LOCAL GROWTH FUNDS

A windfall for the devolved governments in the Chancellor's Spring Forecast offers a way to save the jobs and services under immediate threat

The crisis to be resolved

The UK Government's new Local Growth Funds, due to come into operation in Scotland and Wales in April this year, are to all intents the replacement for the UK Shared Prosperity Fund (UKSPF), which in turn replaced EU funding to the regions. Compared to the UKSPF in 2025-26, the budget has been cut – by 39% in Scotland and 13% in Wales.

Worse, however, the UK Government is imposing a new 70/30 capital/revenue split from April onwards. In Scotland and Wales capital spending presently accounts for just 26% of UKSPF expenditure.

The effect of the reduced funding, and in particular the new capital/revenue split, is to take a sledgehammer to the revenue-funded services and jobs presently supported by the UKSPF. These services are mainly **business support, training and employability schemes**, the latter intended to engage the economically inactive and bring down the benefits bill.

On the basis of data from a sample of authorities, it's estimated that in Wales 1,500 local authority jobs are presently directly supported by UKSPF funding, and more than 500 in Scotland. Probably at least as many jobs are supported in Third Sector organisations delivering revenue-funded UKSPF services. **The vast majority of these jobs are at immediate risk.**

Local authorities, the Third Sector and the devolved governments have lobbied the UK Government for a shift in the proposed capital/revenue split, but to no avail.

But all may not be lost…..

The unexpected windfall

The Chancellor's Spring Forecast on 3 March included unexpected additional funding for the devolved governments – more than £1.8bn in total. As the Treasury's press release makes clear "This is on top of the record Spending Review 2025 settlements, and an additional £1.7bn announced at Autumn Budget 2025".

- The Scottish Government will receive an additional £900m in revenue funding and an additional £20m for capital spending

- The Welsh Government will receive an additional £540m in revenue funding and an additional £15m for capital spending

This extra money is available for the next three financial years, beginning in April. So in Scotland that's £300m a year extra revenue funding, and in Wales £180m a year extra revenue funding.

The source of the money is the UK Government's decision to apply the Barnett formula to a write-off of English local authorities' deficits arising from spending on Special Educational Needs. The write-off was only announced in a White Paper on 23 February, so it's difficult to see how the Barnett consequentials could have been incorporated into the Scottish and Welsh Budgets announced on 13 January and 20 January. Indeed, the Treasury's press statement describes the extra money for the devolved governments as "a result of decisions at Spring Forecast 2026".

The way forward

The additional revenue funding for the devolved governments provides the opportunity to plug the shortfall in revenue funding for the new Local Growth Funds and thereby to protect vital services and jobs.

Maintaining revenue funding for Local Growth Fund services at the same level (in cash terms) as in 2025-26 under the UKSPF would over three financial years require:

- £130m top-up funding from the Scottish Government

- £300m top-up funding from the Welsh Government

That would still leave substantial new revenue funding - £770m in Scotland, £240m in Wales – to fund other things.

These are financial decisions which the devolved governments need to make immediately if jobs and services are to be protected.

National Secretariat
Industrial Communities Alliance
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