Market View
Summer 2025

Turning Tide?

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- New build construction workload continuing to increase in April 2025 – the outlook is stabilising.
- New orders jumped in Q1 2025 but no evidence yet of a sustained recovery in pipeline.
- Infrastructure Strategy promises £725 billion of public capital investment over 10 years.
- Low confidence and weak growth still hold back private markets. Developers are looking to bring forward new development at rebased land values.
- Network infrastructure programmes are taking time to get started— workload in AMP8 will be delivered in a shorter period.
- Inflation forecasts for all segments unchanged as clients and contractors wait for positive signs of recovery.

It may be that the moment of greatest danger in construction workload has passed. While there are no immediate prospects for a recovery, the value of new construction opportunities looks to have stabilised, and, with public sector workload continuing to expand, programmes outlined in the Comprehensive Spending Review (CSR) offer better prospects for an investable pipeline from 2026 onwards.

Dangers abound, however, with sticky inflation dampening prospects for further interest rate cuts and with concerns about future growth and an increased tax burden.

Developers are a little more confident and the public sector finally has its long-term spending allocation. While it is too early to call the market, there are at least tentative signals of a turning tide.

Introduction

The first half of 2025 has been a waiting game. Regulated sectors in water and electricity transmission are gearing up for new investment programmes. At the same time, large parts of the construction sector remain stuck.

Renewed uncertainty triggered by tariff disputes and global conflicts has not helped. Yet there are early signs of change. Sentiment surveys are improving, interest rates have been cut again, and the construction order book has started to recover. However, even as the tide turns, conditions remain treacherous, and both clients and contractors will rely on skilful navigation to bring schemes forward during 2025.

Economic uncertainty

Latest data suggests that the UK economy is still treading water, with the growth agenda stalled. GDP grew faster than expected in Q1 2025, by 0.7%. This was the strongest growth in the G7, even if it is not expected to be sustained during 2025. Subsequently, both the Bank of England (BoE) and the International Monetary Fund (IMF) have marginally increased growth forecasts for 2025.

Looking forward, even with recent trade deals, the IMF has reduced its expectations for UK growth in 2026, downgrading forecasts by 0.3%. Table 1 summarises latest forecasts from UK and international bodies. Collectively, the forecasts mostly anticipate slightly higher growth and lower inflation in 2026 than 2025, a positive but hardly exciting outlook.

	GDP growth 2025	GDP growth 2026	Inflation 2025	Inflation 2026
Bank of England (BoE)	1.0% (0.75%)	1.25% (1.5%)	3.25% (3.5%)	2.0% (2.5%)
Office for Budget Responsibility (OBR)	1.0% (2.0%)	1.9% (1.8%)	3.2% (2.6%)	2.1% (2.3%)
International Monetary Fund (IMF)	1.2% (1.1%)	1.4% (1.7%)	3.1% (3.1%)	2.2% (2.2%)
OECD	1.3% (1.4%)	1.0% (1.2%)	3.1% (2.7%)	2.3% (2.3%)

Table 1. GDP growth and Inflation forecasts for 2025 and 2026
Previous forecasts are in brackets; colours indicate direction of movement.

Anticipating additional slack in the economy, BoE reduced interest rates in May by 0.25% to 4.25%. While this will help mortgage borrowers, the wider benefits are uncertain as long-term borrowing costs have increased as a result of bond market turmoil.

However, Consumer Price Index (CPI) inflation rose faster than expected to a 15-month high of 3.4% in April and maintained that level in May. Markets reacted by pricing in two more interest rate cuts this year, with the first in September. Encouragingly, BoE still believes that inflation is on track to hit the 2% target by late 2026.

Improving outlook

Sentiment indices provide a rapid snapshot of the health of the UK economy. Presently they highlight tough trading conditions while also suggesting increased optimism. The latest survey from the Institute of Chartered Accountants in England and Wales (ICAEW) sums up the past 12 months, with sentiment falling to its lowest negative reading since Q4 2022. Respondents blamed weak UK growth and increased uncertainty. More recently, the May 2025 S&P flash PMI reading was 49.4, just below neutral and showing some signs of recovery after the UK's 'awful April'.

Focusing on construction, the CIPS/PMI survey of purchasing managers showed a fifth successive month of decline in May, with all three sectors of Housing, Commercial and Civils contributing to an overall drop in purchasing activity. However, business optimism was at its highest level since the end of 2024. Construction members of the ICAEW also see an improving outlook, recording a score of +7.8, far higher than the long-term average of +3.8. Architects are positive too. The latest RIBA Future Workload Index posted a third consecutive positive balance score for April, with firms in most regions expecting a rise in workload, especially in London. In summary, while growth continues to disappoint, business expects improvement, even as conclusive evidence remains thin on the ground.

Workload recovery continues

One reason for optimism is that forecasts for construction growth are better than the wider economy. The spring forecast from the Construction Products Association continues to forecast stronger growth compared to 2024, albeit projections for both 2025 and 2026 were downgraded as a result of the delayed recovery of the housing market and uncertainty over the timing of water industry investment.

	Real terms growth (2025)	Real terms growth (2026)
New build	2.1% (2.2%)	4.8% (5.0%)
All work	1.9% (2.1%)	3.5% (4.0%)

Construction output forecast, 1st quarter 2025. Previous forecast in brackets. Source: CPA

Latest ONS data confirms a tentative but seemingly accelerating recovery, showing total construction output has grown by 0.5% in the three months to April this year, driven by a 0.9% increase in new-build work. High single-digit increases in public sector non-housing and private industrial work were highlights.

Improving prospects for residential construction were highlighted in the latest Glenigan Index of Construction Starts, which reports residential starts surging by 24% in value in the three months to the end of April. By contrast, both the non-residential construction and civil engineering sectors saw quarterly and annual declines, with civils seeing a particularly severe drop-off, down 22%.

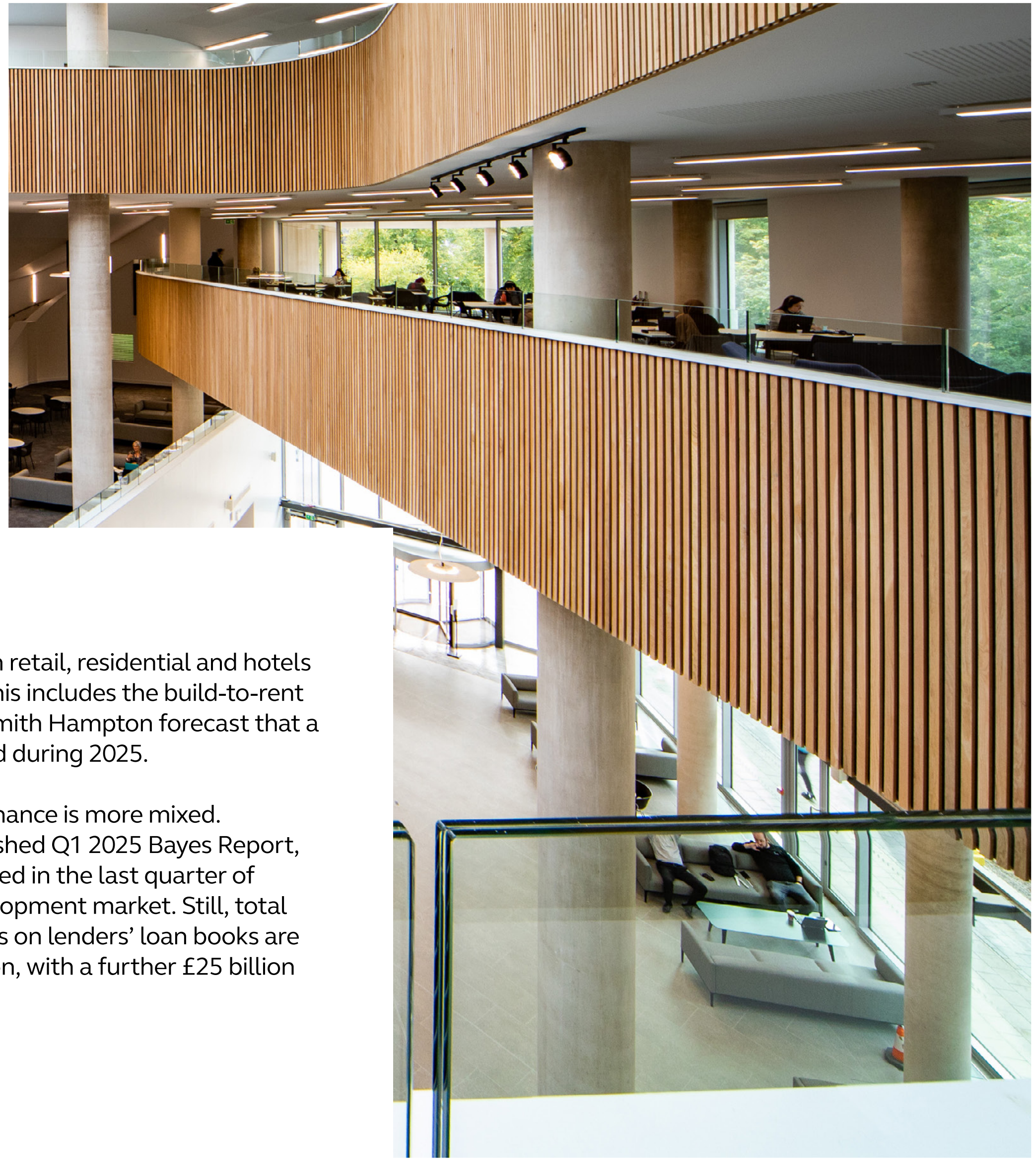
CoStar analysis shows the amount of office space under construction fell to about 23 million square feet in the first three months of 2025—the lowest quarterly total for 10 years, despite strong activity in London and the Oxford-Cambridge tech corridor.

Construction orders, however, tell a different story. Latest data from Q1 2025 shows early signs of improvement, but QoQ growth of c.27% in volume came mainly from infrastructure and private industrial new work. This robust performance follows two successive quarters of decline, including a 24% fall last autumn and two years of weak pipeline growth.

Residential remains the weak spot in ONS orders data, falling by 13% year-on-year to land 30% below the long-term average (LTA). Residential has the potential for a rebound, given factors including improved planning conditions and falling finance costs.

A recovery in housing is important given the size of the sector and its wider impact on the domestic materials sector. The potential for an uptick is highlighted in National House Building Council (NHBC) registration data which showed 29,356 new homes were registered to be built in Q1 2025, up 36% year-on-year and 17% compared to Q4 2024. Year-on-year increases were seen across 11 of 12 UK regions.

The one exception was London, where registrations fell 38%, affected by viability issues, building safety delays and lower demand from housing associations for Section 106 stock. London's travails highlight continuing problems in the high-density housing sector. This segment is truly stuck despite the efforts of many agencies to break the logjam. New apartment registrations across the UK totalled 4,600, the lowest Q1 total in the last 15 years, and in London, barely equivalent to 5% of the target commenced in Q1 2025.



Investment markets pick up

Access to finance and weak investment demand have made a significant contribution to the recent slowdown. Here, there are also signs of improved performance. Analysis by CBRE shows that for 2024 overall, UK commercial property delivered a total return of 7.7%, above the 25-year average of 7.2%. CBRE pointed to positive capital value growth across the retail, office and industrial sectors, which they anticipate will accelerate in 2025. UK commercial property Real Estate Investment Trusts (REITS) have recovered strongly since the April 2025 tariff crash. Recent full-year statements by British Land and others point to strong tenant demand, rental growth and steady investment. Meanwhile, BNP Paribas Real Estate reported that total UK commercial real estate investment volumes increased by 23% to £50 billion in 2024.

Notably, investment volumes in retail, residential and hotels all increased during the year. This includes the build-to-rent (BTR) sector, where Lambert Smith Hampton forecast that a record £6 billion will be invested during 2025.

The picture for development finance is more mixed. According to the recently published Q1 2025 Bayes Report, new development lending slowed in the last quarter of 2024, reflecting the stuck development market. Still, total outstanding development loans on lenders' loan books are at a long-term high of £32 billion, with a further £25 billion available but undrawn.

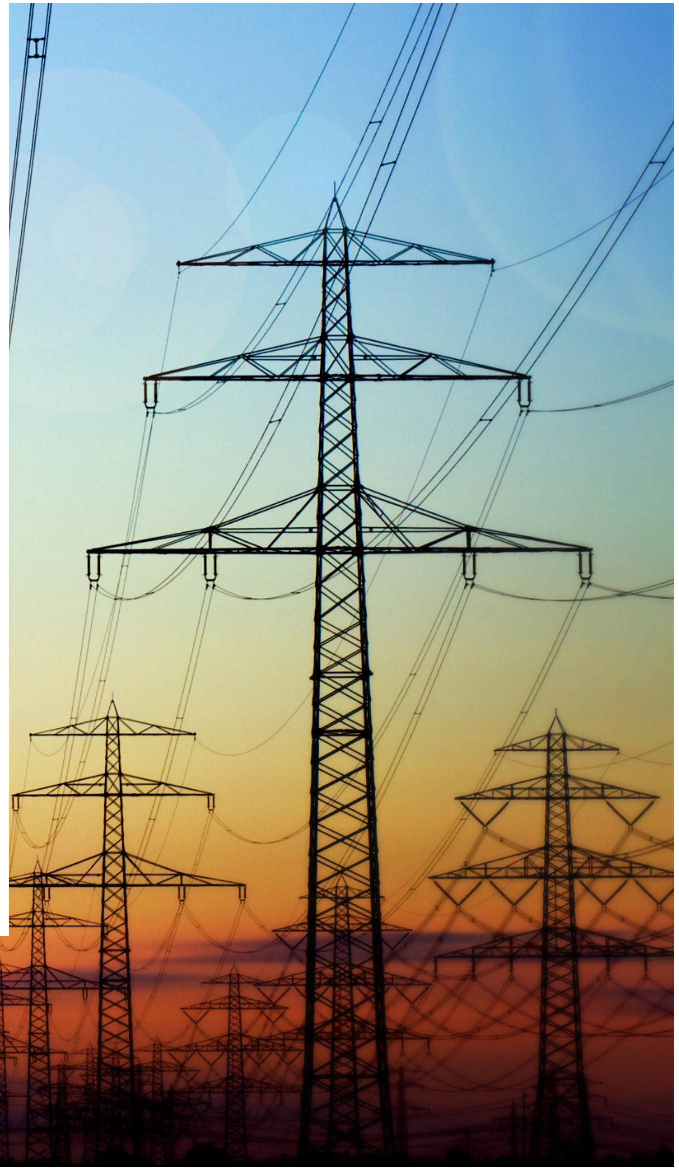
Contractors put the worst behind them

Recent trading updates from the UK's leading contractors point to improving performance. Most have fared better in 2024 than they did in 2023, with Sir Robert MacAlpine and Willmott Dixon both returning to profit. Infrastructure specialists, including Morgan Sindall and Costain, are benefitting from the ramp-up in spending in energy, water and defence markets, while highlighting slower activity in highways and rail.

Meanwhile, the government's planning reforms continue to boost the major housebuilders, who are reporting that buyer affordability is improving too. Bellway, for instance, plans to deliver 20% growth in housing units in the two years to full-year 2026. While a recovery on this scale won't dent the government's housing target, it injects some cheer into a beleaguered sector. High-rise housing specialists continue to flag Gateway 2 delays as a major concern. Both HG Construction and structures specialist Morrisroe have highlighted a consequential fall in turnover in recent trading updates.

The nascent recovery in housebuilding is boosting some materials businesses. Major UK brick and building materials producer Forterra is planning to increase brick production progressively up to Q4 2025, while peer Ibstock said increased demand in residential markets is boosting activity levels. By contrast, building materials merchant Travis Perkins continues to have a torrid time, with revenues falling more than 2% in the first quarter of 2025, reflecting their exposure to the weaker repair and maintenance sector. In all, EY-Parthenon's latest Profit Warnings report found that FTSE Construction and Materials companies issued five profit warnings in Q1 2025—matching the total for all of 2024—largely due to a growing wave of postponements and other project delays.

On the plus side, official data from the Insolvency Service showed Q4 2024 recording the lowest quarterly total of construction business failures in three years. The improvement is relative because failure levels are still 15% above the 15-year long-term average. Insolvency specialists Begbies Traynor also report a marginal improvement in the construction sector fortunes, with the number of companies in 'critical financial distress' in the first three months of 2025 now just 2% above the quarterly average since late 2023. These may be signs of stabilisation, but with potentially more bumps in the road to come before reaching pre-Covid era levels.



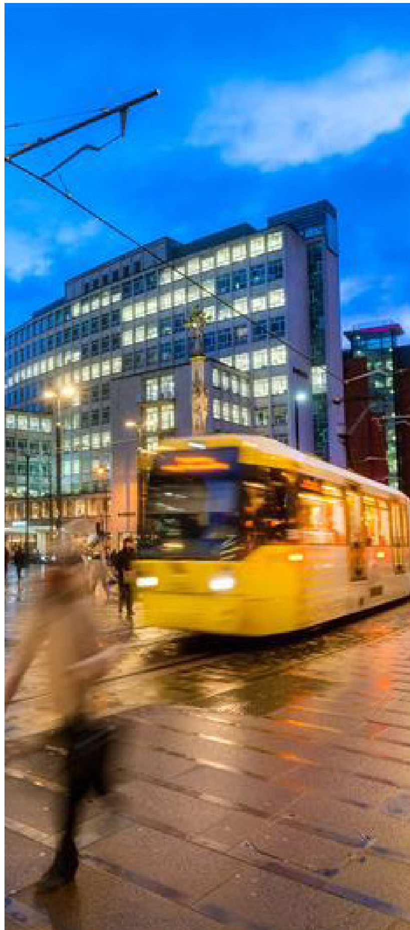
Conclusions

Economic conditions remain tough. Sticky inflation could slow the rate of interest rate cuts and growth prospects remain weak at best. However, orders have recovered some lost ground and industry sentiment is stronger.

Contractors are in a better position than they were 18 months ago, both financially and strategically, with many benefitting from a selective approach to both client and project selection. Most importantly, despite the headwinds, clients are in a better position to act, particularly the public sector with its funding allocation and volume housebuilders with growing demand. It looks as if the tide is turning.

Sector summaries

We examine current market conditions affecting major sectors in UK construction markets. These insights are compiled with support from Arcadis sector experts.



Resilience

Water companies are starting to wrestle with the challenge of scaling up to deliver their AMP8 commitments. The increase in enhancement investment to £44 billion represents a 200% increase compared to AMP7.

Six client organisations, including Anglian Water and Wessex Water, have referenced their Final Determination to the Competition and Markets Authority (CMA). From a procurement perspective, the implication is that investment programmes will remain on hold until the review is completed, meaning that programmes will need to be completed in a shorter period.

Across all companies, the scope of the programme will change with larger, more geographically dispersed portfolios of work aimed at delivering a cross-network step change in pollution performance. All water companies will be delivering programmes with similar content requiring similar input from the supply chain.

Based on historic patterns of investment, the water sector is relatively small, representing 10-15% of total infrastructure turnover. Workload in the sector has contracted in real terms since peaking in 2017, meaning that the UK infrastructure supply chain has not had the opportunity to invest in the water sector ahead of AMP8. Infrastructure consultants and contractors have previously focused much of their investment on road and rail opportunities. However, these are in long-term decline due to a change in investment priorities.

As a result, the UK has a relatively small pool of consultants and contractors, most of whom are also working for competitor water companies. We observe a growing trend for water company clients to expand their roster of suppliers to diversify their supply chain in advance of increased levels of activity. Even ahead of the finalisation of contractor frameworks, suppliers have each secured more places on more frameworks. The challenge with this approach is that, with many water companies adopting the same strategy, levels of competition within frameworks will decrease as suppliers have more opportunities and the ability to pick preferred clients and programmes. For water companies, becoming the client of choice may never have been more important.

Mobility

The mobility sector has been most exposed to uncertainty associated with the timing of the CSR. National Highways, for example, was given a one-year, £4.8-billion interim funding settlement for 2025-26 in March this year and the scale of City Region funding also required clarification.

Cities have done particularly well. Renamed Transport for City Regions (TCR) settlements total £15.6 billion by 2031-32, representing a real-terms doubling in city-focused transport investment, with more cities getting their single pot funding from 2026-27 onwards, including Transport for London.

The Manchester and West Midlands Combined Authorities now have control over their regional transport funding and other Combined Authorities (CA) will follow in the next 12 months. The performance of CAs in procuring and managing their transport investment programmes will be a critical concern for many contractors.

Other features of the CSR and accompanying Infrastructure Strategy include a £24-billion allocation for road maintenance and improvement over three years to be shared by National Highways and Local Authorities. This will include a £1-billion Structures Fund to repair bridges, flyovers and other major structures. The emphasis on maintenance and renewal is deliberate, recognising that the UK's mature transport network suffers from a growing maintenance backlog. Prospects for enhancement programmes are less clear. Leeds, Manchester and Birmingham will benefit from improvements to the local rail network but there is no mention of further rail electrification in either document.

Megaprojects including HS2, Lower Thames Crossing, TransPennine Route Upgrade and East West Rail all received further support, with LTC receiving £590 million in initial funding to prepare the ground for a private finance solution underpinned by the Regulated Asset base Model. Future megaprojects, including the extension of HS2 to Euston are likely to be dependent to some extent on private finance.

Places

The places sector spans public and private investment in buildings ranging from housing to schools, hospitals and commercial office development. Contractors working for private sector clients on residential and commercial schemes have been most exposed to delays in procurement either due to process or commercial viability.

In particular, the timescale associated with pre-contract activities has continued to increase for a wider range of building types, including almost all residential High-Risk Buildings (HRBs).

Typical pre-contract periods have increased to around 18 months. Pre-contract periods have extended for many reasons beyond Gateway 2 processes to include redesign driven by viability and other market factors.

The practical implication of an extended pre-contract period has been a change to many contractors’ commercial model, with fee income from pre-contract services becoming more important as turnover from construction activities is delayed until extended preparatory stages are completed.

The extent of contractors' pre-construction capacity continues to be a constraint on the ability of the supply chain to respond to an increase in development activity, particularly for residential specialists who had previously worked based on a streamlined, single-stage, integrated design and build model.

Paradoxically, delays affecting schemes procured using two-stage processes are creating an opening for single-stage procurement for larger new-build projects constructed outside of HRB requirements, including commercial offices. Clients can leverage the prospect of relatively quick and certain turnover to secure a beneficial design and build risk transfer. Given the high-risk profile, this model suits Tier 2 contractors rather than well-established Tier 1s.

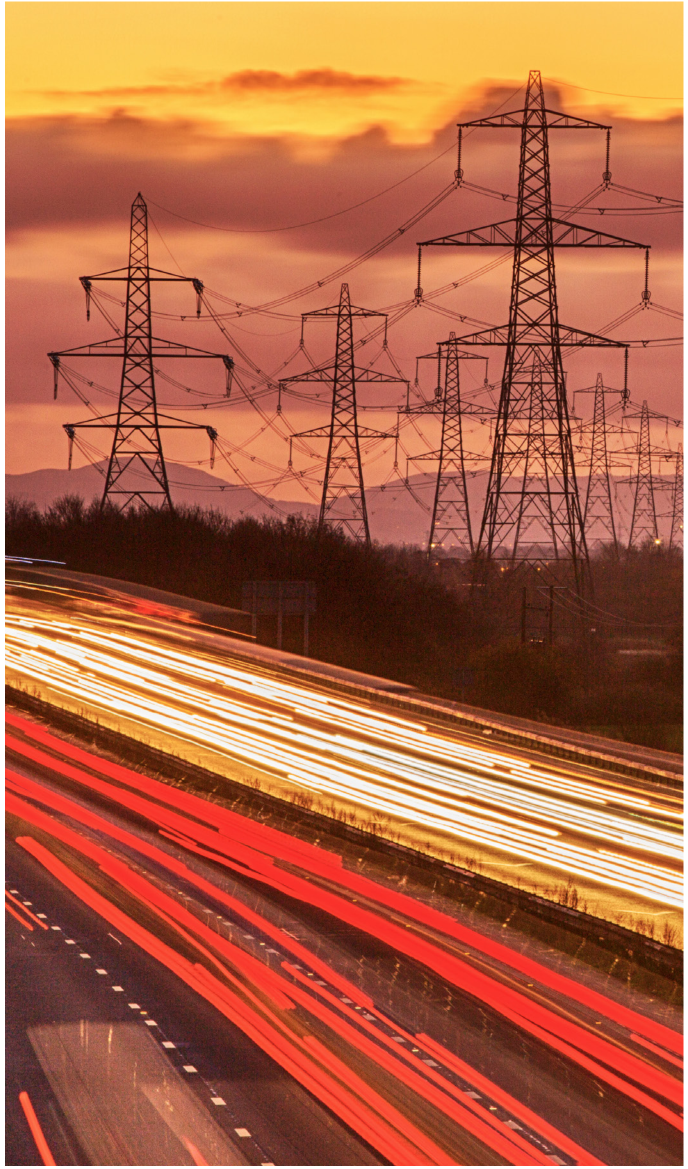
So far, this trend has been most evident in commercial markets outside of London. It represents a further evolution of the contractor market, with Tier 1s focused on the most complex and high-risk projects, backed by carefully balanced transfer of risk. The potential for further diversification of the contractor supply chain for the commercial sector is welcome—even if it implies that residential developers will need to work even harder to attract their supply chain.

Forecast

The long-awaited CSR and publication of the infrastructure strategy provide a crucial element of certainty to the medium-term construction pipeline and will start to change the dynamics of the four-tier market we highlighted in our Spring Market View.

- **Regeneration, residential and commercial sectors.** Viability and attractiveness to financing of this sector remain significant blockers, but there are signs of a reset, with a shortage of prime assets in markets like Central London forcing occupiers to change plans by opting for lets in updated existing buildings. A wave of densely planned sub 18 metre residential development is likely to be key to unlocking urban residential schemes alongside an increasing rate of greenfield development.
- **Public sector covering building and civil infrastructure.** With the publication of the CSR, departments now have their spending allocations but still need to take projects through the business case process and procurement as effectively as possible. Well-constructed frameworks and alliances will play a critical role in enabling the supply chain to invest in creating new capacity, potentially limiting opportunities for new market entrants.
- **Network infrastructure and regulated utilities**. Network programmes simultaneously face capacity constraints and risks associated with a slow programme ramp-up affecting the ability of contractors to expand resources in advance of contracted commitments. Attractive programmes are drawing domestic contractor capacity away from other sectors, but global competition for equipment means that network clients have little commercial leverage.
- **Megaprojects.** The pipeline is expanding, even as trade tensions and technological innovation affect the business case for some new investments. Work on the Agratas gigafactory, Europe's largest battery plant, will accelerate this year, even as some data centre developments slow down. Existing megaprojects including HS2 and Hinkley Point will continue to have a significant impact on regional and national markets for labour and resources.

Although there have been dramatic fluctuations in equity markets and significant changes in business taxation, conditions for investment have not changed significantly since we published our Spring Forecast.



Workload

Construction workload has remained steady during Q1 2025 at a level 2% below the 10-year average. Public non-housing new work was a standout in the period, with a 12% QoQ rise. As highlighted in the introduction, growth is forecast for 2025 and 2026, but projections have been downgraded to 2% this year. So far, there is no sign of an inflection. Recent data describing the new order pipeline gives little encouragement, cause for concern and a reason for optimism, all in equal measure. Little encouragement because most of the growth came from new transport schemes. Infrastructure orders are traditionally lumpy, and the transport sector is set to see a decline in investment. It's great news for the winning contractors but does not signal a turnaround. The cause for concern is private housing, where signs of improvement are not yet showing up in new orders. Optimism comes from the observation that all sectors other than housing are returning to their long-term pipeline trend. With positive momentum behind the public and network infrastructure sectors, there is potential for a synchronised recovery—particularly if the housing sector starts to gain momentum from planning reform.

Materials

Consumer prices may have increased at 3.4% in April and May 2025, but that provides little insight into price movements affecting the construction sector. Inflation data focused on materials has been suspended since January 2025 due to a historical data quality error. Up until January 2025, material prices had been broadly flat, albeit that steel prices were starting to increase. In the past quarter, commodity prices have eased, further reducing pressure on material producers. However, the outbreak of war in the Middle East triggered an immediate 12% increase in energy prices and the outlook is likely to be uncertain for some time. By contrast, traded metals have typically fallen by 2-3% since January and remained steady during May, although prices remain high compared to the long-term average price. In summary, the outlook remains benign.

Steel sections need to be watched, however. According to steelbenchmarker.com, prices of steel sections traded in Europe have increased in cost by 12% since January, going back to levels last seen in spring 2024.

A further watchout is evidence of increased demand—particularly for bricks recorded by the Department of Business and Trade. Total brick deliveries increased by over 20% year-on-year in Q1 2025, contributing to an increase in production and an improving outlook for the materials sector.

Tariffs continue to create significant business uncertainty with the US threatening 50% tariffs on steel and aluminium imports. As previously highlighted, the most likely impact of tariffs on the construction sector will be downward pressure on growth rather than an increase in prices. Most UK construction materials are either sourced domestically or from the EU and are highly unlikely to be directly affected by tariffs. Some manufacturers have attempted to increase prices globally to compensate for the cost of US import tariffs, but this is unlikely to affect construction where local price competition is a key factor.

Commodity	Price, May 2025	Year-on-year change (%)	Price relative to long-term average
Brent Crude	$64.2/bbl.	-21.7%	0.97
Natural gas, Europe	$11.7/MMBtu	+15.2%	1.02
Aluminium	$2,449/tonne	4.5%	1.17
Copper	$9,532/tonne	-6.0%	1.33
Iron Ore	$97/tonne	-18.4%	1.00

Source. World Bank, June 2025. Long-term average based on 2015 to 2025. Note that energy price fluctuations triggered by the Iran-Israel conflict are not reflected in this data.

Construction labour

The construction labour force is presently stable. Based on the preferred and reliable JOBS metric, the workforce grew by 0.2% in Q1 2025 and by 0.9% year-on-year. Economy-wide growth in Q1 was 0.7%. Interestingly, two of the fastest-growing sectors are the utilities (electricity and water) and real estate, which grew by 4.4% in the first quarter—perhaps an indication of things to come for construction, given the potential that these sectors have for growth.

However, in a short-term sign of reduced levels of workforce pressure, vacancies fell sharply in Q1 by 10,000 to 30,000. On a ratio basis, construction only trails the cash-strapped education, arts and public administration sectors for the lack of opportunity for new jobs.

By contrast, earnings growth continues to be strong, increasing by 5.9% year-on-year in March 2025. The economy-wide equivalent is 5.0%. Earnings growth in construction has been outstripping other sectors since October last year but may not represent an inflationary trend if hours worked are increasing.

While the current labour situation may look stable, future access to resources has become much more problematic. Proposed changes to the skilled migration route unveiled by the government in May 2025, will restrict its application to degree-level skills only. Looking forward, over 75% of jobs in the construction workforce will need to be recruited from within the existing UK labour force—creating a big training and recruitment challenge for the industry.

The changes will be accompanied by a significant increase in investment in construction skills training, totalling over £600 million. However, with a leakage rate of 50% for apprentices in training and 70% for construction-related students, the industry's retention challenge will become greater, even as training investment becomes more generous.

Tender price forecast

Our Summer 2025 Tender Price Forecast takes account of continuing slow growth and the cumulative impact of economic and employment policies on business confidence, cost of finance and risk-taking. Although there has been no material improvement in conditions, our view is that the construction sector is approaching an inflection point.

The most consequential event of the quarter has been the CSR, which we examine in our spotlight feature.

The settlement confirms long-term spending for defence, health, education, justice and transport that should enable contractors and their supply chains to invest in future capacity. Specialist contractors with a Modern Methods of Construction (MMC) capability in particular will benefit from the 10-year investment horizon. This may result in more MMC capacity being directed towards the public sector client.

Although workload will not immediately flow through to the supply chain, the publication of the investment pipeline should provide the wider construction sector with the means to plan for investment and expansion.

The opposite is the case in the housing sector, where continuing delays affecting HRBs are having a marked impact on workload and the delivery of new homes. With the Gateway 2 process afflicted by resource shortages and confusion with respect to process requirements, there is little prospect of an early resolution. Converting housing need to housing construction remains a challenge, but the sector is getting more optimistic. Housing will be the swing sector in construction's recovery.

The industry sector with the best prospects continues to be network infrastructure. However, the pathway to deliverable programmes could take longer than hoped due to the timing of Competition and Markets Authority (CMA) appeals as well as delays resulting from inflated costs. The programmes will come in time and may need to be delivered even faster to avoid Ofwat penalties.

Across all sectors, an increasingly significant constraint is the availability of pre-construction resources to support Early Contractor Involvement (ECI) including two-stage tendering. ECI is widely seen as the foundation for successful contractor delivery. However, the reality is that contractors, and particularly specialist subcontractors, are not able to resource enough pre-construction teams to be able to accommodate a rapid increase in demand. This might not be a direct inflationary trend but highlights that clients will continue to find it difficult to secure deep bid lists or to retain contractors on low-value frameworks.

Our tender price forecast is unchanged:

- We anticipate that contractors will seek to recover the full cost of National Insurance Contributions (NICs) and will face a tight labour market.
- We do not expect material price inflation to be a significant inflationary driver in the next 12-18 months.
- For network infrastructure, we anticipate that scarcity costs will become a significant consideration from 2026 onward.

Looking to the medium term, our forecasts for 2028 and 2029 continue to be based on a growth and labour constraint hypothesis in advance of pipeline data. Recent decisions with respect to skills-based migration strengthen the case for this hypothesis.

The ranges set out in this table aim to capture most projects. Clients operating in markets exposed to extreme scarcity should consider the risk of additional inflation premia.

	Regional Building Construction TPI	London Building Construction TPI	National Civil Infrastructure TPI	National Network Infrastructure TPI
2024	1-2% (1-2%)	1-2% (1-2%)	3-6% (3-6%)	3-6% (3-6%)
2025	2-4% (2-4%)	2-4% (2-4%)	3-5% (3-5%)	4-6% (4-6%)
2026	3-5% (3-5%)	3-5% (3-5%)	3-5% (3-5%)	4-7% (4-7%)
2027	4-5% (4-5%)	4-5% (4-5%)	3-5% (3-5%)	4-7% (4-7%)
2028	5-6% (5-6%)	5-6% (5-6%)	5-6% (5-6%	5-8% (5-8%)
2029	5-6% (5-6%)	5-6% (5-6%)	5-6% (5-6%)	5-8% (5-8%)
Total	**20-27%**	**20-27%**	**23-33%**	**27-42%**

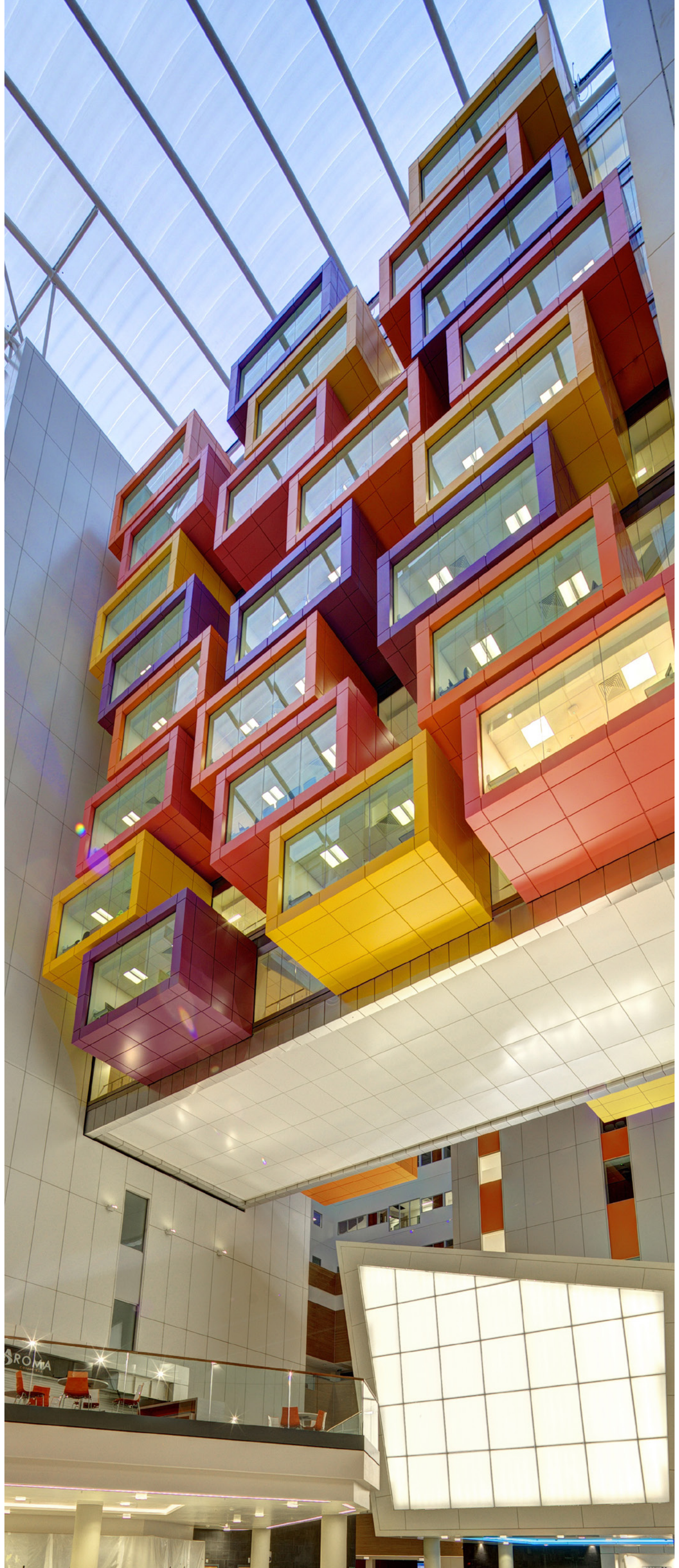
Inflationary drivers	Deflationary drivers
Recovery of NICs from April 2025	Procurement and approval delays
High levels of workload in network infrastructure	Soft material prices in 2025
Limited capacity for large project ECI and delivery in buildings	Attitude to risk transfer in competitive markets
Supply chain consolidation	
Attitude to risk transfer in busy markets	

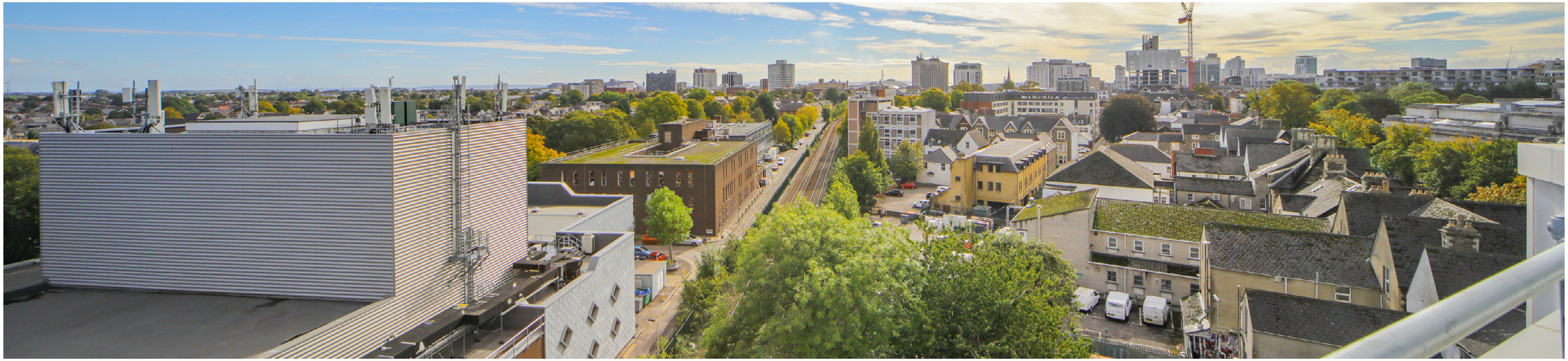
Deep dive

Comprehensive Spending Review and National Infrastructure Strategy

June 2025 has seen the conclusion of two critical government initiatives: the Comprehensive Spending Review (CSR) outlining the allocation of public spending and investment at a departmental level, and the outline of a 10-year infrastructure strategy (IS).

The CSR is phase two of the spending review, building on the single-year settlement outlined in the Autumn 2024 budget. Departvments can now plan their investment programmes with certainty with respect to long-term funding. One of the reasons for public spending on building programmes being ‘stuck’ is that procurement has been hamstrung by the lack of a long-term plan, a point hammered home by the IS. Health and Education in particular are beneficiaries of longer-term thinking, as they have received a 10-year investment allocation.





The conclusion of the CSR is an important step. With spending plans in place from 2026-27 onwards, procurements should be brought forward on a more consistent basis, particularly as the capital element of the CSR spans five years and will be updated biannually. Two other important aspects of the CSR are, first, the confirmation of the operational impact of the government's 'borrow to invest' policy, and second, a clear indication of the government's investment priorities.

Building on the investment platform facilitated by the CSR, the IS introduces other reforms. The one with the greatest potential impact involves 'place-based' infrastructure planning aligned to the devolution of powers to city authorities. Not only could this involve combined planning of economic, social and housing infrastructure, based on an integrated, long-term funding pot, but could also see a change to business case assessment with a move away from the benefits cost ratio (BCR) method that has so often favoured locations with high land values such as the South East of England.

The CSR represents a significant increase in levels of public investment. Above inflation growth will take place over the two-year period 2025-26 to 2026-27. Thereafter, investment will increase in line with inflation into the mid-2030s. As capital spending had already reached a 25-year high under the previous government, this is a significant increase, adding the equivalent of £24 billion extra per annum compared to planned spending for 2024-25. However, it will not increase further in the future, constraining the potential for additional megaprojects like Northern Powerhouse Rail.

Defence and Energy Security and Net Zero have done particularly well out of the review, highlighting that calls on capital investment go well beyond the scope of traditional construction projects. Over the six-year period '23-24 to '29-30, defence investment will increase in real terms by 7%, and energy by 16%. Other programmes are seeing new priorities also. Health, for example, also includes a £10-billion pot for digital transformation. The Department for Business and Trade also secured significant additional capital funding to support AI investment as well as the Industrial Strategy via the British Business Bank.

Departments with large long-term capital programmes including health, education, justice and transport see a steady increase in investment, with increases front-loaded into 2026-27 so that benefits of investment can be seen before the next election. Long-term funding is a big feature of the IS as well, with 10-year allocations for building and road maintenance rising in line with inflation.

Departments have not published their detailed spending plans, and the long-awaited infrastructure project pipeline will not be available until July 2025, so what does the CSR tell us about government priorities for spending on construction? Firstly, from a Places perspective, the government has retained its commitment to four major programmes focused on new hospitals, rebuilding of schools, new prison places and the renewal of defence accommodation. These programmes are more investable as a result.

Affordable housing also receives a big long-term allocation: £39 billion over 10 years, together with a new inflation-linked settlement. Depending on the levels of grant required and the effectiveness of the new National Housing Bank and planning reforms, the production of housing across multiple tenures is likely to receive a significant boost.

Secondly, continuing increases in transport investment are a welcome and perhaps unexpected development. HS2 spending at £25 billion is forecast to fall slightly as the programme is rebased and as civil works are completed. By contrast, city region-focused transport spending will double over the period, leaving less room for the next generation of megaprojects unless these can be funded through private finance aligned to user charges such as tolls or access fees.

Thirdly, big increases for defence and energy spending represent some of the competing demands and difficult choices that the government has to resolve through the CSR. Energy projects are typically delivered by the private sector, funded by bill payers. In this CSR, the government is supporting the development of Sizewell C, the Small Modular Reactor (SMR) programme and Carbon Capture Use and Storage (CCUS) to the tune of over £28 billion over the CSR period. As future CSRs are developed in response to the government's Net Zero target, the funding requirements of Great British Energy and the wider decarbonisation programme could create some real challenges aligned to other long-term funding commitments.

In summary, against the context of tight fiscal rules, the borrow-to-invest rule has given the government the capacity to commit to a long-term programme. It has chosen to focus on place-based investment by joining up programmes of economic and social infrastructure. Although there are many megaprojects including Lower Thames Crossing, Sizewell C and the Small Modular Reactor programme, the overall unit size of investments to be delivered is likely to fall, with more emphasis on locally based incremental improvements to housing, transport and health.

The investment trajectory of the CSR, with spending growing rapidly up to 2026-27, is likely to result in increased competition for UK construction resources, particularly if measures to promote housing development, including the National Housing Bank, are successful. This outcome supports our long-term forecast for increased inflationary pressure, highlighting that the next 18 months are likely to be a good period for project procurement by private sector clients in advance of accelerating public sector demand.

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