Real Estate: Scotland

RE:UK RE:Futures UKPropTech Association

Consultation Response

Scottish Parliament's Finance and Public Administration Committee

Pre-budget scrutiny 2027-28

August 2026

Real Estate: Scotland

About Real Estate:Scotland

Real Estate:Scotland is the voice of the real estate industry in Scotland, bringing together global and domestic capital, world-leading expertise and forward-thinking policy to drive growth and quality places to work, live and play in Scotland. As an industry body with over 500 member organisations spanning investors, developers, advisers and operators, we represent the full breadth and diversity of the market.

Pre-Budget Scrutiny 2027–28: The Affordability and Sustainability of Scotland's Tax and Spending Plans

Response from Real Estate Scotland Submitted to the Finance and Public Administration Committee, Scottish Parliament Consultation

1. **Are the spending allocations outlined in the 2026 Scottish Spending Review the most effective approach to strengthen public finances?**

   The Scottish Spending Review was delivered in the context of significant budgetary pressures that were anticipated to become more difficult over the course of the spending period. If anything, the pressure on public finances is likely to be increased as a flatlining economy delivers largely static revenue growth, while demands for public services and investment increases.

   This week's Government Expenditure and Revenue Scotland (GERS) 2025-26 publication puts this in context. Scotland's net fiscal balance improved slightly to -10.9% of GDP in 2025-26, but this remains more than double the UK deficit of -4.2%, and spending per person in Scotland was £2,720 higher than the UK average. This structural gap is the backdrop against which the Spending Review's allocations need to be judged, and reinforces our view that spend should be assessed on its ability to grow the tax base and reduce reactive costs over time, not simply on whether it is delivered within a single budget year.

We would add a high-level reflection here: too often, decisions on public finances take a short-term view bounded by the electoral cycle, rather than accepting that some investment made now will only deliver its full benefit to the public finances beyond the current parliamentary term. A genuinely longer-term approach to investment - of the kind discussed further in our response to Question 11 - would in our view do more to strengthen the sustainability of public finances than an approach weighted towards short-term savings.

2. **What are the biggest risks to the spending plans outlined in the 2026 Scottish Spending Review?**

The biggest risks are that assumed efficiency improvements fail to materialise which will add pressure to public budgets. Second, that the economy fails to grow as expected and that revenues are lower than anticipated. Finally, Scotland is not exempt from the wider UK public finances pressures. This includes familiar challenges to those seen in Scotland with low economic growth, construction cost inflation but also an additional spending pressures such as defence investment. These pressure on the UK could have significant consequences for the Block Grant for Scotland.

3. **Does the 2025 Medium-Term Financial Strategy (MTFS) recognise and clearly set out the scale of the fiscal challenges facing the Scottish budget, and are the actions identified in the Fiscal Sustainability Delivery Plan (FSDP) likely to address the forecast shortfall?**

The MTRS is clear in the challenges it sets out. MTRS was written ahead of wider geopolitical challenges, such as that seen this year in the Middle East which has added pressure on inflation and has for the time being removed the likelihood of interest rate cuts (which are largely seen as a boost to the economy).

As mentioned in Q1, published earlier this week's GERS 2025-26 figures reinforce the scale of the challenge. Notwithstanding a small year-on-year improvement, Scotland's net fiscal balance remains around -10.9% of GDP, more than double the UK's -4.2% deficit, with spending per person £2,720 higher than the UK average. Devolved revenue, including LBTT and non-domestic rates, accounted for only 28% of the £98.3 billion collected in Scotland in 2025-26, underlining how much of the overall fiscal position still depends on reserved taxes, the Barnett formula and North Sea revenue rather than on levers within the MTFS's direct control. We would encourage the Scottish Government to press for the next MTFS to be explicit about which levers it can actually move, and which parts of the fiscal challenge will remain outside its control regardless of domestic policy choices.

4. **What do the next MTFS and update to the FSDP need to include to show that the Scottish Government is on track?**

   There will be a need to update previous assumptions and economic expectations in the light of changing global circumstances. There are also significant presumptions made of anticipated public sector efficiencies and workforce reductions. It is not clear that these intentions will be delivered, or how - or even with what wider consequences. For public services in terms of the retention of key capabilities and experience.

5. **What actions should the Scottish Government take to grow the tax base and increase labour market participation, productivity, and Scotland's economic growth?**

   Economic functions have often been a low priority for local authorities and indeed government at times. Without economic growth however the broader functions of government will struggle to maintain investment and the ability to deliver public services effectively or without significant negative budgetary choices.

6. **Are the planned efficiencies realistic and deliverable at a scale sufficient to make public services sustainable?**

   We are unaware of the progress made on the intended efficiencies and wider public service reform. We note comments made in SFC report and wider media commentary that much of the multi-year pay agreement with the public sector is already committed which suggests that this part of the MTFS and FSDP is unlikely to be achieved.

7. **What are the main risks to revenues from devolved taxes?**

- ADS is a significant proportion of LBTT revenues – however it is significantly higher than in England and as second homes are taxed under council tax more heavily, with further bands now to be introduced for higher taxes
- ADS revenue in June was now back to the level of 2016-17 when the ADS was first introduced….this suggests further revenue growth from ADS may be subdued
- The GERS 2025-26 figures show devolved revenue, including LBTT, accounted for £27.8 billion of the £98.3 billion collected in Scotland in 2025-26 - just 28% of

the total. ADS and LBTT therefore sit within a devolved tax base that is still comparatively narrow, meaning volatility in property transaction volumes has an outsized effect on the discretionary revenue actually within the Scottish Government's control, even though it represents a small share of overall public spending in Scotland

8. Preventative spend has been a goal for several years, but the intended outcomes have not been fully achieved. Why do you think this is the case and how might a Preventative Budgeting Tool help track progress with achieving outcomes?

- No comments

9. In which areas should the Scottish Government prioritise its capital spend to best support economic growth?

- Housing and infrastructure are capital intensive investments and subject to significant cost inflation. The SG needs to leverage in capital investment through partnership and collaboration with long term investors. Enabling infrastructure for stalled consented sites - roads, drainage and grid capacity, which can unlock private housing and commercial investment several times the value of the public capital committed. Incentivising and supporting town centre and brownfield/vacant and derelict land regeneration, which improves the tax base, supports placemaking, and reduces urban sprawl pressure.

10. How effective are the Scottish Government's existing financial flexibilities - including borrowing and the Scotland Reserve - in managing fiscal pressures, and what limitations, if any, should be addressed?

The Scottish Government's borrowing powers are limited compared to local authorities in relation to the PWLB. In terms of the SG's entrance to the Bond market this has the opportunity to offer more flexibility in terms of capital finance for investment projects.

11. What role should alternative financing approaches – such as bonds, the mutual investment model, or other mechanisms – play in supporting public investment and strengthening Scotland's financial resilience?

The government must explore all available avenues of enabling investment in key infrastructure to support economic development. However, we believe these financing approaches must be aimed at delivering infrastructure that will strengthen and support growing the economy. Bonds could usefully fund enabling infrastructure that unlocks private housing delivery, with future rates/council tax growth supporting repayment. The Mutual Investment Model is well suited to town centre regeneration and mixed-use schemes where a long-term revenue stream (rents, service charges) can support investor returns. For the property sector to engage with confidence, the Scottish Government should publish a clear pipeline of projects earmarked for alternative financing, with transparent value-for-money and risk-transfer assessments, so private investors and developers can plan participation well in advance rather than responding to ad hoc announcements.

We would encourage the Scottish Government to look beyond the short-term view bounded by the electoral cycle, when the greatest returns from infrastructure investment are realised well beyond it. This is precisely the logic behind mechanisms such as Tax Increment Financing (TIF) - investing in infrastructure now on the understanding that the resulting growth in LBTT, council tax and non-domestic rates revenue will, over time, fund and repay that investment, even though the fiscal benefit will only be fully realised in long term returns. Government should be willing to commit to this longer investment horizon: it would support the wider Scottish economy, make a meaningful start on addressing the housing crisis - recognising that this will take time - and benefit the property sector in turn.

-End of questions-