



# Spatial Economics Research Centre

Tuesday, 10 August 2010

## New Home Bonus

The coalition has announced plans to [provide LAs with financial incentives](#) to agree to new housebuilding.

In the area of housing, I am no fan of top down master plans (like the, now defunct, Regional Spatial Strategies). We need a mechanism that allocates land to housing where it is needed and that compensates affected local communities so that they support new housing rather than opposing it. Against this background the approach advocated by the government is a step in the right direction.

There are still important problems to resolve. The idea is that the scheme will give LAs incentives by matching council tax receipts for six years on any new homes. This will help resolve the problem that grant funding allocation (which is broadly proportional to population) takes time to respond to population growth. It will not address the problem that *new* homes may impose marginal costs that are considerably larger than the average costs of serving existing populations (for example, if they require communities to build new local facilities such as schools). Presumably, the intention is that the Community Infrastructure Levy will try to address this problem. Whether the combined incentives provided by the homes bonus and the levy are significant depends on the costs that LAs face - I don't know of any good evidence on this.

Assuming the resulting incentives are "significant" will this be enough to get houses built where they are needed? That's less clear for two reasons. First, house prices provide a strong signal as to where we need new housing but when looking *across* LAs council tax is not very strongly correlated with house prices. This means the incentives are not much stronger for LAs where there is the strongest demand for new housing. Second, the incentives compensate LAs but *not* the most directly affected local residents (the immediate neighbours of housing development). Traditionally, the planning system has tried to get around this problem by (mostly) ignoring the wishes of local residents. Quite rightly, the coalition government is trying to move away from this unpopular position. But giving more say to local residents means greater opposition to new developments and, as yet, the government do not have good mechanisms for addressing that problem.

Posted by [Prof Henry G. Overman](#) on [Tuesday, August 10, 2010](#)

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