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in association with

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**Assessment of Possible Fiscal Incentives in Relation to the Built
Heritage in Ireland's Towns**

Final Report

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1. Executive Summary

1. This report has been prepared by Peter Bacon & Associates. It assesses if specified fiscal instruments and other measures, could and should be used to incentivise investment in the built heritage in Irish towns. Many older buildings in town centres are under-used and in need of investment, but the amount of public funds that has been made available to support such investment has fallen in recent years. For example, the grant scheme operated by the Heritage Council, which had provided over €8 million per annum in grants to a range of projects including the built heritage a few years ago, was reduced to €3.8 million in 2012 and was suspended altogether in 2013. Other schemes such as the Civic Structures Conservation Grants Scheme and the Local Authority Conservation Grants Scheme have also been suspended or dramatically reduced since 2011.
2. Protecting the built heritage is a long term objective and the cyclical downturn currently being experienced will pass. Heritage requires long term planning, consistency and policy commitment. However, if short term constraints mean that the infrastructure of heritage buildings in town centres is allowed to continue to deteriorate it will undermine the socioeconomic viability of these areas and could decay beyond a critical point from which recovery would be particularly difficult.
3. The analytical approach taken to assess the case for expenditure of public funds in promoting restoration of the built heritage is as follows:
 - Identify if a market failure exists and the source of that failure;
 - Identify policy interventions that can be expected to address this inefficiency if implemented;
 - Show that intervention can be reasonably expected to provide net economic benefits;
 - Identify which intervention might provide the greatest benefits with the highest probability of a successful outcome in terms of regeneration in line with best practice.
4. There are benefits associated with the restoration of heritage buildings including their use value, lower energy consumption in development compared to new buildings, socioeconomic advantages through contributing to the viability of existing communities, benefits that can be accessed due to their uniqueness, and less tangible values arising from their appearance and existence. However, many of these benefits accrue to society as a whole but heritage buildings can be associated with costs that accrue only to private owners or occupiers. Economic uses are possible for many heritage buildings, but not all, and any incentives

provided should acknowledge this. These externalities lead to a market failure and under-investment and provide the rationale for public support¹.

5. Experience abroad and, to a lesser extent in Ireland, indicates that public policy and financial support can incentivise the private sector to overcome this type of market failure. However, most incentive schemes in the area of the built environment in Ireland, even those designed to regenerate urban areas, have been targeted at new building and many schemes in recent years have contributed to development of green-field sites. A legacy is that there is even greater pressure on town centres. Despite this, it is feasible to conclude that public intervention can help address the problems that exist.
6. Using an illustrative example, the analysis concludes that net benefits can be realised and that the exchequer could recoup expenditure as a result of new economic activity generated. This means that the public sector should invest in heritage without relying on arguments based on the need to stimulate the economy. Indeed, the most effective incentives to support heritage buildings may well be those that fully displace other investment in buildings with the benefits arising from a higher employment content of investment in heritage buildings and from the non-market benefits of such investment. However, the net benefits are sensitive to the efficiency of policy intervention in terms of the attendant deadweight and the amount of private investment that is leveraged. This means that the design of policy is important from an economic point of view as well as from the point of view of supporting heritage without undermining its value through excessive reconstruction.
7. A particular focus of the analysis is on assessing which fiscal incentives i.e. tax allowances, might be most effective and beneficial. Various options are assessed using a multi-criteria analysis. This concludes that a restructured version of the Living Cities Initiative, described herein as a Living Towns Initiative, holds promise. A VAT reduction would not be efficient and would be unlikely to have a major impact on activity. However, some changes to the way in which restored heritage buildings are assessed for VAT liability when re-sold would provide an incentive to investors. Property tax incentives do not score highly in the

¹ An economic externality is a cost or benefit that arises as a result of an activity or transaction undertaken by one or more parties that affects an otherwise uninvolved party who did not choose to incur that cost or benefit and did not act to bring it about. For example, if an owner of a heritage building chooses to invest in upgrading that building, others may benefit either through knowing that heritage is being protected or because the new upgraded building may have a positive impact on the value of property in the area. If the investor spends resources up to a level such that the private benefits equal the resources allocated, then there is underinvestment since the externality means that the total of public plus private benefits exceeds the resources allocated. If these additional benefits could be internalised into the investment decision in some manner then the level of investment in heritage would increase.

assessment except for the elimination of CGT on heritage properties in specified areas.

8. Preliminary costings for the option of introducing a Living Towns Initiative show a gross exchequer cost of €5.8 million per annum, but the additional revenues created as a result of new economic activity would be greater, even after allowance for deadweight and displacement. The gross cost of the VAT options would be negligible and only relevant in a buoyant market, while there would be a net inflow as a result of additional economic activity arising from restorations that are viable if the proposals are introduced. The cost of abolishing stamp duty on heritage properties in town centres would be €0.5 million per annum given the very low level of activity in the property market at present. Table A summarises the estimated costs of introducing these incentives.

Table A: Annual Cost of Options for Incentives

Living Towns Initiative	€5.1 million
Alterations to VAT on restored buildings	Zero before new inflows
Eliminate stamp duty on heritage buildings	€0.5 to 3.5 million

9. It is recognised that pressure on the public finances and the fact that fiscal measures can be rather blunt instruments means that the proposed initiatives may not be implemented. As with any such fiscal incentive, their impact might not reflect the actual value of heritage so there can be a risk of such intervention being either ineffective or excessive. An alternative approach is identified that would require no expenditure of exchequer funds and would incorporate an equilibrating mechanism that would allow a scheme to respond to local valuations of the built heritage. The buy-in of national policymakers as well as a range of national and local planning authorities would be essential to its success and it would require a well developed strategic plan led by a cohesive agency with a clear objective.
10. While there is broad agreement of what constitutes the built heritage in international conventions and in domestic legislation, there are considerable differences in the emphasis placed by various interests on different elements of what constitutes this heritage. Greater consensus and consistency is required to support organisations that are advocating the introduction of incentives and the credibility of proposals. An agreed definition of the built heritage should have widespread support and should be based primarily on the objective characteristics of the relevant buildings and areas in which they are located. This definition should provide a basis for a comprehensive inventory of buildings eligible for incentives.

11. Review of experience with successful policies elsewhere, as well as research in Ireland undertaken for this study, indicates that policy aims to
- adopt balanced objectives between conservation and change and implement policy appropriately;
 - use a blend of regulation and incentives and align these as far as possible with the objectives of private owners while conserving the built heritage; and
 - find consensus among policy makers and stakeholders and create a dialogue between the public and private sectors.

This is a multi-stage process requiring a co-ordinating agency and local leadership to identify the potential of areas and the blockages that are preventing that potential being realised in advance of any incentives being provided.

12. Based on the findings of this study, it is recommended that:

- i. a Living Towns Initiative should be devised and introduced that would provide allowances against income tax for owner-occupiers and investors with investments in excess of 2% of the building's value, this being considered to be the annual rate of depreciation on fixed assets, being eligible for relief.
- ii. the cut-off limit for investment in restoration of heritage properties that can retain VAT exempt status should be raised from 25% to 65% of their value.
- iii. the 'no change of use' criterion that is applied in the assessment of VAT on restored buildings should be made discretionary in the case of pre-defined heritage buildings with the discretion residing with the Local Authority in whose area the building exists.
- iv. stamp duty on heritage buildings in designated areas should be abolished.
- v. the CGT exemption that currently applies to principal private residences should be extended to all heritage properties in defined areas such as ACAs.
- vi. the refund of rates on vacant premises should be limited to 50% of the liability and any outstanding rates liability should remain with the occupier at the time it first arises rather than transferring to a new tenant or occupier.
- vii. these incentives should be available in respect of buildings that are eligible to be considered part of the built heritage within pre-defined areas such as ACAs.

- viii. eligibility for all tax allowances should depend on a statement from the local planning authority that works on a property to which the incentive relates have been undertaken in compliance with the requirements of the Local Authority Conservation Officer as set out in appropriate plans and guidance.
- ix. the Heritage Council, in consultation with the Department of the Environment, Community and Local Government and the Department of Arts, Heritage and the Gaeltacht, should undertake to build a consensus with Local Authorities to work towards the introduction of a funding mechanism that raises funds through a local levy and uses this in a ring-fenced manner to alter the incentives facing relevant private sector decision-makers and investors in order to protect heritage.
- x. in advance of providing incentives and irrespective of what specific measures are made available, the Heritage Council should work in partnership with the Department of Arts, Heritage and the Gaeltacht and the Department of the Environment, Community and Local Government to develop a planned approach to how these would be provided and the Heritage Council should be allocated an ongoing role as an arbiter of decisions in relation to what areas should be included.
- xi. research should be undertaken to identify opportunities for the use EU cohesion funds under the 2014-20 OP to support heritage buildings with a specific focus on incentivising investment in energy conservation.
- xii. accessing a much greater share of lottery funds for heritage should be set as a priority objective by personnel and agencies in the sector and a strategy should be devised to achieve this outcome.
- xiii. the Heritage Council should take the lead in identifying agreed definitions of the built heritage to be used in policy related research
- xiv. planning and local authorities should examine the extent to which regulations may be contributing to under-use of heritage buildings and either rebalance their objectives or seek to extend the use of negotiated regulations to favour restoration and use if there is a risk that conservation of integrity may prohibit use.
- xv. research being undertaken by the Department of Arts, Heritage and the Gaeltacht to examine the way regulations are implemented should be used to

provide an improved code of practice for personnel involved in the planning process to address inconsistencies.

- xvi. additional research, particularly on the non-market benefits of the built heritage, and heritage in general, in Ireland should be funded.

1. Overview of Approach Adopted

1.1 Context and Conceptual Approach

This report has been prepared by Peter Bacon & Associates in response to Terms of Reference (ToR) produced by the Heritage Council. These ToR expressed the Council's wish to build on previous research, discussed below, to identify if certain fiscal instruments considered by the Council, or other measures, could be used to incentivise investment in the built heritage in Irish towns. The Council's research indicates that many buildings in town centres are under-used and in need of investment and this conclusion is supported by research undertaken in the preparation of this report. However, in the aftermath of the economic crisis that has hit Ireland in recent years, there have been cuts in the funds that have been made available to support such investment. This curtails the Council's ability to provide grant aid for building conservation. Grants awarded by the Council, which reached a peak of €8.4 million per annum on average in the period 2006-08, fell to just over €5 million in 2011 and by a further 25% to under €3.8 million in 2012. The Council's grants scheme has been suspended for 2013, for the first time since its foundation in 1997, because of the reduced funding, although it is planned to re-commence the scheme in 2014. The Civic Structures Conservation Grants Scheme, previously funded by the Department of the Environment, Heritage and Local Government, and the Local Authority Conservation Grants Scheme were also both suspended due to budgetary constraints and replaced by the Structures at Risk Fund administered by the Department of Arts Heritage and the Gaeltacht in 2011. However, this fund is small and provides only about €0.5 million per annum in grants to protected structures, with most grants amounting to €10,000 or less².

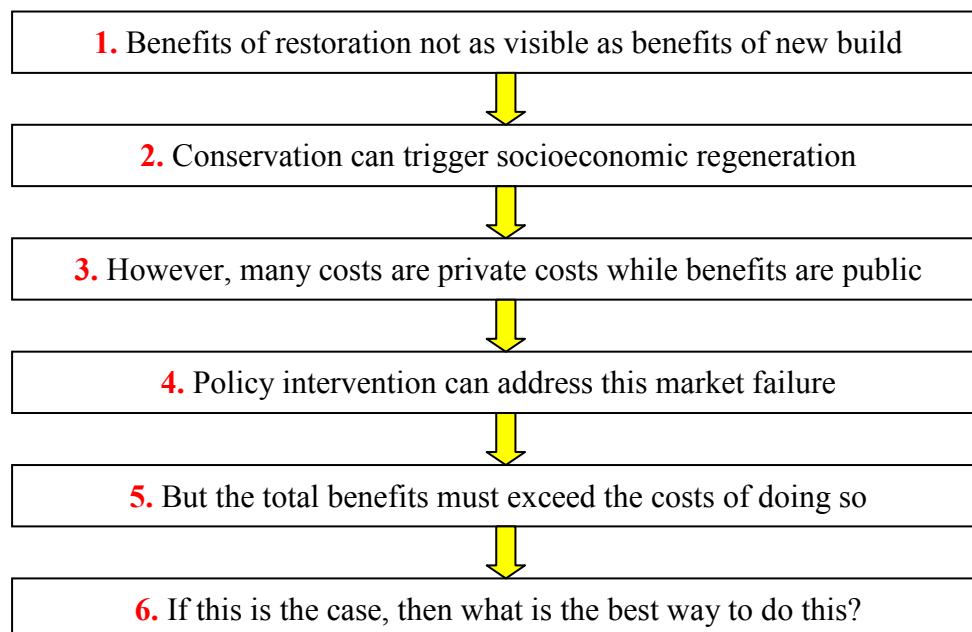
In the absence of support, it is the Council's view that the infrastructure of heritage buildings in town centres is deteriorating and is contributing to undermining the socioeconomic viability of these areas. This point was strongly supported by consultations undertaken in the preparation of this report. Supporting investment in such buildings would bring a currently dormant class of assets into the active economy while providing a stimulus to economic activity in Ireland and could provide a basis for the regeneration of these buildings and the adjacent areas as viable economic centres for living and for commercial activities.

In advance of assessing various possible supports that might be provided it is useful to consider the steps in developing the argument that there is a case for using public funds to support investment in mostly privately owned older buildings in Irish towns.

² Department of Arts, Heritage and the Gaeltacht (2013) Structures at Risk Fund, Circular SRF 2/2013 March

This is summarised in stylised form in Figure 1.1. Heritage buildings may not be well suited to the requirements of modern working, commercial and residential purposes³. However, they contain a store of value in the sense that a lot of resources has been used in their construction and value can arise in ways not directly related to traditional uses. The problem may be that even if a building could be restored to good condition at lower financial cost than the construction of a new building it may still not meet what is required by owners, tenants or other users. This is costly and the capitalised value of this future stream of costs can mean that the risk adjusted cost of renovation from the point of view of a private decision-maker may be greater than that of new development, even if there are benefits to society from restoration. Thus, there can be a financial incentive to favour new development over restoration. While there is a role for regulation in this context, reliance on such an approach alone means that protecting heritage can be seen to come into conflict with development. However, the lack of growth of the Irish economy and a perceived need for economic stimulus, particularly in the construction sector, the idea that expenditure on restoration can provide such a stimulus could mean that there are economic benefits from incentivising such activity.

Figure 1.1: Public Support and the Built Heritage



The analytical approach can be summarised as follows. To build a viable case for the expenditure of public funds it is first necessary to identify if there is a market failure. Where such a situation exists it is then necessary to show that policy intervention is feasible in the sense that policy options are identified that can be expected to address

³ Of course, few buildings are ever perfectly fit for purpose and even those that are designed with a paramount emphasis on functionality will soon find that there are rigidities that inhibit perfect adaptation. Consequently, it is generally accepted that the process of conservation involves changes to heritage buildings that are required to improve the chances that they can find a use. However, there are limits to this change to avoid impinging on critical aspects of the building.

this inefficiency. Having done so it is necessary to show that intervention is viable i.e. that it would provide net economic benefits.

Many of the benefits, including the intrinsic value of preserving heritage and the benefits of stimulating activity, may accrue to the economy in general while the costs would be borne by the private decision makers or investors. This means that there are externalities associated with heritage. Heritage often displays many of the features of public goods, such as non-rivalry and non-exclusivity: just because one person consumes the good it does not prevent everyone else from doing so also, but it is not possible to charge individuals for doing so. Furthermore, there can be spill-over benefits as improvement of one heritage building in an area can enhance the value of nearby buildings and inter-temporal benefits as current efforts to preserve heritage benefit future as well as the present generation. These externalities distort the outcome that is produced by private decision makers reacting to market incentives in relation to the resources that will be invested in heritage buildings. The market failure that arises from the existence of these externalities provides a rationale for intervention and public support where it can be shown that the benefits outweigh the costs.

Even if a clear rationale is identified and fiscal or other incentives could be devised to address the distortion caused by market failure, the question remains as to whether there would be *net* economic benefits from doing so. It is evidently clear there is extreme pressure on scarce public resources and there are many viable alternative uses, many of which are supported by strong political interests. Any assessment of the net benefits of incentivising investment in heritage must recognise this. If a convincing case is established in this regard then the next requirement is to identify the most efficient means of implementing a support programme for heritage.

Identifying the types of fiscal or other interventions that would comprise an efficient programme of intervention i.e. answering the Question in the final box of Figure 1.1, is an important objective of this study. However, in advance of this, it is necessary to examine the extent to which incentivising investment in the existing built environment in Irish towns can provide an economic stimulus and contribute to overall welfare.

1.2 Ireland's Built Heritage

Some research has been undertaken into the economic impact of heritage and investment in heritage in Ireland, most notably that undertaken by Ecorys *et al* and Carrig Conservation *et. al.*⁴ However the present research is targeted as a particular

⁴ *Economic Value of Ireland's Historic Environment*. Report to the Heritage Council by Ecorys and Fitzpatrick Associates (2012) and *Grant Aid for Building Conservation 'Quanta' Research*. Report to

sub-set of Ireland's heritage assets namely the built heritage within historic Irish towns. Providing a definition of what constitutes an historic town is outside the scope of the work and the study proceeds on the basis of the Fáilte Ireland statement that '*practically all of Ireland's towns can be labelled 'historic towns' in that they all have a rich and varied past*'⁵. However, this means that there is no usable inventory of the quantum of buildings that might be included in the set to which the incentives might be applied. The creation of such an inventory is well beyond the scope of this project. However, the consultants consider that it is appropriate to provide some estimate of the quantum of the built environment to which any incentives might be targeted.

The first issue is to identify an appropriate definition of what might constitute heritage buildings in the context of this report. Since fiscal measures are availed of primarily by the private sector – although buildings in public ownership are by no means being excluded – definitions relating to protected structures are not particularly relevant although such structures and buildings may form a focal point for historic towns. The consultants are also aware that the focus is wider than the conservation of buildings alone and the objective is the creation of sustainable socioeconomic structures, of which buildings are one element, albeit a very important element. This means that the target of intervention should be areas of towns that might be considered to have historic value because of a concentration of built heritage.

Listed or protected buildings will typically contain heritage value and will also be subject to the types of restrictions that confer private costs and public benefits⁶. There are a total of 39,380 such structures⁷. However, it is not possible to identify which structures might be considered to be relevant to the regeneration of towns nor which are in private ownership. In addition, the level of desirable investment without undermining critical features is unknown and it is not known how many might be considered to be disused, unused or compatible with economic use.

The Planning and Development Act 2000 mandates that Local Authority development plans '*shall include an objective to preserve the character of a place*' by designating certain places as architectural conservation areas (ACAs). An ACA is defined as

‘a place, area, group of structures or townscape ... that is of special architectural, historical, archaeological, artistic, cultural, scientific, social or technical interest or value’ (Planning and Development Act 2000, Section 81 (1)).

the Heritage Council, Department of the Environment, Heritage and Local Government and Department of Finance by Carrig Conservation International, Louise Harrington & Integral Finance Technology (2011)

⁵ Fáilte Ireland (2010) *Historic Towns in Ireland: Maximising your Tourism Potential* (page 4).

⁶ The Planning and Development Act 2000 requires each planning authority to compile and maintain a Record of Protected Structures (RPS) to provide for the statutory protection of built heritage. The Minister for Arts, Heritage and the Gaeltacht may recommend structures for inclusion on the RPS. The Minister's recommendations are not binding and the inclusion of buildings within an Architectural Conservation Area may suffice. However, the RPS forms part of each planning authority's development plan.

⁷ The Heritage Council (2011) *Record of Protected Structures*, Draft List, Version 3

This means that a local planning authority can designate areas as ACAs. But while such areas would be the focus of such fiscal measures as might be identified, this does not provide an inventory that might operate as a statistical base for defining the built heritage or as a tax base for any fiscal measures assessed in this study. Indeed, if buildings that qualify for incentives are defined as those within ACAs it means that the quantum of buildings to which the fiscal incentives might be applied must be left open for decision by the planning authorities. This is an important issue for the discussion in later sections of this report.

Earlier research on the economic importance of Ireland's heritage, in addition to including the main heritage structures and existing ACAs, included all structures erected pre-1919 as parts of heritage⁸. This research provided an estimate of around 175,000 buildings in Ireland that were constructed prior to 1919. According to information provided in that report, this date is '*an increasingly accepted definitional component for the broader built heritage*' since most buildings constructed prior to that date '*were built by skilled craftsmen using traditional indigenous building materials*' (footnote 1, page i)⁹. In broadly adopting this definition, the consultants make no comment on the appropriateness of 1919 as a cut-off point but it appears broadly consistent with the idea of ACAs as included in the legislation.

The estimate of 175,000 buildings refers to the whole country so a second issue is a definition of a town. Various definitions are possible but the CSO approach of classifying towns according to populations within defined areas is useful. The published results of the 2011 *Census of Ireland* shows that 1.32 million people, or 28.7% of the population, lived in 192 Irish towns defined as areas with populations in the range of 1,500 to 40,000¹⁰. This upper boundary appears logical in the context of the current study as it includes Drogheda – which the CSO describes as '*the largest town*' in the State – but excludes the five main cities¹¹. The lower boundary of this range is arguably somewhat arbitrary as it means that there are some smaller towns included although they may be just villages that have experienced rapid growth on their periphery in recent years but do not have a meaningful historic core¹². If it is assumed that heritage buildings, i.e. those constructed prior to 1919, are distributed similarly to the population then this would mean that about 50,000 such buildings could be expected to be located in towns. There is no inventory to indicate how many of these might actually require investment, how many might currently be included in

⁸ *Economic Value of Ireland's Historic Environment*. Report to the Heritage Council by Ecorys and Fitzpatrick Associates (2012)

⁹ The consultation process discussed in Appendix 1 below indicates that there is no broadly accepted definition of what constitutes the built heritage and some people have provided alternative definitions. However, it is beyond the areas of competency of the consultants to develop this further.

¹⁰ CSO (2012) *Census 2011 - Population Classified by Area*

¹¹ CSO (2012) *Profile 1: Town and Country*

¹² If a population of 3,000 is used as a lower limit to define a town it has only a small impact on the total population included reducing it to 1.15 million or 25% of the total population.

ACAs, or how many might be located in town cores as distinct from town periphery, but this estimate provides an indication, for the purposes of this study, of the number of buildings that might potentially be eligible to avail of incentives for regeneration that were targeted at buildings in towns that were constructed prior to 1919¹³.

1.3 *Structure of the Report*

The next section of this report covers steps 1 to 3 of Figure 1.1 and discusses issues that arise in building a case for public funding to support heritage buildings. The rationale for supporting such investment is developed and the costs and benefits that arise in relation to heritage buildings are reviewed.

Drawing primarily on existing literature and research, Section 3 deals with step 4 of Figure 1.1 and outlines examples of policies that have been developed and implemented to support investment in heritage buildings in Europe, North America and Australia. It also reviews construction-related policy in Ireland in recent decades. It then assesses the case for viewing investment in heritage as a basis to stimulate economic activity directly.

As seen in step 5 of Figure 1.1, the argument for supporting investment in heritage through public expenditure or fiscal incentives must indicate that the benefits of doing so will exceed the costs. Section 4 looks at the issues that arise in undertaking such an appraisal and examines if the use of public funds in Ireland might be expected to produce positive net economic benefits. This also points to the importance of recognising the non-marketed and often non-use values inherent in heritage.

Section 5 of the report examines a range of possible fiscal incentives with a view to assessing the relative strengths and weaknesses of each. A list of possible interventions was identified by the Council that included:

- Tax relief, such as Section 482, applied to a wider group of buildings;
- Extension of the Living Cities Initiative;
- A reduction in the applicable VAT rate for professional costs and repair work on buildings identified as being of heritage value in towns;
- A rebate on commercial rates in selected historic urban areas;
- A property tax rebate when approved conservation works have been carried out to a qualifying dwelling.

¹³ For comparison purposes, the *Census* results show a total of 1.6 million occupied dwellings in the State plus a further 290,000 vacant dwellings. There are also an estimated 226,000 commercial properties. This means that the target set for the fiscal incentives would amount to about 2% of buildings in Ireland.

In total, nine fiscal initiatives are assessed and a ranking is identified on the basis of their economic impact and their likely impact on supporting the built heritage.

The difficult situation regarding public finances in Ireland, a general apprehension among policy makers and the populace regarding the efficacy of construction and property related tax breaks, and the difficulty of measuring the returns from a programme of incentives suggests that an alternative should be considered. This is undertaken in Section 6 which outlines an alternative means to achieve the desired aims that is distinct from, but is compatible with, and would be supported by, the fiscal incentives already assessed.

This analysis leads to a set of conclusions that are set out in the final section of the report. A consultation process was undertaken during the preparation of this report and the main points are outlined in Appendix 1 with additional technical issues discussed in further appendices.

2. The Economic Impact of Heritage

2.1 Costs Associated with Conserving Heritage Buildings

Common understanding of what constitutes the built heritage may often be based on aesthetic features, historical associations or the age of buildings. Whatever precise definition of heritage and heritage buildings is used, it can be accepted that if the buildings and their environments are appropriate to the needs of modern commercial and social activities then they will be maintained and used, and investment will be forthcoming as required, or at least proportionate with the rest of the economy given the existence of economic cycles. In other words, the market will address the issue of maintenance and use and the role of policy will be limited to issues such as regulation and planning. Economic incentives would then only be required if there was a case for incentives to be provided for all buildings.

However, if the buildings and built heritage is no longer competitive with modern infrastructure, in the sense that its design is not considered to be ideal or there are associated problems such as access, then the market will not lead to adequate investment and the level of usage will deteriorate. As a result, it is the consultants' opinion that it is more appropriate for this study that a heritage building should be considered to be one of a certain age where the design of the building is no longer ideal for use, as requirements have changed since it was built. So, for example, many old churches and civic buildings are at least as well kept and much used as new buildings since they remain suitable for their original or adapted use with relatively little change required. However, the same cannot be said of most industrial and residential premises that were built before the middle of the 20th century that are no longer seen as ideally designed. Thus, even though such buildings might not have the aesthetic or historical importance of older landmark buildings, they fall within this definition of heritage and represent the target set of buildings in this report as they are likely to be under greater threat of under-use and deterioration.

Defining the built heritage in this manner can mean that conservation, either structurally or in respect of the use of buildings, can conflict with what is demanded of buildings. Not only is this likely to contribute to under-use, but it will also cause pressure to demolish buildings and areas to provide new development areas where these are most valuable¹⁴. If a regulation prevents redevelopment, or an incentive is introduced to distort investment towards some objective in order to preserve the

¹⁴ The most common 'problem' leading to under-use that was identified in the consultations was that the buildings were often not suitable for re-use and that undertaking required alterations would not be allowable under planning regulations. This raises a very important issue regarding the potential impact of inappropriate, or inappropriately implemented, regulations contributing to under investment and disuse.

existing built environment, then costs are imposed that may result in a reduction in welfare. This means that in advance of intervention, it is necessary to assess the extent of these costs relative to the benefits of conservation.

A review of historic industrial buildings in the UK found that three main challenges needed to be addressed to make them attractive for investment¹⁵. The first is that such buildings are often located in areas that may be perceived as economically uncompetitive or under-performing. This can also be the case in town centres and indicates the importance of focussing on historic areas rather than on specific buildings even if these are more notable from a historical perspective than their surroundings. A second problem is that they are not seen as a mainstream property investment by large financial institutions. Although many of the buildings that are the subject of this report will be owner-occupied, private funds will be required in many cases and the ability to borrow to undertake restoration can be limited by the perceptions of financial institutions. The causes of this are likely to be varied and complex with the inherent risks associated with older buildings and the risk of facing a limited letting market likely to be important. The third challenge is that the physical form of older buildings may simply be ill suited to modern needs and adaptation could destroy their heritage aspects. In this case, some compromises will be required but it can be the case that commercial restoration is simply not financially feasible.

The costs associated with conservation are not limited to those perceived by commercial investors and there may also be additional socioeconomic costs related to preserving the built heritage that are not easily monetised but can conflict with desirable objectives. For example, there is a risk that a successful policy that resulted in regeneration of a town centre and enhanced property values could easily become a case of gentrification as people in lower socioeconomic groups with relatively low incomes – which may typify the original population in an area of older buildings in relative decline – can no longer afford to buy or rent to live or work in the area. Indeed, this may be an almost inevitable outcome of some of the claimed benefits of regeneration which include higher property values and attractiveness to knowledge workers.

A second social issue is that many of the benefits of investing in heritage are perceived and realised by society, but do not involve market transactions. They are not distributed evenly throughout society and research to identify values for these benefits, discussed below, indicates that they are perceived mostly by people with higher levels of education and higher incomes. This implies that the expenditure of public funds to incentivise investment in heritage could be socially regressive i.e. a transfer to the better off socioeconomic groups.

¹⁵ *Encouraging Investment in Industrial Heritage at Risk*. Report prepared for English Heritage by Colliers International (2011)

Conserving Traditional Retail Centres and Addressing Demand: the cases of Arklow and Enniscorthy

The contrasting development of Arklow and Enniscorthy illustrate the complexity of achieving sustainable development while meeting the demand of local populations. In many respects, Arklow illustrates a town whose centre has been in decline partly as a result of development towards the periphery. As a small town, it takes no more than a few minutes to reach the town's traditional centre on Main Street on the south side of the estuary and car parking is generally available. Almost all industry and retail has historically been concentrated on this side of the town. However, recent decades have seen a lot of residential development of both sides of the estuary but on the periphery of the town. Major retail developments have occurred outside the centre, with the greatest impact arising as a result of the new Bridgewater centre on the north side of the estuary. This has impacted the retail offering on the Main street which is clearly in decline. It is certainly possible to rationalise the location of this centre on the basis of access and the availability of space to meet modern needs but its detrimental impact is also clear.

There is a considerable contrast with Enniscorthy in terms of the retail offering. While some new supermarkets have appeared on the outskirts, the traditional retail centre around the Market Square and Castle Hill areas remains largely intact and vibrant. Furthermore, an old warehouse was renovated – albeit with major internal reconstruction – to facilitate a new department store in the town centre. On the surface, this appears to be an example of sustainable urban development that has not responded to market pressures for large scale retail development outside the town centre. However, even a high level review of Enniscorthy shows that there remains a number of underutilised buildings in the town centre – particularly on the South Quay – and the retail offering is perceived as deficient in many respects. Indeed, the lack of development means that while retail demand has not been displaced to the periphery of the town but has been displaced to other towns where modern retail spaces have been provided. In contrast, despite the relative proximity of Dublin, the developments in Arklow mean that the town can retain retail demand that would otherwise be lost to outside centres.

This shows the complexity that is involved in attempting to reconcile the conservation of traditional retail offerings in towns and meeting the needs of mobile consumer demand. It is clear that policy that emphasises the former risks displacing demand to other areas with all the implications of additional travel and, ultimately, a loss of demand for the conserved area. In contrast, where policy aims to meet consumer demand it may retain this in the area but this can be at the cost of internal displacement as traditional offerings are overwhelmed by new alternatives. This is not simply a failure of the planning system that can be addressed by 'better planning' or 'better integrated' solutions and it may well be the case that there is no simple or ideal solution that can reconcile all interests. If this is so then the best outcome is to ensure that the result is in line with the interests of the local population. However, this is in itself problematic and what may be seen as being in line with the short term interest of consumer decisions might not be compatible with the longer term interests of an area that seeks to preserve a distinctive character.

2.2 Identifying the Benefits

There have been a number of studies undertaken internationally from an economics perspective to place a value on heritage. These have concentrated on the economic activity that can be created through investment in actually preserving buildings and through revenues from tourism that is attracted by the existence of the heritage. While this approach makes it much simpler to place monetary values on heritage and also possible to compare the values that are derived with familiar economic metrics such as GDP, it does give rise to some important issues.

Perhaps most importantly, this approach to valuing heritage by estimating revenues in associated market transactions ignores the intrinsic non-commercial value of the heritage buildings. This becomes very clear if the economics perspective that has been adopted is compared with research undertaken from a heritage or architectural perspective that proceeds, without providing monetary values, on the basis that the built heritage is of value in itself. Thus, what is a stock of value from one point of view is being measured and valued according to a flow of revenue, which relates to only part of the inherent value. A second issue that arises when the value of heritage is assessed as a flow rather than a stock is that there can be a tendency to assign value to particular investments. For example, it would be a mistake to compare the levels of investment in heritage in a particular year with heritage tourism revenues as the implicit assumption is that revenues would be zero if the investment did not occur. Of course this is not the case but the difficulty can arise as a result of not adequately distinguishing between the marginal expenditure on heritage i.e. the investment, and the total revenues.

Mason (2005) provides a review of economic studies of heritage and concludes that Historic preservation has important economic values and produces certain economic benefits for both private actors and the public at large. Preservation projects can be profitable; and preservation projects do make sound fiscal sense¹⁶.

However, he goes on to conclude that while the area of study has received increasing attention from researchers, it suffers '*from an absence of an intellectual and research infrastructure*' and that '*the literature is weighted toward advocacy studies*'. He notes that there is an extensive research infrastructure in the physical science and material conservation aspects of heritage, but almost no research in the social science area, including economics. He notes that such economics research as has been undertaken tends to largely ignore issues such as cultural significance, historic values and aesthetic values – although these are clearly benefits in terms of the economic value of heritage – and concentrates on measurable aspects for which market values

¹⁶ Mason, R. (2005) *Economics and Historic Preservation: A Guide and Review of the Literature*. University of Pennsylvania discussion paper for the Brookings Institution

are available even though these are just derived secondary values¹⁷. This is clearly a weakness although understandable given the difficulties associated with valuing these non-marketed benefits. As a result, basic policy questions, such as the optimal level of public support, often remain unanswered.

Baycan and Girard go some way to address these deficiencies although they too stop short of actually placing values on the non-marketed aspects of heritage¹⁸. They begin with the observation that protecting heritage is often seen as a cost and an impediment to development. However, they note that knowledge and creativity are key drivers of economic performance and have been the main drivers of the growth of cities and towns over centuries. Thus, the underlying creators of wealth have not all changed and are fostered by traditional town infrastructures. They also go on to note that the focus of society has changed from production to consumption and urban areas represent the ideal settings for consumption in areas such as culture, the arts and leisure. This is most clearly seen in the growth of heritage tourism but it is not limited to this sector alone. Because of these factors, they conclude that heritage is a key driver of economic development when it is viewed in the wider sense of improving the standard of living and meeting the needs of the population rather than just measured economic transactions. This has further impacts as it makes the urban area more attractive and thus more competitive as a location for other businesses. They state that:

‘enhancing heritage is a way to contribute to the revitalization of city centres. City revitalization is not only limited to a monument, but to a larger scope of old buildings that can be renovated and re-used for other purposes previously unforeseen. This in turn has many indirect socio-economic impacts and improves the area’s image and reputation, which act as a magnet to businesses.’ (Baycan and Girard, page 859)

Thus, the very fact that heritage buildings may not be ideally suited to continue to perform for the purposes for which they were originally designed, changes in consumption patterns and the underlying dynamics of competitiveness in urban areas mean that conserving these buildings can have external benefits that can continue to enhance the factors that made the urban area competitive as a location for production in the first place. This idea is also discussed favourably by Licciardi and Amirtahmasebi (2012) who maintain that since highly educated knowledge workers tend to value uniqueness in a world where repetition of form is increasingly the norm, investment in heritage buildings will pay off in terms of the main growth drivers in

¹⁷ The heritage area is not the only sector where this limited view of economic value is seen. Economics is ultimately concerned with assessing and improving the standard of living, with the ideal being to assess the quality of life of people. It is wrong to reduce this to simple measures of monetary transactions, although it is understandable given the difficulties associated with measuring changes in conditions that do not lend themselves easily to monetisation.

¹⁸ Baycan, T. And L. Girard ‘Heritage in Socio-Economic Development: Direct and Indirect Impacts’. Paper delivered at 17th ICOMOS General Assembly, Paris

modern cities by preserving the intrinsic aspects of a locations uniqueness¹⁹. However, these benefits can be difficult to measure or even foresee, and they are also external to the assessment that may be performed by an owner of a building wishing to extract value.

A further external benefit that may be measurable is that the existence of a building of recognised heritage value can enhance the value of surrounding properties. For example, Moro *et al* (2011) used data on property values for Dublin and found that there was a positive relationship between house prices and the proximity of the house to recognised heritage sites²⁰. Their study indicates that the closer a property is to a heritage site the higher is its value. Thus, investment in conserving or restoring a heritage site can provide external benefits in the form of enhanced property values. A recent report by English Heritage *et. al.* lists a number of other social benefits that may not be realised in terms of the private economic returns to investment in restoring heritage buildings²¹. These include the role of such buildings as a focal point with which communities can identify, in providing a distinctive identity for a community, as a focus for historical associations, in meeting niche demand and in promoting interest in history. The research found that these effects, while appearing intangible, helped to underpin success in a number of high profile regeneration schemes in England. However, finding an economic use remains a critical factor for success.

Although the external benefits can be difficult to measure, they may be substantial. The recent *Aungier Street* study referenced work that indicated that '*historic townscapes have a substantially greater (10 times) economic impact than modern townscapes*'²². This conclusion appears to be based not so much on any impact from investment as on revenues from marketing heritage i.e. tourism, and from the contribution that a strong heritage base can make to promoting an area as a location for wider investment in productive assets and enhancing more intangible benefits such as social interaction. However, it remains the case that most owners of buildings will only realise a small part of these external benefits unless they are directly engaged in sectors such as tourism or if they are capitalised in rising property values.

2.3 Measuring the Benefits

As noted earlier, because of the difficulties in assigning monetary values to unseen external benefits and to non-marketed aspects of heritage buildings, most assessments

¹⁹ Licciardi, G., and R. Amirtahmasebi (2012) *The Economics of Uniqueness: Historic Cities and Cultural Heritage Assets as Public Goods*. Washington DC: World Bank

²⁰ Moro, M., K. Mayor, S. Lyons and R. Tol (2011) 'Does the housing market reflect cultural heritage? A case study of Greater Dublin'. ESRI Working Paper No. 386.

²¹ English Heritage (2013) *Heritage Works: The use of historic buildings in regeneration*. Report prepared in association with the British Property Federation, Deloitte Real Estate and RICS

²² Dublin City Council (2013) *Aungier Street: Revitalising an Historic Neighbourhood* (page 33). The consultants have not verified the accuracy of the claimed economic impact.

of the economic impact of heritage have concentrated on valuing monetary transactions associated with the stock of heritage and with its conservation. Work undertaken on behalf of the Heritage Council in recent years is a good example of this and it was noted in the report that was published that this was the first time that an estimate of the economic value of heritage in Ireland had been produced²³. The economic value of heritage was assessed in terms of its output, employment and contribution to GDP measured as gross value added (GVA)²⁴. The estimates produced included direct and secondary (indirect and induced) impacts as incomes are respent in the economy²⁵. The main sources of expenditure included were public funds spent on promoting heritage, an estimate of building maintenance in the construction sector, and foreign heritage tourism to Ireland.

The results, based on 2009 data, are shown in Table 2.1. These estimates show a total GVA impact of €1.46 billion, equivalent to 1% of Irish GNP in that year. The total employment supported by the sector amounted to 36,947 full time jobs (FTEs) or about 2% of overall employment. Thus, not only is this a substantial part of the economy but economic activity in the sector is also relatively labour intensive i.e. an increase in value added might be expected to have about twice the employment impact of a similar increase in the economy on average.

Expenditure by tourists was found to be particularly important accounting for about 44% of output and GVA, and 46% of employment. The research also concluded that a lot of the revenue that was generated was related to public expenditure including grants and tourism marketing²⁶. The work also found that there were a number of other economic benefits that were not included in the calculation as they are non-marketed. These include the contribution to education, community development and the promotion of attractive and sustainable communities. These findings were based on case studies but were not probed in depth and no values were included. In this respect, the study reflects the common practice noted by Mason as referenced above.

²³ *Economic Value of Ireland's Historic Environment*. Report to the Heritage Council by Ecorys and Fitzpatrick Associates (2012)

²⁴ GVA is a similar and quite interchangeable measure as Gross National Product (GNP) which is normally used at the national level.

²⁵ The inclusion of indirect impacts in assessments of various economic sectors is not unusual but care must be taken with interpreting these numbers. Ideally, the methodology should be used when assessing marginal impacts i.e. what is the full impact on the economy if the sector under consideration changes by once unit. When applying it to the full existing sector, the most accurate way to interpret the results is that this is an estimate of the impact on the economy if the sector ceased to exist altogether. Of course, in the case of heritage, this is not going to happen under any foreseeable changes in economic policy and so the direct relevance of this work to assessing economic policy is limited.

²⁶ The Ecorys *et. al.* report does not examine the extent to which changes in GVA might be related to changes in public expenditure. The relationship is likely to be quite complex and to differ between the various sectors that were included in that report. Given the importance of tourism in the overall values, the consultants recommend caution in extrapolating from this work to a case for increased public expenditure. While it can be argued that tourism marketing is important in generating tourism revenue in any year so that there is a relationship between revenue and policy decisions on expenditure, difficulties would arise with extending this marginal analysis to these estimates for the full impact on the economy.

Table 2.1 Total Economic Impact of Ireland's Historic Sector

	Direct	Indirect/Induced	Total
Output (€m)	1,555	1,110	2,665
Employment (FTE)	23,971	12,976	36,947
GVA (€m)	855	605	1,460

Source: Ecorys *et. al.*, Table 4.6

The economic importance of heritage tourism in terms of the overall impact is supported by research undertaken in the UK. It is estimated that heritage based tourism directly adds £5 billion to the UK's GDP and provides 134,000 jobs and that this has grown considerably in recent years. This research also estimated that when indirect and induced effects are included, heritage based tourism accounted for £14 billion of UK GDP and 393,000 employees²⁷. Research undertaken in specific regions also indicates that the economic impact of heritage tourism can be very important. For example, it has been estimated that heritage accounts for 10 to 15% of regional gross value added in the Humber and Yorkshire region²⁸.

Previous research has also indicated that because these economic impacts are external to the private decision makers, policy is important in promoting investment. It was estimated that every £1 million spent by the Heritage Lottery Fund (HLF) in the form of grants to support heritage tourism leads to an increase in tourism revenue in the area where the investment takes place by £4.2 million²⁹. This is considerable and indicates a strong linkage between the support and tourism revenues. However, the research found that these large marginal economic impacts of expenditure on heritage tourism tend to be observed at the regional level only. When assessed at the national level, the impact of an increased grant is much weaker. The work concluded that this is because most of this increased revenue is not additional to the national economy as '*domestic consumers would have chosen to spend this amount somewhere, on something, irrespective of the HLF projects*' (page 21).

Expenditure on Construction

Along with tourism revenue, the greatest economic impact arises from the direct expenditure on conservation activity. As discussed in the report by Ecorys *et al.*, actually netting out the proportion of overall expenditure in the construction sector that can be associated with heritage buildings is problematic in terms of overall impact. However, for the purposes of this study, of greater importance is that expenditure on conservation may have a greater economic impact than construction

²⁷ *The Economic Impact of the UK Heritage Economy*. Report prepared for Heritage Lottery Fund by Oxford Economics (2013)

²⁸ *Economic Impact of Heritage in Yorkshire and Humber*. Report by Drivers Jonas to English Heritage (2010)

²⁹ *Investing in Success: Heritage and the UK Tourism Economy*. Report prepared for Heritage Lottery Fund and VisitBritain by Oxford Economics (2010)

expenditure overall due to a higher labour and skills content, and the fact that public expenditure can leverage further expenditure through private sector investment.

Research undertaken on a small number of buildings in Dublin that were identified as having particular potential for investment for reuse provided quite detailed comparisons on the costs associated with conserving existing buildings for reuse compared to rebuilding to provide new buildings on the same site to meet the same needs³⁰. The state of repair and design of the various building varied considerably and the level of conservation works associated with each was classified from very low to very high. The study found that the costs of reusing the existing building were notably lower than the costs of replacement for buildings where the level of conservation was classified as very low to moderate – the costs of conservation ranged from 47% to 83% of the costs of rebuilding – that there was a marginal gain by reusing a building requiring a high level of works and that the costs of conserving a building requiring a very high level of conservation works was about 6% higher than replacing it with a new building. The gains in respect of the first two categories of buildings would arise before any value is assigned to the perceived benefits of conservation over replacement. This means that it can be extrapolated from these results that while there are externalities associated with conservation, the internal cost benefit should mean that market forces provide the incentive to conserve buildings requiring a low to moderate level of conservation³¹.

On one level these benefits seem encouraging but, even allowing for the fact that the study was limited in scope only covering five selected buildings, two issues arise. The first is that if the market will provide the incentive to conserve rather than build new, then decision makers will do this without incentive. The study did not comment to any extent on this issue but many of its recommendations refer to the need for 'education' in relation to conservation. While recommendations in relation to the need to improve conservation skills training may be feasible, it is important that the results are not interpreted to mean that there is a need to 'educate' decision makers that conservation is a good commercial decision rather than replacement. This would require an assumption that investors are not reacting to opportunities in a manner that is in their own best interests and it would need a much more extensive set of results before such a conclusion could be drawn. The second issue is that the study shows that, for most buildings, the cost i.e. the expenditure involved, is lower in the case of conservation compared to new build. From an economics point of view, this means that it is more efficient to reuse buildings as fewer resources are expended in providing the same asset. However, this result is in direct conflict with the idea that

³⁰ *Built to Last: the Sustainable Reuse of Buildings - An Action of the Dublin City Heritage Plan*. Report published by the Heritage Council and Dublin City Council (2004)

³¹ The study did not assess the relative market value of conserved versus new buildings and so this conclusion is offered tentatively here and was not explicitly drawn in the original published study. If it is the case that new buildings attract higher values than conserved buildings on the same site then the savings on costs could be more than offset by the lower value. In the absence of evidence that this is the case the it is assumed that there is no difference.

incentivising conservation would provide a greater stimulus to the economy than incentivising new building: the same asset would be produced with lower expenditure in the economy. The only way this conflict could be resolved would be if the structure of expenditure in reuse was sufficiently different so that its secondary impacts and multiplier effects in the economy more than offset the lower direct expenditure.

Insufficient information is provided in the *Built to Last* report to assess if this is the case but it is supported by evidence from the US. Using an econometric model from the US Bureau of Economic Analysis, Rypkema (2001) compared the employment that would be created by each additional \$1 million of expenditure in a range of economic sectors³². He found that each \$1 million of extra expenditure on building restoration would create 38.5 jobs and this represented a notably higher employment impact than expenditure in manufacturing, which is the broad sector where employment impacts tend to be highest. It also gave a larger boost to local incomes. He found that whereas expenditure on new building in the US tends to be 50% labour and 50% materials, expenditure on restoration was 60 to 70% labour³³. This meant there was a greater local multiplier associated with restoration. This would support the case for incentivising investment in restoration as a stimulus to the economy but it is not clear if this would be sufficient to provide a net stimulus when possible displacement effects are included. This issue is addressed in greater detail in Section 4 below. Rypkema also points to the importance of heritage tourism and notes that restored buildings can also be particularly suited for business incubation because of their relatively small size and because proximity to other businesses can create positive spillover and knowledge transfer effects.

³² D. Rypkema (2001) 'The Economic Power of restoration'. Paper delivered to the Restoration & Renovation Conference, Washington.

³³ This estimate of the labour content of construction expenditure in heritage buildings is supported by research undertaken on restoration projects in Florida. See Florida Department of State (2005) *Return on Investment: Florida's Cultural Historical and Library Programs – an Economic Impact Study* as reported in Harel (2006) *op. cit.*

3. Economic Policy Design and the Built Heritage

3.1 Policy Designs to Address Market Failure

Policy interventions that have been developed to protect heritage buildings and to promote investment can be grouped under three broad headings: regulations – mostly planning related and implemented through the planning system – grants, and tax breaks. While the various types of intervention might operate in a ‘stand alone’ fashion, financial interventions are generally to support, and are supported by, regulations. Thus, a blend of regulations and incentives is usual, as emphasised by Licciardi *et. al.* who conclude that:

‘through a balanced blend of regulations and incentives, the public and private values of heritage can be enhanced and leveraged for job creation and integrated conservation’³⁴

Planning regulations – including easement donations whereby some of the rights that would normally reside with a property owner are vested in a separate authority such as the State in order to protect heritage properties indefinitely – are sometimes viewed as negative interventions in the sense that they prevent some action that would otherwise be undertaken by property owners as it is perceived to be in their own interests. As a result, while there is no actual financial transfer involved, there is a cost in terms of socioeconomic welfare as the regulation prevents decision makers from undertaking some action. It is implicitly assumed that while the private decision maker would be better off if the regulation did not exist – in the short term at least – the regulation enforces an outcome that is better for society as a whole. In this way, a regulation forces the costs of protecting heritage onto private owners of buildings without compensating them or reallocating the costs onto society. Thus, they generally act contrary to the existing incentives facing the private decision maker. Despite this, with few exceptions, regulations tend to be passive in terms of promoting improvements in the built heritage with most having the objective of preventing actions that are seen as destructive. However, more pro-active regulations are certainly possible. For example, an EPHC report from Australia relates research that it takes 30 years for a new building to realise energy savings when compared with the option of renovating an older building and identifies the need for the Environmental Impact Analysis that is required when investing in a heritage building to prove that the existing building cannot be adapted and to compare the energy requirements, including materials, that would be required for renovation and

³⁴ Licciardi, G., and R. Amirtahmasebi (2012) (eds.) *The Economics of Uniqueness: Historic Cities and Cultural Heritage Assets as Public Goods*. Washington DC: World Bank (page xxiii)

replacement respectively. In this way, the regulation pro-actively incentivises restoration³⁵.

The big benefit of grants over regulation is that they aim to change the incentives facing decision makers so that it becomes in the interest of the private decision maker to act in a way that is also in the interests of society. In practice, an owner is compensated for acting in this way. Grants are particularly useful where the building in question is easily identifiable as a unique or landmark building or of a distinct type that can be easily and precisely described. This may relate to a specific characteristic of the building, such as age or building style – a thatched roof for example – but will not work well when dealing with heritage buildings that are less easily described or where the heritage aspect relates to a location. Thus, a policy initiative to provide grants to older buildings in Irish towns could be costly and problematic. Grants can also be unwieldy and costly to administer, requiring a specific agency to be involved, and their provision also adds to public expenditure. There is also a difficulty with providing grants to encourage regular maintenance of heritage buildings as a ‘grant seeking’ incentive can be created. This occurs if an owner purposely does not invest and allows a building to deteriorate in order to qualify for a grant since the costs associated with their administration mean that they are typically awarded for major works rather than regular maintenance. It can also be the case that some aspects of the built heritage are well protected as the buildings qualify for grants while other parts may be allowed to deteriorate as the building may fall outside the specifications, but there is always the chance that the specifications could be changed in the future so that a grant becomes available. So, while grants go some way to meeting the requirement that the private costs are borne in part by the wider society that benefits from heritage conservation, they cannot be comprehensive in coverage.

Tax breaks have similar benefits to grants as they also aim to change the incentives so that the private interests are aligned with society's interests. There are important benefits however, since they can be applied to wide categories of buildings and administered by the existing tax authorities. As such their scope can be much wider. According to Pickerill (2005), tax incentives are moderately effective, efficient, and highly manageable, but are not equitable and are not particularly popular from a political perspective³⁶. However, they are also non-coercive, automatic and have a moderate degree of visibility. A big advantage is that they do not mean that the public sector is incurring any new expenditure so they allow the authorities to appear to support heritage while maintaining an illusion of being costless. They are also sometimes seen as user friendly in the sense that investors can quickly see if a particular building will qualify for relief. They also have the advantage that they can

³⁵ EPHC (2004) *Making Heritage Happen: Incentives and Policy Tools for Conserving our Historic Heritage*. Report by the National Incentives Taskforce for the Environmental Protection and Heritage Council, Australia

³⁶ Pickerill, T. (2005) *Financing the Conservation of the Architectural Heritage in Western Europe and North America*. Ph.D. Dissertation, Northumbria University

be designed so that the investment by the private sector might be a multiple of the public funding. Armitage and Pickerill (2009) note that in all of the countries they examined they observed a move away from direct public involvement in conserving the built heritage i.e. grants, towards measures that would encourage private investment as a result of incentives³⁷. Fiscal incentives would be a major part of this move.

On the downside, tax breaks can be very distortionary and can displace investment in unforeseen ways. When used to incentivise investment in a broad category of buildings that can also be rather crude in the sense that it is often impossible to distinguish between investment that would have taken place in any case and additional investment, even after the investment has taken place. Thus, a subsidy can be created without any pay-off and this can persist for a prolonged period without the true nature of what is happening becoming obvious. These are important issues. However, because of the existence of externalities and because so many heritage buildings are in private ownership, Revelli (2013) claims that:

‘The widespread property rights structure forcefully raises the issue of the desirability, as well as the effectiveness, of systems of tax incentives to private owners, with the objective of preserving cultural resources in the wider community interest’³⁸.

The nature of the built heritage under discussion in this study suggests that measures such as tax breaks may be required to incentivise investment in town centres.

Pickerill (2005) provided an assessment of a range of different types of intervention under various headings³⁹. Table 3.1 summarises her findings for regulation, grants and tax incentives.

Table 3.1: Assessment of Broad Categories of Intervention

	Regulation	Grants	Tax Incentives
Effectiveness	Moderate	High	Moderate
Efficiency	Low	Moderate	Moderate
Equity	Moderate	Moderate	Low
Manageability	Moderate	Moderate	High
Political Feasibility	Moderate	Moderate	Moderate

Source: Based on Pickerill (2005)

This assessment indicates that no one of these approaches is clearly superior. However, if equal weighting is given to each of the five assessment criteria then there

³⁷ Armitage, L. and T. Pickerill (2009) ‘The Management of Built Heritage: A comparative review of policies and practice in Western Europe, North America and Australia’. Paper presented to Pacific Rim Real Estate Society 15th Annual Conference

³⁸ Revelli, F. (2013) ‘Tax Incentives for Cultural Heritage’ in Mignosa, A. and I. Rizzo (eds.) *Handbook on the Economics of Cultural Change*. Cheltenham: Edward Elgar (page 129)

³⁹ Pickerill, T. (2005) *Financing the Conservation of the Architectural Heritage in Western Europe and North America*. Ph.D. Dissertation, Northumbria University

is a slight preference for grants over tax incentives with regulation the least preferable.

3.2 *Review of Tax Incentive Measures*

The incidence of all taxes can be categorised under one of three headings: tax on income, expenditure or ownership/use. Measures to provide relief from taxes can be similarly identified. A report to the Council of Europe found that a majority of historic buildings in western Europe were in private ownership and that, '*all European countries have taxes which to a greater or lesser extent affect the ability of owners to care for historic buildings*'⁴⁰. The study found that a *significant proportion* of the countries in Europe have measures to allow for the costs of maintenance of historic buildings to be off-set against income taxes but that only a small number have specific VAT allowances related to the maintenance of historic buildings. Concessions on wealth taxes (mostly property taxes) are relatively rare, and while tax relief on inheritance taxes on historic buildings is fairly common, inheritance tax is seldom a major issue except in very specific circumstances.

Income Tax Relief

In a review of fiscal incentives to heritage in Europe and North America, Pickard and Pickerill (2007) also find that measures to offset expenditure on conserving heritage buildings against income taxes are widespread. However, there is a wide variation in the structure and operation of the various measures, a reflection of the huge variation that exists in tax legislation and regulations. It should also be noted that virtually all the examples the authors describe relate to measures to protect listed or protected structures, and that many have attached conditions in relation to the need for public access following the investment. In this respect, the tax base differs from the buildings under consideration in this report since most of these will not be specifically listed and few would be of major interest and open to the public. Pickard *et. al.* find that most of the income tax related incentives that are provided relate to maintenance and conservation of properties rather than improvements and tax authorities appear to have been careful in this regard. These incentives are useful in alleviating dis-use and dereliction, but this is no guarantee that the type of investment that might be required to make a older property suitable for modern use will be forthcoming.

Most income tax relief schemes relate to listed buildings and are based on allowing expenditure on maintenance and repairs to be offset against income tax, usually tax arising from income connected to the building. In France and Germany, maintenance expenses are deductible with different rates depending on whether the building is

⁴⁰ Sell, J. (2003) 'Briefing note on taxation and historic buildings'. Appendix 1 to *Tax incentives for cultural heritage conservation*. Council of Europe Parliamentary Assembly report.

open to the public or not. Deductibility in Ireland and Belgium is more restrictive and requires defined opening times. In most cases, the work must be undertaken according to a pre-agreed scheme. Italy allows flat rate deductions according to the value of the building but the work must be pre-certified as necessary. The Netherlands is somewhat more generous and allows the offset of all expenditure on maintenance and repairs to historic buildings and will also allow expenses arising from some improvement work to be offset. Spain allows a 15% tax credit for expenditure on listed buildings. The system in Denmark is distinctively different as it is operated by an independent organisation and is based on a formula that estimates decay per annum in historic buildings. Owners can write this estimate loss off against tax either before or after any actual expenditure takes place.

France also operates a scheme that allows expenditure incurred on loan interest, maintenance, repair and improvements to buildings to be offset against tax on rental income from these properties. This is provided even if the specific building is not of noted historic interest, provided it is located within a designated conservation area or an area zoned as being of architectural, urban or landscape importance. Some restrictions apply in relation to development potential and usage in these areas and the incentives are targeted at incentivising collective schemes of building restoration. This is of particular interest to the buildings under consideration in this study as it is an area based scheme that is applied to buildings whose heritage interest arises, in part, from their collective existence in a particular area rather than the specific or notable features of any particular building. Therefore, while any particular building in an Irish town centre may not have outstanding characteristics or uniqueness other than its age, the proximity of buildings of a similar age, a distinctive streetscape or an area of notable character greatly enhances the heritage value of the building due to its contribution to the character of the whole area. The types of fiscal and other incentives discussed later in this report are considered in the context of incentivising investment in such buildings.

Germany, also provides accelerated depreciation for listed buildings⁴¹. For rented properties, the owner is allowed to depreciate an historic building at 9% per annum for 8 years and at 7% per annum for the following four years as an offset against rental income, compared to 2% per annum for other buildings. If a building is owner occupied then depreciation of 9% per annum can be offset against income taxes for 9 years. The owner is responsible for the upkeep and conservation of the building in order to receive these allowances and if the building is neglected over the long term then an owner can be forced to sell other properties they own.

In the US, the Federal Historic Rehabilitation Income Tax credit offers tax credits of 10 to 20% of expenditure on approved heritage work on commercial buildings with

⁴¹ RICS Research (2007) 'Preserving Germany's cultural heritage through legislation' Paper presented to 14th Annual European Real Estate Society Conference, London

the rate based on characteristics of the building in question. Many States offer additional credits valued in the range of 20 to 50% of expenditure and some of these include owner occupied residences. These credits can usually be carried forward if not all used in one year. Pickard *et al* also discuss a particularly interesting opportunity in the US where tax credits for historic buildings can be added to a separate credit allowable for investment in social housing schemes, i.e. it is possible to qualify for both credits if a building meets heritage criteria and a proportion of the residential units are set aside for renting with rent controls in place. This makes investment very attractive and Pickard *et al* conclude that the tax credits, in particular the ability to combine credits under different programs has been '*very effective in encouraging investors to invest in rehabilitation projects*'⁴².

As a general rule, one of the problems of providing income tax offsets to incentivise investment is that the measure is socially regressive i.e. it is of most benefit to individuals with higher incomes and higher tax liabilities. This is particularly the case when the offsets are provided as allowances, as is commonly the case in Europe, as the value of the tax break to the liable individual is higher with higher marginal tax rates. If the measure is designed to provide a tax credit then the problem is reduced and the value depends only on the amount that is invested. Tax credits tend to be favoured in the United States. Even when this is done the tax break still remains quite socially regressive and there would also be a potential problem with attempting to use this to incentivise investment in heritage buildings, as defined in this report, in Irish towns. Although there may be under-utilised buildings, few town centres do not have a resident population. In many cases these may be concentrated in lower socioeconomic groups and, possibly, outside the income tax net. As a result, income tax incentives would only be useful if this changed i.e. if the incentive is associated with gentrification of the town centre. There is clearly a balance to be struck here and this indicates that decisions on regeneration policies require more than a financial flow analysis and must include consideration of other social impacts.

Expenditure Tax Reductions

Tax harmonisation in the EU was identified by both the Pickard *et. al.* and the Council of Europe reports as one reason for a relative scarcity of instances where VAT rates have been used to incentivise investment in heritage. However, there are some instances of relevant provisions. Spain applies a special low rate of VAT to expenditure on historic buildings. The UK had applied a similar provision up to this year but this has now been limited to religious sites. In France, Italy and Belgium, VAT rates for works on existing buildings are considerably lower than in the case of new building. This is important and contrasts with the situation in Ireland where the lower rate is applied similarly to all forms of construction. The Netherlands also has a low VAT rate for conservation work on artistic elements of buildings.

⁴² Pickard, R. and T. Pickerill (2007), *op. cit.* page 26

There are a number of exemptions from sales taxes for expenditure on historic buildings in the US and a scheme in Nova Scotia whereby a rebate of sales tax on building products can be claimed provided the products are used in the restoration or maintenance of historic buildings in heritage conservation areas.

Property Taxes

International examples of property tax related incentives mostly relate to protected buildings and/or to situations where large liabilities are incurred, as can arise if the site value, rather than the property value based on usage, is the tax base. These allowances are often designed to remove an existing incentive to demolish or greatly alter a building. Unlike in the case of income taxes where the relief is usually related to expenditure on maintenance, or a proxy for maintenance in the form of a depreciation allowance, property tax reliefs are sometimes available simply through the act of ownership of eligible properties without the need to incur expenditure.

Property tax relief schemes are quite common in the United States. Since most property taxes in the US are collected at State level, the details of the schemes vary according to the State in question, and often depending on the city in which the property is located. For example, San Antonio, Texas provides a 100% reduction in property taxes on heritage properties for 10 years following an approved heritage project, while Abilene, Texas allows a 20% reduction indefinitely for listed properties and a 50% reduction if conservation is undertaken. In Alabama, property tax for heritage buildings is half the normal rate, while Georgia and Florida allow relief for 8 to 10 years following restoration. Maine reimburses property taxes if a maintenance agreement is concluded with owners and property taxes on heritage buildings in Washington DC are based on the building's market value rather than an assessment of the buildings 'best use' value as applies to other properties. A similar provision applies in most Australian States.

In Canada, the Heritage Property Tax Relief scheme is administered at local level and allows municipalities to provide property tax relief of 10 to 40 per cent on eligible properties in about 30 cities in Ontario. This was designed as an incentive to owners to undertake regular maintenance in order to avoid major restoration costs. Municipalities have considerable discretion in relation to the application of the scheme, but local funding must be identified by the authorities operating the scheme and a heritage conservation agreement with the property owner is mandatory. A number of cities in Ontario and Edmonton in Alberta provide a rebate on any increase in property taxes as a result of improvement works on heritage buildings. Property tax credits up to 50% of the value of the work undertaken are provided in a number of other cities.

In Europe, Germany provides substantial relief of 60 to 100% depending on the cost of maintenance and provision of public access while France also links relief to expenditure on maintenance and restoration. Exemptions from property taxes are often conditional on properties being used for cultural purposes, and in the UK, historic buildings are exempt from inheritance tax.

3.3 *Fiscal Incentives in Ireland*

In Ireland, the past few decades have seen a very large number of property related tax incentives introduced. However, these initiatives have concentrated either on providing a general stimulus through construction, area regeneration, or the provision of specific new infrastructure with incentivising investment specifically in heritage properties a possible side effect rather than an explicit objective. This is despite the fact that the argument that public funding should be provided to support heritage is explicitly accepted in policy statements as 'legitimate' and 'compelling' even though it is accepted that the benefits from doing so may be intangible and difficult to quantify⁴³. Section 2.2 above agrees that a rationale for support exists while Section 4 below shows that such support would be likely to provide net economic benefits.

The importance of tax incentives to stimulate investment in property greatly increased in the years following the Urban Renewal Act in 1986 which aimed to provide a stimulus to the economy and reverse the decay of buildings in urban centres in Ireland. Already existing Section 23 relief – aimed at expanding the supply of rental properties – and Section 50 relief – aimed at student accommodation – continued to provide incentives. The legislation allowed the designation of specific urban areas where investment would attract tax incentives, which were favoured over grants or direct investment due to a lack of public funds at the time. The aims were broad, but stimulating employment was given a high priority. The incentives included tax allowances in respect of capital expenditure, double rent allowances, remission of rates, income tax relief for owner-occupiers and tax relief for investors in rental properties.

A review of the scheme in 1996 found that it had been successful in incentivising investment in previously derelict and run-down areas⁴⁴. However, it was also clear that the Irish economy by the mid-1990s was in a very different condition than a decade earlier and deadweight i.e. the proportion of investment that would have happened even without the incentive, was high and rising. The Urban Renewal Act of 1998 was an attempt to curtail some of the more wasteful aspects of the Scheme and rising house prices meant that tax incentives for investment in residential

⁴³ Department of Arts, Heritage, Gaeltacht and the Islands (2002) *National Heritage Plan* (page 54)

⁴⁴ *Study on the Urban Renewal Schemes*. Report prepared for Department of the Environment and Local Government by KPMG (1996)

properties were reduced, although these were later restored. A number of other similar schemes were subsequently introduced, including the Town Renewal Scheme in 1999 while the Living over the Shop Scheme was revised and renewed in 2001. Other schemes aimed at specific types of property – hospitals, hotels, nursing homes, car parks, holiday cottages, etc. – also operated in the market. Despite the emergence of a clear property boom and various statements that incentives would be curtailed many of the incentives were retained in subsequent years.

A review of the Urban Renewal Scheme in 2005 found that it had been very successful in incentivising investment and had led to higher housing and commercial property output in the designated areas⁴⁵. However, it had been weak in delivering social and community benefits and had overall negative impacts. Deadweight remained a big problem and the tax benefits had benefited a small number of high net worth investors. This finding was confirmed and stressed in a separate review at that time⁴⁶. Any contribution to investment in heritage buildings was incidental, and given the specific requirements of many of the types of building that received incentives, such as hospitals and car parks, the incentives were biased towards greenfield development or the replacement, rather than the restoration, of existing structures. Also, the availability of incentives in a buoyant market added to property price inflation in the period leading to strongly negative income distributional effects.

The Town Renewal Scheme was a lot less successful overall in terms of delivering investment, although there had been some significant successes. The main reasons for this were identified as risks associated with developing in towns where demand might be limited and also that the sites tended to be more suitable for restoration rather than new development. However, this very feature meant that, where successful, the scheme tended to provide more social benefits and fewer of the problems associated with the Urban Renewal Scheme, with lower deadweight.

Take-up in the Living over the Shop Scheme was low, although there were also some successes. The 2005 review by Goodbody *et. al.* put the low impact down to the disruption that refurbishment can cause to retail activity and to the fact that living over a shop is simply not attractive to prospective tenants. While not specifically aiming to examine this conclusion, the consultation process that is discussed in Appendix 1 below would generally confirm the view that investment in regeneration is not competitive with new build in terms of the costs and the product that is provided. This view was not universally supported with some respondents arguing that this is only viable within the general market environment that has been created and that such properties would find a market with an altered set of incentives. Obviously, this is speculative and the conclusion was based on the situation that

⁴⁵ *Review of Area-Based Tax Incentive Renewal Schemes*. Report to Department of Finance by Goodbody Economic Consultants in association with Mazars and HKR (2005)

⁴⁶ *Indecon Review of Property-Based Tax Incentive Schemes*. Report to the Department of Finance by Indecon Consultants (2005)

existed. If this is indeed a valid conclusion and it is the case that there would not have been sufficient demand to meet a large supply of renovated living spaces over shops then it is fortunate that take-up was low as it would have resulted in investment in unwanted residential space. The experience following the housing boom is that tax incentives can distort investment decisions considerably so that the market can provide excess supply of some types of properties, for example, an excess supply of apartments in Dublin rather than houses, and too many new hotels where the excess supply of rooms still persists.

Budget 2014 contained a measure to provide relief against income tax for expenditure on existing residential property in the form of the Home Renovation Incentive (HRI). This provides a tax credit to the value of 13.5% of expenditure on home renovation and improvement split over the two successive years. Expenditure must be in the range of €5,000 to €30,000 undertaken by a resident on their principle private residence and it must be undertaken by a tax compliant operator. This relief is clearly targeted at reducing activity in the grey economy and providing a stimulus and it is estimated that it will cost €62 million per annum beginning in 2015⁴⁷.

It appears likely that it will be effective in both these aims but its impact in terms of heritage properties is less clear. The problem is that it would appear that expenditure on any property over 5 years of age will qualify. This will promote expenditure on heritage properties but it does not make them more attractive relative to newer properties – houses aged 5 to 50 years for example. Thus, this incentive is more akin to the types of incentive that have generally been applied rather than a heritage-specific initiative.

Heritage-Specific Incentives in Ireland

Although these general fiscal interventions have dominated the policy environment in Ireland, there have been some measures specifically targeted at the built heritage. The only income tax measure of specific relevance to heritage is Section 482 of the Taxes Consolidation Act 2007. This provides relief from income tax and corporation tax to owners and/or occupiers of buildings and gardens that are considered to be of significant horticultural, scientific, historical, architectural or aesthetic interest in Ireland. Section 482 relief is provided as a tax allowance in respect of expenditure on repairs and maintenance, and other specified categories of expenditure. This also extends to approved objects within a property. The property must gain approval and the relief must be claimed. Section 482 is somewhat similar, but more restrictive than Section 19 of the Finance Act 1982, now superseded, which had allowed that any expenditure on the repair, maintenance or restoration of a building that was considered to be of significant interest and to which the public had access would be treated for tax purposes in the same manner as a trading loss. Section 482 requires

⁴⁷ Department of Finance (2013) *Budget 2014*

that public access to the property must be provided and Fáilte Ireland must be advised of the claim. A list of properties is subsequently published. Some restrictions on the relief in respect of passive investment and high earners have been introduced in recent years and there is a clawback provision if a claimant fails to comply with requirements.

. Cooke (2003) found that the information available on the performance, cost and importance of Section 482 had been rather vague over the years but included an estimate that the cost of §482 relief in 1998-99 was €1.9 million without being able to obtain a precise figure⁴⁸. Private information he obtained from the Revenue Commissioners led him to conclude that the '*true current cost of relief is estimated to be much higher than this, but no figures are currently available*'. (page 86). The Minister for Finance in a response in the Dáil said that the scheme cost €2.7 million in 2000/2001 and also said that it was estimated that the total cost of the scheme in terms of taxes foregone in the period 1982 to 2001 was €14.7 million⁴⁹. Indecon (2004) also related this estimate for 2000/2001, but reported that data on claims for relief under the scheme are not maintained by the Revenue Commissioners⁵⁰. The report also noted that a relatively small number of properties qualified under the scheme, totally 171 in 2004, but that the cost estimate suggested '*a very low level of average annual cost per property*' (page 75). However, precise information has been provided in recent years and this shows that the cost of §482 in 2009 was €4.6 million in respect of 150 properties, falling to €3.9 million in respect of 140 properties in 2010⁵¹.

A total of 211 properties were included on the list published by Fáilte Ireland in February 2013. While this represents an increase on previous years, it remains a rather small and exclusive list and the structure of the Scheme's provisions overall indicate that the value is seen in providing heritage properties for tourism purposes rather than the protection of heritage properties based on the inherent value of heritage.

The 'Living Cities Initiative' was introduced in the Finance Act 2013. This scheme was initially specifically aimed at providing tax relief for investment in heritage buildings of a certain age and style and it was proposed that it would be piloted in Waterford and Limerick. Initially it was proposed that expenditure by owner-occupiers on the refurbishment of Georgian houses within identified areas in these two cities for residential purposes will be allowable against tax.

⁴⁸ Cooke, P. (2003) *Setting the Limits to the Growth of Heritage in Ireland*. Studies in Public Policy: 11, The Policy Institute, Trinity College, Dublin.

⁴⁹ *Dáil Eireann Debate*, Volume 587, No. 6, 23rd June 2004

⁵⁰ *Examination of the Issue of Trust-type Organisations to Manage Heritage Properties in Ireland*. Report prepared for the Department of the Environment, Heritage and Local Government by Indecon International Consultants (2004)

⁵¹ Revenue Commissioners *Statistical Report 2011*, Table IT6

Refurbishment can include any work involved in construction, repair or renewal and can include the improved provision of water, sewage and heating. The value of the work must be at least 10% of the value of the property in order to qualify. As such, it is not targeted at expenditure on regular maintenance but fundamental restoration of the property. Owner-occupiers of residential properties will be able to claim relief as a deduction against taxable income at the rate of 10% of the expenditure undertaken per year for 10 years, but relief will only be available as long as the house remains the principle residence of the claimant. Relief will also be available to commercial retail premises over a 7 year period and there will be restrictions for high earners. The restoration must be certified by the Local Authority as complying with its requirements for the building and the area.

The Living Cities Initiative as initially formulated was the subject of a cost benefit analysis. This found that the scheme would not provide a net return in its initial formulation but that an expanded scheme along the same lines would provide a net benefit⁵². The consultants also undertook sensitivity analysis in relation to specific parameters as the metrics suggested by the Department of Public Expenditure and Reform were overly restrictive, particularly in relation to the social cost of labour. Overall, the study concluded that net benefits were likely, but it also concluded that *unless changes were made to the scheme as initially announced the level of take-up would be minimal and the full potential of the initiative would not be achieved*⁵³.

The proposed scheme has been expanded in the Finance Act 2014 with the addition of buildings in Dublin, Cork, Galway and Kilkenny and it has been extended to all buildings constructed before 1915. This would appear to meet the concerns that were expressed in the CBA and so net economic benefits are likely to arise. The Department of Finance has indicated that the expanded scheme will cost the exchequer €20 million in terms of the tax offsets allowed⁵⁴. Of course, the net cost would be much lower as new taxes would arise from new activity stimulated but it awaits EU approval and a Ministerial Order to initiate it.

It is worth noting that the Living Cities Initiative will likely come into operation some time after the HRI discussed above. The HRI is more restrictive in terms of the amount of investment that is allowable against tax, but its coverage is also much wider as it applies to all existing homes in all parts of the country. The extent to which the two schemes will compete for investment is unclear and it is also not clear if additionality will be possible, although this is unlikely. What is clear is that the introduction of the HRI is likely to weaken the impact of the Living Cities Initiative as it makes investment in alternative residential properties more attractive than it would otherwise have been.

⁵² *Indecon Ex Ante Evaluation of the Living City Initiative for Urban Regeneration*. Report to Department of Finance, October 2013

⁵³ *Ibid.* page 60

⁵⁴ Department of Finance (2013) *Budget 2014*

Two other forms of CAT relief directly related to buildings are also available:

- Section 39 of the Finance Act, 1978 provides relief from Capital Acquisitions Tax (CAT: inheritance and gift taxes) for stately homes and gardens that are open to the public and are deemed to be of importance.
- Section 166 of the Finance Act 1995 provides relief from CAT for shares in companies owning heritage properties.

There are also a small number of other measures that may be of benefit in preserving Ireland's heritage although not specifically related to the built heritage. These include:

- Section 55 of the Capital Acquisition Tax Act, 1976 which provides relief from CAT for art objects deemed to be of national importance, provided they are kept in the State.
- Section 848A of the Taxes Consolidation Act, 1997 which provides income tax relief for donations to eligible charities and other approved bodies.
- Section 1003 of the Taxes Consolidation Act 1997 provides for a tax credit to the value of items donated to the nation, provided the value exceeds €150,000. This credit can be used to offset liabilities under income tax, corporation tax, capital gains tax and CAT.

Apart from these measures, assistance to built heritage has largely comprised grants including heritage grants, administered by the Heritage Council, housing grant funding for renewal or repair of thatched roofs provided by the Department of the Environment, Heritage and Local Government, the Local Authority Conservation Grants Scheme and the Urban and Village Renewal Grants Scheme.

Assessment

Tax reliefs targeted at providing a general stimulus to construction have been very important in Ireland and their impact has far outstripped reliefs specifically targeted at heritage. While the general tax measures could have prompted investment in heritage properties, and it is indeed the case that many of the more important schemes were targeted at areas in relative decline in city and town centres, their impact was more weighted towards replacement and new development than restoration. Furthermore, there are many questions in relation to the returns from the tax incentives that were available.

Williams and Boyle (2012) reviewed the effect of tax incentives as used to stimulate regeneration in Dublin and concluded that there were real market failures at the time of the initial intervention, but that ongoing application of the Scheme in the absence

of a market failure meant that the costs exceeded the benefits in later years⁵⁵. While accurate estimates of the tax cost of the Scheme have not been published, the work estimated that the ratio of tax benefit to total costs ranged from 33% for refurbishment to 65% for new development in the case of commercial property, and from 15% for owner occupier development to 30% for rental development. They estimate that the leverage ratio was probably only about 1:1 making the incentives extremely generous by international standards. In addition, these estimates did not take into account any displacement and so the actual leverage would be substantially lower if this factor was included and deadweight, which was estimated at 20 to 40 per cent in the 1990s had probably risen to over 70 per cent in 2006. Furthermore, since the schemes involved tax write-offs that accrue over many years, the tax implications of the schemes will still be present up to 2020. They conclude that:

‘The lesson for the future is that justifiable fiscal interventions, tax incentives, and subsidies are inevitably the subject of intense pressure from vested interests who vigorously advocate for, and benefit from, their continuation beyond the need for such interventions. Along with over stimulating development, these interventions involve major taxation costs to the exchequer, and can have long term unintended or negative impacts on the economy and urban development markets’ (page 19).

This describes the prevailing view of tax incentives and means that a very adverse and difficult environment has been created for any proposal to use tax incentives to stimulate investment. In addition, the recommendations contained in the Indecon Review indicate that a reorientation of policy is required. The report recommended, *inter alia*, that

- Where there is a justification for intervention, the option of direct public expenditure should be considered as an alternative to tax incentives;
- Any tax schemes should have a defined lifespan of 3 years;
- Capital allowances should focus on personal income rather than rental income.

That report was produced well before the implications of the property crash for the economy were seen. However, if adopted as general guidelines for policy, these recommendations would be problematic for the types of proposals considered in this report. In addition to shifting the focus towards expenditure i.e. grants, instead of tax breaks, the limitation of 3 years is not what would be required to stimulate investment in heritage buildings in Irish towns. It is also the case that there would be much greater reliance on investment by owner occupiers⁵⁶.

⁵⁵ Williams, B. And I. Boyle (2012) ‘The Role of Property Tax Incentives in Urban Regeneration and Property Market Failure in Dublin’ in *Journal of Property Tax Assessment & Administration*, Vol. 9 (2)

⁵⁶ A further point, however, is that tax breaks tend to be socially regressive and some owner-occupiers in town centres where the socioeconomic profile may be weak may not have sufficient income to qualify. It has been suggested that a mortgage credit might be provided in lieu of a tax credit. However, this would also only apply to a section of the population and it is difficult to see how it would be administered while also risking adverse distortion of demand and incurring very high deadweight.

3.4 Promoting Investment in Heritage as an Economic Stimulus

There have been many calls for the Government to use the construction sector to stimulate the economy. These mostly call for increased direct expenditure. An ICTU study of potential job creation as a result of investment in construction in 2012 concludes that the completion of public sector investment projects that were at the planning stage at the time of the study, involving the investment of €2,070 million by the State, would create 15,905 jobs for 1 year when direct and indirect impacts are included⁵⁷. These projects included a wide range of infrastructural works. This suggests a ratio of 7.68 jobs for every €1 million and is broadly in line with estimates that were produced by the construction industry for civil engineering works⁵⁸. The job creation potential for investment in social infrastructure such as hospitals and schools, and housing may be slightly higher.

These estimates relate to all public expenditure in construction and they are derived from data that is strongly skewed in favour of civil engineering and large scale works with little in the way of small scale urban or residential construction included. Irish construction sector data show that there were 107,100 people employed in the sector in Ireland in 2011 with average annual earnings of €35,412⁵⁹. Total output of the sector was estimated at €8,684 million indicating that wages accounted for 43.7% of expenditure in the sector. This earnings estimate includes wages only and there will be associated social insurance and pension contributions. Estimating these at 14.5% of wages, making the total cost per job €40,542, would put the Irish data in line with Rypkema's estimate that 50% of expenditure in construction is on labour.

The evidence suggests that the employment impact in heritage would be considerably higher than in civil engineering construction. The work by Ecorys *et al* estimated that construction expenditures in relation to historic buildings in 2009 amounted to €755 million, or 4.2% of the total in the construction sector, and directly created 9,820 jobs⁶⁰. This is equivalent to 13 jobs per million. With an employment multiplier of 1.83, this means that the total impact would be 24 jobs per million, over 3 times the estimated employment intensity of public funds spent on infrastructure⁶¹.

It is also important to note that if public expenditure is in the form of grants or other incentives to private owners of historic properties then every €1 million of public expenditure would leverage additional private funds. Research undertaken on behalf

⁵⁷ ICTU (2012) *Delivering Growth & Jobs: Funding a major new investment programme for Ireland*.

⁵⁸ Construction Industry Council (2011) *Jobs and Infrastructure – A Plan for National Recovery*.

⁵⁹ *The Irish Construction Industry in 2012*. Report prepared for the Society of Chartered Surveyors Ireland by DKM Economic Consultants

⁶⁰ Average earnings in the sector in 2009 were €38,855 giving a total of €382 million for wages, just over 50% of output.

⁶¹ This is lower than the estimate of 38.5 that was produced by Rypkema for the US but his paper from early 2001 used data from the late 1990s and inflation in the intervening decade would mean that the estimates are closer.

of the Heritage Council has found that 66% of heritage investments that were grant aided would not have proceeded in the absence of the grant and that the grant was critical for 90% of the investments undertaken⁶². The research also indicated that for grant schemes that might be considered to be relevant for consideration in relation to incentivising investments in towns, the grant awarded was 50% of the project cost⁶³. While the work did not directly provide an estimate of the leverage ratio, these findings indicate that every €1 million of public funds invested will be matched by €1 million of private investment. However, it appears reasonable to assume that 25% of this investment would have occurred in any case. Therefore, the additional private investment as a result of the grants was €500,000. This is important since it has a direct impact on the employment intensity of the public funds⁶⁴.

When this is included it would mean that every €1 million of public expenditure in the form of grants to heritage projects would result in total additional investment of €1.5 million of which 65% would be spent on labour. At an average wage of €35,412 plus social and pension contributions giving a cost per job of €40,540, this would directly create 24.1 FTEs. Applying the multiplier of 1.83 would mean that a total of 44.1 jobs would be created by this stimulus⁶⁵.

Thus, the evidence indicates that investment in conservation will stimulate further activity in the economy and create employment, and that these beneficial effects will likely be considerably greater in the case of conservation when compared to new infrastructure for a similar initial amount of direct expenditure of public funds. However, the consultants have concerns about drawing policy conclusions from this or advocating that investment in heritage should be incentivised in order to stimulate the economy. This view is based on a number of considerations.

First, although domestic demand is performing poorly, it is not clear or universally agreed that a fiscal stimulus is what is required in Ireland presently. Indeed, as a small open economy where confidence has been shaken partly as a result of excess deficits and rising debt, the conditions are not what is required for a stimulus package to work despite the underperformance. The danger is that the impact of such a measure would soon leak from the economy given the high propensity to import and also the higher propensity to save that the fall in confidence has engendered. Instead, there are good reasons to conclude that the emphasis should remain on

⁶² *Grant Aid for Building Conservation 'Quanta' Research*. Report to the Heritage Council, Department of the Environment, Heritage and Local Government and Department of Finance by Carrig Conservation International, Louise Harrington & Integral Finance Technology (2011)

⁶³ The two schemes in this respect are the 'Buildings at Risk' scheme administered by the Heritage Council and the Local Authority Conservation Grants

⁶⁴ Implicit in this is an assumption that the private funds would not otherwise be spent. This is acceptable in the economy at present and this discussion relates to the use of heritage in providing a stimulus to an underperforming economy. However, it cannot be extrapolated from this that the same can be assumed in a fully functioning economy.

⁶⁵ This is equivalent to 29.4 jobs per million and so it lies between the estimates produced by Ecorys *et al.* and Rypkema.

competitiveness to improve productive capacity. This emphasis on productive capacity is clear from the Government's statement on the impact of public capital investment on employment and output⁶⁶. This concludes that while '*there will be employment benefits in the delivery of infrastructure ... there is already largely adequate infrastructural capacity in the economy*' (pages 7-8). In other words, expenditure would provide a temporary boost i.e. the demand side argument, but new infrastructure would not improve the ability of the economy to grow since lack of infrastructure is not a constraint on growth. This holds even if the larger initial employment impacts of investment in heritage are considered. This argument was made to support the case for curtailing capital investment in the current period but is also supported by research published by the ESRI⁶⁷. This concluded that funds that may become available during the period of the IMF-EU deal should be used to reduce debt rather than fund capital investment since using them to provide a stimulus '*is not obviously an efficient use of funds*' (pages 31-32). This view has been reiterated in subsequent commentaries from the ESRI.

The fiscal stimulus argument is based on a demand side analysis of the economy. Attempting here to resolve arguments in relation to the relevance of this approach to Ireland would be futile, but the dominant view remains that a supply side approach that emphasises investment in the productive capacity of the economy – for example, investment in education, skills, technology, improving competitiveness and resolving conflicts in the work/welfare balance – represents the way to sustainable recovery. From this viewpoint, it can certainly be argued that the built heritage in town cores is not a key component in improving Ireland's supply capacity or the best use of funds, other than in specific sectors and in the very long term.

Second, even if it is argued that stimulating investment in heritage would provide a stimulus that is much required given the current economic conditions, restoration of heritage buildings and regeneration of historic town centres must be viewed as a long term objective that needs to be pursued as such and not in response to cyclical movements in the economy. If incentives are introduced based on an argument that they provide a stimulus, then it can easily be argued that during an upturn much of the investment would have happened anyway i.e. they would represent a deadweight use of public funds, and so the employment impacts would be much lower. Even allowing for the leverage that would be gained with incentivising private sector investment in heritage buildings, stimulating the economy through the social welfare or income tax systems are measures that can easily be reversed and are a much better cyclical response to a downturn.

⁶⁶ Department of Public Expenditure and Reform (2011) *Infrastructure and Capital Investment 2012-16*

⁶⁷ ESRI (2012) *Quarterly Economic Commentary*, Summer. Dublin: Economic and Social Research Institute

Third, there is a conflict inherent in viewing heritage assets in the manner implied by this approach as it means they should be viewed primarily either as productive assets or instruments of policy. For example, Silberman (2011) defines heritage as 'the tangible and intangible remains of urban and rural cultures that may still be honoured, but are no longer the dominant ones'. From this Silberman concludes that:

if heritage is used as a mechanism for modernization, can it really be considered heritage at all? Isn't it merely an investment strategy for raising property values or creating income generating cultural tourism with uncertain social results?' (page 56)⁶⁸

This allows him to state that the assumption that heritage can be a driver of economic development *requires an enormous leap of faith*⁶⁹. The consultants do not wish to impose this definition as the only viable definition of heritage, but the argument here may have some merit. Just because there might be economic benefits from investing in heritage and it might be possible to incentivise such investment, the inherent potential for contradiction is clear between investing in assets that are often fundamentally poorly designed for modern needs and meeting the demands of the modern population while preserving the heritage value of the buildings. While it could be argued that a complex issue is being overly simplified, is not adequate to assume that demand will somehow 'change' in favour of restored rather than new buildings or that uses can be found that easily adapt to restored buildings once they are provided. Supply does not necessarily bring forth relevant demand unless prices fall and this can often mean losses. This is part of the risk that investors perceive in relation to restoration. Neither can the problem be assumed to be primarily one of education i.e. that people will realise that restoration is better when they see it and change their demand preferences accordingly.

Finally, it must be understood that measures in the fiscal system have three objectives:

- to raise money for the exchequer;
- to manage the economy at a macroeconomic level either through stimulating activity or curtailing it during periods of excess optimism;
- to change behaviour among market participants by altering incentives i.e. microeconomic management.

The third objective is clearly the most important in looking to use the fiscal system for regeneration since the objective is to displace new development with restoration. Indeed, all the options identified by the Heritage Council and discussed in the next sections of this report, should be viewed as microeconomic interventions as their impact on the overall exchequer balance is quite small. However, it must be understood that, logically, such intervention involves introducing distortions that alter behaviour and decisions. Distortions imply costs. Of course, they may counteract an existing distortion that is leading to a market failure. If this is so then a much stronger

⁶⁸ Silberman, N. (2011) 'Heritage as a Driver of Development? Some Questions of Cause and Effect'. Paper delivered at 17th ICOMOS General Assembly, Paris

⁶⁹ Ibid., page 55

rationale exists for action. As a result, an argument based on microeconomic analysis and evaluation of specific policy options is much more logically sound. Essentially, such an argument is based on showing that there are economic benefits from providing incentives to invest in heritage without reference to relatively short term macroeconomic conditions or relying on contentious assumptions regarding the efficacy of providing a macroeconomic stimulus in an economy such as Ireland.

Consequently, it is the consultants view that while there is evidence to suggest that incentivising investment in heritage would be better in terms of providing a stimulus than would other incentives in the construction sector due to its relatively high labour content, the case for providing such incentives should be based primarily on arguments that there are economic benefits from investing in heritage in terms of the impact on economic welfare and long term development, rather than basing it primarily on estimates of economic transactions and the possibility of providing a stimulus.

4. Assessing the Costs and Benefits of Intervention

4.1 Methodology of Assessment

The discussion in the previous sections showed that economic research in relation to heritage has concentrated on valuing economic transactions as a way to estimate the value of the sector. However, this does not necessarily provide a case for the expenditure of public funds as it does not show that the benefits of intervention exceed the costs, although this has been claimed on occasions. For example, the 'Quanta' research on grant aid to heritage in Ireland found that the support was an important element in stimulating investment in conservation and identified a list of benefits that arise from conservation work⁷⁰. It concluded that

'In the light of the multiple social benefits outlined above, grant-giving for architectural heritage conservation can be seen to achieve value for money' (page 6).

However, it cannot be concluded from the analysis that is presented in the report that using public funds in this way provides a positive net return as no 'value for money' assessment was undertaken. No comprehensive cost effectiveness analysis was undertaken to see if the system is efficient or if a better way might be possible even though the research did indicate that the grants lead to additional activity. Neither was any exchequer flow analysis undertaken to identify if sufficient new public funds arise from the economic activity that is incentivised to offset the expenditure incurred when the grants are awarded. Finally, no cost benefit analysis was undertaken⁷¹.

The *Quanta* research did indicate that deadweight might be quite low, although this is not quantified, but there is no consideration of displacement. Furthermore, some of the results that are identified as benefits are actually outputs of programmes or actual costs i.e. they involve the use of resources. Examples include the fostering of markets in contracting and the supply of materials and providing professional advice. It is not

⁷⁰ *Grant Aid for Building Conservation 'Quanta' Research*. Report to the Heritage Council, Department of the Environment, Heritage and Local Government and Department of Finance by Carrig Conservation International, Louise Harrington & Integral Finance Technology (2011)

⁷¹ This is not a criticism of the analysis in that report as the Terms of Reference for the work likely did not specify these requirements. There is a point of view that the State should reward the owners of recognised heritage buildings for looking after them and the Quanta analysis appears to proceed on this basis. Although not expressed in this way, the analytical approach taken in this current study is not necessarily in disagreement with this point of view but considers it too vague in terms of providing a basis for a robust argument for State support. The approach taken here requires that a market failure is identified, that policy options to address this market failure can be identified and that net benefits can reasonably be expected to arise as a result of the expenditure of public funds in implementing this policy. Simply stating an *a priori* position that the State should reward the owners of heritage buildings for looking after them fails to address this final requirement as it means there is an implicit assumption that there are economic benefits from doing so i.e. that it is a good use of public funds. As a result, the conclusion reached in the Quanta research that the grants provided value for money may well be correct, but we simply don't know from the analysis undertaken in that study.

uncommon for the outputs of expenditure programmes to be identified as economic impacts (outcomes) or for the use of resources to be identified as benefits in evaluations, primarily since they are often much easier to measure with readily available estimates in programme budgets. This may be adequate if the objective of the evaluation is to assess the impact of the programme in terms of narrowly defined objectives such as stimulating certain activities that are assumed to provide benefits. But, unless it is shown that this activity actually provides economic benefits that exceed the resources that are used, it cannot be concluded that the programme achieved value for money in the sense of increasing the welfare of society.

A similar example of drawing overly strong conclusions regarding the economic benefits of investment is presented in the recent report on the regeneration of Aungier Street in Dublin⁷². The report asserts that

‘from both an economic and employment-generation perspective, the case to maximise the existing building stock on Aungier Street and to invest in the attractiveness of the street is apparent’ (page 100).

However, the report contains no analysis of the returns from investment – of either private or public money – and no estimates of the employment that would be created. Indeed, the report is clear that investment is lacking since adequate returns cannot be generated from the existing stock of buildings when it states that investment in some buildings has not occurred

‘largely due to lack of funding to complete the internal works and a failure to identify an economically viable reuse which will not detract from its significance’ (page 56).

The problem is not that jobs and economic activity would not be created by investment. The problem is that – mostly private sector – decision makers consider that the return would not be adequate to warrant the investment. In other words, there are better uses for the available funds. Simply asserting that there is a case to support investment or investment might create a certain amount of jobs or result in restored buildings does not provide a compelling case, particularly if the demand for such buildings cannot be identified.

The Ecorys *et. al.* report on the value of heritage, while providing an estimate of the contribution of the sector to the economy, does not undertake an analysis of the return from public expenditure on heritage to indicate if there is a net return or value for money arising from such expenditure⁷³. However, it does provide some parameters that can be used to indicate if such is the case by extending the analysis.

Some care is required however. Perhaps the most important is to recognise that the analysis in the report is static in the sense that looks at the sector in a particular year –

⁷² Dublin City Council (2013) *Aungier Street: Revitalising an Historic Neighbourhood*.

⁷³ *Economic Value of Ireland's Historic Environment*. Report to the Heritage Council by Ecorys and Fitzpatrick Associates (2012)

the data relate to 2009 – and estimates the economic activity in the sector in that year, plus the activity in associated sectors that arises as secondary effects. In some cases, such as the expenditure of state funds, this is not a problem as it can be assumed that this is recurring. However, when it comes to revenues from heritage tourism it cannot be assumed that this arises from any particular investment. To do so would be an assumption that this revenue arose simply as a result of the investment in conservation thereby placing no value of the existence value of the particular heritage asset. This would clearly be wrong.

A second important issue is to realise that the employment that is generated in the sector is not an economic benefit but is a cost to the economy since it involves the use of resources that could potentially be used elsewhere. This is not a problem in the valuation that is undertaken in the report as employment generated in the sector is clearly an impact and the consultants appear to have been very careful in this regard. However, in an estimation of the benefits that arise as a result of activity in the sector it would be the additional incomes and taxes that are generated that would matter.

A further important issue in attempting to identify whether a particular programme of expenditure or fiscal intervention would generate net benefits is to recognise that such an appraisal implies that there is a comparison being undertaken between the expected outcome of the intervention and the situation that would otherwise exist. Thus, it is necessary to compare the benefits that arise with a counterfactual. Usually, the counterfactual that is taken is simply that the intervention does not happen i.e. a do nothing situation, and so the funds are used to repay the national debt or avoid new debt. The result is that a conclusion can be drawn that a particular intervention should proceed if the net benefits from it exceed the benefits of repaying the debt. This is usually a simple calculation since the benefit of lower debt is the stream of interest payments that can be avoided.

However, the economic crisis in Ireland in recent years means that this approach is open to question. The fact is that there are numerous alternative uses for public funds and therefore the assumption that any funds invested in heritage would otherwise be used to reduce debt is open to question. The correct counterfactual for any programme could be any number of alternative uses and some of these might provide a return in excess of the interest rate that is payable on debt. In the context of heritage, the correct comparison is not whether investment in heritage provides a return in excess of the interest rate payable on the national debt – we can take this be around 5% per annum – but if it exceeds the return that would be earned on alternative uses. Placing this question mark over the validity of the usually assumed counterfactual greatly complicates the conclusions that can be drawn as it is not possible to compare the benefits that might be calculated from the intervention being evaluated with the myriad of competing alternatives. It is not clear how these alternatives are to be evaluated and what counterfactuals are appropriate.

In such circumstances, it can be concluded that society as a whole will act to aggregate preferences through the political system to identify the preferred option⁷⁴. In conclusion, this means that even if a CBA of a programme of investment in heritage could overcome the considerable difficulties of evaluation and data and then identified net benefits, given the current economic conditions in Ireland it is debateable how much weight would be attached to this result.

4.2 *Appraising Public Expenditure on Heritage*

To undertake a full cost benefit analysis (CBA) of an investment in heritage would require a specific policy proposal and data on likely uptake and impacts in addition to monetary estimates of the benefits of heritage. As no such programme is specified, an illustrative appraisal assumes that a public expenditure programme of unspecified structure is implemented to incentivise investment in heritage buildings. One way to undertake an appraisal that is designed to illustrate the welfare impact of public expenditure on heritage is to observe that the various interests when dealing with support for investment in heritage buildings can be sorted into 3 groups. These can be taken to comprise the economy so that if it can be shown that these groups each realise net gains then there is a net benefit to the economy from investment. The three groups are

- The exchequer which supplies funds and looks to ensure that its revenues increase sufficiently to offset this expenditure;
- Investors in the buildings. These are mostly private sector owners or investors seeking returns from buildings in historic town centres;
- The wider economy including people employed as a result of the investment, people in associated sectors who gain as a result of new activity being stimulated, and people who benefit from the conservation of heritage either because they value it intrinsically or because it might provide the basis for urban living that is superior to new development or the existing buildings.

The model assumes that a scheme is introduced and involves the expenditure of €1 million of public funds to provide incentives to private property owners to invest in

⁷⁴ This argument is based on what is known as the Public Choice Economics. This school of thought is supported by a considerable body of literature dating back to the late 19th Century. A concise modern introduction to the area is provided by Tullock, G. (2008) 'Public Choice' in *The New Palgrave Dictionary of Economics* (2nd ed.) edited by S. Durluf and L. Blume. Basingstoke: Palgrave Macmillan. In summary, the public choice approach treats the political system as a sort of marketplace where competing interests operate to influence economic and social policy in their own known interests. Instead of prices and the payment of money to obtain a good, participants in the system provide support for alternatives and the policy option with the widest support wins. This is assumed to be the best outcome. Obviously, this system can be beset with market failures since participants might not really know which option is in their best interests and the 'market' outcome can be manipulated by powerful participants. These failures are very similar to those that can arise in any market and so it is implied that some further mechanisms are available to address these problems.

heritage buildings. In line with the earlier discussion, the model assumes that 75% of projects would not have gone ahead without the assistance. The model also assumes that grants amount to 50% so that the total expenditure of public and private funds under the scheme is €2 million. Without the incentive, 25% of projects would have gone ahead in any case, amounting to €0.5 million, and so the additional expenditure amounts to €1.5 million⁷⁵. Thus, €0.25 million is just a transfer from the public to the private sector i.e. it is deadweight in terms of the objective of the scheme.

Using the estimates discussed earlier and with an additional €1.5 million spend on heritage, expenditure on labour will amount to €975,000, assuming that 65% of total investment is expenditure on labour, and will create 24.1 jobs in direct employment for a gross annual wage of €35,412 per job. The exchequer 'take' will be €5,347 per annum (15.1%) per job at this wage level⁷⁶. So the exchequer will recoup just under €129,000 from employment directly in the project. Multiplier effects mean that additional jobs are created in the economy and applying the multiplier of 1.83 as already discussed increases the total of employment created to 44.1 and the exchequer inflow to €235,900 of additional revenue from taxes associated with employment.

The exchequer also benefits since the new employment reduces entitlements to benefits. Research published by the ESRI suggests that, on average, a person leaving unemployment and getting a job will reduce welfare payments by about €250 per week or just over €13,000 per annum⁷⁷. With 44.1 jobs created in the economy as a result of the additional investment, as above, there is a saving to the exchequer of €575,400.

The exchequer also receives VAT on materials used in the restoration and VAT on labour where the work is contracted. It is assumed that 75% of the work is undertaken on contracts on which VAT on labour is chargeable at 13.5%. Under the 2/3 rule, since materials account for only 35% of the overall cost, a VAT rate of 13.5% is applied to all costs, including materials, covered by these contracts. Materials used in the other 25% of the works have a VAT rate of 23%. Finally, some investors will be able to reclaim some of the VAT paid or offset against revenues and so it will be assumed that 20% is returned in this manner. This gives net additional VAT payable of €145,650. Multiplier effects will increase this and while the structure of the VAT system and all the exemptions that exist mean that any

⁷⁵ This means that the leverage effect of the public expenditure is 1:0.5 even though the *ex post* evaluation of grants provided indicated a 50:50 split between public and private funds invested. The model is an appraisal of the impact of the €1 million of public funds on the economy and so the impact of unrelated private funds must be excluded.

⁷⁶ This comprises €2,132 PAYE, €1,798 USC, and €1,416 PRSI

⁷⁷ Callan, T., C. Keane, M. Savage, J. Walsh and K. Timony (2012) 'Work Incentives: New Evidence for Ireland' in T. Callan (ed.) *Budget Perspectives 2013*. Research Series Number 28, Economic and Social Research Institute, Dublin. This work presented data for different individuals with an average after tax income of €30,886. This is similar to average after-tax incomes in the construction sector as are being used in this calculation. The research found that the average 'Out-of-Work' income was €13,043 per annum.

estimate is somewhat speculative, using the same multiplier as above would provide a figure of €266,540 in total.

Together, income taxes and VAT represent the majority of the exchequer inflows as a result of this expenditure. Some other positive inflows would be likely as some new rates and property taxes would arise and some stamp duties from properties that might be sold following renovation but the additional revenue would be relatively minor. It is not appropriate to include further tax revenues from businesses that might be undertaken in these premises as these would be mostly just displaced from other locations given the inclusion of multiplier effects above. In total, therefore, the exchequer can expect that inflows plus savings would amount to just under €1.1 million, given these assumptions. Therefore the exchequer is a net gainer from the intervention.

The resources spent on the project come from two sources: exchequer funds as dealt with above and private owners whose decision to invest has, in many cases, been altered by the provision of an incentive. The impact on investors can be dealt with easily if it is assumed that the programme is developed and is implemented efficiently i.e. the supports that are provided are adequate to stimulate investment but are not excessive. In effect, the public expenditure means that the additional costs associated with investing in heritage buildings compared with new buildings are eliminated. Thus, these individuals may change their behaviour as a result of the programme of investment replacing an alternative use of funds with investment in heritage buildings as this is now competitive, possibly marginally superior in terms of returns. However, the net impact is marginal and so the impact is small compared with the alternative use of their funds. It has been assumed that 25% of the investment would have taken place in any case and therefore €250,000 of the funds spent by the public sector simply represent a transfer to property owners i.e. there is a direct gain equal to this amount. As a result, investors as a group gain overall.

The third group that is involved is composed of three categories: people who gain employment and therefore earn wages, tourism businesses and those who gain as a result of externalities associated with preserving heritage. In relation to the first group, creating a job is not a benefit to the economy, but a cost, as it implies a use of a resource in the economy. This cost is offset by the benefit that is represented by the additional income that is created. To see this, assume that the economy is at full employment and a new job paying the average wage in the economy is created. Either it remains unfilled or someone leaves the current job to fill it. There is no gain to the economy. However, a gain arises if there is unemployment as there is a probability that the person who fills the job would have been otherwise unemployed. Given the high levels of unemployment currently, and particularly in the construction sector, it is therefore appropriate to assume a quite high probability that if a new job is created in the construction sector it will be filled by someone who was otherwise unemployed. However, restoration does require skills that are both expensive to

create and not necessarily in the abundance that the level of unemployment would suggest.

In a full CBA it would be necessary to incorporate this by using a shadow wage, rather than the market wage to represent the addition of value to the economy from the creation of a job. However, the calculation in the model is based simply on flows experienced by each group that, in aggregate, comprise the economy and so the impact is the net wages earned less any welfare payments that might be lost by taking up a job. Additionality has already been built into the calculation above and so the estimates for jobs created need no further adjustment in this regard.

The project leads to 24.1 jobs directly with market wages of €853,500. After income taxes this provides net incomes of €724,600. This is a benefit to the economy. If the same assumptions hold for the whole of the economy then including the multiplier effects means the gain in incomes is €1.33 million. However, welfare payments are now reduced by €575,300 as estimated above and so the net increase in incomes is €750,700. This is a gain to the economy since it is assumed that the workers are paid according to the value of the work undertaken and so this additional value is created over and above the returns earned by investors and taxes paid to the exchequer.

A large part in the overall value of heritage that was estimated in the Ecorys *et. al.* work arose as a result of tourism revenues. However, the additional tourism revenue that would arise in any particular town as a result of investment in the built heritage of that town would be displaced from elsewhere or would be domestic tourism revenue that is simply displaced from other sectors. For this reason, the authors of that work do not include revenues from domestic tourists in their estimates. This is in keeping with the approach noted in other research discussed above. There are also problems with relating heritage tourism revenues to any particular investment. For this reason, there would be problems with including tourism revenue as a benefit arising from a particular investment in restoring town centres although there would be intangible benefits.

An important issue is the inclusion of benefits as a result of the intrinsic value of conserving the heritage. These are fully external and non-marketed. The fact is that while it is commonly stated that there are benefits from preserving heritage – and the consultants are not in any respect questioning this or arguing that these are not potentially considerable in terms of economic welfare – it is not possible to place a monetary value on these with any confidence in the absence of considerable survey data⁷⁸. As discussed earlier, it is common practice to exclude such benefits from

⁷⁸ Mason, R. (2005) *Economics and Historic Preservation: A Guide and Review of the Literature* and Eftec (2005) *Valuation of the Historic Environment*, Report to English Heritage, the Heritage Lottery Fund, the Department for Culture, Media and Sport and the Department of Transport provide reviews of contingent valuation methodologies and studies that could perhaps be used to derive values but no such research has been undertaken in Ireland.

evaluations since they cannot be quantified accurately but it is clear that there is a positive impact. Indeed, it may well be the case that these benefits are considerable. The estimated value of the total benefits identified are summarised in Table 4.1.

Table 4.1: Summary of Benefits Identified (€Million)

Exchequer	1.08
Investors	0.25
Incomes	0.75
Tourism	Positive locally but mostly displaced nationally
Non-market	Positive, possibly considerable but unknown
Total quantified	2.08

This calculation shows that, on the basis of the stated assumptions, the expenditure of €1 million of public funds, provides total benefits to the economy of just over €2 million before inclusion of any net benefits from tourism or the non-market benefits of heritage. The results produced by the model indicate that there are therefore reasons to conclude that using state funds to support investment in heritage buildings would provide net benefits in a socio economic CBA. However, no opportunity is included here to represent returns from an alternative use of the funds.

4.3 Sensitivity Analysis

The model was recalculated using some alternative assumptions to see how sensitive the results are to these assumptions. The first assumption refers to the 'deadweight' content of the expenditure. In the model, it was assumed that 25% of the public funds spent were deadweight i.e. in 25% of cases the investment would have gone ahead even if no funds were provided. The model was recalculated with the assumption that a particular programme of incentives is poorly designed so that 50% is deadweight. In this case, the overall return estimated by the model falls by 17.3% to €1.7 million and inflows to the exchequer fall to €718,500. As an alternative it was assumed that deadweight is zero, so that the full €2 million invested could be considered to be as a result of the expenditure of €1 million of public funds implying leverage of 1:1. When this is done, the model estimates that the total benefits of the programme increase by 17.3% to €2.44 million with the exchequer gain rising by 33.3% to €1.44 million⁷⁹. The only group to 'lose out' are the private investors who no longer receive a windfall and still earn the normal return on their investment. However, such efficiency is almost certainly not possible for a fiscal intervention.

The model involved a leverage ratio of private to public funds of 0.5:1 i.e. the expenditure of €1 million of public funds incentivised an additional €500,000

⁷⁹ Increasing deadweight to 50% has a similar impact overall as reducing leverage to 0 with matching funds invested by the private sector simply equalling the windfall gains.

investment of private funds. This was based on research into the impact of grants for investment in heritage buildings. With 25% deadweight, achieving leverage of 1:1 would require that the private sector invested €1.67 in response to the public funding. The model estimates that the returns to the public sector would once again be €1.44 million but the private investors would now still get the deadweight transfer so that the overall gain in welfare would increase to €2.67 million. Thus, from the point of view of the exchequer, a similar outcome is produced irrespective of whether the increase in leverage is achieved by reducing deadweight or by increasing the response of the private investors, but the overall gains to the economy for any given leverage are greater with the higher response.

Higher degrees of leverage are possible with well targeted tax breaks if confidence in the economy is good. If public incentives valued at €1 million resulted in €3 million of private investment then this would provide leverage of 2:1 – assuming 25% deadweight – and would increase the overall return from the programme by 88% including a doubling of the returns to the exchequer to €2.18 million.

Displacement arises where economic impacts are observed as a result of the use of public funds but these occur as an alternative to other economic activity. Displacement is a particularly important issue in terms of exchequer flows. If the original assumption of 25% deadweight and leverage of 0.5 is retained, then displacement of one-third would reduce exchequer inflows in the model by 30% to €756,000. However, the overall outcome remains positive with a return from €1 million of incentives of just over €1.5 million. If displacement exceeds 63% then this result is altered.

An issue that needs to be considered where the expenditure of public funds is involved is that it is costly to raise funds that are used by the public sector. These funds must ultimately be raised through taxation, even if borrowing defers the actual imposition of the tax for a time, and economic theory is unambiguous that taxes reduce economic welfare by distorting the economy⁸⁰. The result is that there is an economic cost to raising public funds so that the value of any funds spent by, or accruing to, the public sector will exceed their market value. This effect is also relevant if a tax break is provided to one sector – as distinct from an overall reduction in taxes – as the revenue foregone must be raised from somewhere. The effect can be quite important and means that funds used by the public sector should be valued by their ‘shadow price’ or ‘social cost’ rather than their market value.

Guidelines produced by the Department of Finance indicate that the social cost of public funds means that they should be valued at 1.5 times their market or monetary

⁸⁰ Honohan, P. (1998) *Key Issues of Cost-Benefit Methodology for Irish Industrial Policy* (ESRI General Research Series) related that ‘*the scale of the distortion is often thought to rise with the square of the tax rate*’ (page27). The implication is that when taxes are rising, as they have been over the past few years, then it becomes increasingly more expensive to raise these funds.

value⁸¹. As a result, if an appraisal showed that expenditure of public funds provided a stimulus that resulted in overall gains, but that the gains accrued wholly to the private sector, then the benefits would need to outweigh the costs by 1.5 to 1 to make public funding of the programme viable. Importantly, the high social costs of public funds means that deadweight is not just a transfer within the economy with a cost to the exchequer that is balanced by a windfall gain by a recipient. Instead there is a net loss as a result of deadweight equivalent to 50% of the funds involved. In the model, the only impact would be to reduce the overall gain to the economy by about 6% as a result. However, in a full CBA where the result was expressed as the ratio of benefits to costs then this would fall from about 2 to 1.35 since most of benefits accrue to the private sector⁸².

In summary, therefore, the available evidence indicates that there would be net economic benefits from a well designed programme of expenditure of public funds to encourage investment in heritage conservation in town centres. However, there are many uncertainties. The outcome rests to a considerable extent on ensuring that the programme and the policy instruments are effective and efficient and, crucially, on ensuring that the buildings that are included and the objectives are such that the conservation that is achieved provides assets of both intrinsic and economic value. If the non-market values of the resulting built environment were not enhanced then the programme could just be a costly subsidy to development that could reduce welfare. If the buildings provided were not of economic value then it would be a very wasteful programme that would also likely destroy welfare. A balance is required between these two, sometimes competing, objectives and achieving this balance is largely a matter for the planning system. Therefore, very clear procedures, objectives and guidelines would be required in advance of providing fiscal incentives.

4.4 Non-Use Values

Most, but not all, commercial transactions will relate to use values, for example, tourism, retail, renting, leisure activities. If the price that is paid – known as the revealed preference – does not accurately reflect the full use value of the good or service, then an externality exists and there are methodologies to identify the non-marketed values. Within the category of non-marketed values there is a qualitatively distinct set of values associated with heritage in addition to use values. According to Pagiola (1996) because cultural heritage sites provide value in a wide range of ways it is necessary to break the total value down into different ‘categories of value’

⁸¹ Department of Finance (2012) *Guide to economic appraisal: Carrying out a cost benefit analysis*. CEEU Standard Analytical Procedures (D.03)

⁸² If a programme of expenditure results in a net gain to the exchequer – and a small inflow was calculated in the illustrative appraisal above – then the desirability of implementing the programme is enhanced when public funds are valued at their shadow price.

including use and non-use values⁸³. These non-use values were noted without any commentary on their extent in the 2004 *Built to Last* study. In line with standard practice, this identified three such sources of value – existence value, option value and bequest value. These are explored in greater detail in Appendix 2 below.

There are considerable difficulties with placing monetary values on non-marketed characteristics of heritage, but some discussion of this area is required. Generally, the price that is paid for the use of a good or service is assumed to represent the value of that item to the purchaser. However, there may be additional values associated with the good also that are not included in the price. In such cases no market might exist to determine this additional value so that the good's value exceeds its price. Various methodologies have been devised to estimate these values and further details are contained in Appendix 2. For example, the 'contingent valuation' methodology uses surveys to identify values. In this case, people are asked how much they would be willing to pay either to create a heritage asset or to protect an existing asset i.e. to avoid the externality being eliminated. The stated willingness-to-pay (WTP) is taken to represent the value. Alternatively, values may be identified from other markets that are shown to be associated with heritage such as in the hedonic price technique.

In general, studies using these methodologies have shown that there is a value in preserving the built heritage that goes beyond its use value by the current generation, but this value cannot be easily quantified. There are costs with preserving these values and so it is important that these values are recognised when undertaking an assessment of policy options. However, accurate monetisation of this value is difficult and the willingness of society to bear this cost is perhaps the best indicator of the perceived value. Although various methodologies to value non-marketed goods are well established and can be useful, there are considerable data requirements and it is also the case that there is limited agreement in relation to which methodology should be used in different circumstances. As Riganti and Nijkamp (2004) conclude in their review of the various methodologies, when it comes to valuing heritage

'There is not a single best method, as the valuation of non-traded goods cannot be solved in a straightforward manner' (page 6)⁸⁴.

There can be considerable differences in the results obtained depending on the methodology that is employed. This remains a problem in all areas of heritage as any values that might be included in a quantitative appraisal will be speculative, sensitive to the assumptions and methodologies that are used to derive the values, and open to challenge. To date, limited research has been done in Ireland using methodologies to derive estimates for non-market values in any sectors with most examples concerned

⁸³ Pagiola, S. (1996) *'Economic Analysis of Investments in Cultural Heritage: Insights from Environmental Economics'*. World Bank Discussion Paper

⁸⁴ Riganti, P. And P. Nijkamp (2004) 'Valuing Cultural Heritage Benefits to Urban and Regional Development'. Paper presented to 44th European Congress of the European Regional Science Association; Regions and Fiscal Federalism.

with valuing the environment, and the consultants are not aware of any that would have direct relevance to identifying values for the heritage value of buildings in Irish town centres that could provide a basis for estimating the costs and benefits of providing incentives.

5. Assessment of Incentive Options

5.1 Methodology: Multi-Criteria Analysis

Cost benefit analysis includes only the costs and benefits on which monetary values can be placed but the discussion so far has shown the difficulties that are encountered in placing monetary values on the benefits of heritage. These difficulties are even more pronounced when attempting to evaluate a policy proposal before implementation or when needing to choose between different options. However, the analysis has indicated that there are welfare benefits from public support for heritage and has pointed to the factors that will affect this outcome. Therefore, the correct approach to identifying appropriate policy measures is not to attempt to precisely measure the costs and benefits that might arise in respect of any specific initiative being introduced but to assess the relative impact of various alternatives in terms of the factors that determine the outcome. This is the role of multi-criteria analysis. This approach provides a comparative assessment of options and also facilitates a ranking of the various possible measures. The criteria are open to determination but the most appropriate are those to which the impact of incentives are most sensitive.

Defining the Criteria

The earlier evaluation identified two factors as particularly important, namely the deadweight associated with a particular policy measure and the leverage that is achieved. Deadweight occurs where there is investment by the private sector that avails of a grant or a tax break but the investment would have taken place in any case and means that the policy initiative creates a windfall for the investor. The problem is that it is being assumed that the expenditure of public funds resulted in the economic impacts included in the evaluation but this may not be the case. The public funds are not lost, they accrue to property owners who are themselves part of the economy, but there is a lower gain from the programme and represents a transfer from the public to the private sector. A key objective in the design of an incentive programme is to minimise such transfers⁸⁵.

In the indicative evaluation above it was assumed that 25% of the public funds spent were deadweight based on the '*Quanta*' research into restoration grants that had been provided to heritage projects, mostly in the period 1997-2010. However, the fiscal initiatives under consideration in this study are mostly concerned not with grants, but with tax breaks. Tax breaks tend to be somewhat cruder instruments as it is more difficult to target them precisely or on a project-specific basis to ensure they are

⁸⁵ This is particularly important if the social cost of public funds is greater than their nominal or market value.

provided at a level that influences marginal cases rather than just providing an ineffective subsidy. As a result, deadweight can be more difficult to assess or control.

The sensitivity analysis also showed that leverage is an important issue. This importance is enhanced when dealing with tax incentives since the value of the incentive to any investor will be related to, and can rise with, the amount of expenditure involved and the leverage factor can be higher. Achieving higher leverage would increase the economic impact of intervention since there would be a greater amount of investment, a higher number of jobs created and the tax that would accrue would also be greater for a given amount of public funding. This highlights the importance of designing an incentive system that will achieve a response from the private sector in terms of additional private investment.

This means that the potential deadweight associated with any proposed expenditure or fiscal initiative and the likely response of the private sector provide the first two criteria under which options are assessed. In evaluating any proposal it is also important to consider outside factors. The key factor in this regard is considered to be the possibility of actually getting a proposal implemented. While this will inevitably depend on a wide range of factors, the potential impact on exchequer flows, given the current overall exchequer deficit, is an important consideration. This is the third criterion for the assessment.

The fourth criterion is distinctly different as it cannot be easily defined or measured in economic terms but it is clear from the earlier discussion of policy incentives related to construction in Ireland that there is a balance, indeed a tension, between providing an incentive and undermining the heritage characteristics of a built environment. Thus, it is conceivable that any incentive can have adverse effects. Not all such outcomes can be foreseen but the extent to which a particular incentive is targeted at preserving heritage, rather than providing a stimulus, provides some indication of this potential.

The final criterion for inclusion can be considered to be a weighting criterion that reflects the objective of protecting heritage buildings. In effect this is a general assessment of each option and is considered important as the ultimate objective is not economic stimulus and many of the benefits cannot be captured by economic analysis due to the data deficiencies already discussed. The discussion of each fiscal incentive in the next section is loosely structured around identifying the potential of each under these five criteria.

Displacement is not Included as a Distinct Criterion

Displacement arises where economic impacts are observed as a result of the use of public funds but these occur as an alternative to other economic activity. As a result, the additional activity is reduced, there can be a significant impact on exchequer flows

since one source of tax is simply replaced with another after funds are spent, and the net benefits decline. This would not be a major problem with landmark heritage buildings or buildings targeted for a specific purpose, such as tourist attractions, where there was a previously unmet requirement. However, in the case of towns, the buildings would mostly be for mainstream commercial and residential use and so an objective of an incentive programme is to displace the development from a town's periphery in favour of regeneration in the centre. Since there is a limited total demand for buildings, any calculation of benefits from economic activity would need to allow for the fact that investment in the town's centre may mean that investment that would otherwise have taken place on the periphery does not now take place⁸⁶. Therefore, when displacement occurs, any benefits from a programme of investment would only arise if there were differences between the economic impact of restoration compared with new development over and above those already built into the model, and benefits arising from the non-marketed positive externalities of heritage buildings.

However, this view of displacement is not appropriate in terms of assessing various initiatives. The fact is that a programme of fiscal incentives would work by favouring restoration over new development since there would be only a marginal impact on the overall demand for buildings as a result of a stimulus effect. Therefore, displacement is the aim of any programme. In other words, high displacement, while reducing exchequer inflows and the level of additional economic activity, should be considered to be a successful outcome as it indicates that the incentive is effective in altering outcomes. This points to the importance of non-market benefits in building a case for investing in heritage and that concentrating on additional activity overall risks missing the point of incentivising investment in the built heritage. As a result, it is not considered appropriate to include displacement as a distinct criterion but to assess exchequer flows and the likely response of the private sector to the incentive as separate criteria instead.

However, there is a further important aspect of displacement that must be considered. A potentially important cost would arise if tax breaks were to displace investment into heritage buildings and away from other sectors of the economy. This raises a risk that excess investment could occur in older buildings in town centres leading to a surplus of specific types of buildings. Something similar has happened over the past couple of decades with excess supply of some buildings, for example, hotels⁸⁷. The result would be underused restored buildings replacing underused decaying buildings in town centres and the incentive, even if it stimulated investment and provided a

⁸⁶ If demand for buildings is held constant and new and restored buildings are identical in terms of their use value, then in an economy not undergoing cyclical downturn the displacement could be 100%. In this case, there would be a transfer of public funds to the private sector but no gain in terms of new taxes or incomes and a net loss of welfare to the economy.

⁸⁷ It is arguable that the Irish 'property bubble', which was driven in part by tax breaks, diverted investment from more productive parts of the economy into construction. It is fear of this type of displacement that supports the apprehension among policy makers in relation to fiscal incentives for construction.

temporary boost to the economy, would amount to a waste of resources. This aspect of displacement is included in the analysis under the assessment of adverse effects.

5.2 Allowances Against Income Tax

The ability to offset expenditure against income taxes, along with accelerated depreciation, are among the most common incentives offered to incentivise investment in heritage properties in Europe. Irish tax legislation already allows for many types of expenditure on rental properties to be offset, including repairs, management expenses and interest payments, irrespective of the age of the property. This is already quite generous relative to other countries, but the lack of a distinction for heritage properties means there is no relative benefit in respect of the subject of this study. As discussed earlier, this failure to target incentives towards heritage has been a common practice in Ireland with most schemes aimed at blanket regeneration and economic stimulus.

Two options have been put forward for consideration in relation to providing relief from income tax for expenditure on heritage properties: an extension of Section 482 eligibility and an extension of the new 'Living Cities' initiative.

§482 Eligibility

As described in section 3.2 of this report above, §482 provides relief against income tax in respect of expenditure on eligible properties. There are conditions attached in terms of the need for the buildings or other properties in question to be considered of national importance and open to the public for a specific amount of time each year. There is not a lot of data in terms of the cost of the incentive, its effectiveness or its efficiency, but it continues to be available in respect of a limited number of properties. It is likely that it has made a positive contribution as it helps ensure that eligible properties are open to the public and kept in a good state of repair

Policy option 1: Extend Section 482 eligibility. The option examined is to extend Section 482 to a much greater range of properties in order to incentivise investment in town centres. However, while §482 may be worthwhile in its current format, it is difficult to see how it could be extended to regenerate town centres without comprehensive redefinition. The key point is that it is targeted at noted properties that the public would be willing to visit. As a result, the main contribution is almost certainly as a result of the boost this provides to the heritage tourism infrastructure. This explains the limited number overall. The fact is that most buildings in town centres simply would not qualify given the access conditions and requirements as they would not be of interest to the public and having them open would be costly from an

administrative point of view. The scheme is also relatively costly to administer as properties must be inspected and monitored to ensure compliance.

It is possible to envisage a revised §482 with the public access criterion relaxed or removed but this would undermine the whole purpose of this allowance which is to promote tourist attractions. Furthermore, if a new allowance was introduced, for example along the lines of the old §19 (Finance Act 1982) that provided similar relief with higher limits and fewer restrictions, it would likely undermine the effectiveness of §482 and risk meaning that the properties that are currently open to avail of this allowance would simply avail of the alternative, thereby weakening the tourism product. It is also unclear how much deadweight would be involved and in the absence of a tourism impact an exchequer flow analysis could provide a negative outcome. Furthermore, the allowance against income tax is of greater value to people paying tax at the marginal rate and many home owners in town centres would not qualify.

Overall therefore, if a case can be made to introduce a relief against income tax for expenditure on maintenance of heritage buildings, the design of the incentive should not start with §482. It is primarily an incentive to tourism, and while the preservation of heritage buildings in towns would have positive tourism impacts, this scheme would be excessively costly to administer. As a result, while it is unlikely that there would be much in the way of adverse effects, the overall impact of an incentive based on §482 would be very low unless the conditions were changed to an extent that the measure would no longer resemble §482 in any meaningful way and could undermine the economic case for the existing measure.

The Living Cities Initiative

It was initially proposed that the Living Cities Initiative would be piloted in Waterford and Limerick but the outcome of the CBA that was recently concluded meant that net benefits would require that the incentive needed to include a wider range of properties in more locations. This was reflected in the revisions announced in Budget 2014 and discussed above. It is assumed EU State Aid approval will be obtained and that the programme will proceed. The initiative is innovative in Ireland in that it provides for income tax relief for a general class of heritage buildings – initially Georgian houses, now extended to all building constructed before 1915, within defined areas– and is closely linked to expenditure on restoration. There are no public access requirements, but the restoration must be in line with planning objectives for the buildings.

While innovative, one of the most striking aspects of the initiative is that is a very cautious initiative in terms of its economic implications. It is restricted to a limited number of urban areas and to defined areas within these cities. The provisions are also limited to owner-occupiers in the case of houses and require investment of at

least 10% of the value of the building. In other words, it does not cover regular repairs and maintenance but requires considerable upgrading. The initial choice of Waterford and Limerick was also based not on an analysis that identified an outstanding Georgian heritage in those cities, but on the fact that these two cities scored the lowest in socioeconomic analysis when compared to the other cities with Georgian cores⁸⁸. This once again indicates that socioeconomic factors were given priority in the formulation of the initiative rather than the general restoration of heritage buildings. However, perhaps the most conservative aspect of the initiative is that it requires a fairly low input from the exchequer and, while it remains to be seen, it may not be competitive with the tax allowance that is provided under the HRI in terms of making investment in heritage buildings competitive in all but a few limited areas.

The relief will be in the form of a tax allowance. Thus, the value of the incentive provided cannot exceed 41% of the expenditure incurred. It is important that this allowance can only be realised over 10 years. To see the impact of this, assume that an investment of €100,000 takes place in year 1 and that the allowance can be reclaimed starting immediately⁸⁹. While the nominal cost to the exchequer is €41,000 (€4,100 per year for 10 years), the real cost to the exchequer is lower as future payments can be discounted. Using the recommended real discount rate for public sector projects, the present value of this relief is just under €32,100⁹⁰. However, all the expenditure takes place at the start of the process and so the exchequer receives all the additional tax revenues from additional activity at the start with no discounting required. As a result, even if the nominal value of exchequer costs from the scheme are similar to nominal inflows, there is a real gain overall. Furthermore, the fact that it is limited to inner cities and the choice of Limerick, in particular, to pilot the scheme means that the deadweight costs of the project will be relatively low. The socioeconomic analysis identified high unemployment as a key consideration in the choice of location and so related employment will be mostly additional.

If a similar analysis is undertaken to identify the present value of the relief to the private decision maker, then it is appropriate to use a high real interest rate, probably in the region of 8 to 10 per cent. If this is done then the present value to the person incurring the expenditure is just over €29,700 using the 8% discount rate, and €27,700 using the 10% discount rate. In other words, the real value of the effective subsidy is a little less than 30% of the total cost of the investment. This is not insignificant, but

⁸⁸ See the analysis and commentary under the heading 'What Areas will be Designated and Why?' in *Living City Initiative: A new Pilot Project for Urban Regeneration*. Information Note, Department of Finance, February 2013. In fact, there is not a large volume of Georgian buildings in Waterford with late 19th Century buildings comprising a much larger part of the building stock.

⁸⁹ In practice this will only kick in year 2 when the tax year is over and a full reconciliation is done.

⁹⁰ The National Development Finance Agency recommends that when discounting project cash flows from short term projects (less than 10 years), a discount rate of 5.9% should be used. (July 2013) See <http://per.gov.ie/project-discount-inflation-rates/>. For projects with a payback over 10 to 20 years the recommended rate is 6.62%. If this is used then the cost of the allowance is €31,250.

it falls short of the 50% grants that were typically provided in the schemes reviewed in the *Quanta* research discussed earlier. It therefore remains to be seen how effective the incentives will be in obtaining a response but it certainly appears highly likely that the initiative will provide net inflows to the exchequer.

This discussion indicates that the structure of the Living Cities Initiative placed a high priority on criteria such as minimising deadweight, achieving leverage, achieving a net inflow to the exchequer and stimulating addition activity⁹¹. In contrast, while certainly targeted at restoring heritage buildings, the Living Cities Initiative, even in the extended form as recently announced, falls well short of comprising a comprehensive incentive package for heritage. As a result, it is considered appropriate to assess a reformulation of the Initiative rather than a straightforward extension. As this reformulation is designed to incentivise investment in heritage buildings in town centres it will be described as a Living Towns Initiative to avoid confusion with the initiative that has been announced.

Policy option 2: Reformulate the Living Cities Initiative as a Living Towns Initiative.

While retaining the basic features of the Living Cities Initiative, most notably the provision of allowances against income tax over 10 years and 7 years for commercial properties for expenditure on restoration in line with Local Authority planning requirements, the reformulation expands the target base to all heritage buildings in all town centres that have been included in an ACA. This shifts somewhat the responsibility to determine the property base that will be included from the Minister of Finance to Local Authorities and means that clusters of buildings in these areas will qualify. The restriction on owner occupiers is relaxed but the allowances would only accrue to investors for as long as the building remained in the ownership of the person undertaking the investment. If the building is sold or transferred once the restoration has been started, the allowances cannot transfer to a new owner, but allowances that have already accrued to the initial owner at the time of the investment should not be subject to a clawback. This will help reduce the value of the allowances being capitalised into property values. The 10% of value requirement is also considered to be too high and could have adverse effects as it could lead to expenditure on works that undermine the heritage value. In order to promote more regular maintenance this should be reduced to 2% of value i.e. the usual annual depreciation rate on fixed assets. However, the allowance should only be available on expenditure in excess of 2% of expenditure in order to reduce the deadweight element that would arise from owners undertaking regular maintenance that would be done in any case⁹². The allowable expenditure should also be capped at 50% of the building's value.

⁹¹ It is worth noting that the HRI does not appear to have taken into account any of these factors other than stimulating activity, although a net inflow to the exchequer is possible. The HRI is also not subject to a CBA and so its viability in terms of generating net economic benefits is unclear.

⁹² It could be argued that the lower limit of 2% is counterproductive as promoting regular maintenance is optimal. However, while acknowledging this view, the consultants consider that the deadweight losses of not setting a minimum level of investment would be considerable and that there is

Eligible expenditure under the Living Towns Initiative should include investments and costs associated with

- The maintenance and repair of the external envelope and internal functioning requirements of buildings;
- Façade repair and maintenance to maintain the character of a townscape;
- Restoration of character i.e. conservation of architectural qualities;
- Enhancement of character of an area by improving certain deficient buildings in accordance with some agreed design;
- Overcoming the regulatory hurdles for building use, re-use or intensification of use;
- Investment to make the re-use of redundant building types – including warehouses, disused churches, banks, cinemas, or other forms of large-scale building – financially attractive;
- Sensitive insulation retrofitting and other energy-saving measures to prepare old buildings for a new lease of life;
- Making specific functions that are deemed to be desirable– including cultural, commercial, residential uses – possible in old buildings in areas where there is perceived deficiency in these functions.

This reformulation would preserve many of the desirable elements of the Living Cities Initiative– such as low deadweight, high leverage, additionality, and the likelihood of a positive return to the exchequer – while also allowing for a much greater response and reducing the potential for adverse effects. It would also encourage investors into the sector while avoiding the provision of an incentive for speculation. The main downside is that, as with all income tax allowances, the incentive is socially regressive i.e. it is worth more to high earners. However, reducing the threshold to 2% of value would help incentivise expenditure on maintenance and repairs even for earners paying the standard rate of income tax.

5.3 *VAT and Expenditure on Heritage*

Although relief against income taxes is the most common type of fiscal incentive that is used internationally to incentivise investment in heritage buildings, there are some instances as discussed earlier where VAT reductions, or expenditure tax rebates, have been applied. The evidence would appear to suggest some success with these policies.

consequently a justifiable argument for this restriction while maintaining that the 10% of value limit, that is currently included in the Living Cities Initiative, is too high.

A Special VAT Rate for Heritage

The standard rate of VAT in Ireland is 23% which is towards the higher end of the range in Europe. A reduced rate of 13.5% is applicable in some sectors and services, with some other goods exempt. In addition, a special reduced rate of 9% has been introduced in recent years for a small number of sectors that have been deemed to be important for economic recovery. The introduction of different rates would likely require EU approval although it is possible to introduce a rate as low as 5% for services that are considered to be labour intensive⁹³. However, the only realistic option to consider is that investment in heritage buildings could be included in the category of activities where the 9% rate applies. Even then it would probably be restricted to dwellings or businesses with a local customer base only.

Policy option 3: Include expenditure on heritage restoration in sectors eligible for 9% VAT rate. This could reduce the costs of maintenance and repairs to heritage buildings. However, the effect would be rather limited in Ireland. Unlike other countries where special rates are applied – resulting in a big saving relative to the standard rate – almost all construction related expenditure, except in large projects where materials constitute a very high proportion of the overall expenditure, qualify for the lower rate of 13.5% in Ireland⁹⁴. In very small projects or in respect of annual maintenance, perhaps where the work is being undertaken by an owner-occupier or by direct labour, the rate on materials would be 23%. Reducing this to 9% would be a meaningful saving, but such a policy would be very difficult to monitor as materials could be transferred to other projects. Furthermore, the amount of investment will be determined by the demand for property and this is relatively price inelastic i.e. a reduction in the cost does not lead to a great increase in activity. In addition, it would only affect a portion of the expenditure i.e. that which relates to materials. On larger projects undertaken on contracts where the reduction could cover a larger proportion of the expenditure, a significant portion of VAT paid can be reclaimed in any case.

⁹³ The situation is that since 1992 EU Member States cannot introduce any new zero rates of VAT but can continue to implement rates that were in force at that time (Directive 92/77/EEC, later incorporated into Council Directive 2006/112/EEC). Member States can charge a rate between 5% and 15% on a specified list of goods and services including 'provision, construction, renovation and alteration of housing, as part of social policy' (Item 10 to Annex III of Council Directive 2006/112/EEC). This means that a reduced rate may be charged for social housing, but not on the basis that a building is historic or heritage. After 1999, Member States could apply a reduced rate to labour-intensive services on a temporary basis in order to reduce unemployment. (Directive 1999/85/EC consolidated in Articles 106-8 & Annex IV of Directive 2006/112/EC). The list of qualifying services included the renovation and repair of private dwellings, excluding materials. This would cover heritage buildings provided they were dwellings. Directive 2009/47/EC subsequently allowed the permanent introduction of reduced rates of VAT for certain labour-intensive local services for which there is no risk of unfair competition between service providers in different member states.

⁹⁴ Compared with a situation where construction in general attracted the standard rate and a special 9% rate could be introduced for investment in heritage properties, the existing system provides an incentive for investment in new development. To make progress by using the VAT system to incentivise investment in heritage would require that the rules be changed and the 13.5% rate be restricted to certain specified types of construction only. However, there is really no prospect of this happening. The case for a lower rate of VAT is also undermined by the HRI which is effectively a return of VAT paid at 13.5% i.e. a zero rating without contravening EU rules, provided the supplier is tax compliant.

As a result, the consultants do not see that the introduction of a special rate of VAT for expenditure on heritage buildings would have a meaningfully beneficial impact and would give rise to difficulties in terms of monitoring. This would increase the costs of the measure. There could be considerable deadweight costs associated with this measure from the point of view of incentivising investment in heritage buildings. It would also be necessary in advance of introducing any such measure to specify and irrevocably commit to an agreed definition of the built heritage, as failure to do so could result in pressure from interested parties to include buildings within the eligible set, even if the actual heritage value of those buildings is low. This is a real risk, as the experience in Ireland shows that incentives tend not to be restricted to buildings of genuine heritage value and thereby the effectiveness of any measure in improving the competitiveness of heritage buildings to attract investment is undermined.

The Used Building Anomaly

A quite different issue arises as a result of the way in which VAT is levied on buildings in Ireland as distinct from the rates that are levied. VAT is levied at 13.5% when a new building is sold and again if it is sold again within a specified timeframe, usually 5 years. If an old building (one older than 5 years) is sold then no VAT is payable. However, if substantial restoration takes place then the building can be deemed to be once again equivalent to a new building and VAT will be levied on the full sale price. The anomaly that arises provides a powerful disincentive to invest in older buildings since a purchaser of an old building that undertakes restoration and then sells the building for a profit may actually incur a loss due to the need to pay over the VAT element of the sale price without having the ability to offset any part of the liability against VAT on the purchase as none would have been levied at that time. It is not difficult to construct a numerical example to illustrate this and the conclusion is that this provides a disincentive for investors to purchase old buildings and undertake restoration with a view to resale⁹⁵.

The practice of levying VAT on sales of new durable goods but not on a resale is not unusual with cars being the most obvious example other than buildings. The rationale is provided by the idea that since VAT has already been paid on the good when new, the price that is paid by a second or subsequent purchaser includes a VAT element i.e. VAT is being paid by the new purchaser but in the form of a refund to the original buyer who has only partly consumed the good. Based on this logic, it has been claimed that the anomaly could be addressed by allowing the investor who sells the restored property to offset the VAT liability on the resale against the 'embedded' VAT element in the price paid to the original owner. In this way, the VAT liability

⁹⁵ Appendix 1 of the Construction Industry Federation's *Budget Submission 2014*, available at cif.ie/assets/files/CIF%20Budget%202014%20Submission.pdf, contains a numerical example of a property that is assumed to have been bought for €500,000 by an investor who then incurs costs of €160,000 and sells the property for €750,000. However, the margin is almost completely wiped out by the need to pay VAT of over €89,200 on the sale thereby making the project non-viable.

would be incurred only on the actual value added – as is the case in all other activities other than purchases for consumption – rather than on the total price received when the investors sells the property following restoration. This would remove the disincentive to invest in the restoration of older buildings.

Policy option 4: Allow VAT on sales of restored heritage buildings to be offset against 'embedded' VAT in purchase price. The consultants can see the logic of the argument that is put forward in support of this option and agree that it would remove the disincentive and would likely stimulate investment in older buildings. However, this is not a policy option that can be recommended for three main reasons. The first problem with this suggestion is rather obvious. It requires that it is assumed that VAT is paid when the used building is purchased. But this is not the case and the exchequer receives no revenue. Instead, the price is retained by the vendor in full. As a result, there would be a considerable loss of revenue foregone by the exchequer if an investor could offset the assumed VAT against the actual VAT received after restoration. Furthermore, the revenue foregone would accumulate if a building was sold numerous times during its life and each time an inferred VAT payment could be offset against a liability.

The second problem is that the rules regarding liability for VAT on used buildings are somewhat more complex than has been portrayed so far. The VAT legislation allows that an old building will not incur any VAT liability if minor development is undertaken. Section 94(2)(d) defines what is meant by 'minor' development as development that does not adapt the building for a materially altered use and does not cost more than 25% of the price for which the building has been sold in the 5 years prior to the development. This means that the anomaly above does not arise if the use of the building is not changed and the investment in restoration is less than 25% of the purchase price of the building. This is important as effectively removing this requirement would provide an incentive to undertake large scale works to older buildings. In other words, the existing VAT rules, while arguably providing a disincentive to investment, provide a disincentive to large scale redevelopment and do not restrict repairs and restoration up to 25% of the value of the buildings. Therefore, this restriction protects heritage buildings and promotes conservation over redevelopment and so considerable care would be required in advocating any change. Certainly a comprehensive removal of the relevant measures cannot be advocated in terms of promoting the conservation of heritage even though the argument that it restricts investment in older building has validity⁹⁶.

⁹⁶ The British Government has acted in recent years to address a somewhat similar anomaly in relation to the application of VAT to listed buildings in the UK. VAT on repairs and maintenance was standard rated but an approved alteration of a protected building was zero rated. This allowance was removed in Budget 2012 on the basis that it created an incentive to undertake large scale expenditure and change listed buildings rather than repair them regularly. The change was also based on making the system simpler to understand and administer and avoid the possibility that expenditure under one category of work might be allocated incorrectly to a category liable to a lower rate of VAT. Despite a campaign to restore the original allowance, this change has been made with some exceptions for places of worship.

The third problem is that there would be very high deadweight associated with this option from the point of view of additional investment in heritage. This arises from the fact that there would be a very large cohort of buildings in the range of 5 to 70 years old where the heritage value would be very low but which would be eligible to benefit from this measure. Furthermore, most of these buildings are outside town centres and many would be in surrounding rural areas since this is the period in which the growth of car ownership altered the determinants of settlement patterns. Certainly additional investment might arise, but it would not be additional investment in heritage buildings. Thus, it would have to be considered deadweight. Furthermore, there is a danger that this measure could displace possible investment in older buildings towards newer buildings once they are older than 5 years. This is not desirable.

There is a balance to be achieved in relation to VAT but the option of removing the 'anomaly' completely cannot be recommended. However, the consultants consider that there is some opportunity for two initiatives here. The first is the criterion that requires that restoration works do not change or adapt the use of a building. This is mandatory irrespective of the level of investment. A more flexible approach is required since, as discussed earlier, it may be the case that heritage buildings are no longer suited for their original uses and adaptation to new similar uses may be required to prevent dis-use and preserve their heritage value. Therefore, it is recommended that this requirement should be discretionary in respect of a building located in an Architectural Conservation Area (ACA) or other area that has been designated by a Local Authority as being of special heritage interest.

Policy option 5: Make the 'no change of use' requirement discretionary. This discretion should reside with the Local Authority and should be based on restoration works leading to a change of usage being undertaken in line with a predefined and agreed conservation plan for the building and the local development plan for the area.

This change could have some implications for the exchequer since it is possible that a restoration involving a change of use could have proceeded and incurred VAT from which it would now be exempt. This is a deadweight cost. It is also the case that a restored building that now proceeds may not be liable for VAT as it displaces a new building on which VAT would have been payable. However, it is considered that the deadweight element would be limited and the displacement effect is welcome as this is the objective.

A second area for consideration is in relation to the need for the cost of restoration to be less than 25% of the cost of the building. The adoption of 25% as a cut-off point appears arbitrary as the consultants are not aware of evidence that there is a material difference between the impact on a building's heritage value having undergone restoration with costs amounting to 30% of its value compared with restoration

costing 20% of the value. However, it is certainly conceivable that this limit could restrict restoration of heritage buildings that may have been subject to decay for a prolonged period. Consequently, this restriction needs to be relaxed. It is therefore recommended that the limit should be raised to 65% of the cost of the building, provided the building is located in an ACA and the restoration is undertaken in line with a pre-agreed conservation plan under the auspices of the local authority.

Policy option 6: Allow restoration works on heritage buildings up to 65% of the building's value before it is considered to be a new building. Once again there would be some limited deadweight consideration and some desirable displacement. However, any 'loss' of exchequer revenue would only arise in respect of that part of the investment above the existing 25% limit and would only arise if higher levels of investment were undertaken. Therefore, there would be new sources of revenue created and, as seen earlier, investment in heritage can be reasonably expected to lead to net inflows to the exchequer and net benefits overall.

The overall economic stimulus as a result of these alterations to the existing rules would not be as great as in the case of removing the 'anomaly' altogether, but the threat that would be posed to heritage buildings by large scale redevelopment would not be allowed to arise. The important point is that there would be an incentive to invest in heritage buildings in areas designated as ACAs and also that the incentive would be both aligned with, and controlled by, the heritage protection objectives of the local authority. However, the benefit relative to the existing situation would arise only in respect of buildings that were sold i.e. to investors, and not to owner occupiers.

5.4 Stamp Duty

Stamp Duty is a transaction tax on the sale of a building and can be considered to be an expenditure tax, although it could also be classified as a once-off ownership tax. Stamp duty rates in Ireland were high during the boom period as it was considered that imposing this tax would provide some reduction in demand as it was payable by the purchaser and was thus equivalent to a higher price. It was expected that it would also reduce speculative churn in the market. However, in line with the discussion on elasticities below, other factors such as the availability of finance – a proxy for income – and confidence in the market were far more powerful in this period than any reduction in demand arising from the increase in price. From 2010, the system was greatly simplified with reduced rates of stamp duty in order to support the market, but the experience since then once again confirms that incomes and confidence are far more important determinants of demand for buildings. The current rates of stamp duty on residential properties are 1% for properties with values at up to €1 million and

2% for others, and a flat 2% rate for non-residential properties. Some exemptions apply, mostly for transfers to family members.

Policy option 7: Remove stamp duty on sales of heritage buildings. Some examples of eliminating stamp duty exist but are mostly limited to transfers to or between non-profit organisation involved in heritage conservation. For example, charitable bodies and English Heritage are exempt in the UK. Some similar examples are to be found in the US and in Australia, and the exemption from stamp duty for first time buyers and/or buyers of new homes, which existed for many years in Ireland, was based on providing an incentive for people to enter the property market.

While the overall impact of stamp duty on the property market has been proven to be limited, different rates for different properties could have a greater impact on demand within the overall market due to higher cross elasticities of demand. It is proposed that stamp duty should be eliminated on all heritage properties within a defined heritage area, probably along the lines of an ACA. This would make properties in this area relatively more attractive to investors as stamp duty would be eliminated for two transactions i.e. when the investor buys a property and when it is sold following restoration⁹⁷.

There would be an exchequer cost equal to the stamp duty that would have been paid. Deadweight would be quite high as some of these properties would have been sold in any case, but displacement effects would be low. The leverage effects would be high as the incentive would be for an investor, or possibly a prospective owner-occupier, to purchase a property and then undertake restoration expenditure that would be a large multiple of the stamp duty. On its own, this measure would likely have a limited impact, but used in conjunction with the income tax allowances and VAT measures discussed it would help free up properties for investors.

5.4 *Property Taxes*

According to EPHC (2004), providing property tax reliefs to owners can be effective in offsetting the costs associated with maintaining heritage buildings, but unless they are directly related to investment they don't provide a direct incentive to invest and don't compensate owners for opportunity costs associated with not realising the full

⁹⁷ It is acknowledged that the benefit could accrue to the vendor rather than the purchaser as this could result in higher prices. Economic theory concludes that it is likely to be divided between the two but may accrue unevenly. There is no way to avoid this possible outcome but it does mean that this value remains in the private sector rather than being transferred to the public sector as a tax payment. This enhances the relative attractiveness of heritage properties as this value remains with the property and can be recouped by a purchaser/investor if the building is sold on following restoration.

potential economic value of heritage properties if they were to be redeveloped⁹⁸. Thus, they partly compensate owners without providing a good incentive. However, experience in the US suggests that when properly structured, the reliefs can stimulate considerable investment. For example, research in Maryland into heritage related property tax relief that required investment in maintenance and was mostly taken up by residential owners found that each \$1 input of public funds resulted in \$4 of construction expenditure. The present value of revenues recouped as a result of this additional activity more than offset of the cost of the tax credits⁹⁹. The city of Victoria in British Columbia also introduced property tax incentives in the 1990s. The program allowed property tax exemptions of up to 10 years if vacant or underused upper floors in heritage buildings were converted to residential use. The scheme was considered to be a success and similar schemes were replicated in other cities¹⁰⁰.

Commercial Rates

Commercial rates can be a big cost for small businesses and there have been claims that rates liabilities have caused businesses to close¹⁰¹. As rates are collected and administered by Local Authorities, amounts and other conditions vary across the country. The liability falls on the occupier, rather than the owner, of a property. If the property is vacant then the owner is liable and must pay the rates when due, but can then obtain a rebate of the payment. If a tenant takes out a lease on a property on which rates are in arrears then the new occupier becomes liable.

Policy option 8: Provide a rates rebate on heritage properties. There would appear to be little doubt that a measure to reduce rates in heritage properties, or perhaps a reduction in a property which had previously been vacant for a period, would make that property relatively attractive to a new or prospective tenant.

However, there are a number of problems with advocating such a measure. First, rates are an important source of income for Local Authorities and they have most of the responsibility for identifying what buildings constitute heritage properties. Indeed, in the context of the buildings under consideration in this report, the Local Authority has full responsibility. Therefore, there would be an immediate conflict between the objective of raising money for the Local Authority and ensuring that

⁹⁸ EPHC (2004) *Making Heritage Happen: Incentives and Policy Tools for Conserving our Historic Heritage*. Report by the National Incentives Taskforce for the Environmental Protection and Heritage Council, Australia

⁹⁹ *State of Maryland Heritage Structure Rehabilitation Tax Credits: Economic and Fiscal Impacts*. Report prepared for Preservation Maryland, Baltimore by Lipman Frizzell & Mitchell (2002)

¹⁰⁰ Barber, S. (2003) 'Municipal Tax Incentives in Victoria, British Columbia – A Case Study' in *Plan Canada*, Vol. 43 (2)

¹⁰¹ See, for example, comments by Justice Olann Kelleher in the Cork District Court on November 28th 2012 as reported in *The Irish Examiner* the following day under the heading 'What are we going to do about rates? Businesses are closing'.

heritage buildings are identified and protected. In other words, there would be a disincentive for the Local Authority to protect heritage buildings.

Second, there is only a tenuous link between rates liability and investment in buildings. Most investment takes place by owners but the rates liability falls on tenants. It can be argued that since the rates are a fraction of the value of a building, there is a disincentive for an owner to invest as the value may rise and thus the rates liability which could inhibit the ability to rent out the building. However, the linkages in this chain of argument are not strong as rates are not always assessed in a manner that would be sufficiently precise to identify the impact on value of regular maintenance and the impact of maintenance on the ability to let a property is likely to be a much greater factor. However, where an area is in relative decline such investment is likely to be low.

Third, reducing rates in a defined area risks pushing that area downmarket as it would become more attractive to lower value-added activity. This process would be a disincentive to invest. Furthermore, it would further weaken whatever limited incentive exists for an owner to rent a vacant property as the owner would only be liable for a lower rates payment if the property was unoccupied.

In summary, the consultants do not support the idea of reducing rates to support heritage buildings given the way in which rates are currently applied. If the liability fell on the owner rather than the occupier – as is the case with the new local property tax – and the rebate for vacant property was eliminated then there would be a somewhat stronger case. If this were the case then there would be an incentive for the owner to ensure that the property was in a good condition in order to attract tenants. However, it is unlikely that such a change will be introduced. Even if this did change, the disincentive for the Local Authority not to identify heritage buildings for a reduced rate would still be in place. It would also be necessary to identify a way to tie in rates liability to maintenance and repairs or restoration.

Local Property Tax (LPT)

Rates only apply to non-residential buildings – with a formula used to assess liability for mixed use buildings – and the LPT applies to residential buildings. Thus, a reduction in the LPT liability on heritage buildings would make them relatively attractive as homes¹⁰².

Policy option 9: Refund LPT on heritage buildings. While the LPT might initially appear as a residential equivalent of rates, there are two important differences. Unlike rates, LPT is administered by the Revenue Commissioners and the liability falls on

¹⁰² Heritage buildings approved under §482 of the Taxes Consolidation Act 1997 were exempt from the Non-Principal Private Residence (NPPR) liability but this has not been extended to the LPT.

the owner rather than the occupier. As a result, many of the problems with reducing rates do not arise. However, the problem of there still being a weak relationship between a property tax reduction and promoting investment remains. Indeed, in the case of an LPT rebate this issue is of enhanced importance since LPT liability arises even if a property is vacant, provided it is fit to live in. Since most heritage houses in towns are kept in a reasonable state of repair, this means that a general reduction in LPT would have a very high deadweight – many houses that benefit would already be in a reasonable condition and there would be very little incentive provided to invest. Indeed, given that Local Authorities already have competencies in relation to the level of dereliction that is required to avoid liability for LPT, a reduction could have adverse effects as it would reduce the liability on owners of vacant houses in need of repair, but still deemed to be habitable, as it would reduce the liability. For these reasons, reducing LPT for heritage properties in general is not favoured.

Any measure in relation to LPT would need to address this deadweight issue. In Canada, an owner who undertakes an investment in a heritage building may reduce property tax up to 40% of the total liability. The problem with attempting to replicate this in Ireland is that Irish property taxes mean that the impact would likely be low since residential property taxes are low, even with the introduction of the LPT. For example, at 1.8% in Ireland, the property tax liability on a €150,000 house in a heritage area in town centre would be €2,700 per annum. A 40% reduction would equate to an incentive to invest up to just over €1,000. Deadweight would still be present as some investment in heritage properties would have happened in any case and investment at these levels would often be undertaken on a DIY basis or in the informal economy. This could be addressed by a requirement for official receipts in order to qualify for the exemption but, even with leverage and reduced deadweight, providing an exemption from a property tax in the Irish context would not greatly increase economic activity. However, it could have a positive impact on maintenance expenditure in heritage properties, provided there was a clear linkage, although the exchequer impact of this could be a net outflow. Such investment is also unlikely to contribute much to upgrading an area and it would only really be relevant where the property is already in use.

Property taxes can have adverse effects if investment or heritage designation of a building increases the liability. Heritage designation can affect a building's value and investment in a building, particularly if it is in an area that is undergoing regeneration, will increase its value. This raises the possibility that investment could attract a higher property tax liability and that an exemption from property tax on the increase in value that can be attributed to an investment or to designation as a heritage building, should be considered. However, although the system of residential property tax that has been introduced in Ireland uses the value of the property as the tax base, the estimation of LPT as evidenced to date is that buildings are assessed using an area-based formula. As a result, investment in an individual building does not affect its valuation for LPT. Furthermore, there is no definitive research in Ireland that

concludes that heritage status has a positive impact on value that could be used as a basis to implement this policy option. As a result, these potential adverse implications of the introduction of LPT do not currently arise.

Capital Gains Tax

Capital Gains Tax (CGT) is levied on all property assets at the time of disposal but there are some important exemptions to the liability. After allowances, CGT is levied at a rate of 30% on the capital gain. The most important exemption in relation to buildings is that capital gains on a principal private residence are exempt. Therefore, any incentive to reduce or eliminate a CGT liability in respect of heritage buildings would be of interest to investors and owners of commercial properties only.

Policy option 10: Exempt heritage buildings from CGT. CGT can be a considerable disincentive to investment in restoration for investors who intend to sell the property after the renovation rather than rent it out. Even if it is rented, an investor will be aware of a potential CGT liability and this will be built into the rent that is required to make an investment viable. Exempting heritage properties in defined areas from CGT would clearly be a significant advantage to investors wishing to renovate and sell but it would also make heritage properties more competitive in the rental market as the saving from avoiding a future liability could be passed on to tenants. As a result the response to this incentive should be quite high for properties that are available for investors but since the incentive would be restricted to this sector only its overall impact on residential properties would be limited. Deadweight would be quite low as there is a serious lack of involvement by investors and so any new investment as a result of this incentive could be considered to be additional. Some adverse effects could be experienced if the incentive meant that there was increased competition for buildings in heritage areas that pushed up prices and also since there would be an incentive to undertake substantial renovation. It could also increase pressure for change of use from residential to commercial use but this would also have beneficial effects provided such changes were undertaken in a manner that was sensitive to the character of the buildings.

5.6 *Ranking of Fiscal Options*

Disaggregation of the appraisal into the five criteria discussed allows for each option to be scored in an analytic hierarchy process (AHP). This process involves assigning a score of 1 to 5 to each of the nine policy initiative discussed above in terms of its performance under each criterion. This process is detailed in Appendix 3 which also shows the scores awarded to each option. The final AHP scores are shown in Table 5.1 and the options are ranked in order of performance.

Table 5.1: AHP Scores for Multi-Criteria Analysis

Option	AHP
Develop the 'Living Towns' Initiative	4.4
Increase the limit for VAT exemption to 65% of value	3.8
Make the 'no change of use' criterion discretionary	3.4
Remove stamp duty on heritage buildings	2.6
Extend §482 relief	2.2
Introduce a reduced VAT rate for heritage	2.0
Allow a VAT offset for restored older buildings	1.8
Provide a rates rebate for heritage buildings	1.6
Provide a local property tax (LPT) rebate	1.2
Exempt heritage buildings from CGT	3.2

The table shows that four options – the Living Towns initiative, the changes to VAT rules, and exempting heritage buildings from CGT – are the most desirable and worthy of consideration from the point of view of incentivising investment in the built heritage in Irish towns. The first of these would be of most benefit to existing owners and long term investors, while the VAT initiatives and CGT relief are targeted at attracting investors. Removing stamp duty could also have a positive, albeit limited, role to play if introduced in association with these measures.

In itself, this does not provide a definitive case for any of these measures as this is a comparative analysis. However, given the earlier findings that investment in heritage can provide positive welfare benefits, this indicates the fiscal initiatives that should be included in a policy programme.

5.7 Preliminary Costings for Measures

The absence of a comprehensive inventory of the buildings to which the incentive would apply, along with lack of data regarding the likely impact of an incentive such as the Living Towns and VAT options, means that it would be necessary to pilot the initiatives before full introduction. However, it is possible to provide some preliminary costings in terms of the exchequer impact of these options by adopting some assumptions regarding the possible uptake.

The tax base for the Living Towns Initiative would be the 50,000 buildings identified in Section 1 of this report. Assume that the initiative is introduced as described above and that, in the absence of data, the tax allowances are availed of in respect of 10% of these buildings over 10 years, i.e. 500 buildings per year. It is also assumed that the average investment is 20% of the value of the property. The latest data on house prices from the Department of the Environment, Community and Local Government show that the average price paid for second-hand houses in areas outside the five main

cities in the second quarter of 2013 was €175,000¹⁰³. This means that the average eligible investment would be €35,000 per building and €17.5 million per annum¹⁰⁴. Expenditure up to 2% of the building's value is not eligible so that €1.75 million of this is not included. Thus, the eligible expenditure for allowance against tax is €15.75 million.

The tax cost and the impact of this scheme would be affected somewhat by the fact that entry into the income tax net is at a relatively high level of income in Ireland but progression to the highest rate is relatively soon thereafter¹⁰⁵. This means that many people would be unable to avail of the tax break at all, but a relatively high proportion of those who do so would be eligible at the marginal rate of 41%. While some of the relief would only be provided to tax payers at the standard rate, for simplicity this calculation assumes that all is provided at the marginal rate. Therefore, the total value of the relief as a result of expenditure in each year is €6.46 million. This is spread over 10 years so the nominal value per annum is €646,000. Discounting this to the year in which the expenditure takes place as discussed above means that the gross cost per annum to the exchequer in terms of lost revenue has a present value of €5.1 million per annum for the assumed impact.

This 'cost' is before any account is taken of the additional revenue that will arise as a result of the activity that is stimulated. Under these assumptions, a total of €15.75 million is invested in year 1 comprising public funds with a present value of €5.06 million and private funds of €10.69 million. Public funds account for 32% of the investment and if it is assumed, as in the earlier model, that 25% of this is deadweight then this indicates leverage of 1.33. It is also assumed that 25% of investment represents displaced expenditure. Furthermore, using these amounts in the illustrative model provides the result that exchequer inflows in year 1 when the work takes place are just over €6.6 million i.e. the present value of inflows amounts to 131% of the present value of the associated tax allowance. Therefore, there is a net positive gain for the exchequer. It is worth noting that this result does not depend on the assumptions above the volume of eligible investments that might take place or the average investment as these are just scaling factors and a higher amount of investment would increase the costs and benefits proportionately.

¹⁰³ Department of the Environment, Heritage and Local Government *Latest House Prices, Loans and Profile of Borrowers Statistics*. Data sheet downloadable from environ.ie/en/Publications/StatisticsandRegularPublications/HousingStatistics/FileDownload,15293,en.xls. The price in Dublin was double this at €352,000 giving an average for the whole country of €260,000.

¹⁰⁴ The initiative would also extend to some commercial premises just as does the Living Cities Initiative but the data are not available to indicate what parentage of these building might be commercial or to provide a meaningful estimate of what might be the market value of such buildings.

¹⁰⁵ O'Connor, B. (2013) *The Structure of Ireland's Tax System and Options for Growth Enhancing Reform*. Department of Finance Staff Working Paper

The exchequer achieves a net return equal to 15% of the expenditure even if it is assumed that 35% of the economic activity represents displaced activity. This is quite high as a high proportion of this expenditure is likely to take place by people living in these premises and would not have occurred elsewhere in the economy. Total employment created as a result of this investment would be 376 after allowance for deadweight and displacement at 25% each, with 244 additional jobs if displacement of 35% is assumed.

Estimating the cost of the two VAT options is difficult not least because the measure would likely have to apply to all heritage properties that are restored in line with local planning objectives. However, the cost to the exchequer of the options to make discretionary the 'no change of use' requirement and to increase the allowable investment to 65% of value would be very small. To see this, consider an illustrative example of a house bought at the average second-hand price for the country of €260,000. The maximum investment that can take place before this option is relevant is 25% - above this it would not matter if this option was adopted as the building would attract VAT as a new building – and so investment of €65,000 can be undertaken. An investor would also incur stamp duty of 1%, equal to €2,600, and it is assumed that the investor achieves a margin of 15% on total costs of €327,600 giving a sale price of €376,740. In the absence of the proposed amendment, this price would include 13.5% VAT if the use of the building has changed. Thus, a VAT payment of €44,810 would arise. After VAT repayment of €8,875 arising from the cost of renovation, the net liability would be €36,035. The result is that the net margin accruing to the investor would be just €13,600 or a return of just over 4% on the investment. This is simply insufficient to attract investment and so either the restoration would not take place or the change of use would be avoided.

This decision would depend on market conditions. The key point is that, in either case, VAT revenue would be zero in the absence of the proposed amendment being introduced and zero if it is introduced. However, in cases such as the example above, the option would make some projects viable and so revenue from economic activity – VAT on goods amounting to €8,875 in this case, as well as taxes on labour – would provide an inflow to the exchequer. Only in cases of deadweight where the restoration would have taken place in any case even though the property would have been liable for VAT on the sale price, would there be a loss for the exchequer. In this case, the cost of the option to the exchequer would be the €36,035 liability in the example above. However, it is considered that deadweight would only arise to any extent in a very buoyant property market where the time interval between purchase and resale would provide a capital gain sufficient to provide an acceptable return to an investor.

The analysis in respect of the option to increase the amount of investment allowed from 25% to 65% of the value of the property before it becomes classified as a new property, and therefore liable for VAT, is similar. However, there is an additional

safeguard for the exchequer in that the option would only have an impact where restoration expenditure exceeds 25%. VAT would have been payable on this expenditure. Therefore, as the value of expenditure rises to cross the 25% threshold, the introduction of this incentive would mean that the property would not attract VAT on the sale price, but there is VAT being paid on the amounts invested. However, the main point is, as above, that most projects would not go ahead if VAT is payable on the sale price after restoration i.e. there is zero VAT paid on the sale in the absence of the incentive – as no sale takes place – and zero if it is introduced.

In summary therefore, the gross cost to the exchequer of the VAT options is considered to be very low and only relevant in a buoyant market, while there would be a net inflow as a result of additional economic activity arising from restoration that are viable for investors if the incentives are introduced.

Abolishing stamp duty on heritage buildings in town centres would help to induce outside investment by reducing transactions costs and thereby lead to investment in restoration. There is no official estimate published for the number of houses that are sold in Ireland in any period and estimates of this activity are usually based on the number of loan approvals per annum. In 2012, these totalled only 8,719¹⁰⁶. Given the estimate from the Census data that there are about 1.83 million houses in Ireland, as discussed in Section 1 above, this would indicate that only about 0.5% of houses were sold that year. For a stock of 50,000 heritage buildings in Irish towns this indicates sales of 250 units per annum. With an average price of €175,000 and stamp duty levied at 1%, this means that revenue receipts from this source of taxation would amount to €437,500. Therefore, the gross cost of abolishing stamp duty on heritage buildings in Irish towns would be just under €0.5 million per annum at the current levels of activity in the housing market.

The extent of the downturn in the property market in recent years means that this would be an underestimate of what might be expected in a typical year. The average annual number of loan approvals in the period 2002-12 was 67,644 and it has been calculated that an estimate of about 72,000 annual sales might be expected¹⁰⁷. For a stock of 50,000 heritage buildings in Irish towns this indicates sales of 2,000 units per annum and an average cost for abolishing stamp duty of €3.5 million per annum in a normally functioning market. On its own, the abolition of stamp duty would have a limited positive impact, but used in conjunction with the VAT incentives it would help stimulate additional activity and new revenue sources for the exchequer.

Similarly, exempting heritage properties from CGT would likely have a small exchequer impact since there is very little tax currently being paid on these properties

¹⁰⁶ Department of the Environment, Heritage and Local Government *Latest House Prices, Loans and Profile of Borrowers Statistics*.

¹⁰⁷ See www.ronanlyons.com/2009/04/24/how-many-months-supply-is-sitting-on-the-property-market/

as owner-occupiers are exempt and investors are not believed to be active in this market. Attempting to place an estimate on this cost would be very speculative. It is likely that the incentive would encourage investors into the market but this would be additional activity and the non-payment of CGT could not be determined to be a loss relative to the existing situation.

Table 5.2 summaries the estimated annual costs of introducing these various measures.

Table 5.2: Annual Cost of Options for Incentives

Living Towns Initiative	€5.1 million
Make 'no change of use' discretionary	Zero before new inflows
Raise investment limit from 25% to 65% of value	Zero before new inflows
Eliminate stamp duty on heritage buildings	€0.5 to €3.5 million
Exempting heritage buildings from CGT	Probably low but not quantified

6. Alternative Approaches

6.1 Additional Issues to be Considered

Some additional issues are worthy of consideration in the process of identifying the optimal structure of a policy intervention. The expected response of property owners to incentives was included as a criterion in the analysis of options in the previous section. The measurement of elasticity is the standard approach in economics to assess how one decision maker will respond to a changed incentive. If the price of a good changes, the price elasticity of demand of the good will indicate the expected response of consumers considering buying the good. The higher is the absolute value of this metric, the greater will be the response of decision makers to a change in price. Variations on this are possible for many situations. Thus, income elasticity of demand is a measure of the response of demand resulting from a change in incomes. Another commonly used and important measure is cross price elasticity of demand which refers to a situation where a change in the price of one good affects demand for another related good. If this is found to be positive then the two goods are considered to be substitutes for each other – an example would be houses in town centres and houses on the periphery of towns.

The importance of elasticity for the current assessment is that research has shown that the price elasticity of demand for housing is low. For example, in a widely referenced study, Hanushek and Quigley (1980) found it to be -0.12 after 1 year, rising to -0.64 in the long run¹⁰⁸. In other words, a 1% fall in the price of houses would only cause a 0.12% rise in demand over the course of a year and a 0.64% rise over the longer term. This is not surprising since there are few alternatives to housing and so price is not the most important determinant of demand. Using Irish data, Bacon and MacCabe (2000) estimated the price elasticity of demand as being in the range -0.1 to -0.3 depending on the data range used¹⁰⁹. Income elasticity of demand was considered to be much higher. This work also estimated a price elasticity of supply and found it to be in the range 1.5 to 3 in the long run but less than 1 in the short run. The result of these considerations is that incentives to construction will have limited impacts in the short term – even if passed on to purchasers – but that these rise over the longer term.

However, this is only part of the analysis as the possible impact of a well targeted intervention could be much greater if it altered the relative prices of different types of buildings. For example, if costs associated with buildings located in town centres fell relative to those on towns' peripheries then it would be reasonable to expect a much

¹⁰⁸ Hanushek, E. And J. Quigley (1980) 'What is the price elasticity of housing demand?' in *The Review of Economics and Statistics*, Vol. 62 (3) pp 449-454

¹⁰⁹ *The Housing Market in Ireland: An Economic Evaluation of Trends & Prospects*. Report prepared for the Department of the Environment by Peter Bacon & Associates and Fergal MacCabe (June, 2000)

greater impact. The important point is that while there is little alternative to living in a house in an aggregate sense, different types of houses are alternatives to each other.

Unfortunately, the consultants are not aware of any reliable estimates in the literature for cross elasticities for buildings. However, estimates for other durable goods do indicate that this is a significant issue¹¹⁰. The implication is that a successful intervention will be one that changes the relative costs and returns of investing in buildings in town centres when compared to other buildings. This is important as it means that the displacement of demand and activity from one type of building to another is likely to be of much greater importance than the impact on overall activity. It also means that the most effective policy initiatives are likely to be those that result in the largest relative changes in costs associated with different types of buildings.

A second important point to be considered is that fiscal incentives can often be seen as effectively a costless way to support heritage. This 'fiscal illusion' is sometimes perceived to be an advantage but this is not the case if a sustainable system of support is to be put in place. As Cooke (2003) points out, this illusion leads to unrealistic perceptions of the costs associated with heritage and lack of control over the boundaries of what should be defined as heritage worthy of support¹¹¹. The outcome is that funds may be applied without adequate assessment of the costs and benefits that are realised, and an ongoing tension arises between advocates of more funds and policymakers faced with exchequer constraints.

This situation would be exacerbated in the Irish context by reliance on central sources of funding through fiscal initiatives given the weakness of local taxation mechanisms. In the absence of some means of ensuring that the costs are perceived and the already described difficulties of monetising or even measuring all the benefits of heritage preservation, the result is an ongoing debate over the optimum level of funding and inconsistent policy as neither party can muster definitive conclusions. To avoid this, it is important that the costs as well as the benefits of heritage funding are identified and accurately perceived to the greatest extent possible. This requires some form of equilibrating mechanism that can operate to identify the value of heritage and provide funding up to a level consistent with the value that is placed on heritage by beneficiaries¹¹². In effect, such a mechanism would identify willingness to pay for heritage where no market exists and allow for the incentives to adjust accordingly.

¹¹⁰ For example, in the case of cars, Hanly, M., J. Dargay and P. Goodwin (2002) 'Review of Income and Price Elasticities in Demand for Road Traffic, University of London Discussion Paper found that the price elasticity of demand for cars was in the range of -0.13 to -0.78, but Berry, s., J. Levinsohn and A. Parks (1995) 'Automobile Prices in Market Equilibrium' in *Econometrica*, Vol. 63 pp. 841-890 found cross price elasticities for different car brands in similar price ranges to lie in the range of 4 to 6. Thus, a rise in the price of cars would have a limited impact on demand but a rise in the price of one type of care compared to another would have a much greater impact.

¹¹¹ Cooke, P. (2003) *Setting the Limits to the Growth of Heritage in Ireland*. Studies in Public Policy: 11, The Policy Institute, Trinity College, Dublin.

¹¹² While it is unlikely that a mechanism or process as efficient as a free market can be devised, this objective is akin to realising an outcome through a market-like process. After all, the essence of a free

Finally, the consultation process and the system in Ireland whereby the identification of heritage buildings and their protection is heavily dependent on Local Authorities acting through the planning process has led to a conclusion that people prefer payments in the form of grants to compensate for restrictions arising out of ACA conditions or other limitations on heritage buildings. This is not just anecdotal and the UK Government has recently stated that it is

The Government's view that support for the heritage, and public money for such objectives is better channelled through expenditure rather than poorly targeted tax reliefs, especially when public finances are tight¹¹³.

This suggests that direct payments, which have been the main source of financial support for the built heritage in Ireland over the years, still have an important role to play. However, in an era of public expenditure cutbacks, heritage is experiencing reduced funding. In addition there is apprehension among policy makers in respect of the introduction of new fiscal incentives in the general area of construction. These considerations have informed the structure of an alternative mechanism, described below, to provide support to the built heritage in Irish towns.

6.2 *A System of Local Transfers*

Provided there are net benefits, it is valid to conclude that the public sector should invest in heritage without relying on arguments based on the need to stimulate the economy. Indeed, it is considered that the most effective incentives to support heritage buildings may well be those that fully displace other investment with the benefits arising from a higher employment content of investment in heritage buildings and from the non-market benefits of such investment. However, if there is high displacement it could mean that any incentive that relied on public expenditure might not provide a net inflow to the exchequer. Furthermore, even if it is shown that the expenditure can be recouped, a high level of apprehension among policy makers means that there are considerable risks with getting tax breaks accepted as a policy approach. This means that a system that is revenue neutral from the point of view of the public finances and did not involve any additional expenditure of exchequer funds would overcome a major obstacle.

The non-marketed benefits of restoration accrue to society while the costs are borne by private owners. An effective intervention to address this market failure would impose costs on those who have most to gain from preserving the heritage buildings

market is that it makes buyers and sellers display their preferences in an unbiased manner without incurring costs associated with gathering information. When this is done, the outcome is an agreed value for the good in question.

¹¹³ HM Revenue & Customs (2012) *VAT: Addressing borderline anomalies – Summary of Responses*, paragraph 2.6.24

in order to subsidise private decision makers. If fiscal initiatives are used to do this through the tax system, it is being assumed that these benefits are distributed to all taxpayers. However, this is not necessarily the case. For example, the benefits of heritage tourism primarily accrue locally and, it is argued, that in the case of heritage buildings in towns, the tourism benefits would wholly accrue locally with limited national impact. In addition, the alternative to investing in restoration in a town's centre is often investment in the town's peripheral areas and the central authorities will neither have adequate knowledge of local conditions nor be in a position to adapt fiscal initiatives to local conditions. As a result, it is important that the financial incentives should be integrated with local development plans. Furthermore, if the incentive is responsive to local objectives and wishes then there is a greater chance that any taxes imposed will be more in line with values that would be obtained in a contingent valuation study without the need to undertake such a study.

Based on these considerations, it is the consultants' opinion that a programme of incentives should aim to be revenue neutral, irrespective of the extent of the displacement or deadweight that might occur. In addition, the incentives should be flexible and responsive to local conditions.

The first step is to redefine the built heritage as a core element of infrastructure – productive, social and cultural. Over the years, the planning system has developed integrated mythologies to provide important infrastructure, some of which are directly related to the granting of planning permission. To implement such a measure to support the built heritage, local authorities with a role in planning should be mandated to identify heritage areas in towns¹¹⁴. Heritage properties within such a designated area would provide the target for incentives. A regeneration plan would be required for any such area. Upon identifying a heritage area, the planning authority would also be required to identify a wider support area where it is foreseen that new development could be expected to take place within a medium term horizon of perhaps the next 20 to 30 years. As with similar schemes that have been designed to provide essential infrastructure, any such development would attract a levy that would be administered within a closed, ring-fenced fund to provide a subsidy or incentive to property owners to invest in buildings within the heritage area. It is essential that any funds raised would be fully ring-fenced to support heritage.

Precedent for such an initiative exists in terms of developing new infrastructure¹¹⁵. These existing measures are not specific to the built heritage and it would be

¹¹⁴ Section 81 (1) of the Planning and Development Act 2000 may provide a legislative basis for this but this option requires additional consideration from planning and legal experts

¹¹⁵ Section 48 (1) of the Planning and Development Act, 2000 enables a planning authority, when granting a planning permission under Section 34 of the Act, to include conditions requiring the payment of a contribution in respect of public infrastructure. Section 49 of the Act enables a planning authority to attach a condition to a planning permission requiring payment of a financial contribution in respect of any public infrastructure service or project, specified in a Supplementary Development Contribution Scheme (SDCS).

necessary that the planning system and planning authorities would come to view the existing built environment in town centres as part of the essential infrastructure that, if enhanced, could attract investment on a competitive basis. This initiative would need to be included in County and Local Development Plans. These plans would also need to identify, from other sources, any required finance to provide necessary infrastructure for public services in the heritage areas in town centres. In many cases this could actually reduce expenditure as local services are often already developed and available in brownfield areas to a greater extent than in green-field areas.

As well as not requiring exchequer funds, a big advantage of this approach would be that the benefits and costs are borne and are apparent close to where they arise. Most importantly, it would provide considerable flexibility so that the planning authority could set and adjust a levy to the desired level. This would allow for it to be set at a level to incentivise displacement of investment towards the heritage area, but would also mean that excess investment could be avoided by ensuring that the level is not excessive. Furthermore, in areas without a meaningful heritage area the level could be set at zero. This means that there is a built in equilibrating mechanism to equate the willingness to pay for heritage in a local area with the incentives that are provided. It also leaves the private sector i.e. owners and investors, with the decision in relation to what extent heritage will be protected. If the levy is set too low then the Council can observe this and adjust it; if it is too high then the Council can lower the levy.

In the current economic environment, placing a further levy on development might seem excessive. However, the current conditions are cyclical, albeit an extraordinary cycle. The fact is that the elasticity of price demand for property is quite low and the application of a levy that is passed on to consumers will not have a great impact on construction activity. This argument is developed in detail in Appendix 4 below. Of far greater importance in terms of the determinants of changes in the level of demand are issues such as confidence, economic growth, the availability of finance and the likely return on investment. In other words, a higher cost would not decrease the overall level of investment greatly, particularly as the funds would be recycled back into investment in construction in that same area. However, the cross price elasticity of demand would be likely to be much higher meaning that, as the cost of one type of building fell relative to another, there would be a greater degree of substitution between different types of buildings i.e. between new and restored buildings. This is why the consultants are emphasising that the policy should attempt to displace activity in favour of investment in heritage buildings rather than stimulating investment. Furthermore, since there will be no great loss of overall investment and the local economic impact of restoration per unit of expenditure is higher than new development, any reduction would be recouped through a greater impact. It should also be remembered that protecting the built heritage is a long term objective and the cyclical downturn currently being experienced will pass.

Preliminary Tasks to be Undertaken

It is important that the introduction of a system of incentives as outlined above is approached in a systematic and planned manner. This is particularly important in the case of heritage as there is a divergence of opinions regarding the criteria that should be applied in order to identify a building or area as part of the built heritage, a consequent lack of information regarding the quantum of infrastructure that would need to be protected, and also deficiencies regarding the nature of the benefits that arise from heritage buildings and how these should be measured and reflected in policy.

It is unlikely that these deficiencies could be addressed in the short term and so it is important that a consensus is built around the policy direction and how it is to be implemented. The key players in this, apart from the Heritage Council which it is assumed would act as the instigator of the process, are the Local Authorities as they would be responsible for identifying the areas to be protected, the areas that would serve as the source of funds, and they would also implement and manage the process. In order to ensure consistency, there needs to be a shared and workable definition of the built heritage and the objectives of conservation policies. When this is achieved, it is vital that an inventory of the buildings that would receive funds is available for each local authority area. These then need to be integrated into local development plans at the next iteration of the development of these plans. With this in place, the required legislative elements of this option would appear to be quite small and it may be possible to avoid any delays in this respect.

This is a multi-stage process and needs to be planned in detail. However, there are some examples internationally of similar approaches being taken where the emphasis is placed on developing a shared and consistent understanding of the subject matter, the objectives and the measures that are required to achieve desirable outcomes. Based on this, the following programme outline is proposed as a starting point¹¹⁶.

1. Build community and political support for the concept and objectives, including structures to ensure consistency across Local Authority boundaries
2. Develop eligibility criteria for inclusion in the heritage area
3. Identify heritage areas and create an inventory of the heritage buildings
4. Identify support areas
5. Include the scheme in integrated development plan(s)
6. Decide the form and value of the relief to be provided to heritage buildings and the amount of the levy
7. Promote the programme
8. Undertake a pilot programme
9. Establish implementation and administration processes

¹¹⁶ This outline is loosely based on the process that is set out in *Getting Started: Heritage Property Tax Relief*. Report produced by the Municipal Property Assessment Corporation of Canada (2005)

10. Develop a monitoring strategy
11. Implement the policy
12. Review performance, identify remedial actions and reassess levy and assistance levels regularly

This is just a starting point as an outline of the process and this list should be considered to be flexible. These steps are broadly sequential and would involve a co-ordinating organisation, particularly at steps 1, 2, 3, 7 and 10. Local Authorities would need to take the lead in relation to other steps. It would also be essential that local services are provided and that public works are undertaken to support the objectives of this policy. Some precedence is being established in the way in which the Historic Towns Initiative is being developed. However, the nature of the incentives and the funding mechanism that is outlined here are different. The scope of this option in terms of the buildings that would be included is also much broader.

The approach being considered here is not one that could be implemented in a short period of time as it requires the creation of a detailed inventory of areas that would constitute 'heritage areas'. However, this approach would be compatible with, and could be supported by, fiscal incentives either in the short term or as it is implemented. The buy-in of local and planning authorities is essential to success. This is not a small task and success would require a well developed strategy plan led by a cohesive agency with a clear objective.

The Importance of Developing an Agreed Strategy: Athlone

Athlone provides an example of a major town where areas in the centre have undergone decline. It also indicates the importance of developing a shared agreed approach across different authorities as it spans two separate local authority areas – Westmeath and Roscommon.

The part of Athlone on the western bank of the Shannon is an example of an urban area in decline which has a distinct character and identifiable boundaries. This area provides an interesting example of urban heritage according to the definition that heritage assets are those that were once valuable since their physical structure was aligned with the general economic and social activities of the population, but that these activities have changed over time in a manner that causes the assets to lose their economic usefulness.

Among the assets in this area are the Castle – which is the main tourist attraction in the town and has received considerable investment from Fáilte Ireland in the past two years – the town's main post office, the Garda Station which is also a District Headquarters, the town's main church (St. Peter's), a previously important commercial and retail area centred on Connaught Street, a number of pubs some of which are among the oldest in Ireland in continuous operation, the Dean Crowe Hall, Custume Barracks which was once the most important military installation in the Midlands and remains a main training centre, the old docks and the original railway

station. In other words, most of the main civic buildings and many of the main retail and leisure locations were located on the western bank of the Shannon. All these buildings are still extant and many are still used for their original purposes.

The Garda Station, Post Offices and Barracks continue to function as normal. The Castle has been redeveloped and is now the centre for a number of cultural and leisure activities including the new Luan art gallery. Some residential and commercial redevelopment also took place close to the old dock. The Dean Crowe Hall also continues to operate but is of limited value to a modern audience. Altogether, the Connaught Street area is in a serious state of decline and dereliction and the area is bordered by older residential development that is now considered problematic. All the new hotels in the town have been developed across the bridge on the Eastern bank of the Shannon, albeit within walking distance and the railway and bus stations are now on the eastern side as is the leisure craft marina. Perhaps most importantly, almost all the new retail facilities for many decades have been on the eastern side of the town.

Up to the 1990s, the emerging retail needs were met by ribbon development along the old Dublin Road to the East of the town, most of which is now outdated and unappealing. However, over the past two decades, developments have included two new shopping centres in or close to the town's core and a number of retail warehouse developments along the bypass, all of which are on or are accessed from the eastern side of the river. Along with the new developments closer to the town centre there has been considerable investment in car parking and traffic management on the Eastern side while almost nothing has happened on the western side. It is not true to say that these new developments have displaced business from Connaught Street as its offering was in decline, clearly outdated and incapable of meeting the needs of the population long before these new developments took place. Rather the new developments have displaced activity from Church Street on the Eastern side which is now in serious decline. Thus, the gradual decline of the town centre areas is occurring in stages.

Despite this decline and the decline in the physical infrastructure once you move past the first line of buildings on the river, the town area has retained its street layout and infrastructural integrity mostly intact. Furthermore, the area has distinct boundaries on almost all sides and is therefore easily identifiable as a distinct location with a distinct character. However, with pressure for development to the west towards the Monksland area, which is in Roscommon, and to the east along the bypass in Westmeath, a strategy will require close co-operation between two County Councils as well as Athlone Town Council.

Creating an appropriate environment for the application of public support is a very important issue irrespective of whether it involves grant support, fiscal incentives or other measures. The Townscape Heritage initiative, which has been developed in the UK to provide a context for grants from the Heritage Lottery Fund, involves a community organisation or Local Authority initially assessing local needs and potential. This potential needs to be focussed on creating living urban areas with buildings that are used. This goes beyond conservation and the planning process is

obviously central. This leading community organisation must prioritise the objectives and the emphasis must be placed on the impact that will be achieved through any measure rather than success in accessing support i.e. the evaluation stresses impact rather than output or expenditure. An important part of this process is the identification of blockages to restoration and the unlocking mechanisms that are required. Experience in the UK indicates that lack of finance or financial returns may be only one of these blockages and supporting measures such as ensuring that public spaces and the public social environment support the towns centre can be important. It is worth noting that this process involved little in the way of public expenditure and is essential in advance of such support. Indeed, a fiscal incentive that is providing in the absence of this planned approach is unlikely to identify these blockages or lead to an optimal structure of investment.

6.3 *Other Potential Sources of Funds*

In the course of undertaking the consultations it is become apparent that there may be additional sources of funds that could be accessed to incentivise investment in heritage. The consultants have not undertaken a detailed analysis of these sources but consider them worthy of further exploration.

European Structural and Investment (ESI) Funds

The Irish Department of Public Expenditure and Reform is currently preparing an Operation Programme for European Structural and Investment Funding under the EU's cohesion policy for the period 2014-2020 for submission to the European Commission in early 2014. It is understood that while final decisions have not yet been made, Ireland will be a net beneficiary of ESI funds worth in the region of €960 million over the 7 years of the programme. Of this, it is expected that about €400 million will fall under the ERDF heading for investment in fixed assets. This provides a potential source of funds for heritage buildings.

Unlike in earlier programmes, the emphasis will not be on developing the mainstream productive infrastructure. Rather, initiatives that tie in with EU objectives such as improving energy efficiency will be provided with a higher consideration. Energy efficiency is certainly one area where Ireland's built heritage could benefit from investment and research is required to identify opportunities to access Cohesion Funds to support the built heritage. Currently listed structures are exempt from the need to obtain BER certification when being sold or rented and this is unlikely to change. However, most heritage buildings in Irish towns do not fall within this category and would need to obtain a BER certificate, but only if they are being sold or rented. If ERDF funds were used to incentivise owners to have a BER analysis done at other times, while not directly contributing to investment, the availability of these

results would provide a stimulus to owners to undertake investment in better energy efficiency. Furthermore, incentives should be provided to owners of exempt buildings to undertake a BER analysis as this would provide a step towards investing in energy saving measures. As well as providing information to owners in relation to possible cost saving measures and the assistance that might be available to undertake such investment, the initial interaction involving quite small allocations of funds would provide a basis that could be leveraged to encourage further investment. In addition, it may be possible to devise a programme of grants utilising the funds to further incentivise action by private owners.

Lottery Funds

The UK's Heritage Lottery Fund uses funds raised in the National Lottery to support heritage projects and research under a range of programmes many of which are related to protection of the built heritage. The fund has made over 41,000 awards since it began in 1994 and it signed contracts for the provision of grants worth £370 million (€435 million) in the financial year 2012-13¹¹⁷. Overall, the Heritage Fund receives a 20% share of money that is distributed by the UK National Lottery under the 'good causes' heading. A system of trusts has been established to oversee grants and manage the funds.

The situation in Ireland is very different. National lottery funds are transferred to the Irish Exchequer to be used in part-financing expenditure by various Government departments. There is a lack of clarity in relation to the way in which lottery funds are allocated and the annual report of the National Lottery, while identifying heritage as a beneficiary, does not indicate how much funding is provided to this objective. It does identify that the Lottery recorded a surplus of €225 million in 2012, and transferred funds of €234 million to the National Lottery Fund.

Funding for heritage is provided through the Heritage Council. According to the *Annual Report* of the Heritage Council for 2012, the National Lottery funded capital and non-capital grants amounting to €3.3 million (49% of the Council's total income) in 2012, compared to over €4.4 million (56% of income) in 2011¹¹⁸. Based on these figures, this would mean that the allocation to heritage from the National Lottery amounted to 1.4% of the money that was raised for 'good causes'. This calculation would certainly suggest that a meaningful reconsideration is required regarding the allocating of lottery funds and the relative importance – or lack of such – that appears to be accorded to heritage in the distribution of these funds.

¹¹⁷ UK Heritage Lottery Fund (2013) *Annual Report and Accounts for the ended 31 March 2013*

¹¹⁸ The Heritage Council, *2012 Annual Report*. Note 1. There is some lack of clarity in respect of exactly what part of Heritage Council funding is derived from the lottery and the allocation may be even less.

7. Conclusions and Recommendations

This report has examined options to provide incentives to promote investment in heritage buildings in Irish town centres through the fiscal system and by other means. Information provided by the Heritage Council, which has been confirmed in the consultation process, indicates that many buildings in town centres are under-used and often in poor condition. Identifying what constitutes a heritage building is difficult as there is no widely agreed definition, but the study has proceeded on the basis that it is any building in a town that was initially constructed prior to 1919. This is adequate for the purposes of this study, but it is recognised that this is only one of a number of possible ways to identify heritage buildings.

A pragmatic approach to defining the built heritage in town centres would be based on identifying the buildings that are present and then forming the definition to cover those that require conservation and restoration. The risk with this approach is that it is difficult to counter fully arguments based on the points raised by Cooke (2003) that unrealistic perceptions of costs lead to ever expanding parameters for heritage¹¹⁹. Furthermore, as Cooke points out:

‘The proposition that heritage is intangible and unquantifiable facilitates a discretionary and pragmatic approach to heritage regulation. Such an approach allows the state to expand or contract budgets within the sector with greater political freedom than applies in others’ (page 81)

The consultants do not wish to be overly prescriptive in identifying what this definition should be, but it is important that it be based primarily on the objective characteristics of buildings and areas. Failure to do this limits the ability to define consistently the building stock to which any incentives would be applied¹²⁰. It also increases the risk that is perceived by investors considering investment in older buildings that may or may not be considered to have heritage qualities. Objectively defining the built heritage would also provide a starting point for the development of a comprehensive inventory of buildings which could be eligible on a local and consistent basis.

¹¹⁹ Cooke, P. (2003) *Setting the Limits to the Growth of Heritage in Ireland*. Studies in Public Policy: 11, The Policy Institute, Trinity College, Dublin

¹²⁰ The National Inventory of Architectural Heritage is compiling a large inventory of protected structures and other heritage buildings. A range of criteria are being used to identify which buildings are included and this inventory might be able to provide the basic data to construct the inventory of heritage buildings in town centres. However, the criteria for inclusion are based on the Planning and Development Act 2000 which defines the architectural heritage to be structures or parts of structures which are of *Architectural, Historical, Archaeological, Artistic, Cultural, Scientific, Social or Technical* interest. As such, the criteria are partly subjective in that they may not reflect any particular tangible aspect of the building in question. The inventory rates each building according to the level of interest and assesses its structural condition but does not identify if it is in public or private ownership. Further details are provided in the NIAH *Guidebook* (2011). The inclusion of any particular building on the inventory does not mean that it is necessarily a protected structure or that it has planning restrictions.

Any policy intervention would need to clearly define its parameters at an early stage, particularly in relation to the categories of buildings to which it will be applicable. Any failure in this respect would risk undermining the effectiveness and consistent implementation of heritage and conservation policy. Furthermore, failure to adopt a consistent and widely agreed definition of the built heritage that should be the target of policy weakens the ability of organisations and others engaged in the preservation of the built heritage to undertake and implement well planned campaigns to advocate the introduction of incentives and other measures to protect this heritage. It also greatly undermines the credibility of proposals to introduce fiscal incentives when there is not a widely agreed upon target to which those incentives are to be applied. This is the case irrespective of the internal logic of the analysis that is provided or the strength of such economic data as may be used to demonstrate the argument.

Despite definitional problems, there appears to be general agreement that the built heritage should be preserved. According to Mason (2005)

There is broad agreement that the benefits of historic preservation outweigh the costs. More specifically, the economic costs of preservation are outweighed by the benefits – both economic and cultural – of a robust historic preservation sector. The literature is conclusive about the overall positive benefits of historic preservation’ (page 5)¹²¹.

However, this study shows that there are difficulties in comprehensively quantifying the benefits. Their nature means that while some may be identified by market prices, often in associated markets, many are non-marketed and non-use benefits and must be inferred by other methodologies. Very little research has been undertaken in Ireland to quantify these benefits, and while there are numerous studies indicating benefits from specific sites in other countries, many of which refer to places where fiscal incentives have been used to incentivise activity, it can be difficult to extrapolate general conclusions due to situational specific factors. As Mason concludes, generalised conclusions are *a future goal, perhaps, but not a current reality*¹²². However, the estimates included in this report indicate that positive economic benefits would arise from a well designed programme of incentives.

There are important market failures associated with investment in heritage buildings that provide a basis for public intervention and there are numerous examples in many countries of such measures being implemented. Previous tax incentive schemes in Ireland have benefitted heritage properties for the most part only in as far as they are part of the overall property base and heritage buildings have not been targeted specifically for investment. This suggests a relative lack of priority in policy terms,

¹²¹ Mason, R. (2005) *Economics and Historic Preservation: A Guide and Review of the Literature*. University of Pennsylvania discussion paper for the Brookings Institution

¹²² Mason, *ibid.* page 21

but the greatest problem in transferring conclusions that are based on research undertaken elsewhere to Ireland relate to specific conditions that currently exist in the Irish economy. Most notable is the pressure on exchequer resources, which means that even though providing incentives to heritage will provide net benefits there are numerous competing uses for funds that may produce higher returns in the short term. A related important issue is the apprehension that exists among policy makers about providing incentives, particularly tax breaks, to construction in almost any form. Despite this, a role for fiscal incentives exists and the big benefit of tax incentives over grants is their potential to leverage private sector funds so that the investment impact can be well in excess of the level of funds that are provided by the public sector.

Providing incentives to change private investment decisions is expensive as it distorts the market from what would otherwise be the outcome. Of course, the market may already be distorted and subject to market failure and any new intervention should aim to address this. However, incentives should aim to work with the market in as far as possible. This means that compromises in pursuit of the primary objective may be required. For example, if businesses and new populations are to be encouraged into town centres then good public services and facilities for cars are required and it will be necessary to find compromises in terms of maintaining the integrity of the built environment. Otherwise demand for buildings will be curtailed and policy may result in well maintained empty buildings. Therefore, if preservation of buildings is pursued as a singular objective then this may be best done in a 'museum-like' area where economic activity is limited.

Three key messages contained in the *Economics of Uniqueness* are instructive when designing and implementing policy in this area¹²³. The first is the need to balance conservation with an acceptable degree of change. What amounts to acceptable is a matter of choice, but a clear outcome of the discussion on evaluation in this report is that creating identifiable economic benefits requires that the policy package is such that incentives elicit a response from the private sector to achieve additionality. This response should be such that the investment results in useful assets in the form of buildings that are needed and that meet the demands of modern commercial and residential users. The second key message is the need to use a blend of regulation and incentives. The need for incentives to be provided in a regulated environment is obvious but it must be remembered that regulations are mostly defensive in the sense that they may prevent the active destruction of heritage buildings but can seldom prevent their passive decay. The consultation process indicated that an imbalance in this regard in Ireland may be a key feature in bringing about the observation that there are many heritage buildings in Irish towns that are deteriorating and are underused. The third message is the need to ensure that there is a dialogue between the public and

¹²³ Licciardi, G., and R. Amirtahmasebi (2012) *The Economics of Uniqueness: Historic Cities and Cultural Heritage Assets as Public Goods*. Washington DC: World Bank

private sectors. Achieving this was integral to success in a number of the interventions abroad that were reviewed, such as in the case of municipal property tax relief on heritage buildings in Canada. The public sector needs to take the lead in the initial stages of a programme as it creates a detailed inventory of the built heritage to be protected but the private sector should become much more involved when incentives are introduced. Eventually, the private sector should take the lead in a successful area once vibrancy has been restored.

Given that a role exists for public intervention, it is necessary to ascertain that the benefits of intervention would exceed the costs of doing so. If this is the case then it can be argued that the public sector should invest in heritage without relying on arguments based on the need to stimulate the economy. Indeed, it is considered that the most effective incentives to support heritage buildings may well be those that fully displace other investment in buildings with the benefits arising from a higher employment content of investment in heritage buildings and from the non-market benefits of such investment. Using an illustrative example, the analysis in this report concludes that net benefits can be realised and that the exchequer would recoup expenditure as a result of the new economic activity generated. However, this result is sensitive to the efficiency of the policy intervention in terms of the attendant deadweight and the amount of private investment that is leveraged.

Having established an economic case for intervention to incentivise investment in built heritage, the study has examined and assessed a number of possible fiscal initiatives based on suggestions from the Council as well as other options that have been identified. Based on this analysis it is concluded that the structure and approach of the Living Cities Initiative holds the most promise, although it remains cautious in design even following its recent extension, but it would need to be reformulated and extended to a much greater range of urban areas to include towns with populations below 40,000. The consultants do not see that a VAT reduction would be efficient or have a major impact on activity but some changes to the way in which restored heritage buildings are assessed for VAT liability when re-sold are providing a disincentive to investors and need to be revised. Apart from a supporting role for the elimination of stamp duty on heritage buildings, the other suggested initiatives that were examined would not be effective. Although exempting heritage buildings from CGT would benefit investors and some commercial property owners only, it would be positive in incentivising investment and some benefits could also be passed on to tenants. In all cases, the incentives would need to apply to buildings within defined areas that meet criteria derived from the definition of the built heritage that is adopted.

Preliminary exchequer costings were developed for the most favoured options. Under assumptions detailed in the text, the reformulation of the Living Towns Initiative would have a gross exchequer cost of €5.8 million per annum. However, there would be additional revenues created as a result of the stimulus to economic activity equal to

about 1.5 times this investment. This exchequer inflow remains positive under assumed levels of deadweight and displacement that are considered reasonable. The gross cost to the exchequer of the VAT options is considered to be very low and only relevant in a buoyant market while there would be a net inflow as a result of additional economic activity arising from restorations that are viable for investors if the incentives are introduced. The cost of abolishing stamp duty would be under €0.5 million per annum given the low level of activity in the property market, rising to €3.5 million per annum in a normally functioning market. Table 7.1 summaries the estimated costs of introducing these incentives.

Table 7.1: Estimated Annual Cost of Fiscal Options

Living Towns Initiative	€5.1 million
Make 'no change of use' discretionary	Zero before new inflows
Raise investment limit from 25% to 65% of value	Zero before new inflows
Eliminate stamp duty on heritage buildings	€0.5 to €3.5 million
Exempt heritage buildings from CGT	Probably low but not quantified

There is a major problem with relying on a strategy of seeking new fiscal initiatives to address the problems that exist due to the pressure on the public finances. Furthermore, the fact that they can be rather blunt instruments and that they are not based on an assessment of the actual value of heritage means that they may not be implemented and they risk being either ineffective or excessive if introduced. To address these issues, this study has set out a mechanism that would require no expenditure of exchequer funds and that would incorporate an equilibrating mechanism that would allow the scheme to respond to local preferences that reflect valuations of the built heritage. However, this would require a strategy to be developed and promoted to build a consensus, particularly at the level of Local Authorities, to undertake research and implement a heritage policy at local level.

Whatever incentives may be provided, their implementation in an optimal manner needs to be planned in detail. The Townscape Heritage initiative, which has been developed in the UK to provide a context for grants from the Heritage Lottery Fund provides an interesting example of planning for the provision of state assistance to ensure the impact is maximised. This involves a community organisation or Local Authority assessing local needs and identifying the unlocking mechanisms, of which finance will probably be only one, to maximise impact.

A programme outline is proposed as follows as a starting point in the case of the local levy proposal:

1. Build community and political support for the concept and objectives, including structures to ensure consistency across Local Authority boundaries
2. Develop eligibility criteria for inclusion in the heritage area
3. Identify heritage areas and create an inventory of the heritage buildings

4. Identify support areas
5. Include the scheme in integrated development plan(s)
6. Decide the form and value of the relief to be provided to heritage buildings and the amount of the levy
7. Promote the programme
8. Undertake a pilot programme
9. Establish implementation and administration processes
10. Develop a monitoring strategy
11. Implement the policy
12. Review performance, identify remedial actions and reassess levy and assistance levels regularly

This list should be considered to be a starting point and a co-ordinating organisation such as the Heritage Council needs to be closely involved and to lead this process. Failure to create the environment for incentives risks providing a result where the impact is low or there are adverse effects.

Recommendations

Fiscal Initiatives

The Living Cities Initiative is welcome but needs to be reformulated if it is to be effective. **It is recommended that a Living Towns Initiative should be devised and introduced that would provide allowances against income tax for owner-occupiers and investors with investments for a range of purposes in excess of 2% of the building's value, this being the expected rate of depreciation on fixed assets, being eligible for the relief.**

Some aspects of the way in which VAT is applied can act as a disincentive to investors to undertake restoration of existing buildings. **It is recommended that the cut-off limit for investment in restoration of heritage properties that can retain VAT exempt status should be raised from 25% to 65% of their value and that the 'no change of use' criterion should be made discretionary for these properties with the discretion residing with the Local Authority in whose area the building exists.**

It is also necessary to free up the market in heritage properties to encourage investors. **It is recommended that stamp duty on heritage buildings in designated heritage areas should be abolished.**

Some aspects of the way rates are imposed are also counterproductive and may promote vacancy. **It is recommended that the refund of rates on vacant premises should be limited to 50% of the liability and that the current situation whereby an outstanding rates liability can transfer to a new tenant or occupier should be**

terminated with the liability remaining with the occupier at the time it first arises.

Capital gains tax is an issue for consideration for investors intending to sell a property following restoration. **It is recommended that the CGT exemption that currently applies to principal private residences should be extended to all heritage properties in defined areas such as ACAs.**

Incentives should be provided using an area-based approach rather than based on the presence of individual landmark buildings. **Therefore, it is recommended that incentives should be available to buildings that are eligible to be considered part of the built heritage within pre-defined areas such as ACAs.**

It is important that any fiscal initiatives are integrated with local development plans to ensure they are responsive to local conditions. **As a result, it is recommended that eligibility for all tax allowances should depend on a statement from the local planning authority that works on a property to which the incentive relates were undertaken in compliance with the requirements of the Local Authority Conservation Officer as set out in appropriate plans and guidance.**

Building Consensus for Local Funding

In addition to fiscal initiatives, this report has identified an alternative mechanism to incentivise investment in the built heritage. **It is recommended that the Heritage Council should undertake to build a consensus with relevant national authorities, including the Department of the Environment, Community and Local Government and the Department of Arts, Heritage and the Gaeltacht, as well as with Local Authorities to work towards the introduction of a funding mechanism for the built heritage that raises funds through a local levy and uses this in a ring-fenced manner to alter the incentives facing private sector decision-makers in order to protect heritage.** This is a long term commitment and a process of building a consensus is the first step.

It is recommended that, in advance of providing incentives, and irrespective of what specific incentives are made available, the Heritage Council should work in partnership with the Department of Arts, Heritage and the Gaeltacht and the Department of the Environment, Community and Local Government to develop a planned approach to how these would be allocated and should be allocated an ongoing role as an arbiter of decisions in relation to what areas should be included. This is particularly important in the case of the levy scheme proposed and an outline of the planning process is provided.

Accessing Other Sources of Funds

There may also be some opportunity to access funds from other sources. **It is recommended that research should be undertaken to identify opportunities to access EU cohesion funds under the 2014-20 OP to support heritage buildings with a specific focus on incentivising investment in energy conservation.**

The National Lottery identifies heritage as a beneficiary area but the amounts provided to this 'good cause' appear to be very low, less than 2% of total distributions by the lottery. There are also questions as to the additionality of this funding. In contrast, the Heritage Lottery Fund in the UK is a major force in terms of assisting the built heritage, introducing innovations and undertaking research. **It is recommended that accessing a much greater share of lottery funds for heritage should be set as a priority objective by personnel and agencies in the sector and that a strategy be devised to achieve this outcome.**

Research to Address Deficiencies

Any policy intervention would need to define precisely the buildings to which it would apply and advocates for such intervention should ensure that there is a clear understanding of what constitutes the sector and that consistent definitions are applied in research. **It is recommended that the Heritage Council should take the lead in promoting agreed definitions of the built heritage to be used in policy related research.**

The most commonly reason identified in the consultations for underuse of heritage buildings was that they are often not suitable for re-use and that planning regulations increase the risks associated with investment in restoration as they may limit the ability to undertake the necessary alterations in some instances. This is clearly a complex matter and fiscal incentives will only have a minor impact as the risk of non-use following restoration is a major disincentive for investors. **It is recommended that planning and local authorities should examine the extent to which regulations may be contributing to under-use of heritage buildings and either rebalance their objectives or seek to extend the use of negotiated regulations to favour restoration and use if there is a risk that conservation of integrity may prohibit use.**

The consultations have also identified that there appears to be inconsistency around the country in the way in which regulations of importance to owners of heritage properties are applied. If this is indeed the case that this is a huge disincentive for investors as it introduces uncertainty and risk. **It is recommended that research should be undertaken to examine the way regulations are implemented and, if required, to devise an improved code of practice targeted at personnel in the planning process to remove inconsistencies.** It is important that this is not seen as a means to either strengthen the restrictions that can accompany heritage designation, or to weaken them, but to make the implementation of existing regulations consistent

across time and different areas. Introducing fiscal initiatives in the absence of such consistency would greatly weaken the impact and returns from any public funds spent.

Finally, it is clear that there is a deficit in terms of research to estimate the benefits of investment in heritage. **It is recommended that additional research, particularly on the non-market benefits of the built heritage, and heritage in general, in Ireland should be funded.** This should be targeted not at estimating the total economic value of heritage, but at identifying appropriate metrics to assess the costs and benefits of specific policy or expenditure proposals.

Appendix 1: Overview of the Consultation Process

A consultation process was undertaken during the preparation of this report. The consultations were undertaken in an informal manner to allow respondent to express their views, but were structured around the following questions:

- What are the main inhibitors to investment in heritage buildings and areas in towns in terms of the incentives facing decision makers and the relative costs and benefits?
- Are there aspects of the fiscal system at present that actively distort investment away from restoration towards replacement?
- What types of interventions would be most welcomed?
- Are foreseeable fiscal interventions likely to have any impact? Or are there other problems?

Consultations were undertaken with the following personnel:

- Kevin Baird, CEO, Irish Heritage Trust
- Deirdre Burns, Heritage Officer, Wicklow County Council
- Michael Clarke, Irish Property Unit Trust
- Martin Colreavy, Principal Advisor, Built Heritage, Architectural Policy & Urban Design, Department of Arts, Heritage & the Gaeltacht
- Ciaran Cuffe, School of Spatial Planning, DIT
- Willie Cumming, Senior Architectural Advisor, National Inventory of Architectural Heritage, Department of Arts, Heritage & the Gaeltacht
- Terry Durney, McCabe Durney Barnes, Town Planning
- Cecily Johnson, Conservation Officer, Waterford City Council
- Ian Lumley, Heritage Officer, An Taisce
- Joan Maher, Built Heritage Policy & World Heritage Unit, Department of Arts, Heritage & the Gaeltacht
- Jeanette Mair, Executive, Register of Heritage Contractors, Construction Industry Federation
- Freddie O'Dwyer, Senior Architectural Advisor, Strategic Development and Policy Unit, Department of Arts, Heritage & the Gaeltacht
- Tracy Pickerill, School of Real Estate and Construction Economics, Dublin Institute of Technology
- Liam Ryan, Town Clerk, Youghal Town Council
- Grainne Shaffrey, Shaffrey Associates & RIAI
- Conor Skehan, CAAS Ltd. & School of Spatial Planning, DIT
- Geraldine Walsh, CEO, Dublin Civic Trust
- Michael Walsh, City Manager, Waterford City Council

It is not surprising that this list provided disparate views and it is not intended to try to reflect all of the views in this report. However, some general conclusions or points that were repeated by different personnel and that have influenced the analysis in this report are worth noting.

- The desirability of conserving heritage buildings is widely accepted and increased investment in conservation and restoration would provide a stimulus to the economy. However, the listing of a building for conservation is a negative factor in the eyes of potential investors as they perceive that there is heightened risk associated with an investment in such a building. Risk is a big issue and the risk-adjusted returns from investing in restoration are perceived to be insufficient.
- There is no agreed definition of the built heritage. The consultants have used buildings constructed before 1919 in this report as the basic criterion, based on the observation that this was used in the previous research on the economics of heritage undertaken by Ecorys *et. al.* A number of other definitions of the built heritage have arisen during the consultations. These include:
 - Buildings, structures or areas that are seen by society as having heritage value and worth preserving;
 - Buildings of particular architectural or historical interest irrespective of age;
 - Buildings constructed using 'traditional' methods (giving a cut-off point for construction around the 1940s);
 - Buildings over 50 years old;
 - Buildings that constitute the majority of structures in, and define the streetscapes of, Irish town centres (this would indicate a definition that includes buildings originally constructed in the period roughly spanning 1820 to 1910).

The first of these is a completely subjective definition and the second has subjective and objective elements, while the others are based solely on objective characteristics of the buildings. The final definition is interesting as it indicates that the inventory of buildings in town centres is known first and the definition is formed to incorporate a substantial portion of this inventory. This is a very practical approach to providing a definition that could be used to support arguments for specific fiscal incentives.

- Possibly the biggest inhibitor to greater use and renovation is the unsuitability of older buildings to modern needs. Niche demand is simply not adequate to provide uses for the volume of older buildings. This is the case with

residential as well as commercial buildings. The result is that restoration is simply not able to attract investment as the resulting assets are not competitive with new buildings. Conservation policy and heritage policy needs to recognise this and adopt more flexible approaches if under-use is to be addressed. Urban areas that are attractive and sustainable work well because they are dynamic and adaptable. Heritage and conservation policy and the implementation of associated regulations must be similarly adaptable. Demand for buildings reflects the wishes of society and heritage policy must do so also.

- The objectives of conservation and economic activity are very often in conflict and the failure to reach a consensus on the balance between the two has resulted in under-used older buildings. The private costs of owning heritage buildings are real but are not always acknowledged. Restoration is often simply not attractive from a financial point of view and left to the market the result would be demolition and replacement. When a compromise cannot be found between the market and conservation policy the result is passive demolition.
- Ireland's Heritage Policy has been disjointed over the years and unevenly implemented. It has certainly not been given priority and is usually seen just as a means to support other sectors, principally tourism. Furthermore, it has often contributed to decay through rigidity or uncertainty. Aspects of this policy are under review. This is compounded by a sometimes uneven application of regulations across the State and differences in the way Heritage Officers in different Local Authorities interpret and implement their brief. This further increases the risk associated with the whole class of building considered 'heritage'.
- There are many reasons for the existence of decay and under-use in Irish towns, with economic factors being only one. A multi-pronged approach is required to address the issue. The main driver of the hollowing out was the ability to design new buildings to meet demand. Car access and car parking is a major factor. Local Authorities often see paid car parking as a money spinner and a way to limit demand. However, it is a major deterrent and is really just a way to limit the need for supply of car parking in towns. The result is under-use of the area where parking is restricted and displacement to areas with free parking. In contrast to many towns abroad, other services such as schools have remained in place to a large extent in Ireland. However, Irish people still want to own their own home, with renting seen as a distant second. This will continue to restrict the use of upper floors in towns for residential purposes. Immigrants to Ireland are indeed more willing to rent but have a

strong preference for new buildings and the excess supply of new apartments will continue to be important.

- A lot of damage was done during the boom years not just to the physical attributes of heritage buildings in town centres, but to the physical and social structure of towns as well. Activity has been displaced to towns' periphery and, while there are exceptions, a notable hollowing out of Irish towns has occurred. This will not be addressed either in the short term or by marginal financial incentives. Poor planning facilitated the hollowing process in some cases but there was often little choice.
- Financial incentives, and fiscal incentives in particular, will not work on their own. They could be as detrimental as the tax breaks for construction have been and introducing them in isolation would damage the prospects for a proper policy approach. There is a fine balance between giving an incentive to invest and undermining the heritage character and buildings of a town. Tax breaks may be too blunt to ensure this balance is found. However, tax incentives have been very effective – both good and bad – in the past and financial incentives have a role to play as part of a total policy response. They must be introduced in a planned manner and the commitment must be long term. Fiscal incentives would be of most interest to commercial investors and in respect of commercial properties but of limited use to owner occupiers.
- Direct financial assistance i.e. grant giving, can be of greater benefit to heritage as it is seen by owners and investors as a direct commitment by the authorities. It is also seen as compensation for the restrictions placed on development so investors are more willing to work with, rather than against, Local Authorities when grants are provided. Furthermore, direct expenditure means that the authorities retain greater control over how a building is developed. Lack of grants mean that investors immediately perceive heritage related restrictions as being in opposition to their interests rather than as a feature of a building with which they can work. If blockages to local restoration are identified then grants can be provided to directly address the costs and other initiatives used to reduce the impact of these blockages. Tax incentives would not address this and the incentive would remain with the investor to minimize the heritage element of any expenditure. Other incentives such as supply of labour and materials on work schemes to maintain the outward appearance of buildings in ACAs would be helpful with no risk of undermining the character of the buildings.
- Incentives should be closely tied to investment rather than use. A subsidy that reduces rent or the costs of using a building could be perceived as providing

an incentive to demand but this will be short term only. Use-related incentives can be detrimental to an area as they can drive the area towards the lower end of the market i.e. it becomes cheap. Further investment in maintenance is then reduced and there are unintended socioeconomic consequences.

- Any intervention should be area-based rather than based on individual buildings. While there are exceptions, town centre decay is related to the general character of the area rather than the physical aspects of any building. Landmark preservation or investment in landmark buildings, even where they might exist, will have only a limited benefit.

Perhaps the most consistent aspect of the responses to the consultation process is the perception that while the built heritage is important, there is no consistent or consensus policy approach as to how it should be assisted. Indeed, there is not even agreement as to what constitutes heritage. However, the relative decay and underuse of older buildings in town centres is very real and is undermining the socioeconomic viability of these areas. There are many causes of this that can only be addressed by a multi-faceted policy approach with long term commitment.

Appendix 2: The Non-Use Value of Heritage

Categories of Value

Existence value arises from the value that can be placed on knowing that a piece of heritage exists. This is similar to altruistic value which arises from knowing that someone else may gain from the existence of the heritage building¹²⁴. This differs from the value of using the heritage building or area to undertake a transaction in that there is no requirement that the people who perceive the value to actually engage with the building or area in any direct manner and certainly no need to engage in a monetary transaction. The value arises from simply knowing that it is there and is being looked after. It is not possible to measure monetise this value directly, but, according to public choice theory as discussed above, an efficiently functioning planning and local political system would incorporate these values into decisions.

Option value arises from the observation that built heritage represent an earlier investment of resources and while these may not currently be economically competitive, this might change. Any asset has a value in terms of its current use. But its use carries an opportunity cost since it cannot be used in an alternative way. Where an asset can be recreated or is renewable, this cost is limited, but with a unique asset such as the built heritage it means that considerable care must be taken with any irreversible change. A decision not to act to reverse the decay of buildings in town centres would be an example of a decision involving an irreversible change. Such change has an opportunity cost i.e. it precludes some currently unseen future use of the existing buildings. Therefore, preserving the built heritage in its current use, even if this is perceived to be under-use, means that an option is being created that can be exercised in the future by using the asset in some currently unforeseen manner. Mourato and Mazzanti (2002) described the option value of cultural destinations as '*akin to an insurance premium*'¹²⁵. However, this is only the case if the value is recognised. The opportunity cost of any current irreversible development is the value of the option.

The option to choose the most desirable use of current heritage buildings or areas at some future stage clearly has a future value, but while it may have a positive current value also, there is no option market other than the property market to evaluate this. However, it may not be a particularly efficient market at undertaking this function and it can be argued that when existing owners leave buildings underused they perceive that the option value is greater than the current market value. If an incentive is

¹²⁴ Mourato, S. And M. Mazzanti (2002) 'Economic Valuation of Cultural Heritage: Evidence and Prospects' in M. de la Torre (ed.) *Assessing the Values of Cultural Heritage*, pages 51-73, Research Report, The Getty Conservation Institute and Eftic (2005) *Valuation of the Historic Environment*, Report to English Heritage, the Heritage Lottery Fund, the Department for Culture, Media and Sport and the Department of Transport indicate that altruistic and existence values are separable and additional aspects of value.

¹²⁵ Mourato, S. And M. Mazzanti (2002) op.cit.

applied to change this decision it raises an important question since it is implicitly being assumed that the benefits of bringing the assets into current use, a process that may involve irreversibly altering the buildings, is greater than the option value. On the other hand, if the planning system prevents a property owner from changing a historic building to avail of a commercial opportunity then it is the case that society perceives the option value to outweigh the potential private returns.

However, placing a value on this other than trying to measure opportunity costs is difficult. The value of any option depends on two key variables: the volatility of the underlying asset and the time to expiry. Volatility in this case can be understood as different perceptions on the value of historic buildings and areas. While this is subject to 'noise' as a result of the property market, volatility will generally be reasonably low over the longer term with an upward trend. The real problem is in determining a time to expiry i.e. at what future date must the option to develop the asset be exercised in order for it to be worthwhile currently to maintain it in its current use (or non-use). With unique historic buildings or recognised heritage buildings of renown there is no such date so the option would be indefinite. In this case, the value of the option has no upper bound and it is better thought of as a wish to bequest the structure rather than realise any use value in the future. However, the majority of older buildings in Irish towns do not fall into this category and their value relates to use now or in the future. So the option has an expiry. In addition, since non-use will lead to a spiral of decay, the option has a short date and so its value is reduced.

The third source of non-use value is the bequest value. This is somewhat similar to the idea of an open-ended option, but it is better understood if approached from a different point of view. Human beings place a value on being able to bequest valuable assets to future generations. This is most clearly seen in families but societies also experience a similar if less pronounced perception of value. However, such perceptions vary greatly between individuals and even societies at different times and it has proven very difficult to derive standard ways in which bequest values can be measured.

Mainstream analysis uses long term discounting to address the problem. This involves placing a future use value on an asset and discounting to obtain a present value. Apart from the fact that this process is clearly abstracted from the underlying sense of value, this approach has been heavily criticised. The problem is that beyond a limited timeframe, probably of no more than 30 years or so, almost any future values tend to zero using standard discount rates. A willingness-to-pay approach would offer some opportunity to value this bequest in the case of heritage assets but no data are available. However, again referring to the public choice approach, it can be argued that the willingness of a state or local authority, acting as the aggregator of residents wishes, to pay to maintain the bequest is equal to the value placed by society on the ability to bequest.

The *Built to Last* report noted, correctly, that a historic building can have value arising from all three sources, but a new building that replaces it in the same location, or indeed in any location, can possess only bequest value from the start¹²⁶. As a result, when a new building is constructed to replace an existing building, or if a new building is constructed instead of preserving an existing building that subsequently decays, the existence and options values are lost for a period until the new building gains 'a position in the public consciousness' (page 9). This period will be quite long and may exceed the life span of the building.

There are considerable difficulties with placing monetary values on non-marketed characteristics of heritage, but some discussion of this area is required. Generally, the price that is paid for the use of a good or service is assumed to represent the value of that item to the purchaser. However, there may be additional values associated with the good also that are not included in the price. In such cases no market might exist to determine this additional value so that the good's value exceeds its price.

Related Markets and the Hedonic Price Approach

Sometimes it is possible to identify values in a related market. For example, if heritage buildings attract tourists to an area then an idea of the value that is placed on the buildings may be obtained by assessing the costs that are incurred in travelling to that area. This 'travel cost method' includes direct costs of travel and accommodation but will also include an estimate of value of the time that is invested by the visitor in travelling. Theoretically, this is somewhat similar to the approach used by Ecorys *et. al.* when including tourism expenditure in the evaluation of heritage in Ireland. It can therefore be a useful approach where a specific destination can be identified – for example, Ireland as a destination for heritage tourism from abroad or if a tourist attraction had widespread appeal – but it would be problematic to attempt to apply this to a specific town that might be attractive to tourists but mostly rely on passing trade as it would undervalue the heritage.

Another example of a related market is to assume that the value of heritage inherent in a building will be reflected in its market value. There is a good theoretical basis for this methodology known as the hedonic price approach. This recognises that a building is not a single good but a complex good in the sense that it comprises a number of characteristics and provides a number of services. The hedonic approach aims to identify individual values for the constituent parts of the building, with the aggregate being the value of the building. Thus, if an existing building has heritage characteristics this will enhance its market value to the extent to which heritage has value. Rypkema (2012) states that research into the relationship between heritage and property values has produced '*remarkably consistent*' results. He finds that:

¹²⁶ *Built to Last: the Sustainable Reuse of Buildings - An Action of the Dublin City Heritage Plan.* Report published by the Heritage Council and Dublin City Council (2004)

‘While there are a few studies that show no impact and one or two that indicate a negative impact, more than 90 per cent of the studies demonstrate that properties under the protection of heritage designation experience value enhancement’ (page 115)

Mason (2005) is a little less positive, but concludes from a review of relevant studies that ‘*the weight of evidence is toward positive effects*’¹²⁷.

Rypkema accepts that this might appear counter-intuitive since designating a building as heritage is usually accompanied by restrictions on its use. However, since the greatest factor determining the value of a building is its location rather than its physical attributes, he concludes that the protection afforded by the designation means that there is an element of protection provided to any purchaser that the immediate context and environment of the building will not change greatly since heritage buildings tend to exist in groups. His conclusion is supported by the work of Leichenko *et al.* who also use a hedonic model but expand the analysis to include comparison between heritage properties and properties in other cities in the US¹²⁸. While their starting point is that the evidence on the impact of historical designation on values is mixed since local factors can drive changes in values, they find that designated properties were 19% more valuable than similar non-designated houses. They conclude that there is a positive relationship and that designation enhances property values. Moro *et al.* (2011) also used a hedonic approach to identify a positive relationship between house prices and proximity of heritage sites using data for Dublin¹²⁹. Their work did not identify a change in the value of a particular building as a result of it being classed as a heritage building i.e. they did not seek to identify an internalised gain such as found in the US, but found a positive external relationship between heritage buildings and other buildings.

Licciardi *et al.* favour the hedonic price method over alternative survey based methods on the basis that all the attributes of a building, in as far as they can ever be represented by monetary values, will be encapsulated in a price that emerges from a market i.e. the property market, in which a very large section of the population participates¹³⁰. However, the property market is itself subject to market failures among which ‘first mover’ costs can be important in relation to buildings in town centres that have experienced relative decline. This is essentially a risk that arises because even if some market participants perceive the value inherent in a heritage building, or buildings in a heritage area, if the area is in decline there are risks with

¹²⁷ Mason, R. (2005) *Economics and Historic Preservation: A Guide and Review of the Literature*. University of Pennsylvania discussion paper for the Brookings Institution (page 7).

¹²⁸ Leichenko, R., N. Coulson, and D. Listokin (2001) ‘Historic Preservation and Residential Property Values: An Analysis of Texas Cities’ in *Urban Studies*, Vol. 38 (11) pp. 1973-87

¹²⁹ Moro, M., K. Mayor, S. Lyons and R. Tol (2011) ‘Does the housing market reflect cultural heritage? A case study of Greater Dublin’. ESRI Working Paper No. 386.

¹³⁰ Licciardi, G., and R. Amirtahmasebi (2012) *The Economics of Uniqueness: Historic Cities and Cultural Heritage Assets as Public Goods*. Washington DC: World Bank

assuming that sufficient interest will ever be generated in the market to achieve the critical mass of interest in those buildings that is needed to reverse this decline.

Contingent Valuation

The methodologies that are used to value non-market characteristics also include surveys of purchasers asking what value is placed on the non-marketed aspects – the results are known as stated preferences – or surveys asking how much they would be willing to pay to avoid the externality being eliminated. This is known as contingent valuation (CV). An example might be a survey to identify how much money residents might contribute to a campaign to preserve a piece of built heritage in their area.

Mourato and Mazzanti (2002) provide an overview of the CV process in relation to heritage and indicate the complexities that can arise¹³¹. They find that responses can be subject to various types of bias with a general result that WTP values often exceed actual payments when these can be identified. However, in a review of a number of studies of the values of cultural goods – of which the built heritage would be a sub-set – they find that researchers have identified *significantly positive* values related to the conservation or restoration of heritage assets. They conclude that

‘damages to cultural goods are undesirable and that the public would be willing to pay positive amounts to avoid them or to slow the rate at which they occur’ (page 61).

However, there are difficulties with actually pinning down what this value might be and their review found that aggregate WTP for cultural goods would lie in the range of 0.01 and 0.5 per cent of GNP. This indicates a very large dispersion of estimated values and the range is too big to be useful in as far as indicating what the value in Ireland might be¹³². The authors conclude that this range is due to a number of factors, including the country in which the survey was held, and that survey design is a more important factor than an inability of the general population to value cultural assets.

The large scale consultancy research undertaken by eftec also provided a review of 26 heritage valuation studies mostly employing survey and other non-market methodologies such as bid processes¹³³. Many of the studies related to WTP for

¹³¹ Mourato, S. And M. Mazzanti (2002) ‘Economic Valuation of Cultural Heritage: Evidence and Prospects’ in M. de la Torre (ed.) *Assessing the Values of Cultural Heritage*, pages 51-73. Research Report, The Getty Conservation Institute

¹³² Applying this to Ireland and using 2012 GNP, this means that the willingness to pay for cultural heritage would lie in the range of €13.3 to €667 million. The Ecorys *et. al.* estimate for the GVA of marketed aspects of heritage in Ireland is above this range.

¹³³ eftec (2005) *Valuation of the Historic Environment - the scope for using results of valuation studies in the appraisal and assessment of heritage-related projects and programmes. Annex - Annotated Bibliography of Heritage Valuation Studies*. Report to English Heritage, the Heritage Lottery Fund, the Department for Culture, Media and Sport and the Department for Transport.

access to specific recognised heritage sites and a large proportion of respondents were tourists. Most of the studies reviewed found positive results for the value of heritage, although the estimated results were not always statistically different from zero. In addition, in some cases the price that would need to be charged to provide access to heritage sites in order to maximise welfare would be zero. This does not mean that there was no value placed on the heritage asset in question but that there are difficulties in translating these values into monetary equivalents and in attempting to internalise external benefits.

Research surveyed by Mourato and Mazzanti (2002) also produced some additional interesting findings. Although the overall values found tended to be meaningfully large and positive, a significantly large proportion of respondents in surveys indicate a zero WTP for cultural heritage. This is problematic for a conclusion that the overall positive outcome means that public funds should be used to protect this heritage since, in many cases, this result is being driven by a minority of respondents who feel very strongly about the issue. Additional questions in some of the surveys also indicated that paying for cultural and heritage assets ranked very low compared to interests competing for funding. There was also evidence that the ranking of interests was correlated with socioeconomic characteristics such as incomes and educational attainment¹³⁴. This raises questions regarding how socially progressive might be the allocation of limited funds to this area. However, it also raises the possibility that, since income levels are rising over time, future generations might place greater values on heritage and that this might be more widespread among the population as a greater proportion of competing needs are met. Furthermore, as pointed out by Amestoy (2013)¹³⁵

‘In a time of rapid social and technological change, it can be the case that the utility derived from preserving the past (mostly linked with non-use values such as existence, option and bequest values) is positively related to age’ (page 93).

Currently extant heritage objects will therefore be valued more highly by future generations simply because they will be older, irrespective of whether they have any use value. Taking an intergenerational viewpoint, these arguments support the conclusion that funds should be used currently to provide these assets to future generations who will value them more highly. It is also worth noting that the percentage of respondents indicating a zero WTP in the surveys is higher among non-users suggesting that any measures to translate WTP into actual payments should concentrate on people with direct access to the heritage assets.

¹³⁴ For example see Pollicino, M. and D. Madison (2004), ‘Using Contingent Valuation to Value Maintenance Options for Oxford’s Historic Buildings’ unpublished paper, Institute of Archaeology, University College London as reviewed in eftec (2005). This paper is particularly interesting as it refers to buildings in a general area and the respondents were mostly resident householders.

¹³⁵ Amestoy, V. (2013) ‘Demand for Cultural Heritage’ in Mignosa, A. and I. Rizzo (eds.) *Handbook on the Economics of Cultural Change*. Cheltenham: Edward Elgar

Appendix 3: The Analytic Hierarchy Process

The various fiscal options were each assessed under each criterion and awarded a mark of 1 to 5 according to their performance in the context of the objective of supporting the built heritage. The various options are:

- Extend Section 482 Relief;
- Reformulate the Living Cities Initiative as a Living Towns Initiative;
- Introduce a reduced rate of VAT for work on heritage buildings
- Allow VAT offset against 'embedded' VAT to remove an anomaly
- Make the 'no change of use' requirement discretionary for heritage restoration
- Increase the proportion of allowable expenditure on heritage buildings to 65% without the building being considered 'new' for VAT purposes
- Eliminate stamp duty on heritage buildings
- Provide a rebate on commercial rates
- Provide a rebate of the local property tax (LPT).

A total of 5 criteria are used in the scoring:

1. Deadweight potential: sensitivity analysis of the evaluation in this report indicated that the result was sensitive to the level of deadweight involved. This reduced the effective leverage ratio and the benefits produced.
2. Response: fiscal incentives to private property require that private owners respond and undertake investment. The assessment takes into account the discussion on elasticity above and the breadth of property that would be affected by the incentive.
3. Impact on Exchequer: the earlier evaluation indicated that the exchequer can recoup funds spent on heritage. However, this depends on the efficiency of the measure. While providing an inflow to the exchequer is not an objective of heritage policy as such, it is relevant to include it in the assessment as an indication of the potential of the measure in question to be included.
4. Potential for adverse effects: the discussion of previous policy initiatives above indicated that some incentives can be very effective in terms of stimulating investment but can also carry risks in terms of diverting activity towards replacement rather than restoration.
5. Impact on heritage: this criterion is an overall assessment of the likely impact of each measure on stimulating investment in heritage buildings in line with the objective of preserving heritage values

The final element, the Overall Assessment, is a result ranking produced by a simple arithmetic average of the scores across the 5 criteria.

The scores for each option under each criterion are translated as follows:

Deadweight potential:	1	=	Very high
	2	=	High
	3	=	Moderate
	4	=	Low
	5	=	Very low
Response potential:	1	=	Very low
	2	=	Low
	3	=	Moderate
	4	=	High
	5	=	Very high
Impact on exchequer ¹³⁶ :	1	=	Negative (likely outflow of funds)
	3	=	Neutral or undetermined
	5	=	Positive (likely inflow of funds)
Potential for adverse effects:	1	=	Very high
	2	=	High
	3	=	Moderate
	4	=	Low
	5	=	Very low
Impact on heritage:	1	=	Very low
	2	=	Low
	3	=	Moderate
	4	=	High
	5	=	Very high

The scores are shown in Table A3.1. The resulting scores for the overall AHP assessment provide a ranking for the various options. They do not in themselves provide a convincing case for any measure as they are based on a comparative analysis and any conclusions should therefore be drawn only with reference to the likely impact of any initiative on economic welfare.

¹³⁶ For simplicity, Local Authority funds from commercial rates are considered part of the exchequer in this analysis

Table A3.1: AHP Scores for Multi-Criteria Analysis

	Deadweight	Response	Exchequer	Adverse	Impact	Overall
§482	3	1	1	5	1	2.2
Living Towns	4	5	5	3	5	4.4
Reduced VAT	1	2	1	4	2	2.0
VAT offset	2	4	1	1	1	1.8
Change of use	4	3	3	4	3	3.4
'New' limit	3	4	5	3	4	3.8
Stamp duty	2	3	1	5	2	2.6
Rates rebate	1	2	1	3	1	1.6
LPT rebate	1	1	1	2	1	1.2
CGT Exemption	4	2	3	4	3	3.2

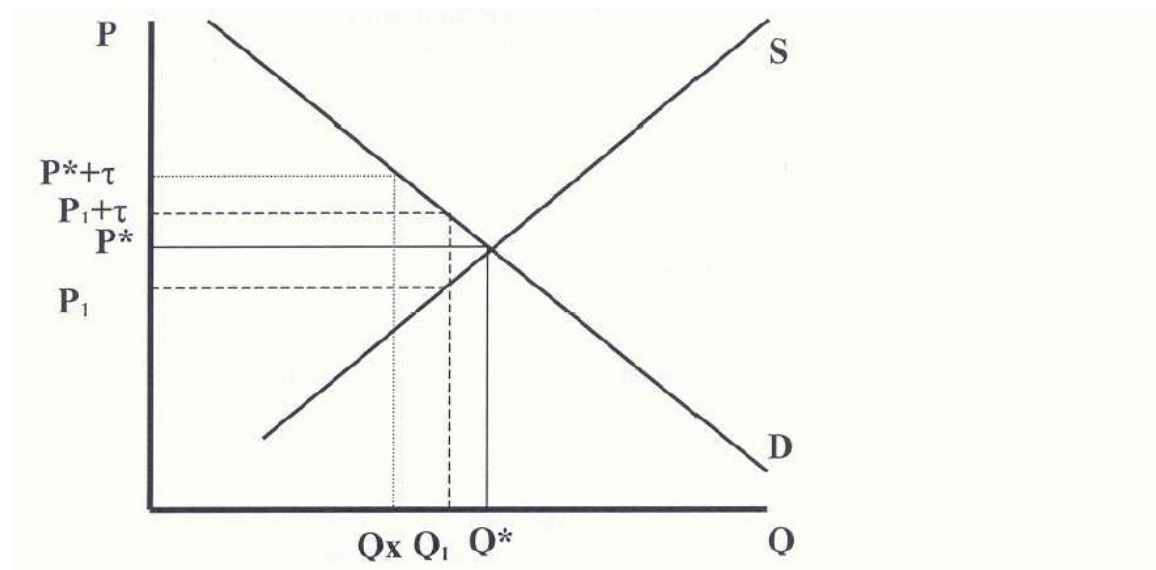
This assessment indicates that four options – the Living Towns Initiative, the changes to VAT rules and the exemption from CGT – are the most desirable and worthy of consideration from the point of view of incentivising investment in the built heritage in Irish towns.

Appendix 4: Impact of a Levy on Demand

The Law of Demand states that as the price of a good rises, demand for that good will fall giving a downward sloping demand curve. It is also generally considered, although it is not always the case, that as the cost of supplying a good increases then the quantity of the good will fall, giving an upward sloping supply curve. Taken together, these propositions mean that the imposition of a levy on property development would reduce supply i.e. it would have a negative impact on economic activity, and would reduce demand for property if it was passed on in whole or in part by developers to purchasers. However, it is important not to draw too strong a conclusion from this in respect of the likely impact of a levy on demand for property and activity in the construction sector.

To see this, consider the market for a representative good as is illustrated in Figure A4.1. Demand (D) and Supply (S) are equated at a price P^* with Q^* representing the quantity that is traded on this market. At P^* the market clears and there is no pressure on price to change. The market is said to be in equilibrium.

Figure A4.1: Incidence of a Levy

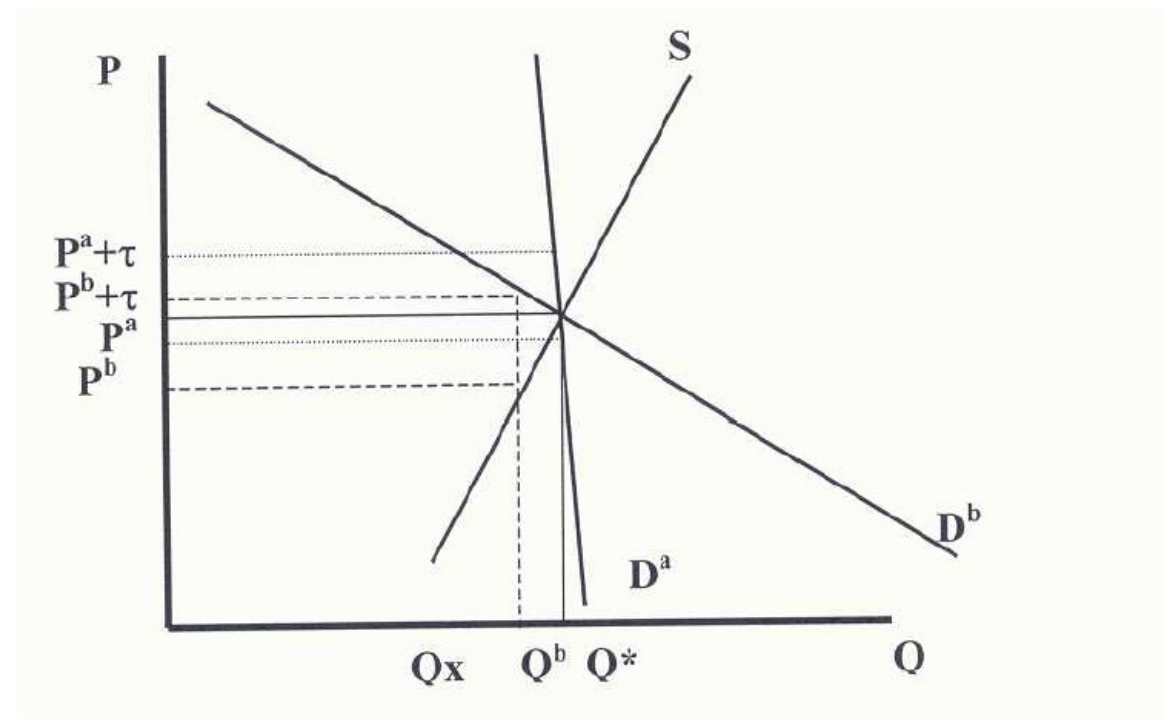


Assume that a levy is introduced. The value of this levy is τ . The first impact is to increase the price to $P^* + \tau$, with the suppliers continuing to receive P^* and the Council that has imposed the levy receiving τ per unit sold. However, it is clear that at this price demand (Q_x) is now less than supply, which has not changed. There is excess supply in this market and so there will be downward pressure on prices that will not be eliminated until price falls sufficiently so that demand equals supply. This happens where the market price is $P_1 + \tau$ with the supplier now receiving P_1 . Q_I is traded in this market. Clearly this price is less than P^* , although $P_1 + \tau$ is still above P^* . As a result, it can be said that only part of the tax or levy is being passed on to the

final purchasers with part being paid by suppliers. There is some fall in the quantity traded and a rise in the final price.

This is the standard explanation for a non-specified good. However, the extent of the change in quantity and price will depend on the responsiveness of supply and demand to the change. This is measured by elasticity. If the response is low then the good in question is said to be inelastic with respect to price. In a diagram, this would be indicated by a relatively steeper supply or demand curve. Consider Figure A4.2. Demand curve D^a is relatively inelastic compared to demand D^b . (Note that the supply curve is also drawn fairly steep as this is likely to be representative of the situation in the property market i.e. supply does not change greatly in the short to medium term as a result of a change in price). This has a major impact on the incidence of the tax. It is clear that with D^a the market price $p^a + \tau$ is further above p^a than would be the case if demand curve D^b were to be used. In other words, where elasticity of demand is low, suppliers would be able to pass on the tax to the final purchasers. The quantity traded does not fall much but the final price rises more than with an inelastic demand.

Figure A4.2: Impact of the Levy and Elasticity



This means that the impact of the levy will depend primarily on the price elasticity of demand on the part of final purchasers. In this market, the additional cost is passed on and there is no greater change in the quantity of houses sold. However, as discussed in the main text above, the cross elasticity of demand for different types of houses is much higher. The implication is that there is an incentive for purchasers to shift towards houses that have not experienced an increase in costs i.e. in the case of the levy under consideration this would be heritage properties in the town centre. As a result, there is a change in behaviour without a loss of activity.

This analysis has a further important implication also. When the tax is imposed, the quantity of goods traded in the market fell. This effect is known as the deadweight burden of taxation. Where there is an elastic response, the impact of this distortion is considerable and the deadweight loss can be considerable. However, with an inelastic response the impact is lessened. Indeed, in the extreme case where elasticity is zero, the loss is also zero in this market. In other words, buyers accept the higher price as they feel they are still getting sufficient value to entice them to buy, even though the price is above its price in the absence of the levy. Thus, with an inelastic good, taxes are relatively efficient in terms of the overall distortion on the market.