

SCOTLAND'S NEW LOCAL GROWTH FUND

An assessment

On 8 January the UK Government announced a new Local Growth Fund for Scotland. Similar funds had previously been announced in England and Wales. The new fund provides £140m over three financial years, beginning in April 2026.

The UK Government intends to “allow local leaders to decide how best to use the funding, which could include projects to improve infrastructure, business support or skills development”.

Unlike in Wales, where the equivalent funding is routed via the Welsh Government, the Scottish funding comes directly from the UK Government.

How does the funding compare with the UKSPF?

The new Scottish fund is essentially the successor to the UK Shared Prosperity Fund (UKSPF), which itself was the successor to EU funding to the regions. The three proposed uses of the new fund (infrastructure, business support, skills) are the same.

| | | Annual funding | 2024-25 = 100 |
|---------|-------------------|-----------------------|----------------------|
| 2024-25 | UKSPF | £126m | 100 |
| 2025-26 | UKSPF | £ 76m | 60 |
| 2026-27 | Local Growth Fund | £ 52m | 41 |
| 2027-28 | Local Growth Fund | £ 50m | 40 |
| 2028-29 | Local Growth Fund | £ 38m | 30 |

Source: UK Government

In 2024-25 the UKSPF funding to Scotland was broadly equivalent in real terms to the preceding EU funding. By 2028-29, Scotland's new Local Growth Fund is worth only 30% as much in cash terms and only half as much as in 2025-26 (the present financial year). In real terms (i.e. after allowing for inflation) the reduction is greater.

How does this compare with what was expected?

The UK Government's Spending Review in June set the three-year financial envelope for Scotland's new Local Growth Fund plus its spending on neighbourhoods (now labelled 'Pride in Place') at the same overall level in cash terms as the UKSPF in 2025-26. The number of target neighbourhoods in Scotland and their funding has been known for some weeks, which appeared to leave £106m for the new Local Growth Fund.

That Scotland's new Local Growth Fund is worth £140m over three-years suggests at first sight that the UK Government has found £34m in extra money.

This is unlikely. What has almost certainly happened is that the UK Government has made the reasonable judgement that spending on Pride in Place neighbourhoods (mostly capital, spread over ten years) will take time to build up, thereby freeing up more money in the short term for the Local Growth Fund. That the annual budget for the Local Growth Fund is higher in its first two years than in the third year points strongly in this direction.

How much for each Scottish region?

The UK Government has chosen to allocate the new Local Growth Fund to five of Scotland's eight Regional Economic Partnerships. It used data on Real Disposable Household Income per capita to select the five regions and then allocated the money in proportion to population.

| | Allocation | Average annual funding for 2026-29 compared to UKSPF in 2025-26 |
|------------------------|-------------------|------------------------------------------------------------------------|
| Ayrshire | £11.8m | - 38% |
| Edinburgh & South East | £37.9m | + 6% |
| Forth Valley | £ 9.9m | - 21% |
| Glasgow City Region | £60.9m | - 31% |
| Highlands & Islands | £ 0.0m | - 100% |
| North East | £ 0.0m | - 100% |
| Tay Cities | £19.5m | - 20% |
| South of Scotland | £ 0.0m | - 100% |

Source: ICA calculation based on MHCLG data.

UKSPF allocations in 2025-26 to Fife and Borders are assumed to be split equally between the two regions of which they each form part.

The percentage change in funding to each recipient regions varies because UKSPF funding followed EU funding in prioritising areas with lower GDP per head. Allocation of the new Local Growth Fund in proportion to population has therefore disadvantaged the poorest parts of Scotland.

And the capital/revenue split?

In 2025-26, capital spending accounts for 23-28% of the UKSPF allocations to Scottish local authorities. In the new Local Growth Fund, capital spending accounts for 70% of the funding. This has major implications:

- It's extraordinarily difficult to undertake meaningful capital expenditure within a three-year framework. It takes time to secure permissions and to issue contracts, let alone deliver on-the-ground. This was one of the salutary lessons of ill-conceived levelling up programmes initiated by the previous UK government.

- The proposed shift to capital spending, on top of the overall reduction in funding in all but one of Scotland's regions, takes a sledgehammer to revenue-funded services presently supported by the UKSPF, such as business support, training and employability initiatives.

The consequences for jobs

In turn, there are major knock-on consequences for jobs. Based on data for a sample of local authorities, the ICA National Secretariat estimates that on average every £1m of UKSPF spending directly supports seven jobs in local authorities plus additional jobs in Third Sector organisations delivering UKSPF-funded services. On that basis:

- Around 530 jobs in Scottish local authorities are presently directly supported by UKSPF funding.
- The 50% reduction in funding for Scotland's Local Growth Fund by 2028-29 and the shift to capital spending puts more than half these jobs at risk, beginning in April this year.

***National Secretariat
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