Market View
Winter 2025

Last roll of the dice

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Across all sectors, prospects are not converting into workload quickly enough to keep the supply chain busy. Delays have occurred throughout the year, and 2025 closes with both consultants and contractors concerned about future workload prospects. Without a recovery in demand, industry consolidation could follow. Construction needs a fix in 2026.

- New build construction workload fell marginally in Q3 2025—ending 12 months of slow but steady growth.
- New construction orders grew strongly in Q3 2025, but the key markets of housing and infrastructure missed out, leaving many contractors still needing to fill their pipeline.
- Construction material prices have largely been stable in 2025, and contractor bids are unlikely to include inflation adjustments for materials.
- Although current pressures on labour availability and cost are in balance, the long-term risk remains that scarcity will increase.
- Subdued demand means that price inflation pressure in 2026 and 2027 will be lower than previously forecast.
- Building tender price index now split into private and public sectors to reflect changing demand conditions and procurement strategies.

Introduction

Budget uncertainty has hung over the UK economy like a cloud in H2 2025. In construction, pre-budget jitters have delayed investment at all levels of the economy—from kitchen makeovers to rail-freight terminals. Autumn has seen the Construction Products Association (CPA) revise down 2026 output forecasts, while in volume housebuilding, many national housebuilders have reported a slowdown in reservation rates.

However, budget nerves alone can't explain why the UK construction sector won't take off. The data suggests that while the orders pipeline is improving, not everyone is reaping rewards, resulting in a multi-speed contracting sector. In the slower sectors, subcontract supply chain capacity is at risk if work fails to materialise. Do companies choose to buy work at unsustainable prices, or do they plan to contract? In 2026 and beyond, the answer to that question will determine inflationary pressures in key construction markets.

What is slowing the market?

The lack of momentum in the market is down to a range of factors:

- **Steady but unexciting growth –** GDP growth might be on target, but it isn't enough to bring new investment forward.
- **Affordability and viability –** Build costs are too high, even with recent relaxations on affordable housing requirements in London.
- **Processes including planning, grid connections, and safety reviews –** These continue to cause major bottlenecks.
- **Uncertainty over cost levels and returns on investment –** Water companies and other long-term investors are delaying starting programmes until they are sure that their costs are matched to regulated income streams.

In practice, the market remains stalled, and even sectors with strong prospects have been a hard slog. After a strong start to 2025, growth has tailed off in the last six months. Interest rates are still high and the rate of future cuts is expected to slow. Announced investment programmes aren't being brought forward as quickly as expected.

The result is limited new opportunity in the commercial sector, while project conversions in the public and water sectors have been slower than anticipated.

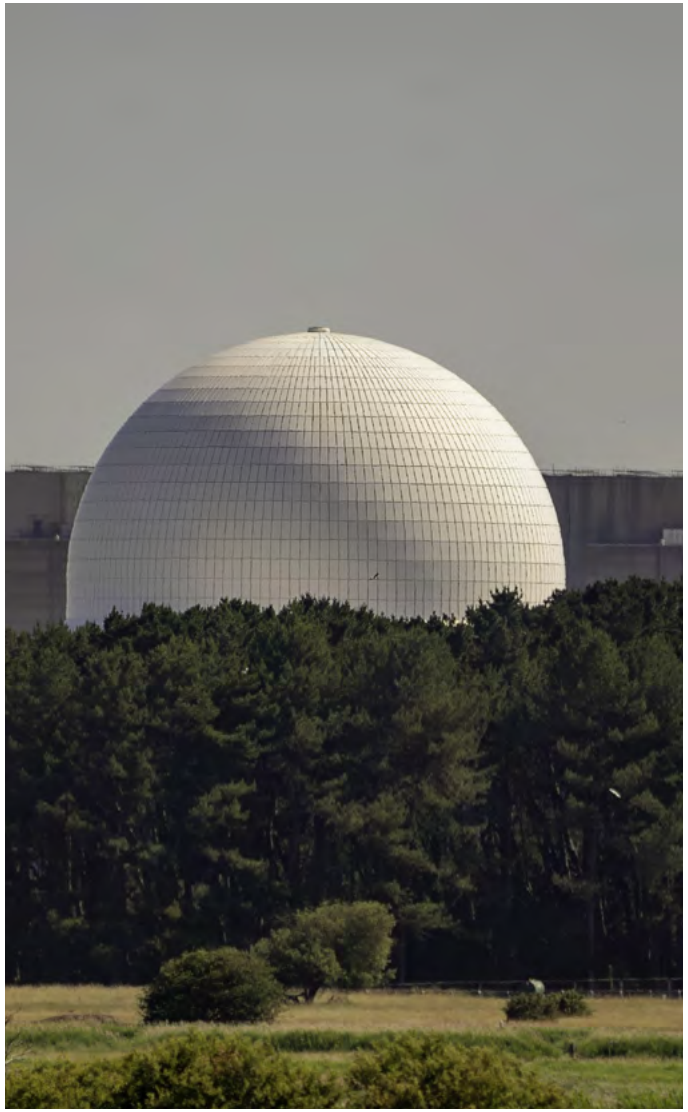
The challenge for construction is that the supply chain can't wait forever. Unless things pick up soon, contractors and subcontractors will need to make tough decisions about their business plans and commercial strategy. It might mean the last roll of the dice.

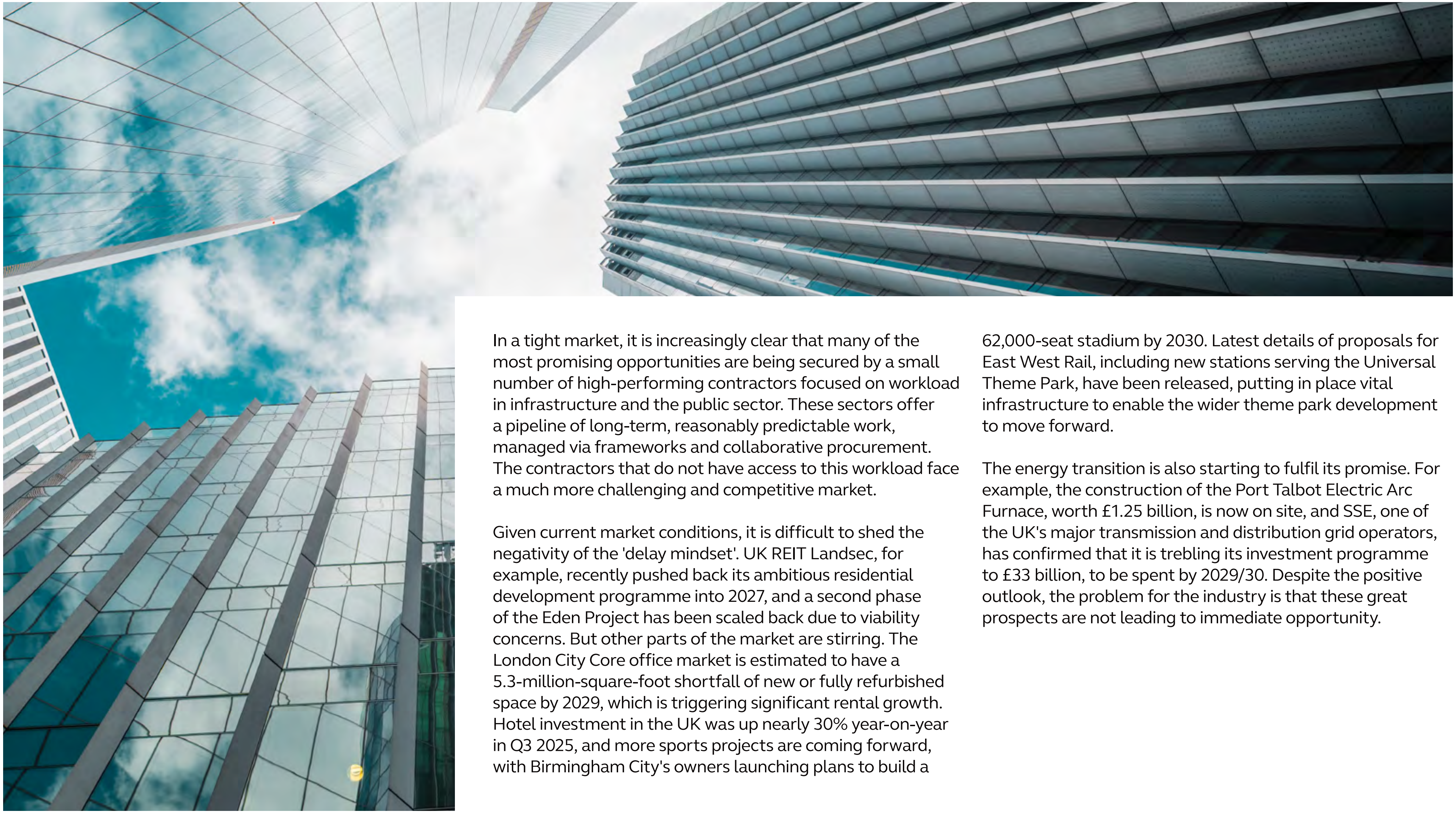
Looking for growth

In our latest four-tier market progress tracker, we examine what is holding up progress and what could trigger an improvement.

Sector	Trend	Triggers for delay	Reason for positivity
Regeneration, residential, and commercial sectors	← →	• Developer/investor confidence and capital allocation • Viability and consequential scheme adjustment • Slow pace of two-stage procurement	• Resolution of BSR performance issues • Interest rate cycle • Long-term demand for homes and commercial space
Public sector covering building and civil infrastructure	← →	• Extended scheme development and procurement • Affordability of proposals • Shift of spend into short-term opportunities ahead of five-year programme	• Funding allocated from April 2026 • Confidence in investment pipeline • Long-term funding settlements
Network infrastructure and regulated utilities	← →	• Hangover of programmes from previous Control Periods • Affordability of proposals • Focus on operational priorities over capital programmes	• Scale of approved programmes • Finalisation of CMA appeals in April 2026 • Potential acceleration of SRO programme for water
Megaprojects	↑	• Commercial pressure • Access to grid connections	• Schemes proceeding through procurement • Sizewell C financial close • NISP planning reforms

Table 1: Progress in the four-tier markets





In a tight market, it is increasingly clear that many of the most promising opportunities are being secured by a small number of high-performing contractors focused on workload in infrastructure and the public sector. These sectors offer a pipeline of long-term, reasonably predictable work, managed via frameworks and collaborative procurement. The contractors that do not have access to this workload face a much more challenging and competitive market.

Given current market conditions, it is difficult to shed the negativity of the 'delay mindset'. UK REIT Landsec, for example, recently pushed back its ambitious residential development programme into 2027, and a second phase of the Eden Project has been scaled back due to viability concerns. But other parts of the market are stirring. The London City Core office market is estimated to have a 5.3-million-square-foot shortfall of new or fully refurbished space by 2029, which is triggering significant rental growth. Hotel investment in the UK was up nearly 30% year-on-year in Q3 2025, and more sports projects are coming forward, with Birmingham City's owners launching plans to build a 62,000-seat stadium by 2030. Latest details of proposals for East West Rail, including new stations serving the Universal Theme Park, have been released, putting in place vital infrastructure to enable the wider theme park development to move forward.

The energy transition is also starting to fulfil its promise. For example, the construction of the Port Talbot Electric Arc Furnace, worth £1.25 billion, is now on site, and SSE, one of the UK's major transmission and distribution grid operators, has confirmed that it is trebling its investment programme to £33 billion, to be spent by 2029/30. Despite the positive outlook, the problem for the industry is that these great prospects are not leading to immediate opportunity.

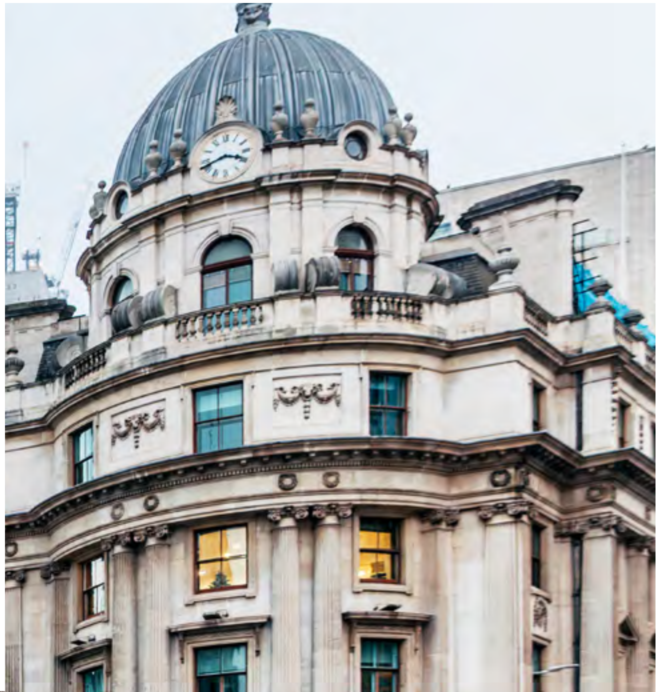
All going to plan?

One of the oddest paradoxes of 2025 is that even as confidence plummets, the economy is pretty much on track. In its Autumn Economic and Fiscal Outlook, the Office for Budget Responsibility (OBR) upgraded the 2025 growth forecast. Furthermore, slightly upgraded forecasts for inflation and wage growth improved the fiscal position because they will result in a higher tax take.

However, for construction, the UK's modest performance is just not enough. Ham-fisted politics, higher-than-expected inflation, and expensive finance have taken the energy out of the economy, with consumers opting to save rather than spend. The bellwether S&P Global UK Construction Purchasing Managers' Index dropped to 39.4 in November, marking the 11th consecutive month of reduced buyer activity. Sentiment deterioration has also been seen in other sector surveys, from architects to finance directors.

With business rates increasing from April 2026 onward and with returns on capital investment forecast to fall to 11% over the next two to three years, there are few added incentives to invest. In particular, the house-building sector looks to be hard-pressed. The OBR forecasts that real wage growth will fall to 0.25% per annum over the next three to four years, placing a real constraint on house price and rent increases.

With no new measures in the budget to support the housing market, interest rate cuts are even more important. Prospects for a recovery look slim. This means that the public sector's position as the go-to market for shovel-ready development has strengthened. The budget has brought forward some £3 billion of capital spending into the 2026/27 and 2027/28 financial years that will help fill order books if business cases can be made to stack up. For the supply chain that does not have access to this workload, prospects look less certain.



Fix in 2026: what must happen next year?

A year ago, with a new government in place promising to put "builders not blockers first," the feeling was that if clients and contractors could "survive to '25," better times would be ahead. While not too much went wrong in 2025, not enough went right to move the dial. It feels like a missed opportunity. While announcements on New Towns and Small Modular Reactors, for example, feed future expectations, they don't impact today's turnover.

The key challenge has been affordability, with wider implications for risk-taking by the supply chain. The question is, will affordability barriers be fixed in 2026, such that we finally see the change we've been waiting for? Here are a few factors that could potentially reduce market risks.

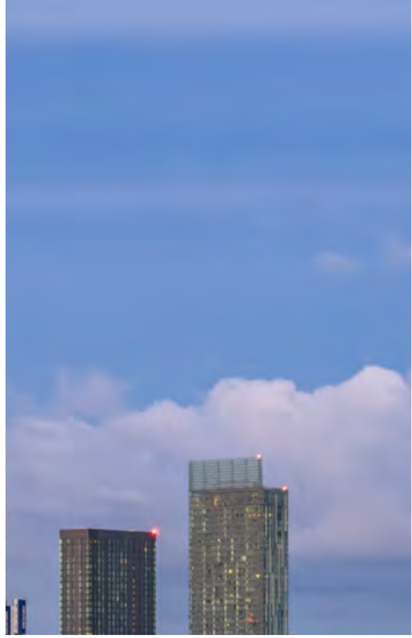
- **Interest rates –** Base rates are likely to fall further, but the trajectory for gilt rates is much less certain given the performance of the government. Improved fiscal discipline could see an easing in the cost of borrowing.
- **Regulatory barriers –** Considerable progress has been made, from speeding up planning decisions to reducing the backlog of approvals for high-risk buildings. However, eliminating barriers is one thing; proceeding to construction is another. Can developers make schemes stack up where sales prices are static and finance remains expensive?
- **Public programmes –** 2026 will see the shift from spending in the single-year settlement up to April to the start of the four-year programme under the Comprehensive Spending Review (CSR). Can departments busy with prisons, schools, hospitals, and defence projects maintain momentum, or will affordability hold them back?
- **Network infrastructure –** We need to see clients building confidence that programmes are deliverable and that they will deliver a return.
- **Power connection queues –** These need to be rationalised quickly to enable megaprojects to proceed with certainty.

In summary, big government programmes will gather momentum in networks and the public sector, although contractor affordability might be an issue, which could lead to some projects being delayed or shelved. And while the commercial market will eventually look after itself, the housing market is hemmed in by high build costs and weak demand. Lower forecast growth rates for GDP and real wages compound the problem.

In the medium term, the UK construction market is becoming dependent on external investment; data centres, stadia, and theme parks will fill gaps that should be generated by domestic demand. Something certainly needs to change—and fast—to improve animal spirits and build momentumacross a range of construction markets. If not, ambitious plans for construction toward the end of the decade will become even harder to deliver. Contractors are not the only ones gambling with the future in 2026.

Forecast

As the year-end approaches, it has become increasingly clear that a promising pipeline is not converting into actual workload. With construction sectors moving at different speeds, there could be trouble ahead as the industry fights to retain capacity.



Current activity

Construction growth in Q3 tracked the wider economy, expanding at only 0.1%, although new build activity contracted due to slow housing markets. Figure 1, plotting change in output highlights weak short-term growth in all sectors except for public non-residential, where growth has been seen in universities, healthcare, and the justice sector. Demand from the logistics sector has also been buoyant, but growth in commercial is much more tentative, particularly in the offices sector. The supply chain's problem is that growth is focused on smaller sectors, such as industrial, with a well-defined supply chain. By contrast, many contractors specialising in residential, commercial, and civil infrastructure currently see limited growth prospects.

Infrastructure workload should be increasing given the demand pipeline from the network utilities. However, price control commitments have still not converted into a significant increase in workload. We explore causes of slow growth in our water sector feature.

Subdued demand means that price inflation in 2026 is forecast to be lower than previously expected.

Change in construction output

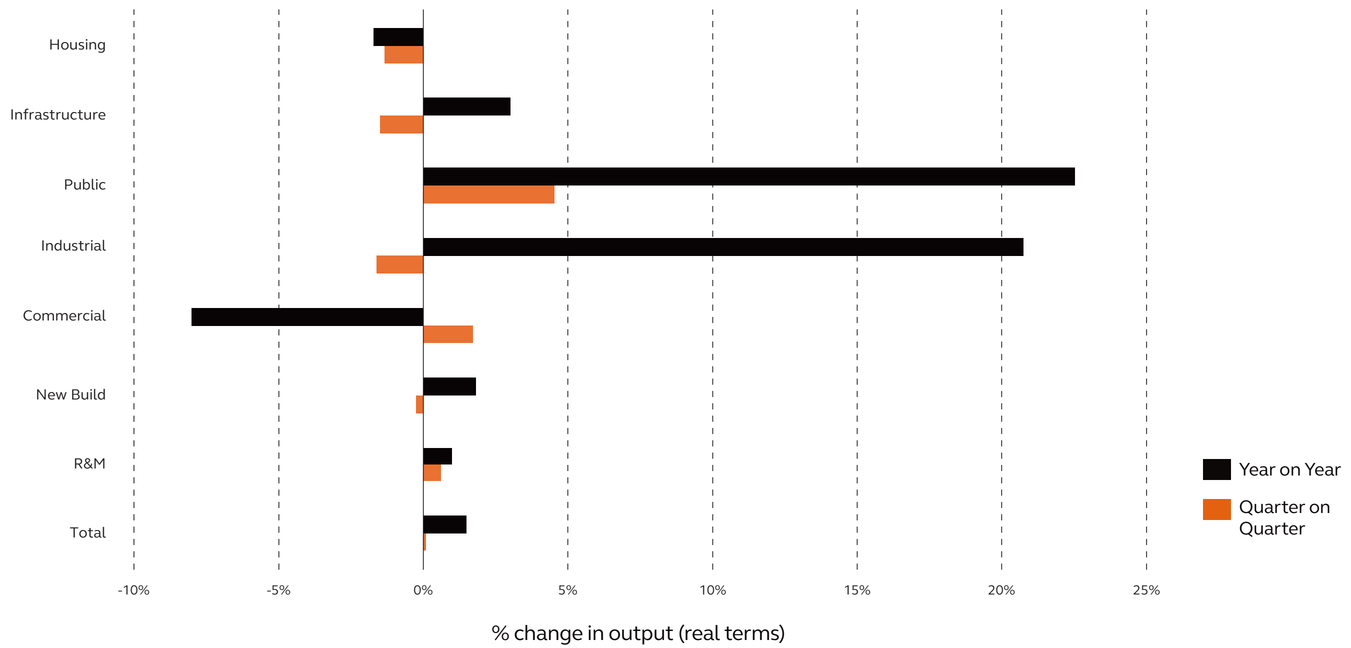


Figure 1. Construction output growth, Q3 2025. Source: ONS, Arcadis

Future pipeline

As highlighted in the introduction, new orders for construction are in a period of remission after two weak years. Totalling £22.8 billion in Q3, orders are back above the 10-year average. However, growth of opportunity in the largest sectors is weak. The two main engines of industry recovery—residential and economic infrastructure—are still misfiring.

Quarterly and annual growth in commercial and industrial sectors stand out in the latest analysis summarised in Figure 2. Annual growth is subject to base effects, but there is a solid pipeline of workload, which includes universities and offices in the commercial sector. One or two data centres are also feeding into future site work.

The reversal of growth trends in both infrastructure and the public sector in Q3 2025 suggests that there is further room for expansion in the orders pipeline. Water orders are up significantly over 12 months, compensating for a fall in road and rail. Similarly, in the public sector, while the school pipeline is gathering momentum, future spend on hospitals and other elements of social infrastructure is not expected to crystallise before 2027.

Many contractors will not see the benefit of the recent uptick in new workload, increasing pressure on the need to win work.

Change in construction pipeline

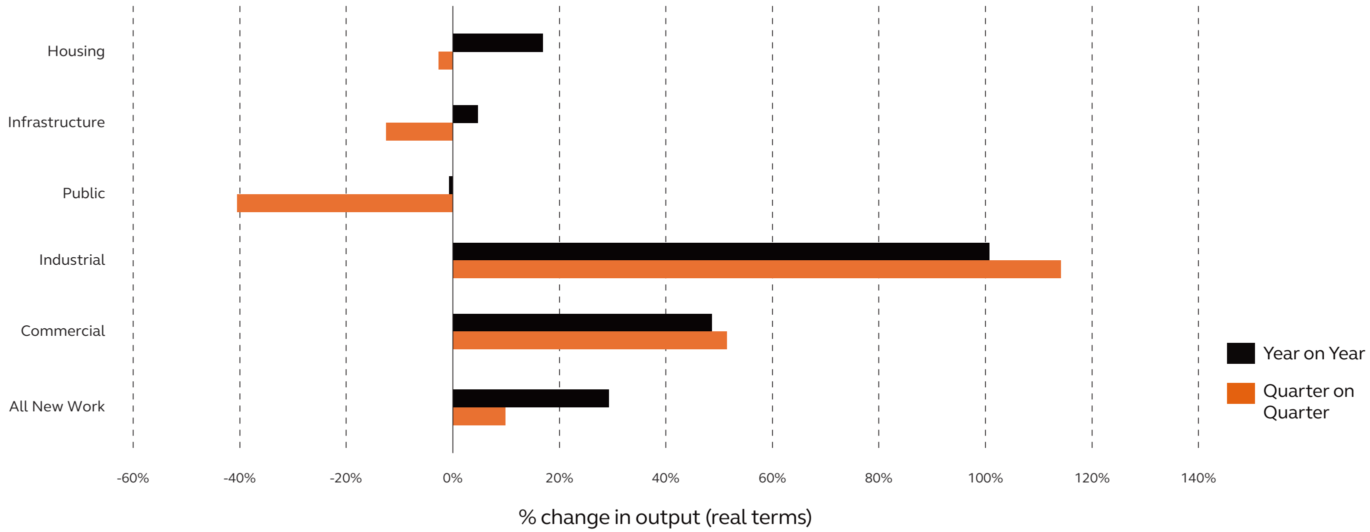
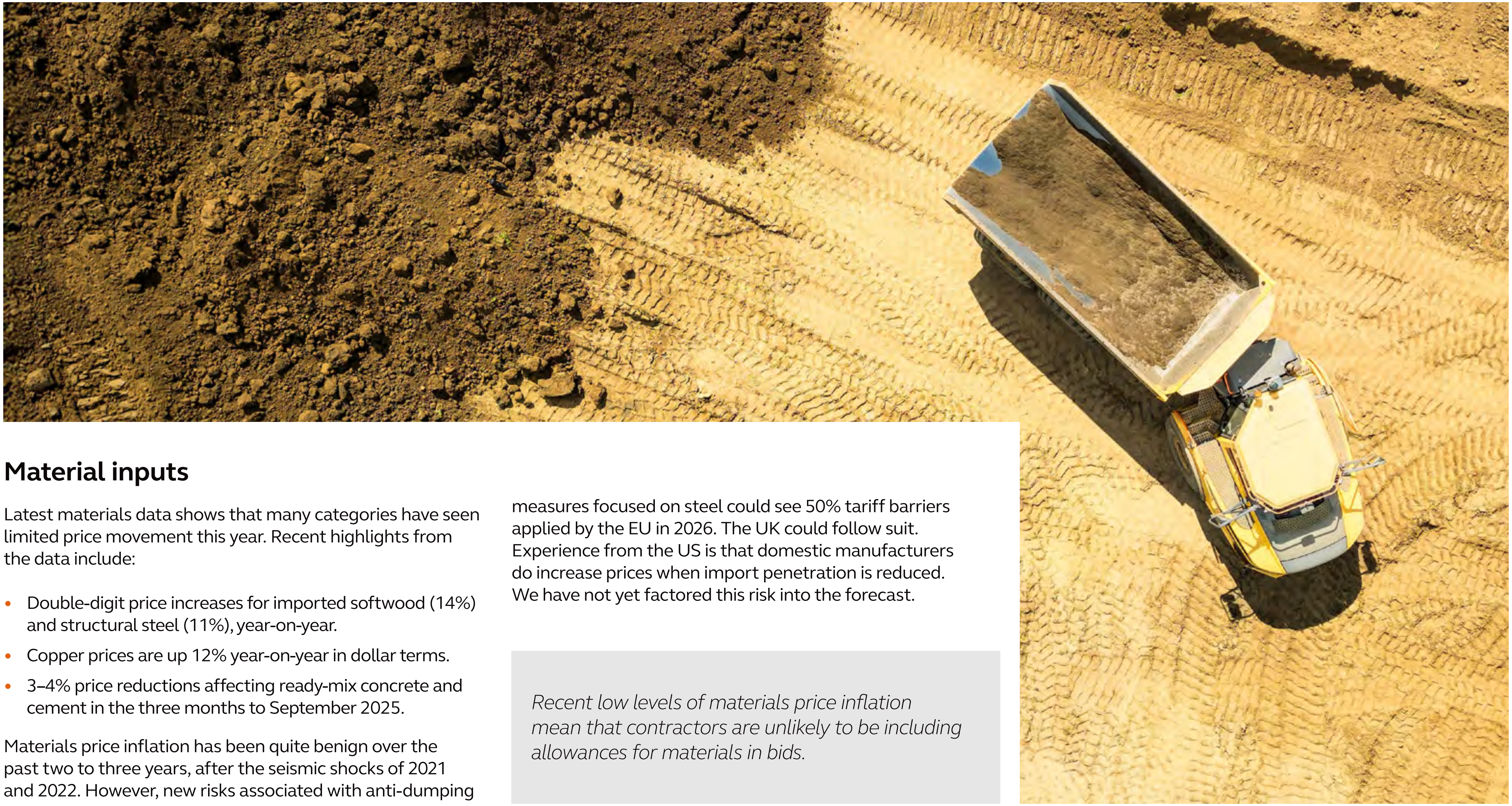


Figure 2. Construction new orders growth. Source: ONS, Arcadis



Material inputs

Latest materials data shows that many categories have seen limited price movement this year. Recent highlights from the data include:

- Double-digit price increases for imported softwood (14%) and structural steel (11%), year-on-year.
- Copper prices are up 12% year-on-year in dollar terms.
- 3–4% price reductions affecting ready-mix concrete and cement in the three months to September 2025.

Materials price inflation has been quite benign over the past two to three years, after the seismic shocks of 2021 and 2022. However, new risks associated with anti-dumping measures focused on steel could see 50% tariff barriers applied by the EU in 2026. The UK could follow suit. Experience from the US is that domestic manufacturers do increase prices when import penetration is reduced. We have not yet factored this risk into the forecast.

Recent low levels of materials price inflation mean that contractors are unlikely to be including allowances for materials in bids.

Labour inputs

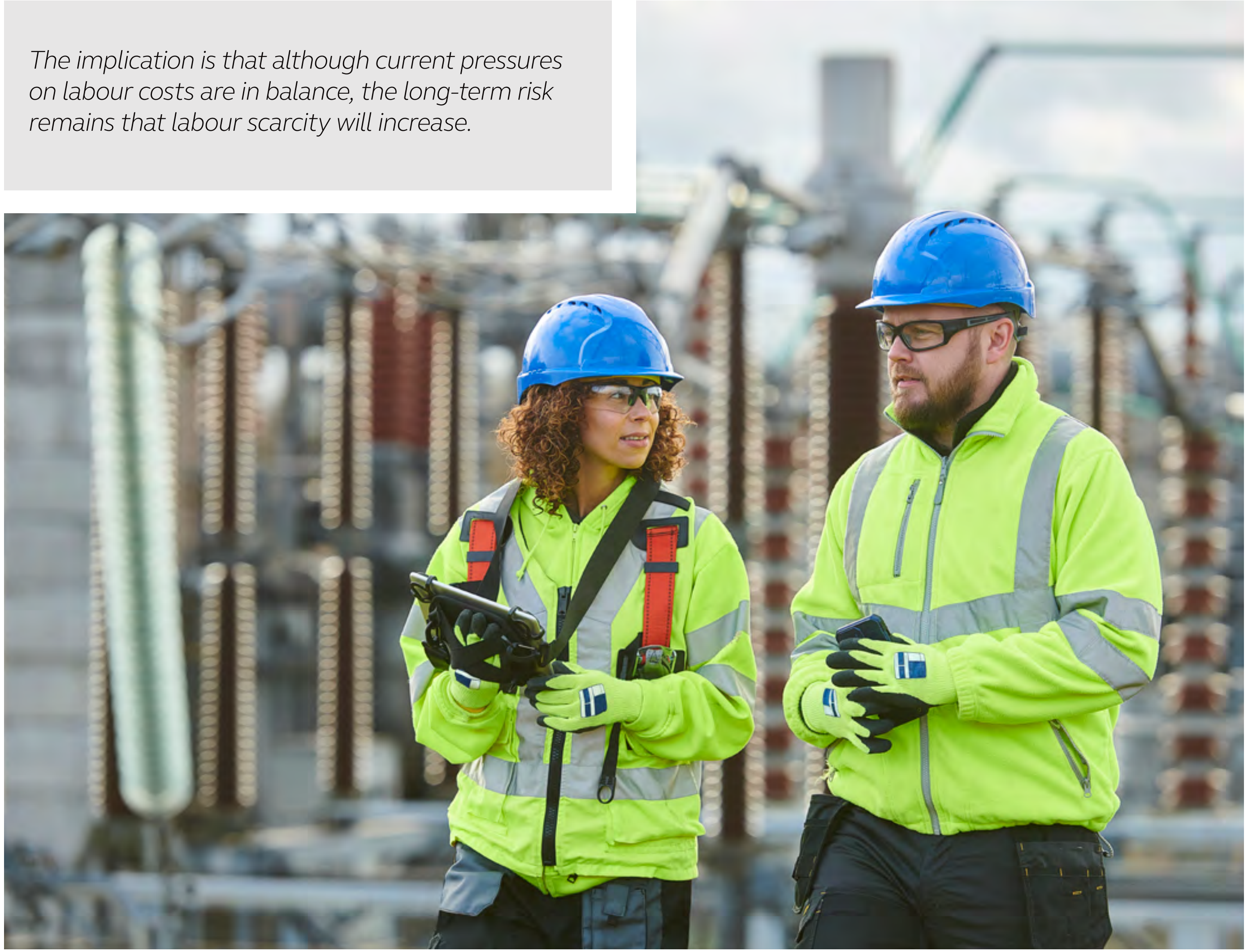
Construction presently appears to have some spare labour capacity. Annual growth in earnings has fallen to 2.9%, below CPI, according to latest ONS data. The economy average is 4.9%. Vacancies fell to 1.9/100 employees in latest data to October 2025, well below the national average of 2.3.

Recent labour force data suggests that the industry is facing an accelerating skills crisis. Labour Force Survey data records that construction employment is at its lowest level in 24 years. However, this doesn't make sense in the context of modest output growth. Labour survey data quality has deteriorated, meaning that contractors can't be sure if there is a problem. Alternative data recording the number of jobs in the sector is less alarming but still points to a slow reduction in the labour force, down 6% since 2019.

Whatever the baseline, industry is presently struggling to invest in its people and will face even greater challenges to attract labour in a recovery phase. These include:

- The high proportion of young people aged 16-24 years not in education, employment, or training—currently 12.5%. Construction faces a particular challenge attracting a young workforce, despite high wages.
- Likely impact of the 2025 Employment Rights Act, including restrictions on the industry's flexible labour model.
- New requirements for the skilled migrant worker route, including exceedingly high formal language qualifications.
- A crackdown on illegal working, including right-to-work checks for self-employed site workers.

The implication is that although current pressures on labour costs are in balance, the long-term risk remains that labour scarcity will increase.



Forecast summary

The Arcadis Winter 2025 Tender Price Forecast considers disappointing levels of workload growth in the second half of 2025 and the loss of momentum in the wider UK economy.

The 2025 Autumn Budget contains few measures to encourage investment in buildings and has been published against a backdrop of deteriorating growth and higher inflation. With the tax take forecast to reach a record 38.3% of GDP by 2030, the public sector is on track to assume a greater role in generating demand for construction.

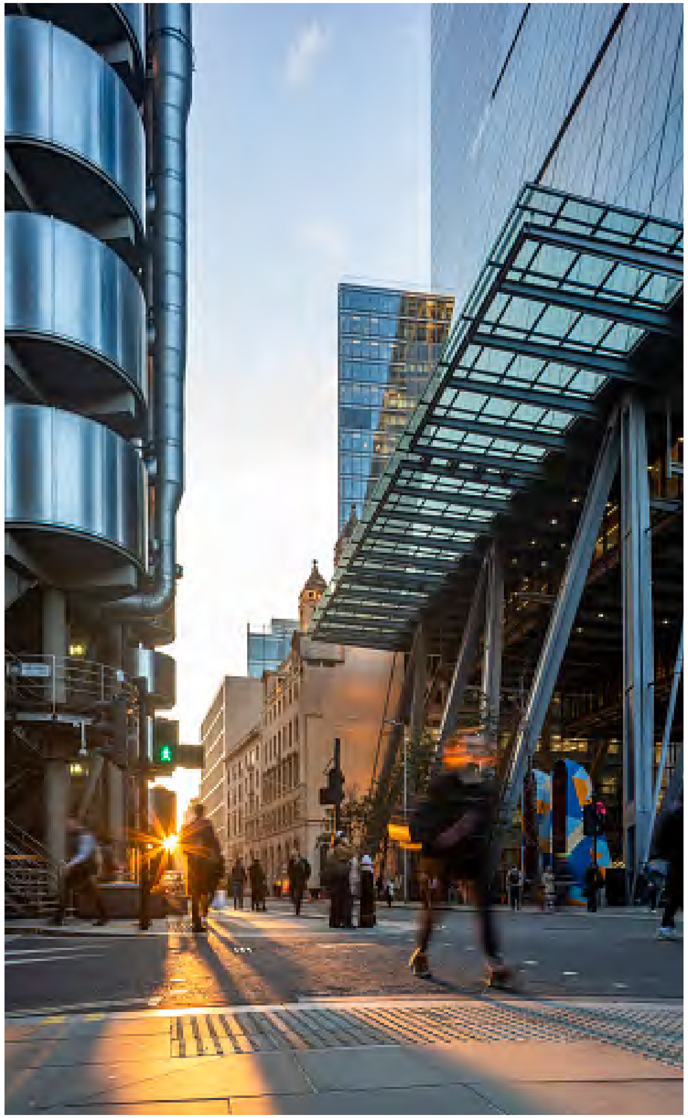
Even fast-moving sectors like the regulated utilities are taking time to fully mobilise their programmes, and short-term prospects are deteriorating for many sectors. We discuss some of the challenges of rapid mobilisation in our sector focus features on the water sector and public sector frameworks.

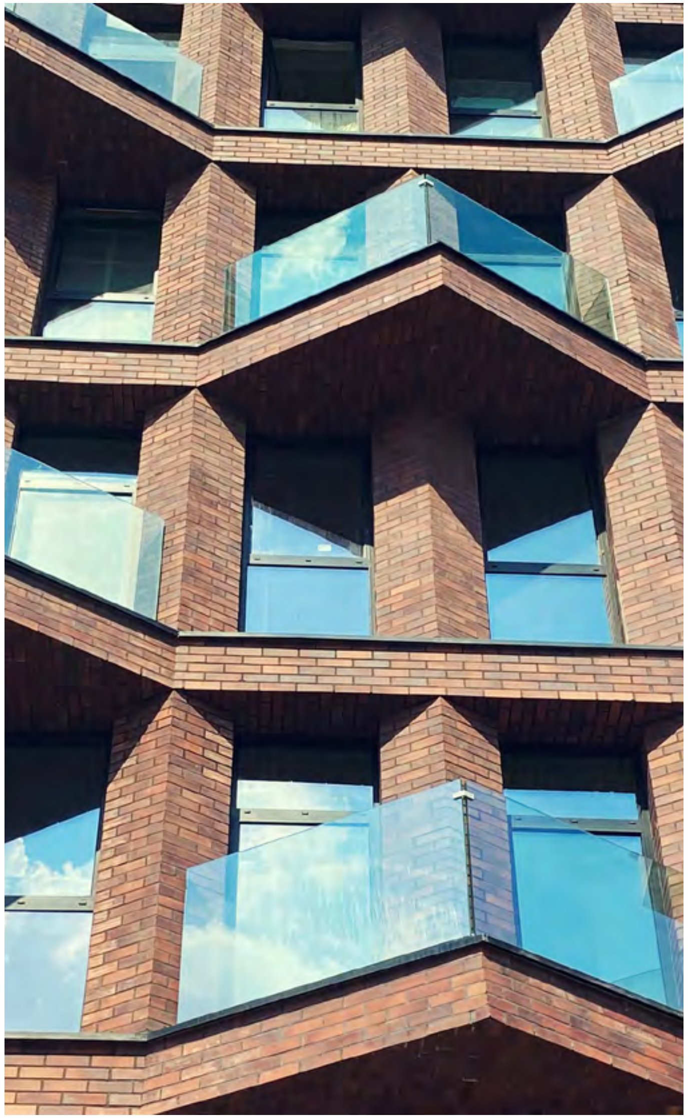
Housing continues to contend with persistently low levels of growth, although new home registrations recorded by NHBC in Q3 2025 were up by 8.3% year-on-year. The twin pressures of affordability and viability make it exceptionally difficult to bring brownfield development forward, and even recent moves to increase delivery in London by relaxing design and planning gain requirements appear to be insufficient to break the logjam.

For many contractors, particularly those working on High Risk Buildings (HRB), workload cannot be converted quickly enough. Extended pre-contract periods have placed a limit on the work-winning capacity of many contractors, particularly in the commercial and regeneration sectors.

As existing projects complete and the value of work in hand falls further, constraints on work-winning capacity will become more significant for contractors in slower-moving segments such as residential. More bids could become must-win bids.

As already highlighted, not every contractor is in the same situation. For contractors focused on infrastructure and large public programmes, margins are higher, and the scale of opportunities is greater too. The UK's largest contractors have consistently increased margins and turnover over the past two to three years and are well placed to respond to growth sectors, including networks, schools, and hospitals. By contrast, sub-£1 billion buildings-only contractors, often focused on private sector clients, are the 'squeezed middle' based on recently published financial analyses, with average margins on turnover of less than 1%. These businesses will need to secure fresh work in 2026, and we anticipate that bidding pressures will increase in the residential and commercial sectors in 2026 and potentially 2027.





The emergence of a further split in industry prospects, between private and public sector building as well as between civil and network infrastructure, requires Arcadis to reorganise our tender price forecasts to properly account for emerging market dynamics:

- Private sector commercial and residential development will be procured competitively based on single projects with a strong focus on affordability and viability.
- Public sector social infrastructure and network infrastructure will see increasing volumes of work procured collaboratively based on long-term, selectively procured frameworks.
- Public and private sector civil infrastructure will compete with other programmes for industry capacity, even as the scale of programmes is reduced.

To account for these dynamics, **we have replaced the London and regional buildings' tender price indices with public and private sector tender price indices**. This sector separation will enable us to better reflect market conditions as sector prospects diverge.

Across all sectors, we have significantly downgraded our forecast for 2026 and 2027.

- We anticipate that the rate of growth in workload across all sectors will fall behind expectations as affordability and viability challenges persist.
- Contractors will face some inflationary pressure for labour inputs that they will aim to pass to clients.
- Some limited margin reduction is likely in the private buildings sector as contractors seek to secure 'must-win' bids. Viability pressures will place a lid on inflationary pressure.
- Public sector programmes will see greater inflationary pressure as the need to deliver programmes at scale hits capacity constraints.

Our forecast is for a continuation of inflation trends at or below CPI during 2026. If the market recovery continues to be slow, then there is the potential for further downward price pressure in private sector building sectors in 2026. This is excluded from the forecast.

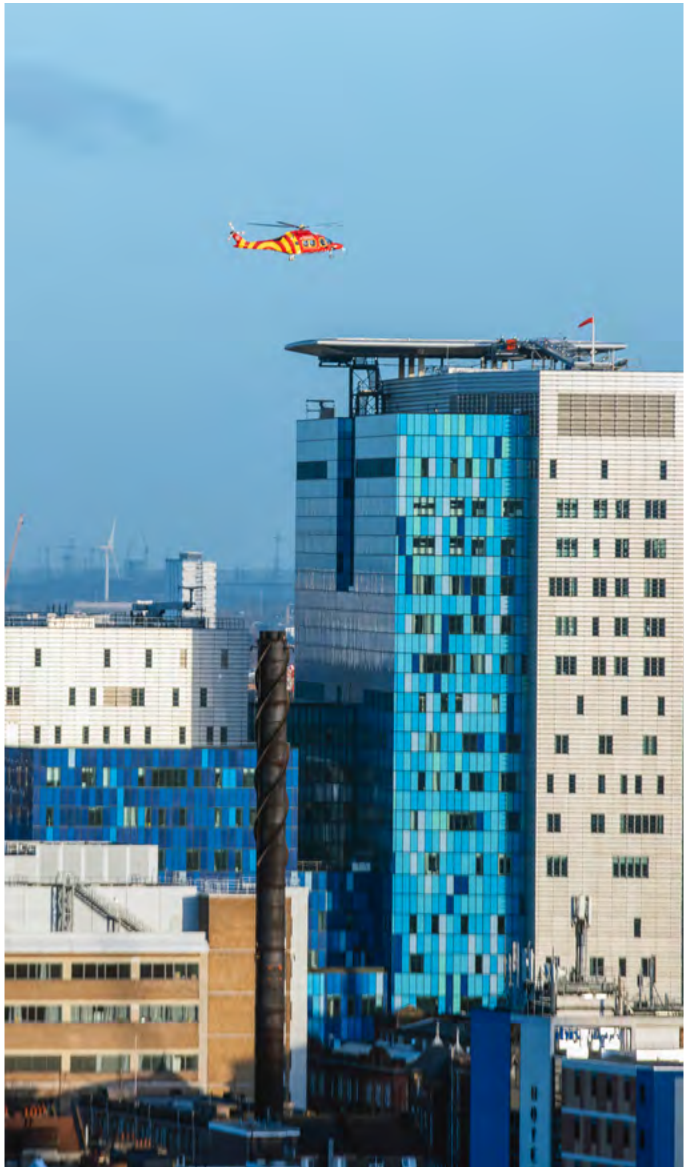
Looking beyond 2027, we continue to forecast that labour scarcity will drive above-trend inflation as workload accelerates. This will particularly affect network infrastructure clients who must deliver to challenging timeframes set by their regulators.

In summary, construction is splitting further into a multi-speed market, even as all sectors struggle to build momentum. The private building sector will be held back by deep affordability and viability challenges. The public and regulated sectors also face these pressures but also face an overwhelming pressure to build that will require them to invest in their supply chain as 'client of choice'. For organisations without a route to public sector work in 2026 and 2027, bid strategy could become more risk-seeking: the last roll of the dice.

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.

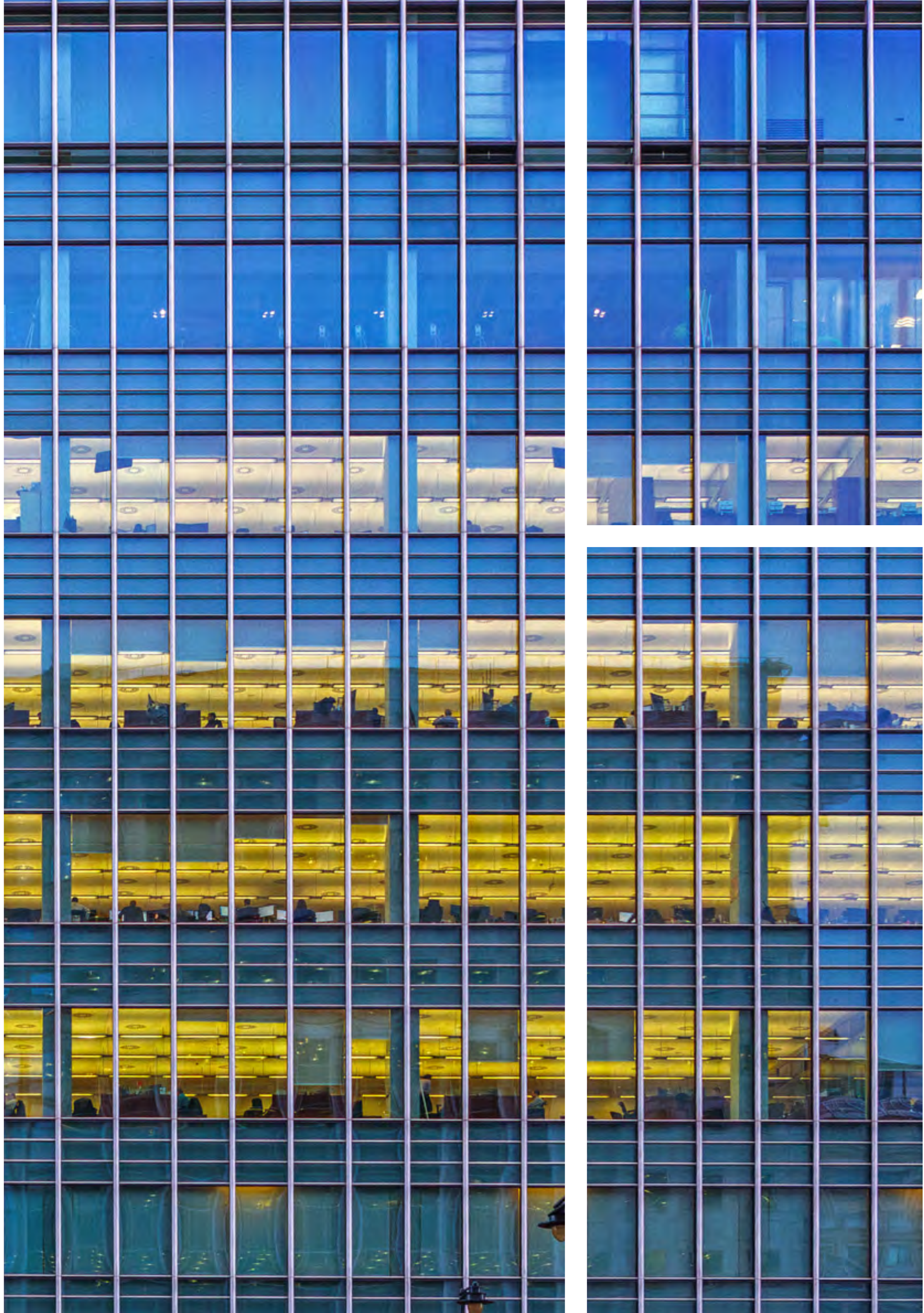
	Private Sector Construction TPI	Public Sector Construction TPI	National Civil Infrastructure TPI	National Network Infrastructure TPI
2024	1-2% (1-2%)	1-2% (1-2%)	3-6% (3-6%)	3-6% (3-6%)
2025	2-3% (2-4%)	2-4% (2-4%)	3-5% (3-5%)	4-6% (4-6%)
2026	2-3% (3-5%)	2-4% (3-5%)	3-4% (3-5%)	3-6% (4-7%)
2027	3-4% (4-5%)	3-5% (4-5%)	2-4% (3-5%)	4-7% (4-7%)
2028	4-5% (5-6%)	4-5% (5-6%)	4-6% (5-6%)	5-8% (5-8%)
2029	4-5% (5-6%)	5-6% (5-6%)	5-6% (5-6%)	5-8% (5-8%)
Total (2026-2029)	**13-17%**	**14-20%**	**14-20%**	**17-29%**

Inflationary drivers	Deflationary drivers
Expected high levels of workload in network infrastructure and public social infrastructure	Affordability challenges placing downward pressure on budgets
Lower levels of competitive pressure in framework-based procurement	Procurement and approval delays
Limited capacity for large project ECI and delivery in buildings	Heightened subcontractor competition for workload in private sector
Supply chain consolidation	Increasing willingness to accept risk transfer in competitive markets
Attitude to risk transfer on higher-risk projects	



The Budget 2025: no room for growth

The Autumn 2025 Budget increased taxes by £26 billion, with current spending increased by £11 billion by 2029/30. With an emphasis on social programmes, including the removal of the child-benefit cap and increased fiscal prudence, the budget was written for back-benchers and bond markets, not builders.



Although the budget itself might not offer much in terms of direct measures for the industry, the wider economic climate, summarised in the OBR's 2025 Economic and Fiscal Outlook, should be essential reading. Counterintuitively, OBR revised its assessment of GDP growth before the pandemic upward, while downgrading future prospects. Unfortunately, it appears that the weak growth seen since 2021 could persist for the rest of the decade.

With returns on investment expected to fall from 12.5% to 11%, and with real-terms household income growth set to be eroded by inflation and taxes, increasing by barely 0.25% per annum, private markets are likely to be subdued over the forecast period. This means that the public sector will play an even more important role in underpinning demand for construction.

The government client will be doing this from a place of strength. The CSR outlined capital spending totalling £712.3 billion between 2025 and 2030. Much of this spending will be focused on the construction sector, including the £15-billion initial wave of the New Hospitals programme and part of the £39-billion Affordable Housing Fund. For private sector investors, the risk is always that rapid growth in demand from the public sector will crowd out other markets—either by absorbing contractor capacity or by driving inflation through excess demand.

Looking at the proposals, spending announcements in the budget, including Lower Thames Crossing and further Integrated Settlements for seven Mayoral Strategic Authorities, confirmed the allocation of existing money rather than announcing new funds.

The limited new announcements were less ambitious, including an £18-million two-year programme to modernise 200 playgrounds as part of the Pride in Place initiative. Nevertheless, the preparatory work has been done by government, and now it is on clients and their supply chain to develop investment proposals—with deliverable business cases—that can become genuinely shovel-ready projects.

Beyond the funding announcements, public sector bodies are also increasingly able to leverage their access to capital markets. Pre-speech announcements supporting the Docklands Light Railway (DLR) extension to Thamesmead, Neighbourhood Health Centres, and the £1-billion Greater Manchester Good Growth Fund all highlighted different routes to securing further capital for investment in public infrastructure.

By contrast, private sector clients will continue to face significant headwinds from slow growth, persistent inflation, and potentially higher borrowing rates. Reforms to planning and land acquisition will have to do much heavy lifting if the OBR's forecast of 305,000 housing completions per annum by 2029/30 is to be met.

With more of a focus on fairness than growth, the Autumn Budget has little direct support to offer the construction sector. However, the following measures will have a potential impact either on demand and opportunity or the supply chain's resilience.

Positive policy interventions

Measure	Implication
Fully funded SME apprenticeships for eligible people under 25	Construction's large number of SMEs could benefit from this measure by simplifying the route to Growth and Skills Levy funding
Extension of Business Rate Retention Zones	BRRs enable city regions to borrow against 25 years of retained business rate growth—potentially kickstarting infrastructure investment. Existing pilots will be extended to 2028/29
Confirmation of Integrated Settlements for seven Mayoral Strategic Authorities totalling at least £13 billion	Funding for transport, low carbon, and skills training included in the scope. This potentially allows for greater localisation of spend
Confirmation of new Public-Private Partnership models	Early announcements of a PPP strategy for Neighbourhood Health Centres and the decarbonisation of the public estate highlight that public sector programmes will expand beyond those funded by the CSR
Land remediation grants	Available to public bodies, potentially freeing up development land
£2 billion asset disposal target, including accelerated land release by HS2	Additional development opportunity with partnership potential
Landfill tax: two rates of tax retained	Significant cost risk avoided

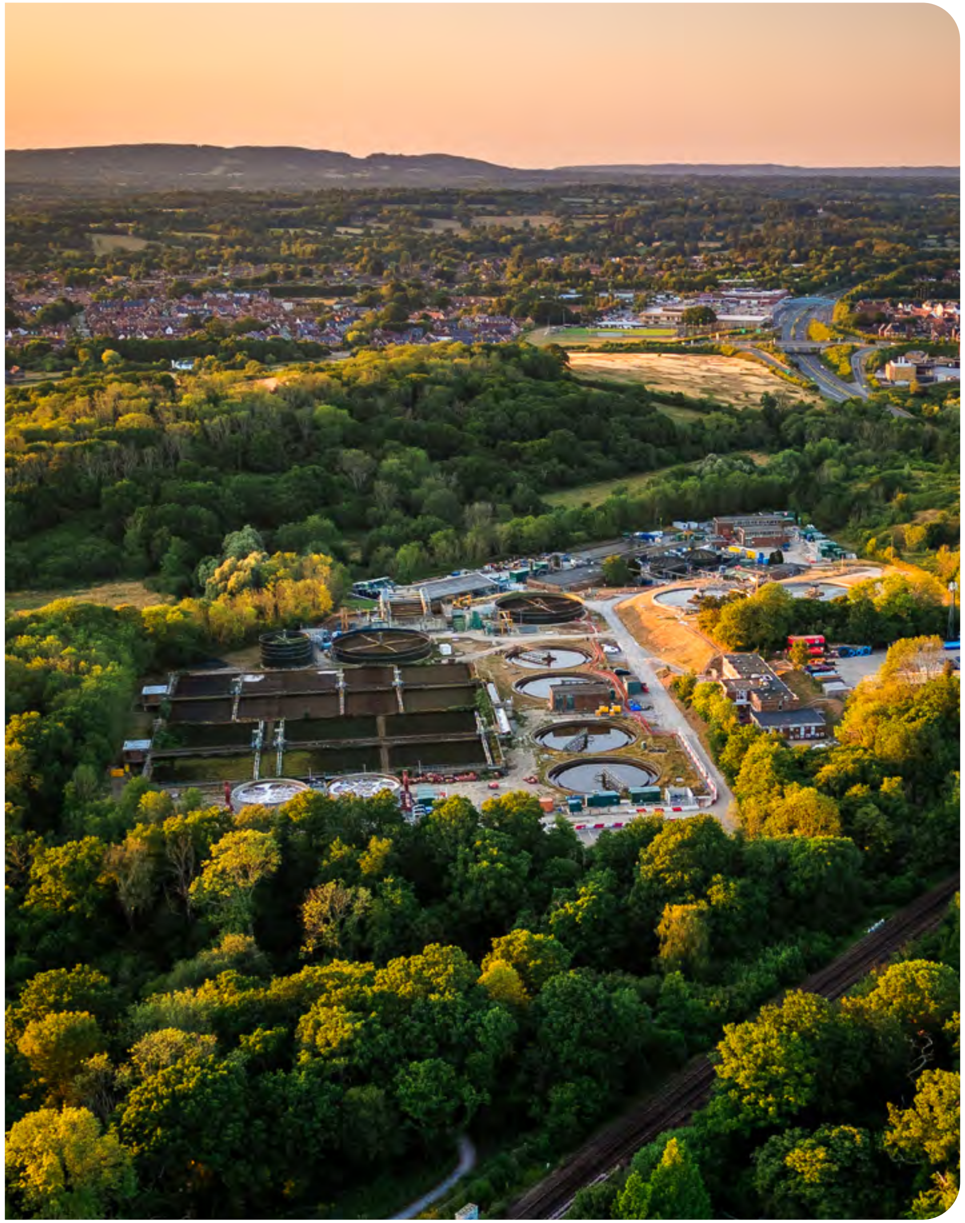
Negative policy interventions	
Measure	Implication
Abolition of the Energy Company Obligation	Potential disruption to the low-carbon retrofit sector after ECO4 cancellation
Business rates: revaluation and high-value multiplier for property valued over £500,000	The take from business rates is expected to increase by at least £7 billion by 2030/31. A greater share will be paid by occupiers of larger buildings, potentially reducing demand.
Tax treatment for Employee Ownership Trusts	Capital gains tax reliefs reduced to 50%

Most of these measures strengthen the role of the public sector as a client, JV partner, or source of land. There are no measures that will directly support investors or developers.

In summary, the budget offered short-term spending in the form of increased welfare budgets to be paid for by future taxation. The government has mapped a route to a larger fiscal margin of £22 billion by 2029/30. This will reassure investors, but that target is a long way off. According to OBR, the government has a 59% chance of meeting this target. Government might also need to raise further taxes, find further efficiency savings, or reprofile its cherished investment programme. While in the private sector there might be little room for growth, in the public sector, there is also little room for error.

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 sector

Progress on AMP8: when will it take off?

There are great expectations for design and construction workload to deliver the AMP8 programme. Investment is expected to increase fourfold compared to AMP7.

A dip in spending between AMPs has been a regular feature of water investment, but the slow start to the current cycle has taken the supply chain by surprise. Based on a British Water survey covering Q1 of AMP8, contractors had only secured 30% of expected orders. Is the promised workload delayed, or could the scope change?

In practice, water companies are heavily incentivised to complete their capital programmes. KPIs associated with Price Control Deliverables (PCD) will track the capital programme, and if investments are not implemented, revenue from bills will be reduced. However, water companies also operate under a wider incentive framework, the Outcome Delivery Incentive (ODI). ODIs cover customer outcomes such as customer satisfaction, water supply performance, environmental performance, and so on. Inferior performance against ODIs will affect in-year and long-term revenue, reduce investability, and impact credibility in future business plan negotiations.

Increasingly, we are finding that, as water companies plan the delivery of their capital programmes, they are aiming to protect the organisation's ability to deliver ODI targets. This may involve the reprogramming or rescoping of capital work, which may explain the slow start by some water companies.

Many water companies describe themselves as mobilising and 'on track' for delivery of their programmes. However, there are some legitimate additional reasons why progress might be slower than expected in 2026. These include:

- **CMA appeal -** Five water companies have either an outstanding CMA appeal or a deferred appeal (Thames Water) with respect to their business plan and the Ofwat Final Determination. The pace of investment will slow until water companies know that they can recover their costs. Redeterminations will be finalised in March 2026. Workload will be delayed, and the scope could change using an in-period adjustment process.
- **Business capacity -** Many water firms are still in the process of developing their own capability through recruitment and business transformation. Resources are constrained, partly because of additional demands associated with the planning and procurement requirements for Strategic Resource Options (SRO) like Abingdon Reservoir. This will delay work but should not result in a change in scope.
- **Agreement of scope -** We understand that some water companies are actively reviewing the investment programme set out in the Final Determination to find alternative low-build/no-build solutions that will deliver the same regulatory outcomes at a lower cost. This process could result in a change in scope.
- **Delays associated with third parties -** Delays caused by planning issues, power connections, and other system interfaces have required the reprogramming of investment plans. This should not result in a reduction in scope, although spend might be delayed.
- **Water company risk appetite -** In common with many construction sectors, and despite the huge increase in investment ambition, capital programmes for water face significant budgetary constraints. Water companies must deliver their programmes efficiently, and, in some cases, cannot meet their budget and time commitments in the regulatory settlement. Because water companies cannot be certain that they can secure their expected return, projects are under greater scrutiny and are not proceeding as quickly as expected.

Workload in the water sector has remained quite steady over the past 12 months. In some cases, contractors are still completing work started in AMP7. However, the order book has grown by over 100% in the past two quarters, suggesting that new work is now being released.

Based on the widely adopted design and build procurement, engineering design work still needs to be completed, and as a result, construction activity is unlikely to ramp up much before H2 2026. Encouragingly, many of the factors that have constrained programmes are expected to ease, unlocking access to the expected jump in workload. Once CMA appeals are finalised, clients fully commit to their programmes, and once additional annual budget releases are confirmed by Ofwat, the real promise of the water sector is likely to be realised.

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Mobility – aviation

Airports: long-haul opportunity

Aviation has a key role in the government's growth strategy. High-profile announcements of plans for airport expansion in 2025, facilitated by new runway or terminal capacity, contrasted with the slow pace of investment in road and rail.

Long-term forecasts anticipate that London-area runway capacity will be full by 2030, underlining the case for large-scale investment. With UK airport groups seeing growth in passenger numbers and revenue in the short term, there is also a strong incentive to invest in the estate.

But how long will it take for plans to turn into reality? Will aviation investment drive a cyclical recovery, or will it contribute to an overheating industry?

In practice, aviation has sustained significant levels of investment since the pandemic. Manchester Airports Group (MAG) has completed its transformation of Manchester Airport and is about to embark on a capacity expansion programme at Stansted, aimed at maximising utilisation of the existing runway.

Heathrow is completing its H7 capital programme, which has involved a significant investment in new security systems and is due to accelerate during 2026. Even without the third runway, Heathrow's next regulated control period, H8, starting in 2027, is set to require around £10 billion of investment in the existing estate. T5, for example, is now 20 years old, and the programme will include net-zero initiatives, including a new power network to facilitate the electrification of airport operations as well as building enabling infrastructure for sustainable aviation fuel (SAF).

The timing of expansion programmes is less certain. Both Gatwick and Luton were granted DCO approvals this year, but both decisions have been challenged by judicial review (JR). The JR for Luton has been granted permission, while the Gatwick action is still under consideration. Projects cannot proceed until the JR is heard, which could take up to 18 months. In the meantime, airport clients will be able to refine their proposals within the scope of the 'red lines' set by the Development Consent Order (DCO). Commercial challenges associated with the inflation that followed, for example, mean that airport schemes also face viability challenges.

Heathrow remains the big prize, with both government and the owner aiming for the runway to be operational by 2035. While the scheme proposed by Heathrow for a North-West runway has been selected, there are many steps still to be taken, including a review of the National Policy Statement for Aviation, which in turn will set the planning context for the DCO submission. The scale of the scheme is huge, with works requiring expenditure of up to £33 billion by 2033.

Looking at the immediate future, airport clients can be expected to increase their core capital expenditure, reinvesting enhanced profits back into the effectiveness of airport assets. This will largely involve investment in existing assets. Stansted's expansion, starting on site in 2026, will be a standout development for the sector. Investment will accelerate in 2027 as the Heathrow H8 investment period ramps up, potentially peaking at £2 billion per annum—a significant increase in the volume of aviation spend.

However, large-scale investment is unlikely to be unlocked before 2028/29, due to potential delays associated with JR, design development, procurement, and supply chain development. The implication is that airport expansion programmes will be competing with other programmes that will be in full flight, including the networks, the New Hospitals Programme, and the continuing build-out of data centres.

The timing of airport development further loads the dice against the supply chain, providing limited opportunity when workload is expected to be slack and contributing to a capacity crunch at the turn of the decade.

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Places – public sector

Organising for expansion: central government frameworks

The public sector has seen its construction spend increase by 20% during the past year, albeit from a low base. Defence and prisons have seen a significant pickup in activity. However, the current level of construction could be dwarfed by future investments such as the New Hospital Programme, which could see 11 major hospital projects proceeding toward a construction start over the next two to three years.

2025/26 has been a challenging year for capital delivery. Departments received a generous capital allocation in the October 2024 single-year spending review but had little time to plan and procure the work. There is likely to be a peak of short-term projects in Q1 2026 as departments race to spend their allocation. Since July, departments have also been planning the implementation of their 5/10-year plans following confirmation of Departmental Spending Limits. As part of the CSR, which included a commitment to invest £725 billion over 10 years, the government has emphasised the importance of long-term, investable programmes. These will be a foundation stone for the creation of new skills and innovation within the supply chain.

The year also saw the procurement of important frameworks and alliances in preparation for an acceleration in spend, based on the Gold Standard for Frameworks. For example, the Department for Education (DfE) is in the process of appointing a panel of contractors to the new CF25 design and build framework, and the Hospital 2.0 Alliance procurement is currently being evaluated.

The track record of frameworks for the facilitation of large-scale public investment programmes is mixed. The prisons programme has been affected by planning delays, and the last schools rebuilding framework was severely disrupted by the RAAC crisis, which required the reprioritisation of the schools portfolio.

Looking forward to the ramping-up of expenditure through the frameworks with its positive impact on supply chain turnover, what factors will help determine whether projects proceed at pace? Arcadis has undertaken some recent analysis of framework performance and has identified a range of factors that contribute to high performance. These include:

- **Clarity of purpose**, where a framework needs a well-founded strategic plan that genuinely guides decision-making throughout its life.
- **Clear value drivers**, such as increased social value. Client stakeholders need to buy into the processes that drive the value.
- **Quality of supply chain engagement**, contributing to client and supply chain collaboration and innovation.
- **Effective and transparent management of basic processes**, including pace and clarity of decision-making.
- **Derisking the pipeline**, facilitated by extensive surveys and realistic, should-cost budgets.
- **Managed innovation**, supported by repeat workload and proportionate investment in standardisation and harmonisation.

Central government clients need to attract industry capacity against the backdrop of multiple, competing programmes, all of which will see peak levels of activity from 2027/2028 onward. Backed by the security of long-term investment programmes, public sector clients have the potential to aim to become clients of choice. This involves working with the supply chain to develop shared, positive behaviours and ways of working that contribute to high performance.

Dimensions of client-of-choice behaviours include:

Greater consistency

Procuring similar projects with consistent processes helps enable more productive, harmonized work.

Certainty and decisiveness

Giving the supply chain confidence in future workload needed to invest in product development and fast decision-making to maintain progress.

Pragmatism

Investing in early development work to increase budget certainty and boost investment in supply chain capacity.

Public sector clients increasingly recognise the levers that they possess to attract supply chain capacity and investment to improve product quality and productivity. Their ability to succeed in building their supply chains and in bringing forward a consistent workload could have a further knock-on effect on private sector clients with one-off projects.

Continuing access to capacity in the single-project market will depend on contractors finding the work attractive and profitable. The steps that all clients take over the next two to three years to work with their supply chains to retain capacity during expected lean times will have further implications when workload does start to recover.

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Arcadis

Our world is under threat from climate change and rising sea levels to rapid urbanisation and pressure on natural resources. We're here to answer these challenges at Arcadis, whether it's clean water in São Paulo or flood defences in New York, rail systems in Doha, or community homes in Nepal. We're a team of 36,000 and each of us is playing a part.

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