



LOCAL GOVERNMENT'S ROLE IN ECONOMIC DEVELOPMENT IN SCOTLAND



Strong communities start



with Local Government

WHAT WE DO



Local Government is a cornerstone of Scotland's economic development system. Our aspiration is to create an economy that is dynamic, inclusive and sustainable - delivering prosperity fairly and supporting vibrant communities. Across all 32 council areas, local authorities lead and coordinate place-based interventions that align local priorities with regional and national ambitions set out in the Scottish Government's National Strategy for Economic Transformation (NSET) and the UK Government's Modern Industrial Strategy.

Local authorities provide the essential economic development functions that underpin growth and resilience. These include employability services that tackle inequalities and child poverty, business support through Business Gateway to foster entrepreneurship and innovation, and regeneration programmes that revitalise towns and communities. Councils also deliver City and Growth Deals and convene regional partnerships to unlock infrastructure, land and investment, ensuring Scotland benefits from opportunities in sectors prioritised by the UK Industrial Strategy, such as advanced manufacturing, clean energy, digital technology and life sciences.

Our approach is rooted in Scotland's vision for a wellbeing economy - an economy that measures success by improvements in people's lives as well as economic performance. Councils embed fair work, inclusive ownership and Community Wealth Building, ensuring that more of the value created by local economies is generated, circulated and retained locally. They support purposeful businesses, social enterprises and cooperatives, and use procurement and asset strategies to strengthen local supply chains and maximise community benefit.





Allied to this, the **Just Transition to Net Zero** is not just a climate requirement, but an economic development strategy which delivers a stronger, more resilient Scottish economy, and Local Government is fundamental to delivering a fair and effective transition. Councils work with partners and industry to grow the economy while reducing emissions, accelerating green investment and equipping the workforce with skills for emerging low carbon sectors. This includes supporting businesses to decarbonise operations, adopt resource efficient practices and access green markets, while aligning planning and infrastructure with net zero objectives and capitalising on the economic opportunities the carbon transition presents. Without this work we risk industrial decline, loss of skilled jobs and long-term economic weakness by exposure to carbon reliant industries which, as households across Scotland are all too aware, are vulnerable to global events beyond our control.



Digital transformation is another crosscutting priority. Local authorities help adopt secure digital technologies, develop data driven innovation and build digital skills, ensuring local economies can adapt to AI enabled productivity and global trade shifts. Councils also advocate for and facilitate digital connectivity, which is essential for inclusive growth across islands, rural and urban Scotland.



In terms of **employability**, we deliver targeted, tailored one to one support to help people get into fair, sustainable jobs, particularly focusing on those who face the greatest barriers to work, including disabled people and those with a health condition, as well as tackling poverty by increasing parental incomes. Since 2019, we have engaged with over 92,000 people across Scotland, with around 70,000 positive outcomes, including almost 30,000 people who have been supported into employment.



As well as overcoming barriers to work for individuals, we also deliver **Business Gateway**, Scotland's national business support service which sits at the heart of business support and economic development. It plays a critical role as Scotland's primary publicly funded entry point for impartial business advice, start-up support and early-stage growth assistance. The service is key to building stronger communities as it directly supports the development of new businesses, existing businesses, social enterprises and community organisations, and addresses structural barriers faced by under-represented groups in local communities across Scotland as well as supporting businesses to upskill in the areas of digital and AI adoption. In the past five years, Business Gateway has supported over 200,000 unique customers with their plans to start or grow their business. As a result, these customers have been supported to create over 36,000 new start-up businesses and over 50,000 new jobs for the Scottish economy.

CHALLENGES



However, meeting these aspirations and providing the range of services and interventions sought locally is proving increasingly difficult. Over more than a decade, sustained reductions in Local Government budgets have weakened councils' ability to plan proactively for major economic and social transitions. Local Government Benchmarking Framework data shows core funding remains stagnant with only a 0.2% increase since 2013/14 and ringfenced funding now standing at 24% of all Local Government revenue funding. This has intensified cost pressures across core services which deliver on policies such as child poverty, employability and business support and national reporting indicates that long term efficiency gains have plateaued and the resilience of these services is at risk. This financial squeeze increasingly limits councils' ability to maintain frontline delivery while supporting strategic functions such as economic development, planning and environmental policy.



Climate change is one such example, with the recent Just Transition Commission report making clear that a decade and a half of severe budget reductions has greatly harmed the capacity of local authorities to plan and deliver the just transition to net zero, which is central to growing Scotland's future economy. This is not just about decarbonisation, which alone will fail to deliver the principles of a just transition. It is crucial that climate adaptation is a structural part of our national planning for climate change. Failure to adapt will come with an economic cost, the brunt of which will be borne by the least able to afford it, unless we are resourced and empowered to act now.



The Business Gateway service is another example where funding has not increased since 2008 when the service transferred from Scottish Enterprise to Local Government. If the budget had increased in line with inflation over the same period it would now be in the region of £28.3m instead of the current £16.3m. Over time, local areas have had to make savings to sustain the service, albeit, in many areas, the service has been developed and augmented locally by ERDF and, more recently, UK Shared Prosperity funding, which is now being discontinued. Increased investment in established business support services with proven ability to deliver will be crucial to the growth of Scotland's SMEs and therefore Scotland's economy.



Economic development is a vital driver of Scotland's long-term fiscal sustainability and a cornerstone of public service reform. Its contributions to the national fiscal position are profound, fostering increased tax revenue, boosting GDP per capita, and enhancing overall fiscal capacity. These benefits are consistently highlighted in national fiscal sustainability analyses as critical to addressing structural budget gaps and ensuring Scotland's economic resilience.



But the current funding landscape is precarious and fragmented. The sector is heavily reliant on ring-fenced, time-limited, or centrally designed programmes, which severely limit local flexibility and undermine the stability required for effective planning. Evidence from the Society for Local Authority Economic Development Indicators' Report shows that this is declining year on year, from £171m in 2021/22 to £117m in 2023/24, with a disproportionate impact falling most heavily on rural and island authorities.



The ongoing uncertainty surrounding capital regeneration funding further challenges employability, regeneration, and local investment planning, which holds back what Local Government can achieve with proper fiscal empowerment. Whilst we have seen good progress in simplifying the number and range of employability funding streams, the year-to-year funding cycle impacts our ability to plan – including further involvement of service users in design - and on our ability to attract and retain a strong workforce. A long-term commitment to sustainable funding which can be flexibly used to match place-based priorities is crucial.



Linked to COSLA's vision for education, Local Government can only co design and deliver meaningful pathways from school to work if employers engage with us and our schools to deliver high quality work placements, apprenticeships and vocational learning aligned to local and regional labour market needs.



Additionally, employers can help young people, particularly those with additional support needs or affected by poverty, to build the core skills like literacy, numeracy, communication. While this journey begins in schools, it continues beyond, through inclusive workplace experiences. This in turn aids employers by supporting the development of a diverse workforce with the skills required as future employees.



The direction of travel towards more regional models can present opportunities to build resilience, but only if Local Government is at the forefront of developing this from the bottom up, rather than more centrally designed approaches. In line with our commitment to the Local Governance Review, COSLA is seeking to work on shaping and leading the development of regional economies with Scottish Government, UK Government and other key stakeholders and partners, informed by Solace, SLAED, Directors of Finance and other Local Government professional bodies as appropriate. We seek a real commitment to the potential for a flexible approach, in which different Partnerships can ask for different powers at a level that works best for them. This would not be 'one size fits all', but instead allow different models to be created, which recognise Scotland's regional differences, and different levels of development and ambition within the existing Regional Partnerships.



We seek meaningful tripartite discussions with both the new Scottish Government and UK Government on growing Scotland's economy, protecting jobs and a just transition.

Recent announcements by UK Government on the Local Growth Fund represent a significant reduction in resources for Scotland. Allocations overall have fallen by 57.4% in 2026–27 and by 43.2% thereafter, and some areas are getting nothing. The absence of detailed programme guidance until early 2027 adds further uncertainty, forcing actions such as issuing redundancy notices for UKSPF funded staff.

Similarly, the UK Government's Pride in Place Programme will provide £28 million annually, but Scotland's per capita allocation (£13.52) remains significantly lower than Wales (£66.37) and Northern Ireland (£23.64), and reaches only 4% of the population.

Even more recently, the Scottish Government's decision to withhold the final payment of Place Based Investment Programme funding for 2025/26 has left local authorities facing impossible decisions on projects and programmes planned for communities across the country.

Capital projects require long lead times and growth funds must be aligned to local structural needs, making annual allocations inefficient and

ineffective compared with longer term funding models. At the same time, reduced revenue funding threatens core employability and business support services that cannot be paused and restarted without disruption and threaten the retention of skilled staff.

When capital funding is delivering at more appropriate levels of resource, discretion over local priorities is essential to avoid hampering councils' ability to tailor interventions to the unique economic conditions of their communities. Major industrial transitions, such as those at Grangemouth and Mossmorran, have exposed longstanding weaknesses in anticipatory planning. The combination of shrinking capacity and growing complexity often forces councils into reactive crisis management rather than the early intervention and proactive measures we seek to achieve.

Without these constraints, local economic development can fully realise its potential as a strategic lever for fiscal resilience. To address these challenges, economic development must be elevated as a crosscutting enabler of sustainable public finances and future revenue growth. It should be integrated into financial sustainability planning and national policy discussions as a priority area, rather than being treated as a secondary expenditure.



Scotland's long-standing challenges around economic inactivity need to be better understood, and we need a collaborative approach across the private, public and third sectors to address them – noting the complex interplays with the health system, caring responsibilities and social security.

WHAT WE NEED



We need clear recognition, support and investment in the indispensable role of local and regional economic development in securing Scotland's fiscal and net zero future. Stable, predictable, and flexible funding mechanisms, and greater access to the necessary powers locally, are essential to empower local authorities to drive economic growth, create jobs, and foster innovation. By investing in local economic development as a strategic priority, Scotland can unlock its full potential, ensuring a robust and sustainable fiscal foundation for generations to come.

The Just Transition Commission warns that Local Government is expected to deliver major elements of the just transition but lacks the powers, funding, capacity and data needed to do so effectively. Local Government Benchmarking Framework data provides further evidence that system-wide pressures - financial, workforce and demand led - are eroding the resilience of essential services and

slowing improvement across councils.

Local economic development achieves the most when we have the powers and resources to match the aspirations of our communities, not firefight this erosion year on year. Low-paid, insecure work continues to drive poverty, even among full time workers. Community Wealth Building principles offer practical routes for aligning local economic development with poverty reduction by supporting fair work, local procurement, social enterprises, and community owned assets. Local authorities, as major employers and anchor institutions, have a powerful role in shaping inclusive local economies, but only if we have the powers and resources to deliver those principles.

To achieve this aspiration, Local Government calls for a higher proportion of revenue funding, greater local flexibility, transparency in allocation methodologies, and timely programme guidance to support effective planning.

1

Certainty

End creeping uncertainty caused by ring fenced, central funds. We are asking for a redistribution of funding from the new Scottish Government and the enterprise agencies to Local Government, to maximise the benefits that regional economies can realise, including additional investment in Business Gateway.

2

Clarity

End siloed approaches and allow greater local input to methodologies for centrally designed policies. COSLA wants to work with a new Government on an economic strategy that is grounded in the reality of doing business in Scotland. This would include labour supply, reliability and upgrading of infrastructure, and meeting the challenge of the AI era, and seek to clarify the roles of Scottish Government, its agencies, regional partnerships, private sector groupings, and place based programmes.

3

Flexibility

Devolution of power over spend and prioritisation of policy objectives to address local priorities. This would allow us to fully utilise the opportunities available and mainstream place-based approaches to the wellbeing economy. Further simplifying the funding landscape would enable councils to ensure a sharper person-centred focus, breaking down barriers between employment support, childcare and transport.



Prosperity

Business Gateway sits at the heart of economic development and business support in Scotland and is a key entry point and enabler. Investment in Business Gateway would help us evolve the service, deliver targeted programmes in expert advice and digital and AI skills, expand community outreach, and support the wider business support ecosystem to deliver national economic growth priorities.

These priorities are mutually reinforcing and delivered through a coherent, place based system:



Wellbeing economy and inequality

Employability and fair work raise incomes; business support and community wealth building increase local value capture; regeneration improves access to services and opportunities.



Climate and net zero

Green skills and low carbon business models create quality jobs and competitiveness, while place-based planning ensures climate action strengthens resilience.



Digital and productivity

Digital adoption and skills drive innovation and competitiveness, enabling firms to access new markets and investment.



Partnerships and performance

Local authorities convene regional and national partners to align funding and strategy, using evidence to measure impact and continuously improve.

Despite fiscal pressures and global uncertainty, Local Government remains committed to delivering resilient, inclusive and sustainable local economies. By integrating employability, business support, regeneration, climate action, digital innovation and community wealth building, underpinned by strong partnerships, local authorities provide the practical leadership that turns national ambitions into real outcomes for Scotland's people, businesses and places.

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