

COST BENEFIT ANALYSIS AS A TOOL FOR LOCAL GOVERNMENT HERITAGE MANAGEMENT: PURPOSE, PRACTICALITY AND NEEDS

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The NSW Heritage Office, like the other Australian state heritage agencies, works very closely with local government and considers it to be one of its most critical stakeholders. This paper reflects experiences and observations of working closely with local government staff, elected officials, local community groups and local heritage advisors and planners from the state government perspective. It does not claim to speak for local government. The thoughts represented herein are also influenced by the work carried out in participating in the Productivity Commission Inquiry into Heritage in 2006, recent analysis of the challenges facing local government in heritage management and previous work carried out by the NSW Heritage Office on the economics of heritage¹.

Context

It is worthwhile contextualizing local government's role and capacity in relation to heritage management before discussing how they may usefully employ cost-benefit analysis as a tool for heritage management. There are six pertinent issues that warrant consideration:

- local government is managing the bulk of Australia's heritage,
- local government is generally committed to the conservation of cultural heritage,
- people value local heritage,
- local Government is collectively not meeting expectations in heritage management, and
- local government capacity, resources and skills for heritage management varies considerably.

Local government manages the bulk of Australia's heritage

Local government owns or is involved (directly or indirectly through the planning process) the management of some highly significant and diverse cultural heritage places. This includes world heritage treasures such as the 30 year old Sydney Opera House, and Melbourne's Royal Exhibition Building, nationally significant sites such as the 11,000 year old Brewarrina Fish Traps in northern NSW, and the cultural landscape of Bondi Beach. They manage both rural and urban landscapes, vast areas like the Blue Mountains, towns like Broken Hill, urban streetscapes and areas such as Paddington in Sydney. However, the bulk of heritage places that fall within local government's remit are places of importance to local communities, places that communities' value and cherish, places they want and expect to be protected and sustained. Local heritage is important,

¹ Following the Productivity Commission Inquiry Heritage Inquiry, the NSW Heritage Council established a Local Government Heritage Working Group to address issues raised during the course of the Inquiry. Previous research on the economics of heritage include: Professor Graeme Newell, Peter Wills and Chris Eves. *Heritage Australia: A Review of Australian Material Regarding the Economic and Social Benefits of Heritage Property*. 2005. Col Dominy, *Feasibility Guidelines for Heritage Development Applications*. 2005 Dr Peter Abelson and Colin Dominy *The Economics of Heritage Listing*. 2001. These documents can be downloaded from www.heritage.nsw.gov.au

it provides the context for the icons, and usually relates more closely to peoples' personal heritage. Local heritage constitutes the greater proportion of the statutory lists around Australia.

Local government is generally committed to the conservation of cultural heritage

Local government is on the whole very committed to heritage conservation – they work hard to identify, protect and manage their heritage. But, it is also the level of government that has the most difficulty doing so. On the one hand they have the most work to do and yet are the least resourced sector of government to do this work. It is at local government level where the fiercest battles are fought and where heritage is at its most controversial. What happens to the bulk of Australia's heritage is largely predicated on local government decision making delivered through the planning system. The effectiveness and efficiency of the planning system and local government's ability to administer it varies greatly and is the subject of ongoing debate.

People value local heritage

How do Australian's feel about local heritage? In the survey work undertaken by the Allen Consulting Group on behalf of Australian and State Government heritage agencies in 2005, 80% of survey respondents said that their local heritage was of great importance and contributed to their area's identity, sense of place and amenity.² This survey work utilised the discrete choice modeling method to gauge public opinion about the value of heritage. The reason this method was selected was an attempt to capture whether people valued local heritage and if so, to what extent. The survey sought the collective value of heritage. There is sufficient evidence from past studies to demonstrate that people value the heritage icons. In Australia these national icons are largely well protected and well managed. It is the value of local heritage that is more difficult to assess. Interestingly most Australians would not dispute the value of the local heritage of England, or France. Think of the holiday snaps of the typical Australian tourist returned from a trip to Provence or the Cotswold's. Images of quaint cottages and streetscapes, villages, rural buildings, and pastoral scenes, all elements that tell local stories and that together with the cathedrals and castles contribute to the identity, character, and quality of a place.

The discrete choice modeling analysis attempted to address the criticisms of methods used in past studies, which mostly utilised hedonic or travel cost methods. Previous studies typically attempted to evaluate the value of individual sites then extrapolate or multiply the value to capture the larger value of heritage in an area. In terms of quantifying the economic value of a single site, such methods can be very useful. In evaluating the collective economic value of heritage to individuals and communities it does not provide the full picture, or acknowledge that in some instances it is the sum of the parts that together provide the cultural value of the place³.

Local Government is collectively not meeting expectations in heritage management

Recent surveys and the Productivity Commission Inquiry into Australia's Heritage make it clear that local government is struggling to meet the demands of the legislative system and the expectations of communities in managing Australia's heritage. Despite some

² The Allen Consulting Group. Valuing the Priceless: The Value of Historic Heritage in Australia, 2005 This document can be downloaded from www.heritage.nsw.gov.au

³ Newell, Wills and Eves, Op Cit

support from state governments to assist local government in its tasks, funding for local government in real terms has continued to fall since it assumed responsibility for local heritage management in the 1980s.

Local government capacity, resources and skills for heritage management varies considerably

It is well recognised that there is huge variation in the skills, capacity and ability of local government to meet their obligations under the current heritage management systems across Australia. Some councils such as Melbourne City Council and Sydney City Council are exemplars and allocate considerable resources to heritage management. They have carried out thorough identification studies, developed appropriate environmental and development plans to manage heritage, employed tools such as education and incentives to help deliver heritage conservation and engaged appropriately qualified heritage practitioners. These efforts enable a council to make consistent, informed decisions based on best practice. There are councils at the other end of the spectrum that have not yet addressed heritage in a strategic way, and may not have access to a planner, let alone a heritage specialist. Most councils lie somewhere in the middle of these two extremes. The fact is that a large number of local councils are struggling with the burden of the increasing responsibilities passed down from higher levels of government and heritage is viewed as another burden.

It is important to articulate the resources (skills and dollars) available to local government for heritage management before we discuss additional processes that could be introduced into the system, and to assess the capacity for managing new processes. The NSW Heritage Incentives Program, which provides one of the highest levels of support to local government in Australia, provides up to a maximum of \$7,500 per annum to regional and rural councils to support the administration of heritage, which must be matched by the council. A typical council program of \$15,000 buys a qualified heritage advisor for 12 days per year. For some rural council's the heritage advisor may be the only professionally trained planner or architect that a council has to do any of their development assessment or planning work. Metropolitan councils fund heritage advisors themselves. A large number of NSW councils have an advisor one day per month; some metro council's have part-time or even full-time advisors.

The NSW Heritage Advisory Program funds up to \$20,000 for local council heritage studies, again matched by the council to enable them to meet the obligations to identify their heritage. Most heritage studies require considerably more than the 40-50 days of professional time this money buys, to do a historical study, identify all the heritage items, prepare inventory sheets and work with local communities to achieve this. Some council areas are host to hundreds of heritage items, some have less, but clearly the dollars available to achieve the study aims are not enough. There is considerable criticism of inadequate heritage studies and the problems they cause in the system. Local Councils are required to identify their heritage and protect it, but some councils cannot afford an adequate study, others choose to prioritise other services. Heritage studies are crucial to the system, but there is reluctance to resource them and then frequent criticism when they go wrong. Yet the community continues to demand that heritage is identified and conserved.

Local Council heritage funds are also provided by state governments to provide incentives to local owners. In NSW, a council is eligible for up to \$10,000 per annum, which again must be matched by a local council. In recent times councils have found the

administration of such small sums inefficient and the high success rates achieved during the early years of these schemes is on the wane.

Well resourced councils with supportive communities may host all of these heritage services, but for many cash strapped councils finding even these small sums is a struggle. This all paints a gloomy picture, but communities are resourceful and many have had great success with the small amounts of money available. In many cases this kick start money has been an important catalyst for local action. In rural communities particularly, looking to provide new economic models for their townships, heritage start up funds have provided a successful incentive to grow new businesses and bring about a sea change in the local area.

Local government and cost benefit analysis

Despite the varying capacity of local government to fund individual studies, there are some examples of work that has attempted to measure the economic value of heritage to local communities. Most of these have been funded by state governments. In Western Australia a study undertaken by Curtin University's Sustainable Tourism Centre with support from a Western Australian Regional Initiatives Scheme grant, sought to measure the economic value of heritage tourism in Albany, Fremantle and New Norcia⁴. This study identified significant tourism expenditure directly attributed to the heritage values of the place.

A study of three mining towns, Maldon in Victoria, Burra in South Australia and Charters Towers in Queensland, also aimed to identify the impact of heritage tourism on the local economy. This study carried out by the University of Canberra's Tourism program was jointly funded by the Cooperative Research Centre for Sustainable Tourism and the Australian Heritage Commission⁵.

In Braidwood, the NSW Heritage Office initiated a study as part of the listing of the town on the State Heritage Register. The study seeks to determine how the economy of the town is responding to the listing by measuring trends in employment and the profits of local businesses over a five year period. The work is being carried out by Charles Sturt University.

There are also a number of studies undertaken for individual sites, largely in relation to the impact of the tourism dollar on local economies; these have been initiated by the site managers rather than local government. Whilst no doubt local government plays a role in such studies, there are few examples of local government having the capacity to commission and fund such a study. Studies on the impact of listing on local areas have largely been carried out by Universities or as post-graduate thesis.

Cost benefit analysis as a heritage management tool; when is it needed?

Cost benefit analysis (CBA) is an analytical tool that can be used to assess the benefits and costs of regulatory proposals. CBA involves examining costs and benefits from the

⁴ reference

⁵ Michele Cegielski, Ben Janeczko, Trevor Mules and Josette Wells. Economic value of tourism to places of cultural heritage significance: a case study of three towns with mining heritage, CRC 2001

perspective of the community as a whole, to help identify the proposal with the highest net benefit. When examining its role in the identification and management of a local government area's heritage there are a number of instances when such a tool has been identified as potentially useful:

- to make the case for heritage conservation,
- to measure the impact of heritage policy or legislation,
- to make the case for incentives and target funding most efficiently and effectively, and
- to measure costs and benefits of impact of a specific development proposal.

Unfortunately, in Australia there is still a need to make the case for heritage protection and management, particularly at local government level. The Productivity Commission's report identified that there is an over-reliance on regulation and absence of other forms of government intervention such as policy, education and incentives. This argument was made in many of the submissions to the Productivity Commission, and linked the lack of investment by all levels of government in incentives and education to failures in the system. This "all stick, few carrots" approach means that costs benefit analysis will remain an important tool for heritage managers to attract attention to their sites and as an accompaniment to funding requests. The work carried out by the Australian and State Governments by the Allen Consulting Group was an attempt to measure exactly this – the economic value of heritage to the Australian public.

Clearly there is some potential to use cost benefit analysis to measure the impact of heritage policy and legislation. Regulatory impact assessments are already commonly in used in Australia for this purpose. It is however unlikely that it is feasible or sensible for individual local councils carry out such exercises. Local government legislation and much of the policy framework in which local government operates is set by state governments who are therefore best placed to use economic tools to measure the effectiveness at a strategic level. Very large, well resourced councils that have the capacity to target policy and incentives without relying on state government support, may be able to effectively apply the economic tools that have been the subject of this seminar.

There are limited examples from overseas of cost benefit analysis being used by government heritage agencies to measure the impact of specific policies or programs. The Historic Preservation Tax Incentives administered by the National Park Service for the US government provides a regular analysis of the cost of the scheme to the government and calculates the monies leveraged as a result. The results are impressive; in 2006 for example \$4 billion US was leveraged from the program, which also created 61, 394 jobs⁶.

Cost benefit analysis as a tool in heritage listing

The idea of cost-benefit analysis at the identification stage of the heritage management process has raised concerns in state and local government levels, for a number of reasons, least of which is the practicality of its application. The criticisms for this proposal include philosophical issues, regulatory irregularities and practical issues.

⁶ NPS, US Department of the Interior. Annual Report for Fiscal Year 2006. Feb. 2007

In Australia property rights are not automatically conferred on an owner and there is no right to develop the land in any particular way. At the time development is proposed the current laws, policies and guidelines come into play. The idea of carrying out a CBA at the time of listing, which anticipates a potential future development, is therefore not consistent with the current laws and practice.

It is important to remember the listing of a heritage item is not the making of legislation, which is when economic tools are usually used. The listing process is the implementation of the legislation. If such methods were to be introduced each time legislation was implemented the land-use planning system would come to a standstill. To facilitate a consistent approach in the planning system, the same approach would need to be applied to rezonings, when government policy changed in relation to development, development control plans were amended or even when a neighboring property was developed and had an impact on its neighbours. It is hardly surprising therefore that there are concerns about such a concept. It would be very difficult to argue for different approaches to the implementation of legislation to different parts of the planning system.

There are also a number of practical issues that need to be considered in the application of CBA as part of the heritage listing process. Firstly, there is still no consensus by economists as to the usefulness of exercise. Secondly, as recognised during this seminar, there is no agreement by economists as to the most suitable methods to use to achieve the intended objective. Thirdly, the cost of using these tools is not consistent with money available in the heritage system, except in rare circumstances. Lastly, at local government level there is no capacity to introduce additional process in the system without providing the necessary skills and resources.

Fundamental to solving any problem is the need to target the cause of the problem. Listing is not the problem in the heritage management system, or the cause of the problem, but it is the stage of the conservation process that is not working well due to a number of underlying problems. Improving the listing process will undoubtedly help, but in the end if a property owner remains opposed to listing for other reasons it will not help. Cost benefit analysis cannot hope to be the panacea for fixing the system. If the problems in the system were fixed then would cost benefit analysis be called upon to play the same role? Experience working with the listing of properties indicates that a cost benefit analysis may not necessarily change people's opinion about the merits of listing as the following example will demonstrate.

In 2007, the historic town of Braidwood was listed on the NSW State Heritage Register after an extended process. Although this was a state government listing the issues can be extrapolated to local government dealing with a conservation area listing. The listing and the process of listing prompted lively and sometimes angry debate amongst both locals and neighboring communities. The listing was initiated by members of the local community, who sought recognition of the heritage significance of their town and who were frustrated by what they saw as lack of capacity of the small local council to manage the heritage values of the town.

The controversy that accompanied the listing process arose from the following concerns of property owners:

- perceived loss of development rights, particularly in the rural lands,
- perceptions about additional red tape (additional processes and costs) in the planning process,

- perception about additional costs for property maintenance,
- perception that there would be a decrease in property values.

Prompted by the communities' concerns the Regional and Rural Community Council carried out a regulatory impact assessment that examined the potential costs and benefits of the listing. They found that there was unlikely to be a negative impact on owners in any of the above areas with the exception of an additional process and fee for development applications. In response to this concern a single step process was established that removed the additional process and an exemption from additional fees was agreed with the local council.

The study like many others before it also recognised that the cost of maintaining a 1880s house, whether it listed or not, is unlikely to change as a result of the listing. The Valuer General's assessment of the affect on property values, carried out as part of the listing process, concluded that property values were likely to increase not decrease following listing.

The study also acknowledged that the listing did not change the development potential of the land. Land use zoning controls the ability to develop the land in a particular way. Despite this fact a number of rural landowners on the town's edge continued to voice concern over a potential to curtail development on their land. This argument was based on an expectation that this land would be rezoned for residential development. However, Council had long been committed to protecting this agrarian land on the town's edge for practical, agricultural, heritage and other reasons; the zoning reflecting this. The town had also recently approved residential development that took it to the limit of its capacity to supply water to its residents, precluding further subdivision. The Minister for Planning also made it clear during the process that this land would not be rezoned. Despite all these facts, the perception remained that there was a loss to the land owners arising from the listing.

The interesting point in this story is that the cost benefit analysis work and resulting regulatory impact statement did not change everyone's perceptions. The same people that were opposing the listing before that study were the same people that were opposing the listing after the study. For the group supporting the listing and those wanting more facts, the study did provide information to increase comfort levels. As part of the listing announcement the NSW Heritage Office announced that they would fund a further study (previously mentioned) for a five year period. The first year results from this study have demonstrated an economic boost to the local community following the listing, something that is obvious to the locals who are now grappling with competition for car parking on the main street on the weekends.

The difficulties remain with CBA that the future benefits from a listing may be unable to be measured as the part of the study. Would a CBA have indicated the economic benefits to Australia that protecting the historic Rocks area of Sydney has achieved? In the 1970s, the threat to this area of demolition prompted the resultant heritage legislation in NSW. Much of this land was publicly owned, the buildings were at the stage in their life cycle that demanded investment for repair, and the tourism industry had not been established – Sydney was not the international destination that it is now. Would a CBA at that time have identified the benefits of protecting this area? It is difficult to image it would; the persuasive argument in this case was the unquantifiable cultural value attributed to the place by the community, regardless of the cost.

The problems in heritage management at local government level have been well articulated through the Productivity Commission Inquiry and other state government analysis. Heritage is a microcosm of the problems in the planning system at local level.

One of the principal causes of problems in heritage administration is that heritage management is not well integrated into the planning system and as a result conflicts arise between heritage and development. The other key issue is arises from the fact that the work to identify heritage places and plan for their conservation is largely incomplete, resulting in a high degree of uncertainty in the system. Therefore the system remains reactive and heritage conservation remains problematic. In research underway on incentives for the NSW Heritage Office by SGS Economics, it is clear that when heritage places are identified and their conservation planned for within a local area, including assigning appropriate zonings for heritage places, there is less need for incentives. The Productivity Commission was explicit in their report on targeting CBA to limited scenarios. Their report recognised that in a residentially zoned area a heritage listing is unlikely to confer a disbenefit. It is where there is a mismatch between the planning framework and the conservation needs that there may be a need to better understand the implications of a listing. This idea taken to a strategic level could provide useful information for plan making and policy development.

Local councils are unlikely to be able to easily resource or manage strategic CBA studies. It is possible to identify common issues or scenarios where CBA may provide some useful information at a more generic level that could be used by local councils. This type of work is probably better carried out at state or national level, which would provide a useful resource for local government. It is difficult to see how CBAs for individual listings could be cost effective. On a practical level there is no capacity within the existing system to fund such studies.

Conclusions

There are currently genuine attempts by state and local governments around the country to address some of the problems identified prior to, and then reinforced in the Productivity Commission's Heritage Review. Recently the state heritage agencies agreed to form a working party on local government to address these issues nationally. However, this is challenging as the issues affecting heritage are part of the greater challenges facing local government generally and the planning system specifically.

Heritage professionals and interest groups have generally been receptive to the idea that there is a need for enhanced understanding about the economics of cultural heritage. In terms of the small amounts of formal research work commissioned for heritage conservation in Australia, over the last 10 years, economics research has attracted the majority of the funding. There is genuine willingness by practitioners and government heritage agencies to use this information in policy development and decision making where it is a useful tool. However, there is a feeling that the economists have left the heritage practitioners in the lurch as they come in and out of the discussions and are absent from the moment when the suggested tools need to be practically applied. Discussion over the course of this event agreed that the multifaceted nature of heritage make application of the usual valuation methods difficult and complex.

Over the course of this seminar, there seems to be some tentative agreement that the discrete choice modeling method may be the most useful method of analysis, although

the Productivity Commission was not receptive to the work carried out using this method by the government heritage agencies. In this case more weight was given to submissions to the Inquiry than to the independent survey work. This does not give people much confidence in spending time and money to employ these economic tools, if other professional economists so willingly dismiss them. What the heritage practitioners want therefore is consensus from economists on which tools to use and when they are most usefully applied.

Clearly there is a place for using economic assessment tools such as cost-benefit analysis in heritage management. But as with any exercise it is vital to determine whether the scale of the exercise is warranted and whether it will affect the decisions or outcomes. One of the lessons from the Productivity Commission Inquiry and one that local government understands well, is that you can spend much time and effort on making arguments for and against the role of government intervention in heritage management, using tools of varying degrees of sophistication. In the end it always comes back to values and the fact is that the community on the whole values its heritage and expects it to be conserved for future generations. Heritage conservation is value laden, which makes the application of straightforward economic theory difficult and in the end may not change the demands of the local community.

There is a need to consider the impact of adding additional formal processes into the heritage system; a system that has been accused of being process laden. There are already a wide range of consultants involved, so a pragmatic, targeted approach is needed if economic considerations were to be applied more often. Methods need to be simple, effective, efficient and the costs of the work need to be commensurate with the money available in the system. Most importantly the information that such studies deliver needs to be necessary.

Achieving the following list would be a useful way forward and provide heritage practitioner's with confidence in the approach and that the results of the analysis will not be dismissed:

- agree when CBA is useful and provides information that influences approaches or decisions;
- agree which method should be used to acquire the information needed
- avoid the addition of another professional report or process into the administration of the heritage system
- recognise the skills and capacity of those needing to do the cost benefit analysis
- provide an approach that is realistic, practical and cost effective for the specific use
- identify a priority list of strategic issues or common scenarios where CBA could provide useful insights.

Consensus is needed between economists, heritage practitioners and government administrators about these issues if we are to move forward. The economists need to be able to communicate methods clearly and agree on the above list and recognise the needs of those working to achieve heritage conservation. This will raise confidence in what is being proposed. Heritage practitioners need improved understanding of economic mechanisms and tools and how they impact on their work. Administrators of the heritage system have a role in facilitating this dialogue.

When the above criteria are considered it is unlikely that CBA will be practical tool for individual listings of heritage items. The opportunity lies more in its application at a strategic level, particularly for examining larger policy or regulatory issues, or as a means of targeting government efforts or tools. It is also possible to identify priority areas where CBA could be applied to improve understanding of more generic issues. Heritage agencies are well placed to develop such a list. This would avoid an ad hoc approach, which is not useful when trying to understand the bigger picture. Targeting problems and their causes is a critical first step.

There seems to be general agreement from heritage practitioners and observers of the system that regulation needs to be better balanced with incentives, education and policy. Participants in the Productivity Commission Inquiry hoped that the need for this would be an outcome of the Inquiry. Further work to demonstrate the benefits of the necessary investment in incentives, policy and education could be useful, but only if there is consensus about the methods to be used and confidence that research outcomes will be seriously considered.

It should be recognised that local government is going to find it very hard to commission and fund CBA studies without support and funding. Australian and State Government assistance are likely to be needed if local government is expected to initiate CBA studies.