth | 1,273 | 103 | 12:1 |
| NSW | 464 | 29 | 16:1 |
| Victoria | 348 | 13 | 27:1 |
| Queensland | 314 | 36 | 9:1 |
| WA | 188 | 11.7 | 16:1 |
| South Australia | 106 | 3.6 | 29:1 |
| Tasmania | 40.7 | 2.4 | 17:1 |
| ACT | 20.5 | 1.8 | 11:1 |
| Northern Territory | 61.3 | 1.0 | 61:1 |
| NATIONAL TOTAL | 2,836 | 201 | 14:1 |

Included in the Commonwealth's environment expenditure are initiatives such as the *Natural Heritage Trust*, and the *National Action Plan for Salinity and Water Quality*.

The *Natural Heritage Trust* was extended by a further \$1 billion over five years from July 2002, building on the first phase of the Trust commenced in 1998.

These programs come within the scope of the Commonwealth Government's description of 'activities with an environment or heritage benefit', defined as:

"the prevention, reduction or elimination of waste, pollution or other degradation of environment; and/or

the conservation, rehabilitation, restoration or enhancement of the environment."

The *National Action Plan for Salinity and Water Quality* was endorsed by the Prime Minister, Premiers and Chief Ministers at the Council of Australian Governments in November 2000. It involves a funding package of \$1.4 billion from the Commonwealth, States and Territories over seven years, over and above the \$2.7 billion Natural Heritage Trust. All the member-Governments have signed the Inter-Governmental Agreement to implement the plan.

Tax incentives for nature conservation were introduced between 1997 and 2001, including reforms related to tax deductions for donations, deductions for reduced land value arising from covenants, and concessional capital gains treatment of covenanted properties or bequeathed properties.

In relation to revolving funds, the Commonwealth Government has provided \$5 million from the Natural Heritage Trust towards the establishment of Funds in NSW, Victoria, WA and South Australia. In all cases, Commonwealth funds have been at least matched by contributions from State Governments or other sources.

Incentives provided by Local Governments remain fairly limited, but the concept has advanced further for native vegetation schemes than for historic heritage. Many of the schemes established in the last five years have been assisted with seed funding from the Natural Heritage Trust, such as the Surf Coast, Bendigo and Cardinia incentive schemes in Victoria. Such

schemes tend to be much more generous than local incentives for historic heritage.³

In the same period, incentive schemes for historic heritage have stagnated or gone backwards, as have State heritage budgets.

Success stories have been rare, such as Victoria's *Government Heritage Restoration Program* commenced in 1999; but significantly that program did not cater for private property owners.

The Commonwealth Government introduced its *Distinctively Australian* program in 2003, with funding of \$1.3 million allocated in 2003/04, rising to \$4.8 million in 2006/07.⁵ These funds will support conservation of nationally significant historic, natural and indigenous heritage places.

In short, Australia's system of historic heritage conservation has fallen far behind recent advances in the conservation of Australia's natural heritage, and has been rightly labelled the 'Cinderella' of heritage funding.



Section Six

Recommendations

1. That the EPHC notes the principal elements of best practice in incentives and other innovative policy tools for historic heritage conservation, as identified by the Taskforce:
 - 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
 - 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-under-covenant of historic heritage places.
 - viii. Mechanisms for measuring the effectiveness of financial incentive schemes for historic heritage in Australia.
2. That the EPHC notes that each jurisdiction will report back to the EPHC on measures to be adopted to implement best practice incentives and policy tools (i)-(vi) above, by February 2005.
3. That the EPHC notes that the Taskforce will report back to the EPHC on the operation of Revolving Funds, by February 2005.
4. That the EPHC notes that the Taskforce will report back to the EPHC on means of measuring the effectiveness of financial incentive schemes for historic heritage in Australia, by February 2005.

Endnotes

Section 1 - Introduction

¹ Lennon, J, Pearson, M, Marshall, D, Sullivan, S, McConvell, P, Nicholls, W, and Johnston, D (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.

² Condition survey of registered places undertaken by the Heritage Council of Western Australia in 2001, principally by surveying local governments. Results reported in the 2002 and 2003 National Chairs and Officials Meeting agendas.

³ Lennon et al (2001), p. 57.

⁴ The figures are cited in City of Orange (2002), *State of the Environment Report 2001*; Fairfield City Council (2002), *State of the Environment Report 2001/02*, p. 110; Fairfield City Council (2001), *State of the Environment Report 2000/01*, section 9.3 (unpaginated); McDougall & Vines, (2002), *Town of Cottesloe WA: Review of Municipal Inventory*, Town of Cottesloe, Perth, p. 10.

⁵ Heritage Canada Foundation (2001), *Preservation Pays: The Economics of Heritage Conservation*, Proceeding of Heritage Canada Foundation Conference, October 11-13 2001, Toronto, p. 38.

⁶ Lennon et al (2001), p. 3, p. 64.

⁷ Senate Environment, Recreation, Communications and the Arts References Committee (1998), *Access to Heritage: User Charges in Museums, Art Galleries and National Parks*, Parliament of the Commonwealth of Australia, Canberra, p. 10.

⁸ See for instance Rypkema, D (1994), *The Economics of Historic Preservation, National Trust for Historic Preservation*, Washington, pp. 13-33.

Section 2 - Incentives and other policy tools

¹ In Australia, there are land-based property taxes that apply primarily to commercial and income-producing properties (land tax) and property taxes which apply to all privately owned properties including residences (municipal rates). This report uses the generic term 'property taxes' to include both types of taxes.

² As described in Schuster, J M, de Monchaux, J and Riley (eds) (1997), *Preserving the Built Heritage: Tools for Implementation*, University of Press of New England, Hanover, p. 58.

³ As described in, for instance, Rubin Brown Gornstein & Co (2003), *An Economic Analysis of the Missouri Historic Preservation Tax Credit*, prepared for the St Louis Regional Chamber and Growth Association, St Louis Missouri; and in Lipman Frizzell & Mitchell (2002), *State of Maryland Heritage Structure Rehabilitation Tax Credits: Economic and Fiscal Impacts*, prepared for Preservation Maryland, Baltimore Maryland. Other analysis demonstrating this effect is outlined in section 4 of this report.

⁴ See Morris, M (1992), *Innovative Tools for Historic Preservation*, American Planning Association, Chicago, p. 4; and Donald, B, 2002. *Tax and the Built Heritage: Enhancing National Taxation Incentives and Regimes for Conservation of the Built Heritage*, Sydney, p. 17.

⁵ The deterrent effect of the low cap is attested by state heritage officials who liaised with many potential applicants in the 1990s. The effect of a low cap is also demonstrated by the US experience, where the \$7,000 cap imposed in 1986 'essentially gutted the federal rehabilitation tax credit program' (Morris, 1992, p. 3).

⁶ Built Heritage Conservation Resources Working Party (1998), *Heritage: The Cinderella of Cultural Funding*, Report for the Heritage Ministers, unpublished, p. 38.

⁷ Schuster, J M, de Monchaux, J and Riley (eds) (1997), *Preserving the Built Heritage: Tools for Implementation*, University of Press of New England, Hanover, p. 72.

⁸ As reported in Natural Heritage Trust (2001), *Natural Heritage Trust Annual Report 2000-01*, Environment Australia, Canberra (Part A, "Monitoring and Evaluation").

⁹ As reported in National Trust for England (2003), *Annual Report 2002/03*, London, p. 67-68; and in English Heritage (2002), *Annual Report 2001/03*, financial statements.

¹⁰ Environment Australia (2003), *Commonwealth Comments on Making Heritage Happen* - Draft 5, email communication with the Heritage Council of WA, 10 September 2003, p. 2.

¹¹ Donald, B (2002), p. 15.

¹² Costello MP, The Hon Peter, Treasurer of the Commonwealth of Australia (29 August 2002), *Government Response to Charities Definition Inquiry* (Press Release No. 049), Office of the Treasurer, Canberra.

¹³ Working Party to the Planning Ministers (1986), *Tax Incentives for Heritage Conservation: Report of the Working Party to the Planning Ministers Conference Sydney 1986*, Department of Environment and Planning, Sydney, p. 4. All depreciable items of property, plant and equipment are depreciated or 'amortised' over their expected useful lives commencing from the time the assets are first held ready for use. Depreciation rates for the purpose of claiming business tax deduction are set by the Australian Tax Office; the faster the rate, the greater the tax benefit of holding or improving that asset. The depreciation rates that currently apply were set down in Taxation Ruling 2000/18.

¹⁴ Bonds bring together two parties: a project developer (who is a fund borrower) and financial institution (the lender). The borrower transfers tax benefits to the lender who can use these benefits more efficiently, and in return the lender provides money at a lower cost. Such schemes operate as follows:

- a financial institution lends the funds to invest in a project;
- the borrower pays a portion of the interest and management fee in advance, and the institution lends the balance;
- a tax deduction is claimed for the prepaid interest and management fees;
- at the end of the loan, the bonds mature and their value allows the loan to be repaid.

Heritage Bonds would assist developers to raise finance for heritage conservation projects on attractive terms, in the same way that Infrastructure Bonds promoted investment in infrastructure projects in the 1990s.

The *Financial Review* reported (September 26 2002) that "The Commonwealth Bank offered infrastructure bonds with an after-tax return of 13 per cent. For every dollar invested, investors could claim a \$2.35 tax deduction. The total investment was \$29,894 for a deduction of \$70,246.... Westpac and investment bank Babcock & Brown also provided infrastructure bonds and packaged them into parcels. Westpac's bonds offered a 12.6 per cent return on a \$39,292 investment, allowing \$91,207 in tax deductions. ...Infrastructure bonds are suitable only for high-income earners paying the top marginal rate of tax and not for average investors".

For further information see Australian Property Council (1998), *Response to Commonwealth Consultation Paper on 'A National Strategy for Australia's Heritage Places'*, Sydney; and the Macquarie Bank information sheet entitled "Macquarie Infrastructure Bonds" at <http://personal.macquarie.com.au/personal/products/specialised/alternative/infrastructure>.

¹⁵ Figures derived from *Heritage Grants Programs and Funding* on the Environment Australia website, at www.ea.gov.au/heritage/programs. There is a significant amount of overlap between the Register of the National Estate, and State or local heritage lists.

¹⁶ Figures derived from NSW Heritage Office, *NSW Heritage Office Annual Report (2002)*, Sydney; and from information supplied to the Incentives Taskforce by the NSW Heritage Office, in response to D Conlon's email survey, Nov 29 2002.

¹⁷ Figures derived from Heritage Victoria, *Heritage Victoria Annual Report (2002)*, Melbourne, p. 26 and pp 22-23; and from information supplied to the Incentives Taskforce by Heritage Victoria, in response to D. Conlon's email survey, Nov 29 2002.

¹⁸ Figures derived from information supplied to the Incentives Taskforce by the Cultural Heritage Branch of the Department of Environmental Protection, in response to D. Conlon's email survey, Nov 29 2002. In addition to the figures cited, the Queensland Government invested approximately \$9 million in the Heritage Trails Network Program in 2001/02.

¹⁹ Figures derived from the Heritage Council of WA's grants database; and from Heritage Council of WA, *Annual Report (2002)*, Perth.

²⁰ Figures derived from information supplied to the Incentives Taskforce by the SA Heritage Branch of the Department of Environment and Planning, February 2003, in response to D. Conlon's email survey of November 29 2002. The figure of \$1,300,000 in public grants consists of funds assigned to the SA Department of Administrative Services for the conservation of government buildings.

²¹ Figures derived from information supplied to the Incentives Taskforce by the Tasmanian Heritage Council, February 2003.

²² Figures derived from information supplied to the Incentives Taskforce by Heritage ACT, February 2003.

²³ Figures derived from information supplied to the Incentives Taskforce by the Northern Territory Heritage Branch, February 2003.

- ²⁴ Figures derived from various sources including Local Government websites, the NSW National Trust website, the NSW Heritage Office website, and direct communication with local government officers.
- ²⁵ Information provided by email by the Netherlands Department of Conservation (RDMZ), June 2000.
- ²⁶ As described in Lewis, M (1999), *Suburban Backlash: The Battle for the World's Most Liveable City*, Bloomings Books, Melbourne.
- ²⁷ See clauses 10 and 11 in City of Sydney (2000), *City of Sydney Local Environment Plan*, Sydney.
- ²⁸ NSW Heritage Office (October 2002), *Heritage Incentives Update*, NSW Heritage Office, Sydney, p. 4.
- ²⁹ Department of Infrastructure (2002), *Using the Parking Provisions: Victoria Planning Provisions*, Victorian Government, Melbourne, p. 7.
- ³⁰ City of Sydney (August 2002), *Heritage Floor Space Update*, City of Sydney, Sydney, p. 7.
- ³¹ Lennon et al (2001), p. 53.
- ³² North Sydney Council (May 2002), *Council Wins Two National Trust Heritage Awards*, Media Release, North Sydney.
- ³³ McDougall, K and Vines, E (2001), *Heritage Advisory Services: Towards Best Practice*, Australian Heritage Commission, Canberra.
- ³⁴ North Sydney Council (May 2002)
- ³⁵ Heritage Canada Foundation (2002), *Exploring the Connection Between Built and Natural Heritage: Research Report*, Heritage Canada Foundation, Ottawa, p. i.
- ³⁶ Heritage Canada Foundation (2002), p. 10: the embodied energy of a building 'is the total energy that can be attributed to bringing it into its existing state'. This will include all materials and energy in the extraction and production of all materials, labour (direct and indirect) and transport.
- ³⁷ Monumentenwacht Nederland (1993), *Prevention Better than Cure*, Stichting Federatie Monumentenwacht Nederland, Amersfoort, p. 2.
- ³⁸ NSW Department of Education and Training (2000), *Heritage Trades Training Strategy 2000-2005*, NSW Department of Education and Training, Sydney.
- ³⁹ NSW Department of Education and Training (2002), *Heritage Trades Training, Newsletter 2, April 2002*, NSW Department of Education and Training, Sydney, p. 1.
- ⁴⁰ See www.tasheritage.tas.gov.au
- ⁴¹ Details supplied on the NSW Heritage Houses Trust website, at www.bht.gov.au/news_room/media_releases/events/Sydney_open
- ⁴² Details supplied on the National Trust of Australia website, at www.nationaltrust.org.au
- ⁴³ Details supplied on the Queensland Heritage Trails website, at www.heritagetrails.qld.gov.au
- ⁴⁴ Details supplied on the US National Parks Service website, at www.cr.nps.gov/clg_p.btm

Section 3 - Funding sources and mechanisms

- ¹ See for instance the analysis in Built Heritage Conservation Resources Working Party (1998), *Heritage: The Cinderella of Cultural Funding*, Report for the Heritage Ministers, unpublished.
- ² The concept is analysed in Access Economics Pty Ltd (2002), *Feasibility of a Permanent Historic Heritage Conservation Fund*, Australian Heritage Commission, Canberra.
- ³ As reported in the Western Australian Planning Commission's *Annual Report 2001/02*, and in the Western Australian Government's *2002/03 Budget Papers*, Vol. II.

Section 4 - Evaluating the effectiveness of incentives

- ¹ Schuster (1997), p. 74.
- ² Sinclair Knight Mertz (1998), *Economic Impact of the Government Heritage Restoration Program*, prepared for Heritage Victoria, Melbourne, p. 45.
- ³ Rubin Brown Gornstein & Co (2003), *An Economic Analysis of the Missouri Historic Preservation Tax Credit*, prepared for the St Louis Regional Chamber and Growth Association, St Louis Missouri.
- ⁴ Lipman Frizzell & Mitchell (2002), *State of Maryland Heritage Structure Rehabilitation Tax Credits: Economic and Fiscal Impacts*, prepared for Preservation Maryland, Baltimore Maryland.
- ⁵ Morris (1992), p. 4.

⁶ See for instance the inception of the Missouri tax credit scheme as described in Missouri Department of Natural Resources, State Historic Preservation Office (2002), *Economic Impacts of Historic Preservation in Missouri*, Jefferson City MO.

⁷ Argersinger, F (1993), *Washington State Special Valuation for Improvements to Historic Property*, report prepared for the Washington State Department of Community Development, Oregon. The analysis was based on the program's first 6 years of operation, 1986-1991. See also Beaumont, C.E. (1996), *SmartStates, Better Communities: how state governments can help citizens preserve their communities*, National Trust for Historic Preservation, Washington, p. 105.

⁸ English Heritage (2002), *The Heritage Dividend 2002: Measuring the results of regeneration 1999-2002*, London, pp. 3 & 7.

⁹ Working Party to the Planning Ministers, (1986), *Tax Incentives for Heritage Conservation: Report of the Working Party to the Planning Ministers Conference Sydney 1986*, Department of Environment and Planning, Sydney, p. 33.

¹⁰ See Donald (2002), p. 49.

¹¹ Local advisory services in NSW and Victoria appear to operate at an average of around 15 hours per month (one day per fortnight).

Section 5 - Comparisons and conclusions: the Australian experience

¹ Information in the table is derived from various sources including the following:

Figures on the amounts and 'success ratios' of the incentive schemes in the United States comes from the websites of, and email communication with officers in, relevant heritage organisations: Delaware's State Historic Preservation Office; Florida's Department of State, Division of Historical Resources; the Colorado Office of Archaeology and Historic Preservation; the Missouri Department of Economic Development; the New Jersey Historic Trust; the Maryland Historical Trust; and the National Parks Service.

Information on the English grants and listings comes from the *Heritage Lottery Fund Fact Sheet April 2002*; and from English Heritage (2000), *Buildings at Risk: The Register 2000*. The Dutch information comes from email communications with the Netherlands Department of Conservation (RDMZ).

Information on the Australian State's incentive schemes is derived from (a) information supplied to the Incentives Taskforce by the state heritage agencies, in response to D. Conlon's email survey, Nov 29 2002; and (b) Annual Reports published by those agencies for the year 2001/02.

Information on the Commonwealth's Cultural Heritage Projects Program is derived from (a) *Heritage Grants Programs and Funding* on the Environment Australia website, at www.ea.gov.au/heritage/programs; and (b) information supplied to the Heritage Council of WA in correspondence dated 9 July 2002.

Information on the other Commonwealth schemes is derived from:

- *Investing in Our Natural and Cultural Heritage: Commonwealth Environment Expenditure 2001-02*, Statement by Senator the Honourable Robert Hill, Minister for the Environment and Heritage 22 May 2001; and
- The Department of Communications, Information Technology and the Arts' Federation Fund website, published at www.fedfund.dcita.gov.au/fchp.html.

² Information on Commonwealth expenditure is derived from the sources referred to in End-note 1 above. *Investing in Our Natural and Cultural Heritage* reports a slightly higher figure for the Cultural Heritage Grants Program (\$4.9 million vs \$3.6 million). The lower figure reflects the actual value of new grants awarded in 2001/02.

Funding for Indigenous Heritage is included in the Cultural Heritage Projects Program, but accounts for only 4% of the total allocation in 2001/02.

Information on expenditure by the State and Territories is derived from the 2001-02 *Budget Statements*, published by each State and Territory Government in 2001.

³ See for instance the case studies described in Bateson, P (2001), *Incentives for Sustainable Land Management: Community cost sharing to conserve biodiversity on private lands, a guide for local government (revised edition)*, Research Report 3/99, Environment Australia, Canberra, p. 31-44.

⁴ In 1995/96, the Commonwealth's National Estate Grants Program provided a total of \$5.3 million, and at least half of the NEGP was devoted to the historic environment in most years. This was in addition to the Tax Incentives for Heritage Conservation program which in 1995/96 provided a maximum in tax rebates of \$1.9 million. (While the actual take-up of the rebate was much lower than \$1.9 million).

By 2001/02, the Cultural Heritage Grants Program had replaced its predecessors, and provided a smaller total expenditure of \$3.6 million.

The earlier figures are reported in:

- the Commonwealth *Budget Review* 1996/97, section 5.1.3 of the "Environment, Sport and Territories" portfolio);
- Heritage Council of Western Australia, *National Estate Grants Program: Annual Report for Western Australia, 1 July 1995 to 30 June 1996*, Perth, 1996 (Appendix 5);
- Heritage Council of New South Wales, *Annual Report 1996*, Sydney, 1996 (pp. 67-94);
- Early, G. *Review of the National Estate Grants Program*, report for the Office of the Minister for the Arts Sport, The Environment, Tourism and Territories, Canberra, 25 May 1989 (p. 19).

⁵ Information derived from *Investing in a Sustainable Australia: Commonwealth Environment Expenditure 2003-04*, Statement by the Honourable Dr David Kemp, Minister for the Environment and Heritage 13 May 2003.

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LOCAL AND STATE TAX INCENTIVES IN NORTH AMERICA

*I. Local Government***CANADA**

| <i>Municipality</i> | <i>Incentive</i> | <i>Eligible properties</i> | <i>Usage & Budget Impact</i> |
|---------------------|---|----------------------------|---|
| City of Edmonton | City provides up to 50% of the value of a restoration project either as a property tax rebate or a grant (max. \$25,000 for residential; commercial projects generally \$80,000-\$250,000). Owners must sign a maintenance agreement. | Residential & commercial | \$700,000 pa allocated for the incentives; unused funds carry forward. c. 10 projects per year |
| City of London | City freezes the rate assessment for 10 years if a heritage place is restored (the value of the improvement of the property is exempted from consideration). In addition, the City provides (a) interest-free loans up to \$50,000 over 10 years, & (b) grants from an Endowment Fund. | Residential & commercial | |
| City of Quebec | Municipalities provide 25-50% reduction in the rate assessment <u>indefinitely</u> . Owner must maintain the property. | Residential | Up to \$500,000 per annum in reduced rates (underwritten partially by provincial govt). |

UNITED STATES

| <i>Municipality</i> | <i>Incentive</i> | <i>Eligible properties</i> | <i>Usage & Budget Impact</i> |
|---|---|--|--|
| Alabama - Statewide option (all municipalities) | Property tax assessment based on 10% of market value (vs 20% for non-historic properties). No time limit on tax reduction. | Commercial | |
| Arizona - Statewide option(all municipalities) | Property tax reduction of up to 50% over 15 year period; owner must sign a 15 year agreement to maintain the property. Commercial properties can be taxed at 1% of market value for 10 yrs (standard rate is 25%). | Owner-occ'd residential Commercial properties | 200-300 residential properties per year benefit. 5-10 commercial properties per year. |
| California (35 municipalities) | Property tax assessment reduction of up to 50% over 10 year period; owner must sign a 10 year agreement to maintain the property. | Owner-occ'd residential Commercial | San Diego has highest use, up to 40 projects pa. Others use occasionally |
| Florida (92 municipalities participate) | Municipality may freeze the rate assessment for up to 10 years if a heritage place is restored (the value of the improvement of the property is exempted from consideration) | Owner-occ'd residential Commercial | |
| Georgia (all municipalities) | Municipality may freeze the rate assessment for up to 8 years if a heritage place is restored. | Owner-occ'd residential Commercial | c. 200 projects approved pa, involving private projects valued at c. \$18 million pa. |
| Hawaii (4 municipalities) | Property tax <u>exemption</u> for owner-occupied properties, time period varies. | Owner-occ'd residential | 160 properties are exempt. |

| <i>Municipality</i> | <i>Incentive</i> | <i>Eligible properties</i> | <i>Usage & Budget Impact</i> |
|---|---|---------------------------------------|--|
| Illinois (all municipalities) | Municipality may freeze the rate assessment for up to 8 years if a heritage place is restored. | Owner-occ'd residential Commercial | c. 90 projects per annum |
| Iowa | Municipality may freeze the rate assessment for up to 4 years if a heritage place is restored. | Owner-occ'd residential Commercial | A few projects each year. |
| Louisiana | Municipality may freeze the rate assessment for up to 10 years if a heritage place is restored. | Owner-occ'd residential Commercial | |
| Maryland | As above | | |
| Mississippi (13 municipalities) | As above, 7 year freeze period. | | |
| North Carolina | As above | | |
| New York | As above, 5 year freeze period. | | |
| Oklahoma | As above, save that freeze applies up to 15 years. | Owner-occ'd residential Commercial | 100-200 projects approved per annum |
| South Carolina | As above, save that freeze applied for 2 years with the next 8 years rated at 60% of the 'frozen' figure. | | |
| South Dakota | Municipality may freeze the rate assessment for up to 8 years if a heritage place is restored. | | |
| Texas (30 cities participate) | Partial or full exemption from property taxes allowable. | | Varies according to size of municipality: Abilene provides c. \$23,000 pa; Dallas \$3-\$4million pa. |
| Virginia | Full exemption from property taxes allowable for buildings >25 years old that are restored or improved. | | |
| Vermont | 5 year property tax exemption for restored residential properties that were vacant for 2 years prior to restoration. | | |
| Washington (19 cities and 10 countries participate) | For a 10 year-period, restoration costs can be deducted from the new assessed valuation post- restoration. During this period, property taxes are based on that "special valuation" instead of the full assessed value. (More generous than a tax freeze - may result in NIL tax payable for a period). | | |

II. State Government

CANADA

| <i>State</i> | <i>Incentive</i> | <i>Eligible properties</i> | <i>Budget impact & Usage</i> |
|--------------|---|----------------------------|----------------------------------|
| Quebec | Province of Quebec shares the cost of the City of Quebec tax rebate scheme. | | |
| Nova Scotia | 53% rebate provided on sales tax applicable to purchases of building materials for heritage conservation works. | Non-commercial | |

UNITED STATES

(States charge personal and company tax in addition to Federal Taxes; for instance in Colorado individuals and corporations pay 4.6% of their taxable income to the State Government).

| <i>State</i> | <i>Incentive</i> | <i>Eligible properties</i> | <i>Budget impact & Usage</i> |
|--------------|---|----------------------------|---|
| Colorado | Tax credit of 20% of cost of restoration, to max \$50,000. May be spread over 5 years. | Residential & commercial | Average credit = \$20,000. |
| Connecticut | Tax credit of 30% of cost of restoration, to max \$30,000. May be spread over 5 years. | Residential | Total statewide credits capped at \$3 million pa |
| Delaware | Tax credit of 20% of cost of restoration, to max \$20,000 (commercial), or 30% credit for owner-occupied. May be spread over 10 years. | Residential & commercial | Total statewide credits capped at \$3m per yr. Owner-occupied credits max \$20,000. |
| Florida | 50% Deductibility of corporate donations for restoration projects, to max of \$200,000 p.a. | | |
| Indiana | Tax credit of 20% of cost of restoration, to max \$100,000. May be spread over 15 years. | Residential & commercial | Statewide cap on total value of credits of \$450,000. |
| Iowa | Tax credit of 25% of cost of restoration. | Residential | Statewide cap on total value of credits of \$2.4 m. |
| Kansas | Tax credit of 25% of cost of restoration. May be spread over 10 years. | Residential & commercial | |
| Maine | Tax credit of 20% of cost of restoration, to max \$100,000. May be spread over 5 years. | Commercial | |
| Maryland | Credit of 25% of cost of restoration; may be taken in several ways: <ul style="list-style-type: none"> • tax credit spread over max 10 years; or • mortgage credit on interest charges; or • straight rebate if tax liability is low. Unused portion of credit transfers to new owners if property sold. | Residential & commercial | |
| Michigan | Tax credit of 25% of cost of restoration, to max \$25,000. May be spread over 4 years. | Residential & commercial. | |
| Missouri | Tax credit of 25% of cost of restoration. May be spread over 10 years. | | State budget for credits in 2000: \$41 million US. |

| <i>State</i> | <i>Incentive</i> | <i>Eligible properties</i> | <i>Budget impact & Usage</i> |
|----------------|--|----------------------------|---|
| New Mexico | Tax credit of 50% of cost of restoration, to max \$25,000. May be spread over 4 years. | Residential & commercial | Total value of credits statewide \$500,000+ |
| North Carolina | Tax credit of 5% of cost of restoration. | Commercial | |
| Rhode Island | Tax credit of 10% of cost of restoration, to max \$1,000, may be carried forward indefinitely until credit fully claimed. | Residential | |
| Utah | Tax credit of 20% cost of restoration, no cap. | Residential | Average value of credit = \$18,000; total value \$1.3m |
| Virginia | Tax credit of 25% cost of restoration, no cap. | | |
| Wisconsin | Tax credit of 25% of cost of restoration of residential buildings, to max \$10,000. May be spread over 5 years. Commercial properties, credit is 5%. | Residential & commercial | Average value of credit \$7-10,000; total statewide credit c. \$400,000+. |

HERITAGE REVALUATION PROVISIONS, AUSTRALIA-WIDE

| State | Valuation guidelines specified | Revaluation "trigger" | Relevant Act ⁽¹⁾ |
|----------------------|--|---|---------------------------------------|
| NSW | Guidelines specified for 'heritage valuations': • No demolition of buildings on land • No new improvements on the land | State Register Heritage List in Local Environment Plan | Heritage Act Valuation of Land Act |
| Victoria | Very similar to the NSW model. Heritage List in Town Planning Scheme | Entry in State Register | Valuation of Land Act |
| South Australia | Similar to NSW model, but not quite as prescriptive | Entry in State Register or declaration as part of a State Heritage Area | Valuation of Land Act |
| Northern Territory | Similar to NSW model, but not quite as prescriptive | Declaration as a Heritage Place (the NT equivalent of registration). | Valuation of Land Act |
| Queensland | Similar to WA (1990) | Heritage Agreement (1993 Land Court test case has also established obligation for Valuer to take account of Local Planning Scheme listing) | Valuation of Land Act |
| Tasmania | No provision | | N/A |
| WA (1990 Act) | Heritage Agreement must be taken into account. No specific guidelines | Heritage Agreement | Heritage Act |
| WA (2000/2003 Bills) | Similar to NSW and Victoria model | State Register Heritage Agreement Heritage List in Town Planning Scheme | Heritage Act |

(1) In every case the provisions in the Land Valuation Acts are the result of consequential amendments flowing from the State Heritage Acts.