THE UK GOVERNMENT'S NEW NEIGHBOURHOOD INITIATIVES
A briefing note

The announcement

On 25 September, the UK government published details of the neighbourhood initiatives flagged up in the Spending Review back in June. Collectively, these initiatives are being badged *Pride in Place*.

- The 75 places[1] originally targeted under the previous government's *Long-Term Plan for Towns* go ahead as planned as 'Phase 1'. These are whole towns, defined as their built-up urban area. Each town receives £20m over ten years, beginning in 2026.

- 169 additional neighbourhoods[2] are now targeted for support as 'Phase 2'. These are Middle Super Output Areas – statistical units with an average population of c.8,000. They each receive £20m over ten years, beginning in 2027.

- Parliamentary constituencies that receive support under Phase 1 have been deemed ineligible for Phase 2. Also, no constituency receives support for more than one neighbourhood under Phase 2.

- Selection of the neighbourhoods has largely been driven by the Indices of Deprivation.

- The neighbourhoods to be targeted in England are named. In Scotland and Wales, the local authorities are named but the neighbourhoods are still to be selected.

- Funding is intended to build stronger communities, create thriving places, and empower people to take back control. Management is to be by neighbourhood boards that include the local MP.

- The government also announced a *Pride in Place Impact Fund*. This provides 95 named places[3] with £1.5m each to be spent on capital projects over two financial years (2025-26 and 2026-27). Funding can be spent anywhere in the authority.

In England, 108 of the 146 Phase 2 neighbourhoods (74%) and 44 of the 64 Impact Fund areas (69%) are in the North or Midlands.

[1] 58 in England, 10 in Scotland, 5 in Wales. 2 in Northern Ireland.
[2] 146 in England, 14 in Scotland, 9 in Wales. These include the 25 'trailblazers' identified in the Spending Review.
[3] 64 local authorities in England, 8 in Scotland, 23 in Wales (Bridgend get two)

Concerns

1. It's a very 'top-down' initiative

In the foreword to the documentation, Secretary of State Steve Reed MP writes "we don't have to follow the well-trodden path of hoarding power and micromanaging from dark corridors in Whitehall". Yet this is exactly what the government seems to have done.

In England (it may work out differently in Scotland and Wales) there has been no consultation with local authorities about the selection or definition of the neighbourhoods to be supported. There's also no intention to give local authorities a significant say in how the neighbourhood money is spent. It all sits uneasily alongside rhetoric about devolving power from Whitehall and could so easily have come from a central-local playbook of fifteen or twenty years ago.

2. There are worrying knock-on consequences for other funding

For Scotland and Wales, the Spending Review set the budget for local growth funding, including the neighbourhood initiatives, "at the same overall level in cash terms as under the UK Shared Prosperity Fund in 2025-26". For the three financial years beginning in April 2026 that means a total of £230m for Scotland and £630m for Wales. If the same arrangement applies in England (a reasonable assumption) that would mean £1,700m.

So we can work out what's left over when the neighbourhood initiatives are stripped out:

		England	Scotland	Wales
	Spending Review financial envelope	£1,700m	£230m	£630m
less	Neighbourhoods Phase 1[4]	£ 348m	£ 60m	£ 30m
less	Neighbourhoods Phase 2[5]	£ 584m	£ 56m	£ 36m
less	Impact Fund	£ 96m	£ 12m	£ 35m
equals	Left over for former UKSPF activities	£ 672m	£102m	£529m
Reduction in annual budget compared to UKSPF				
	In 2025-26[6]	60%	56%	16%
	In 2024-25	76%	73%	50%

For England and Scotland in particular, these are very large reductions in a UKSPF budget line that has hitherto supported a wide range of business support, training and employability services – and employs several thousands across the UK in local authorities and third sector organisations.

[4] Spending in 2026-7, 2027-8 and 2028-9
[5] Spending in 2027-8 and 2028-9
[6] The UKSPF budget for 2025-26 was cut by 40% compared to 2024-25, when it roughly equalled in real terms the EU funding it was intended to replace.

3. Too few people are being targeted

With an average population of just 8,000, 169 Middle Super Output Areas (MSOAs) to be targeted by Phase 2 means this will cover just 1.35 million people – that's just 2 per cent of the UK population.

These may be among the most disadvantaged neighbourhoods in the country but the extent of disadvantage is far wider – yardsticks such as 'the 10, 20 or even 30 per cent most deprived neighbourhoods' are more typically used as a guide to where support is needed.

4. The small size of MSOAs limits options and is likely to lead to 'absorption' problems

It can be difficult to spend large amounts of money in a very small area. If the money goes on housing it's probably not a problem but in small neighbourhoods there can be limited opportunities for other capital spending, especially if there is little in the way of a local high street. Training and employability programmes, for example, generally require a larger pool of potential clients from a wider area. Local economies too operate over wider areas, so it's not really possible to do much about job opportunities.

The focus on whole towns in Phase 1 of the neighbourhood initiative (the rebranded *Long-Term Plan for Towns*) arguably made more sense.

5. MSOA boundaries don't match neighbourhoods on the ground

Middle Super Output Areas – the basis of the places identified for Phase 2 support – don't match neighbourhoods. They are purely statistical boundaries that in practice cut through housing estates and streets and ignore the natural divides between places such as railway lines, main roads and open spaces. As a geographical basis for operationalising support to communities, MSOAs simply don't make sense.

In some places too, neighbouring MSOAs have been identified for support (even though they fall into different constituencies). Whether Whitehall has logged this detailed geography is a moot point, but it doesn't make sense to have two boards up-and-running covering what is in practice one community.

Verdict

The announcement on neighbourhoods isn't a consultation, it's a commitment, so it's going to happen and in these places. Many local authorities and MPs will welcome that they have secured one of the places to be targeted. But the design of the initiative is imperfect and it has worrying knock-on consequences for other funding schemes. Phase 2 spending isn't intended to start until 2027 so there is probably a window of opportunity to push for improvement.

Priorities

1. LOCAL AUTHORITIES SHOULD BE INVITED TO DEFINE MORE SENSIBLE BOUNDARIES FOR THE PHASE 2 NEIGHBOURHOODS

Middle Super Output Area are generally too small and their boundaries don't make sense on the ground. The government guidance says "there will be some flexibility offered to areas to alter their default boundary". It adds that "in some circumstance a board may determine that interventions may extend beyond the geographic boundary".

These statements in the guidance are welcome recognitions of reality but it's across-the-board, not just in a few cases, that the neighbourhood boundaries need to be redefined. In doing so most are also likely to be enlarged to reflect the realities of local communities.

All the relevant local authorities should be formally invited to review and redefine the boundaries of the Phase 2 neighbourhoods.

2. THE NEIGHBOURHOOD INITIATIVE SHOULD NOT BE ALLOWED TO SQUEEZE OUT OTHER SPENDING ON LOCAL GROWTH

In Scotland and Wales, the Spending Review made it clear that funding for neighbourhoods will come out of what used to be the budget for the UK Shared Prosperity Fund (UKSPF). In England, that also looks likely to be the case. This is doubly worrying because the UKSPF budget itself has already been cut by 40 per cent (from £1.5bn in 2024-25 to £900m in 2025-26).

The UKSPF – the successor to EU funding to the regions – funds a great deal of important activity aligned to the government's priorities of growth and jobs. For example, the UKSPF is a major funder of schemes to help move the unemployed and economically inactive into work. It also funds business support. It's important that spending on neighbourhoods doesn't squeeze out these vital activities.

There's a real challenge for ministers here. The worst of the crunch will come in April 2027 when spending on Phase 2 neighbourhoods kicks in. **Ministers need to juggle their spending plans to avoid the worst consequences for other programmes**.

National Secretariat
Industrial Communities Alliance
2 October 2025