

1. Architectural heritage funding issues

1.0. Introduction

The aim of this publication is to identify opportunities for the mobilisation of financial resources for conservation, restoration, rehabilitation and management of the architectural heritage, drawing on examples from Europe and North America.

There is a need to increase private investment, which is only likely to be achieved according to the principles of profitability, which govern the free operation of the market.

The sustainable approach should be for tax mechanisms and credit policies to favour conservation and use – rehabilitation – in housing policy or in the establishment of business and tertiary activities, rather than new construction. This, in turn, supports the idea of a “living” heritage rather than a “museum” heritage. Most historic buildings should be capable of allowing an economic or otherwise beneficial use.

However, it is well recognised that there are limits to the use of private investment in the rehabilitation process, particularly as credit institutions (such as banks) may be reluctant to lend money on old buildings to assist in conservation or rehabilitation work because there are inherent risks as compared to modern property.

The possibility of obtaining a subsidy in addition to private sources of funds or some other form of security can reduce the risk factor and may lead to a more enthusiastic attitude by private sector investors (including individual owners of protected property). Moreover, where housing loan policy in European countries has favoured new construction, there is a need to create a framework more conducive to the operation of the rehabilitation market, which can have other associated socio-economic and cultural benefits when applied to property with recognised heritage value. The aim should be to place both markets on an equal footing.

Legal restrictions on the ownership of property and on investment can also have a negative impact on potential investors in the archi-

tectural heritage. In the free market all potential investors should be encouraged.

In some countries the institutions and legal procedures necessary for opening up markets to competition are still developing. Moreover, in the countries-in-transition in central and eastern Europe the question of land and property restitution is still in process – and there may even be a reluctance to return heritage assets to private ownership for fear that the private sector will not accept the responsibility for safeguarding heritage assets.

There may also be a reluctance to allow foreign investors into the market for cultural, philosophical or political reasons. However, the development of appropriate regulations and policies for heritage protection should ensure that all potential owners and users, whether nationals or not, are equally bound in law and equally able to benefit from financial incentives.

1.1. The heritage-funding problem

There are recognised limits on state budgets to support the built heritage. Based on the premise that financial resources are finite and that most governments are unable to provide as much funding as may be needed or desirable, bearing in mind other demands of society, it may be necessary to find arguments to persuade governments to allocate a larger slice of the state budget for this purpose. In this context it is relevant to consider the direct and indirect benefits to be gained from financially supporting the heritage.

Studies have been carried out by ICOMOS and some countries (notably the United Kingdom, Germany and the United States), and reported by the European Union, that reveal the direct and indirect benefits to be gained from investing in the cultural heritage. Direct benefits include the conservation, restoration and rehabilitation of heritage property: long-term preservation. The indirect benefits are much wider. These include the provision of accommodation for living and working, and tax revenues gained as a result of occupation; supporting traditional crafts and professional employment, with the tax revenues gained through people employed in conservation work; tourism and the associated employment, income and tax revenue; and the improvement of facilities and enhancement of the environment to the benefit of society as a whole. Moreover, these studies have consistently shown

that public investment in the heritage usually levers a considerably higher amount of investment from the private sector (with resultant tax revenues for the public budget), with an overall gain for the built heritage and a gain for society.

These types of studies are now being used as an argument to generate financial support from public budgets – principally because of the overall benefits that can be gained. However, it is important that funding is directed in a way that will benefit wider society: not necessarily to those built assets that are of the greatest importance, but to those that are endangered. For example, the rehabilitation of older buildings can create opportunities for good housing, as well as preserving a heritage asset. Thus, if it can be argued that preserving architectural heritage will benefit society generally (rather than it being an elitist activity to the benefit of a few), this is more likely to encourage government financial support.

It may be useful to develop “indicators” of benefits (not just relating to preservation) that can be gained from financial support to the heritage, which could be statistically analysed and presented when government budgets are being considered. The possibilities for cultural tourism, the development of enterprises, jobs, and living and business accommodation, the benefits of an improved environment and the resulting tax revenues should all be considered.

1.2. Programmes and strategies, and the use of official incentives for the preservation and enhancement of old buildings and areas

There are two main ways in which governments can take action to encourage conservation, restoration and rehabilitation. The first involves policies and measures to stimulate the private sector to invest in architectural heritage (the dynamic approach). The second derives from the fact that, without government support, the private sector may decide that investment is not economically justified, thus creating the need for financial incentives and subsidies (the support approach).

If both forms of action are considered together, this can be very effective in encouraging investment. For instance, some countries have adopted policy mechanisms focused on areas of architectural, cultural and historic interest, using a form of partnership whereby municipal

authorities must devise an action plan for heritage-led revitalisation in order to obtain public funds to support action. Evidence suggests that such programmes can generate six times the initial public investment, or more, through private-sector partners or other sources.

Heritage conservation involves a range of cultural and socio-economic values, each of which needs to be taken into consideration. In the case of monuments, heritage authorities will normally have full regard to cultural values in their conservation work. Where funds are available from public sources, the competent authority will be able to direct action to this goal. However, when the implementing agent comes from the private sector, where an important objective is to achieve at least a minimum level of profitability, cultural values will be less important; the objective is more likely to be either to minimise costs or to enhance commercial values. A balance between these differing objectives must be achieved.

Within a sustainable framework, there is a need to balance the requirements of all interested parties: public authorities, private-sector interests and the public at large. Thus some guidelines are necessary, which may be categorised as one of two methods: first, to create a favourable setting for the launching of projects concerning the built heritage; and, second, where financial incentives are made available, to ensure that the mechanisms for protection and enhancement can be more specifically directed.

In general, there is a range of heritage values (cultural, aesthetic, educational, economic, functional and social) and these need not be in conflict. There may be a margin within which the capacity for change can be negotiated (some buildings can be adapted more easily than others). The end result should be an agreement between the relevant heritage and planning authorities and those who would benefit from the intervention in the market, whereby the public benefits from the primary objectives of the whole exercise: sustaining architectural heritage, and creating or furthering a living heritage.

1.3. Raising consciousness

A number of impediments to conservation, restoration and rehabilitation projects by the public sector stem either from a lack of suitable administrative structures or from undue complexity, particularly overtly negative and restrictive control.

An appropriate consciousness-raising policy is essential to encourage owners and developers to invest in conservation and rehabilitation. Such a strategy must emphasise to investors the potential economic value of their asset, which makes it possible to use existing resources and to avoid “wasting” assets. For example, the state department responsible for cultural heritage or the municipal authorities responsible for land-use planning could be encouraged to develop “at risk” registers of endangered historic buildings in their area, on the basis of a brief survey of their condition and occupancy.

A register of this type will assist those who are looking for opportunities to invest in built heritage, focusing attention where it is most needed. Moreover, subsidised surveys to encourage regular maintenance and conservative repair, rather than costly restoration, which in itself can be damaging in terms of authenticity, can be linked to public financial support.

1.4. Council of Europe advice on funding and fiscal measures

This publication builds on previous recommendations, resolutions and conventions that have sought to raise awareness of appropriate forms to be utilised in relation to architectural heritage. These are summarised here.

The first consideration of financial issues by the Council of Europe was through Resolution (66) 20 on the reviving of monuments (adopted by the Ministers’ Deputies on 29 March 1966), which urged governments to provide fiscal (tax relief) and financial measures (loans and grants) to assist owners of monuments and other bodies to protect architectural heritage.

Following the discussion of financial issues at the Congress on European Architectural Heritage (Amsterdam, 21-25 October 1975), the Congress’s Amsterdam Declaration included a more extensive description of financial measures, which was put forward in Resolution (76) 28 concerning the adaptation of laws and regulations to the requirements of integrated conservation of the architectural heritage (adopted by the Committee of Ministers on 14 April 1976).

These included the reallocation of funds via national budgetary policies, from redevelopment and construction schemes to become more

evenly in favour of rehabilitation of architectural heritage, using official financial aid mechanisms and practical arrangements to support publicly managed and privately owned architectural heritage. Specific measures included:

- financing of preliminary surveys (to obtain the information needed for drafting programmes for the integrated conservation of monuments and groups of buildings);
- grants (both repayable and non-repayable) to help public and private owners restore or rehabilitate buildings;
- tax relief to enable to owners to devote more of their means to maintenance and conservation (including reductions in property tax, the setting-off of maintenance and restoration costs against income tax, and reductions in estate tax); and,
- the establishment of a “revolving fund”.

The need to consider financial measures in laws on architectural heritage was made a requirement of signatory countries to the Convention for the Protection of the Architectural Heritage, the Granada Convention (Granada, 3-4 October 1985; ETS No. 121).

Under Articles 6.1 and 6.2 of the convention, each party is required to provide appropriate financial support measures, including fiscal measures if necessary. The explanatory report to the Granada Convention emphasised that the burden of conserving an even more extensive heritage should be shared by the community as a whole: “it cannot be borne by public authorities alone”.

Article 14 further identified the need to foster the development of:

- sponsorship; and
- non-profit-making associations.

Detailed advice on financial support measures was subsequently provided in Recommendation No. R (91) 6 on measures likely to support the funding of the conservation of the architectural heritage (adopted by the Committee of Ministers on 9 September 1991) and through a Council of Europe publication entitled *Funding the Architectural Heritage* published later in 1991. These were summarised in a companion volume to the compendium of texts of the Council of Europe in the field of cultural heritage as follows:

i. Administrative measures

In order to create favourable conditions for the initiation of conservation projects the following measures can be considered:

- The adoption of an appropriate urban development strategy to inform potential investors about and draw their attention to the resources that exist for putting the heritage to use;
- The implementation of a planning and urban development policy that is sufficiently flexible to reconcile the cultural requirements of conservation with the need for projected development to be profitable. This approach can be linked to the adoption of management plans for areas of recognised importance;
- The simplification of administrative procedures such as the need for one form of authorisation;
- The appointment of project co-ordinators and field operators, possibly in the form of a team representing the public and private sector partners, to be fully responsible for a project and capable of overcoming the administrative and financial complexities facing any major conservation project or strategy;
- The preparation of a structured financial evaluation for every maintenance and restoration project, using modern building-site management techniques. This approach can be linked to the use of management plans for single monuments;
- The adoption of a rental policy, where this is a responsibility of the public authorities, that is not a disincentive to private investors.

ii. Intervention measures

Appropriate legal forms should be created to mobilise investors, encourage the reinvestment of profits in new conservation operations or permit the launching of building maintenance and restoration programmes that accord the operator the right to use the building while preserving the rights of the owner. The following examples may be cited:

- Revolving funds using both public and private funds, which with the help of other financial measures will enable either the generation of new money and the automatic renewal of the fund through an original credit mechanism, or the reinvestment of the proceeds in new projects following the sale of completed projects;

- Housing improvement programmes which, combining financial assistance from the state, local authorities and public bodies responsible for social housing, encourage owners to modernise their buildings while guaranteeing low rents;
- A leasing system to enable ownership of a building to be transferred to a specialised company, which would manage and fund the operation and then lease back the restored building to the former owners;
- A 'renovation lease' scheme, the aim of which is to re-market dilapidated housing vacant for that reason, by letting the lessee carry out works and transferring tenure of the building back to the owner after a given period.

iii. Financial measures

There are three principal forms of financial measures:

- *Subsidies (or grant aid)*

The award of grants of money through public subsidy policy should take account of the nature of the operation. Preference may be given to maintenance or restoration of a monument and may depend on other factors such as whether the monument is exclusively used for cultural purposes or for social housing, or is capable of generating a profit. (This may include a group of buildings of historic interest or in an area of cultural significance, whether protected or not). It should also take account of the beneficiaries' income level. With particular reference to social housing, subsidy policy could be designed to encourage the conservation of old buildings rather than the construction of new housing.

- *Loans*

Measures to cover or diminish risks should be taken in order to encourage credit institutions to finance old buildings, particularly by combining mortgage loans with public subsidies, establishing appropriate forms of insurance, and the provision of a public security by a public (particularly local) authority. Diminishing risks can be achieved, for example, by means of a public guarantee. In order to realise their commitment to programmes to enhance the heritage, authorities could also participate in joint structures involving a number of different partners and aimed at handling rehabilitation programmes.

- *Taxation*

Measures should be taken, particularly in countries where the tax system favours investment in new rather than old buildings, to arrive at a situation where taxation provisions encourage maintenance or restoration on old buildings. Different forms of relief can be considered, including income or profits tax, value added tax on the sale of goods and services (including maintenance or restoration works), inheritance tax and land (occupation) taxes.

iv. Specific measures to promote sponsorship

- Measures should be taken to encourage donations (through financial contributions or the donation of assets), not only by means of tax incentives but also by methods likely to promote “popular” sponsorship institutions involving several small businesses or a large number of individuals.
- Specific tax incentives may fall into one or more categories. Measures may be adopted to favour private individuals, by enabling them to claim tax relief on a certain proportion of sums donated for heritage conservation purposes, the proportion varying according to the nature of the beneficiary. Measures may be adopted to relieve firms of company or profit taxes in relation to gratuitous gifts, expenditure to enhance the heritage and expenditure to enable research into architectural heritage. Tax concessions may also be provided to sponsored foundations or non-profit bodies.
- Co-financing procedures could be established to link the award of public loans to the prior collection of private funds from individuals and firms.
- Appropriate legal frameworks should be adopted to enable businesses to make philanthropy part of their management scheme, as a tool of institutional communication. To this end, the advantages traditionally accorded to foundations classed as charitable should be granted to foundations bearing the firm’s name whose aim is the maintenance or restoration of part of the heritage. The establishment of specific foundations for the conservation of architectural heritage should be encouraged by the granting of special tax advantages to donors. Encouragement should be given to the establishment of associations of diverse partners for the conservation of the heritage, by recognising their legal status as bodies corporate, their financial autonomy and the appropriate tax advantages.

Furthermore, in recognising that public funds are necessarily limited, the 5th European Conference of Ministers responsible for the cultural heritage (Portorož, 6-7 April 2001) gave further support to encouraging appropriate financial measures and incentives through sponsorship and investment in the less profitable aspects of the heritage.

Moreover, Resolution 1355 (2003) draws attention to Recommendation 1634 (2003) Tax incentives for cultural heritage conservation adopted by the Standing Committee, acting on behalf of the Parliamentary Assembly of the Council of Europe, on 25 November 2003 and the Report of the Committee on Culture, Science and Education under the same title (Doc. 9913 rev.) debated in the Standing Committee, which gave further weight to the idea of encouraging the private sector to invest in architectural heritage through the provision of tax incentives.

1.5. Forms of action and financial assistance

This publication builds on previous work by the Council of Europe, as identified in section 1.4, by providing a more in-depth analysis of measures and examples of systems in operation.

In a number of European countries and also in North America, many different forms of assistance have been developed. Coupled with public-sector-led initiatives, programmes and strategies, a range of mechanisms and practices can be identified and disseminated. These will be examined in the next five chapters of this publication, which consider the following:

- Alternative revenue-raising methods (Chapter 2);
- Grant-aided subsidies (Chapter 3);
- Loan and credit facilities (Chapter 4);
- Fiscal measures (Chapter 5);
- Integrated heritage funding strategies: administration and management (Chapter 6).