



Project & Programme Services (PPS)

CONSTRUCTION INTELLIGENCE REPORT

Q2 2025 UK & Ireland



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INTRODUCTION

In the last six months, the UK economy has seen increasing headwinds, with domestic output stuttering because of lower business and consumer confidence. The economy awaits the impact of tightening global trade boundaries, led by US tariffs and a cold European winter that saw energy prices rise.

Wider political factors have resulted in an increase in defence spending. Domestically, the UK awaits the effects of increased employer national insurance contributions (NICs) and higher living wages from April, and the government faces increased interest repayments as government bonds continue to edge upwards. With inflation threatening to remain above the 2% target until 2027, interest rates remain high.

Currently the UK construction sector awaits some important developments. The highly anticipated Government Phase 2 Comprehensive Spending Review, due in the second quarter, will determine future spending directions and how the sector will move forward. Many projects are waiting for the spending review to determine viability, prior to getting the green light. While the sector awaits the publication, recent announcements on the Lower Thames Crossing go-ahead and the £2bn p.a. extra infrastructure expenditure highlight the government's commitment to investment.





There was restrained optimism in the December 2024 Bank of England Agents' Summary of Business Conditions. It reported that the decline in construction output is easing, and that modest growth is expected to return in the first half of 2025. With government investment in infrastructure expected to trickle through from the second half of the year, the potential increase in output will highlight limiting factors: contractor capacity, planning constraints and labour shortages.

In this Construction Intelligence Report, we will provide an overview of the industry and the wider factors affecting it, before looking at the recently introduced Procurement Act and the way in which it aligns with the National Procurement Policy Statement (NPPS) and PPN 002's model for social value through procurement.

While residential and commercial projects await improved economic conditions, the utilities sectors are looking at a transformation. 2025 is also an important year for the water sector, as the new investment cycle (AMP8) has commenced. Power generation and distribution faces the task of meeting power needs with renewable energy, and the water sector has been boosted by the increased investment promised for the forthcoming Asset Management Period 8 (AMP8) cycle. With unprecedented increases in AMP investment, we look at the challenges ahead for the water sector.

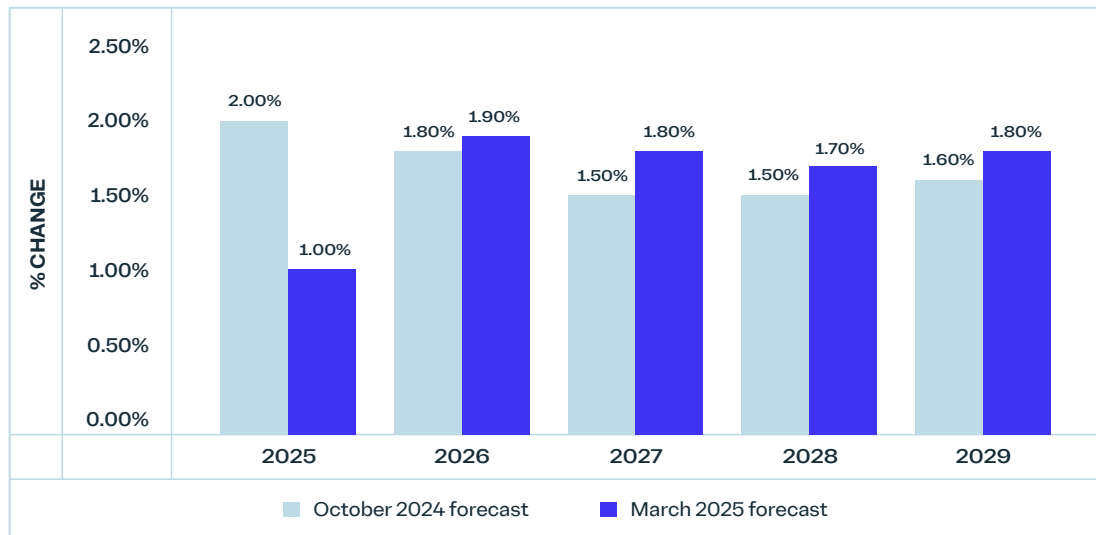


ECONOMIC OVERVIEW

The Spring Spending Statement highlighted changing economic headwinds; the Office for Budget Responsibility (OBR) growth forecast for 2025 was halved as the department described conditions as “more challenging” and “more uncertain”.

Growth forecasts for later in the decade were revised slightly upwards but this still represents a shortfall in GDP growth compared to the October 2024 forecast. These forecasts exclude the potential effects of US tariffs and allow for increased UK productivity in the period.

GDP FORECAST 2025 - 2029



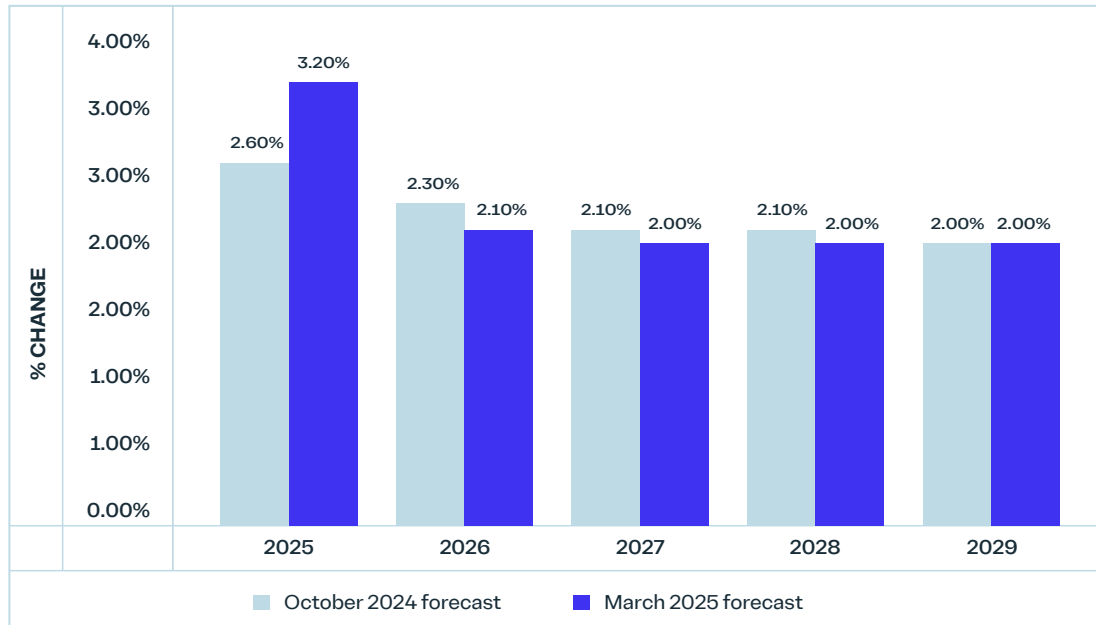
Source: OBR Economic & Fiscal Outlook March 2025





CPI inflation is now expected to be higher as the result of increased geopolitical uncertainty, the introduction of US tariffs, and increases in energy prices. These have led to increased inflation forecasts averaging 3.2% for 2025 before falling to meet the 2% target in 2027.

CPI INFLATION 2025 - 2029



Source: OBR Economic & Fiscal Outlook March 2025





As a result of the introduction of US tariffs the market is expecting a downturn in global demand and this should lead to a slowdown in activity and prices in the long-term. But in the short-term all that is predictable is the volatility. This may lead to a reluctance on behalf of organisations to invest – and therefore lead to a delay in decisions on projects.

The Bank of England is expected to decrease interest rates faster following the tariff announcement and the financial markets have started to price this in. Reducing the cost of borrowing is one way of trying to stimulate investment and growth.

Until supply chains settle down it will be difficult to gauge the impact, but we should expect additional risk allowances in costs to cover delays, material cost fluctuations as parties look to insulate themselves against risk and maintain margins.

Delays and increased price pressures will place additional stress on the supply chain and may lead to further insolvencies. We would recommend that monitoring of construction supply chains is carried out regularly to identify potential problems.

On a cost basis around three quarters of all UK construction materials are sourced locally with the vast majority of imported goods coming from either China or the EU. America doesn't register in the top 5 importers of construction products. It is likely that countries facing higher tariffs to the USA will look for alternative markets and we may see cheaper materials dumped on the market. Whilst this may reduce prices, it can also place pressure on the local supply chain.



CONSTRUCTION OVERVIEW

Six months ago, the industry was confident that improving economic conditions would lead to increased output. Fast forward to the second quarter and this confidence has wavered, with schemes on hold and Clients looking ahead for when conditions are right.

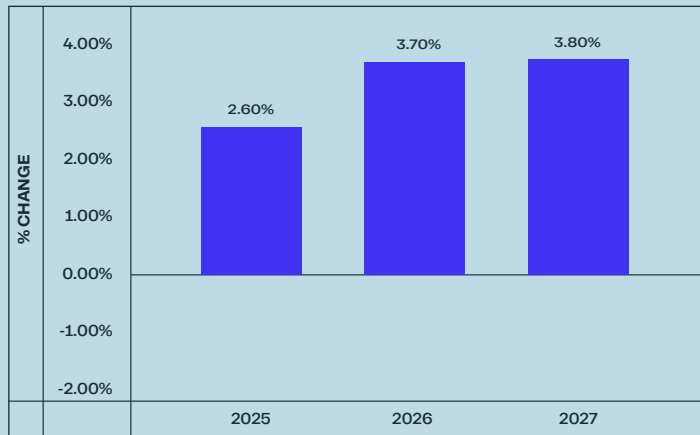
The release of the February S&P Global UK Construction Purchasing Managers Index (PMI), which fell from 48.1 to 44.6, indicates the current uncertainty in the sector. As well as the increasing global economic headwinds with the USA imposing tariffs and moving away from close ties with Europe, the UK marketplace faces the impact of additional employer NICs from April, with business leaders warning of impact on inflation and threats of mass redundancies.



This mood has filtered through to the industry and new orders have fallen. The government's flagship sectors, housing and infrastructure, have seen large drops in their sector figures for the S&P Global UK Construction Purchasing Managers Index. ONS reported that construction output for all work in 2024 rose by 0.4%, reflecting the economic situation and developer hesitancy awaiting the planning reforms and publication of the spending review. New orders fell by 2.4% in 4Q24 compared to 3Q24.

Despite the current lack of confidence, forecasts are currently for a c2.5% rise in construction output this year with higher growth in 2026 onwards.

AVERAGE OF CONSTRUCTION OUTPUT FORECASTS - ALL WORK





One of the key blockages towards increased output is high finance costs. Interest rates have been cut several times, from a high of 5.25% and now stand at 4.5%. The Bank of England is faced with a dilemma; it needs to find a balance between trying to stimulate the economy by reducing interest rates but at the same time it needs to keep a grip on inflation by keeping interest rates high.

The Bank of England expects consumer inflation to peak at 3.7% in 3Q25 as effects of higher energy prices, US tariffs and increased employer NICs begin leading to higher inflation.

Combine this with a slowing global market and further interest rate cuts will probably happen. The timing and level of cuts will determine the effect on the number and speed of projects in the pipeline released for commencement. Given the stretched supply chains and the need to meet new regulations, this gradual increase in projects coming on stream will be better for the industry than floodgates reopening at once.

Public spending is a major contributor to the health of the construction industry, accounting for almost 30% of expenditure. The government has already published its aims in the National Infrastructure Strategy working paper and the next step is publication of the Comprehensive Spending Review. To enable a comprehensive review of government departmental spending, the report has been delayed until late 2025. This has led to a period of uncertainty, with parties waiting to discover its contents before making decisions. Despite investment promises, there are roadblocks ahead. Economy conditions have changed and headwinds have meant that interest rates remain higher than anticipated, to combat persistent inflation. The recently announced extra spending on defence will also have an impact on government spending as priorities are shifted. The chancellor allowed only a small contingency for changing economic conditions in the public finance and this has been swallowed up. Investment may be more limited than was hoped, with schemes pushed back.

Recent legislation changes have had a considerable impact. The Building Safety Act 2022 has effectively stalled many high-rise residential projects because of delays in the gateway system. Multiple gateway delays need to be addressed. These holdups to the schemes are causing viability issues and increased costs, with developers and contractors reconsidering their options in this sector. However, while there is hesitancy right now, there is demand for schemes to proceed once these issues are mitigated.

Another important change on the horizon for England is full enforcement of the Future Homes and Building Standard, expected around 4Q25. This will require all new homes to comply with updated Building Regulations.

To meet the specifications, at the end of 2021 the government updated Building Regulations Parts F (Ventilation) and L (Conservation of Fuel & Power) and introduced Part O (Overheating). These specifications must be adhered to when constructing, extending or renovating UK homes and non-domestic buildings.

Part F introduces new standards for ventilation, while Part L sets out minimum energy efficiency performance targets, airtightness requirements and improved minimum insulation standards.

Key measures include adoption of low-carbon heating systems; heat pumps will replace traditional gas boilers, reducing carbon emissions. Improved fabric efficiency with requirement for high-quality insulation, airtight structures, and triple-glazing will minimise heat loss and further improve energy efficiency. The combination of improvements in ventilation, hot water systems and building materials will reduce energy waste and produce greener and more cost-effective buildings.

To achieve this, the supply chain needs the skills and capacity to meet increasing demand for supply and installation of net zero products. Consolidation of the supply chain and lack of suitable skills in the workforce may lead to delays. Delays, in turn, will impact project cost and programme.

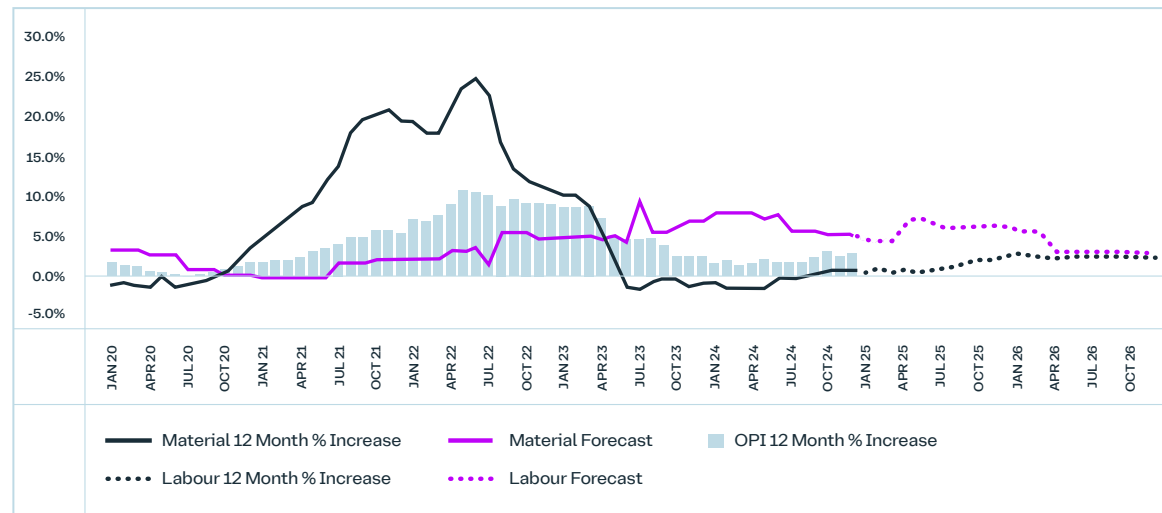




Construction inflation continues to be driven by labour costs, with shortages in both professional and trade workforces. Looming net zero targets point to the need to train more green collar workers. As in the wider economy, construction job vacancies peaked in 2022 number of construction vacancies has remained consistent since 2023, meanwhile the wider economy has fallen steadily. This continued demand, despite a subdued market, reflects skill shortages and the continual need for more workers.

Higher employer NICs will have an impact on tender prices, tempered by construction's larger self-employed workforce which, despite declining due to recent tax changes, accounts for a third of all workers. Self-employed workers, however, are not subject to this increase, thus softening the impact. AtkinsRéalis anticipates that the employer NIC rise will result in an increase of around 0.6 to 0.75% on tender price inflation and this is included in the 2025 TPI forecast.

% CHANGE OVER PREVIOUS 12 MONTHS FOR OPI VS MATERIALS VS LABOUR



Source: ONS & BCIS





Following the Russian invasion of Ukraine, material costs first fell and then remained steady from May 23 to May 24. Since then, BCIS has reported a small increase in materials inflation, forecast to increase to around 3% per annum by the end of 2026. The start of the year has traditionally seen material price increases, although this trend appears less prominent these days as suppliers are now willing to alter prices throughout the year. However, with subdued activity in the UK and mainland Europe, there seems to be no firm evidence of sustained price rises holding, apart from materials facing increased demand because of regulatory change.

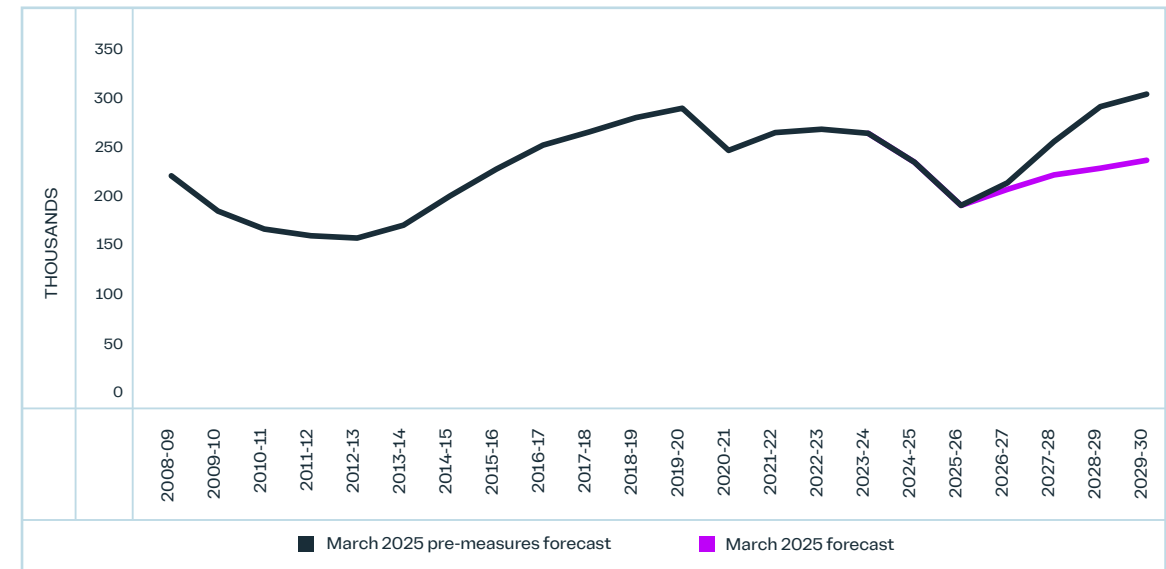
April 2025 will see a spike in labour costs with the introduction of increased employer NICs, but BCIS then forecasts a fall to 3% as the NIC rate increase falls out of the inflationary cycle. This is slightly higher than the CPI inflation forecast and will be determined by the increase in output and the availability of labour.

The government is determined to drive growth in the economy and is pressing on with making it easier to get projects on site, with a multitude of planning reforms and published strategies.

The OBR March 2025 Economic and Fiscal Output forecasts that 1.3m homes will be added to UK housing stock by the end of the decade, of which 170,000 are the result of the governments planning reforms (shown on the graph as pre-measures forecast).

This will be driven by the requirement for local authorities to release land for building via local plans. With prevailing market forces, the OBR suggests that most of the housing stock increase will commence in 2027-2028 as developers need time to identify sites, overcome supply capacity constraints (materials and especially labour), and undertake construction.

NET ADDITIONS TO THE UK HOUSING STOCK '000s





While the economy faces uncertainty in 2025, there is evidence that increased growth in the economy and a reduction in inflationary pressures will encourage confidence to invest. The government is keen to invest in infrastructure to drive growth and this policy, together with a commitment to reach net zero, is welcome news for the industry. Until we see sign-off of major projects and shovels in the ground, however, uncertainty will remain.

Demand is likely to increase towards the end of 2025 before gaining more momentum in 2026. There are inflationary factors to consider this year, the impact of employer NICs and increased risk allowance for the tariffs. Looking ahead, the smaller than anticipated growth in 2025 will have increased deflationary pressures on tenders in 2026 for those contractors still looking to secure turnover. As the situation from 2026 improves, increasing demand will lead to supply capacity becoming stressed, resulting in upward inflationary pressure.

We started the report with “In the last six months, the UK economy has seen increasing headwinds, with domestic output stuttering because of lower business and consumer confidence.”

This will result in a longer wait than expected upturn in fortunes with less growth and more uncertainty ahead. AtkinsRéalis has accordingly downgraded our forecast for 2026 onwards.

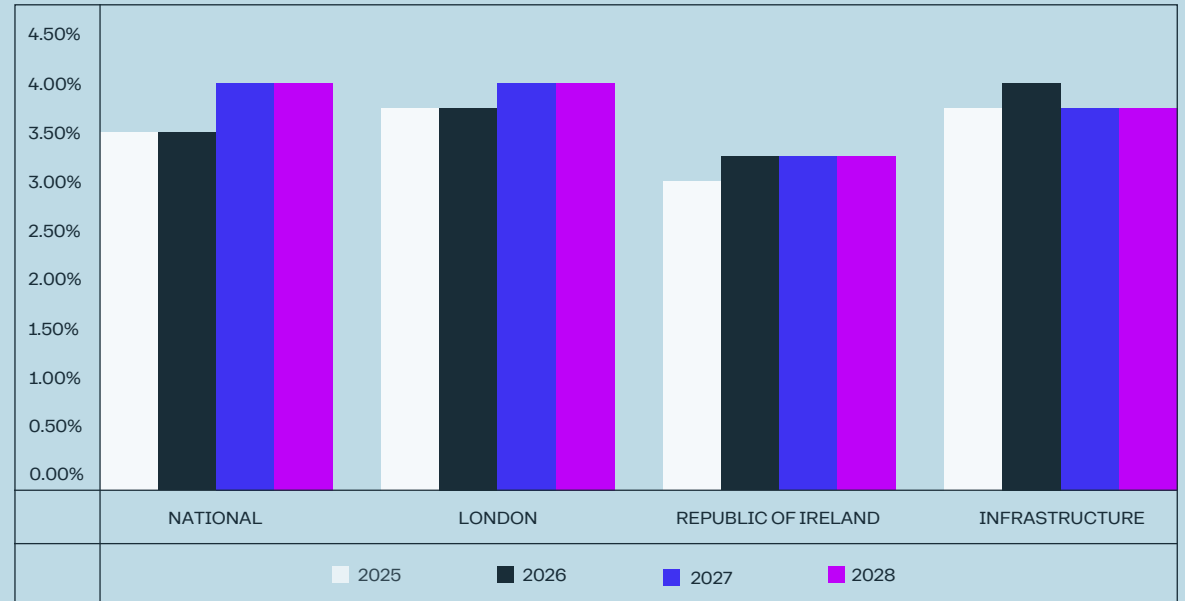


Max Wilkes
Market Intelligence Lead,
UK & Ireland

ATKINSRÉALIS TENDER PRICE FORECAST 2025 - 2028

AREA	2025	2026	2027	2028
National	3.50%	3.50%	3.75%	3.75%
London	3.75%	3.75%	4.00%	4.00%
Ireland	3.00%	3.25%	3.25%	3.25%
Infrastructure	3.75%	4.00%	3.75%	3.75%

ATKINSRÉALIS TPI FORECASTS 2025 - 2028



SECTOR UPDATES



COMPLEX INFRASTRUCTURE: WATER AMP8

The new Asset Management Plan 8 (AMP8) for water utilities started on the 1st April 2025 and will run to March 2030.

AMP8 will see a £104bn investment, as reported by OFWAT replacing the £51bn invested during the AMP7 cycle. With sustained focus on river health and asset condition, this investment cycle will gather a high level of scrutiny.

Changing needs will see AMP8 investments having to address sustainability, efficiency and innovation, while facing the industry-wide concerns of costs, labour shortages and disrupted supply chains.

The government's aim is for a net zero economy by 2050, and in 2020 the water utility companies agreed an ambitious target of net zero by 2030. With an ageing infrastructure system, water companies face pressure to improve resilience and meet increasing water supply and wastewater demands.

The high-profile level of investment, both in terms of investment and public scrutiny in infrastructure will mean a testing period. The water sector must be seen to deliver projects on time and to budget, and navigate a stretched supply chain, while at the same time transitioning to a net zero approach, all in the public eye due to the political nature of the investment. The Institute of Civil Engineers has highlighted the importance of the supply chain, reporting around 55% of water company revenues is spent on external goods and services.

This ambitious roadmap faces many challenges.

AMP8 contains goals to improve water services, meeting environmental and societal demands. Climate change, population growth has increased the



demand on existing infrastructure and impacted its operational resilience during rainfall of beyond design intensity and duration.

Existing models have needed to be adjusted to accommodate more extreme events on a more frequent basis, leading to the utilities needing

to work with local authorities to avert these events. Public outcry against storm overflow discharges to alleviate heavy rainfall has seen the introduction of the storm overflow discharge reduction plan.

Meeting the plan's requirements will need immediate action from the water utilities.

The government's ambition for 1.5m new homes and the associated industrial development will require massive infrastructure development and planning. With it brings the loss of existing soft land space, whether green or brownfield and the need to introduce drainage into these areas. Within these new developments there are conditions

for net biodiversity improvements and the, use of more sustainable drainage systems (SUDS). Now that the Water (Special Measures) Act has entered the statute book, water companies may need to adapt their plans to meet new legal requirements around pollution incidents and emergency overflows.



The existing infrastructure often dates back to the Victorian era and is now in need of repair or replacement. But it's not a case of like for like. Setting aside the undoubted need for consumer education, the proliferation of "fatbergs" shows that current structures aren't capable of meeting current and future demands, and utilities therefore need to deliver alternative solutions. Water infrastructure replacement often interferes with existing traffic infrastructure, bringing commuter misery, bad PR and in some cases the need for utilities to compensate authorities for road or rail closures, leading to increased costs.



Labour and material shortages have the potential to cause projects to overrun budgetary targets and the industry will need to address the issues and look for innovative solutions to deliver projects on time.

The increase in planned investment in the sector will give rise to a commensurate need for increases to our professional and skilled construction workforce. Appropriate experience is highly sought after and as a result highly rewarded. Earlier in the publication we highlighted the need to recruit and train more green collar workers to assist in the drive towards net zero, and this is critical for the water companies in their efforts to reduce their portfolios' carbon footprints.

Securing a workforce is the first step, but AMP8 is seeking greater efficiency and greater accountability for costs. To achieve this the water companies will need to look at innovative solutions such as new materials, hardware or digital technology. Examples of digital technology include the collection of data via drainage system monitoring, to provide investment insights; also the rollout of acoustic meters locating water leakage via sound frequency changes. It will take the successful implementation of all these measures to ensure delivery of projects and reduce overrun of delivery times or costs.

Competition will be fierce as the stretched supply chain, ravaged by insolvencies, with a reduced workforce and many skill deficiencies, is almost at capacity and will be in demand across all sectors. With a global economic upturn anticipated, problems with material sourcing may resurface. Financial constraints persist, with access to credit and insurance problematic, and all these factors will hinder delivery.

Another question is whether guaranteed work on frameworks under AMP8 will be enough to satisfy contractor margins. With frameworks often including fixed rates, increasing labour costs and the cost of investing in sophisticated (and expensive) plant, contractors will be under pressure to increase efficiency. As already mentioned, there is keen public scrutiny and, given concern over rising bills, water companies must meet the requirements of AMP8 while maintaining reasonable bills for customers. Against this background, contractors may look to other sectors for greater rewards.

Despite these challenges, the water sector has an exciting opportunity to transform its estate in this regulatory cycle and deliver an improved product for the UK.



Kiran Mistry
Director



Martyn Clouter
Regional Director



CAN THE NEW PROCUREMENT ACT KEEP PACE WITH EVOLVING INDUSTRY NEEDS?

Fairness and transparency seem conspicuously lacking when we look at many world events right now. But the new Procurement Act claims these welcome traits as its lynchpins, so let's look at how this should work.



The Procurement Act 2023 came into force in February 2025, changing the rules that shape how public bodies buy goods and services. This follows publication of the National Procurement Policy

Statement (NPPS) in February 2025. The NPPS is the statutory statement that sets out the wider policy objectives to which the government expects public procurement to contribute.

NATIONAL PROCUREMENT POLICY STATEMENT (NPPS)

Government missions:

- Kickstart economic growth
- Make Britain a clean energy superpower
- Take back our streets
- Break down barriers to opportunity
- Build a National Health Service fit for the future

NPPS key priorities:

- Value for Money
- Driving economic growth
- Delivering Social and economic value
- Building commercial capability



Alignment of Procurement Act, NPPS and PPN 002

PPN 002, concerning the provision of social value through procurement, has also been updated, aligning the social value model with the government's NPPS objectives. This means that the Act, the NPPS and PPN 002 all align social value outcomes in the same way, reducing interpretation, ambiguity, and fragmentation of social value offerings in tender returns. This standardised way of presenting social value offerings will make it easier for contracting authorities to compare bids, and to subsequently monitor the progress and fulfilment of social value commitments. The NPPS articulates the new government's vision for delivering social value outcomes by giving power back to communities and harnessing new technology, with the aim of putting the country back in the service of working people. To ensure this is delivered successfully, PPN 002 provides guidance to contracting authorities on what should be included in public sector tenders, through eight different outcomes.

Preparations hopefully complete or at least under way

As an industry, we should now be getting up to speed with the new procurement rules. Private sector organisations, like us at AtkinsRéalis, should have processes and governance in place.

The public sector needs to continue updating policies and digital systems, as well as producing new procurement templates. Both sectors should continue to train staff on this, as every individual connected in any way with procurement needs to know the fundamentals. The Cabinet Office's learning and development materials are a useful resource for both contracting authorities and consultants.

Central digital platform

Organisations bidding for public sector work will be becoming familiar with the central digital platform, Contracts Finder. Also the 13 notices required at different parts of the procurement process; understanding the expectations

around the use of AI in bidding; managing the establishment and reporting of performance metrics; tracking of pipeline notices, and management and reporting of KPIs.

In contrast to the previous system, the central digital platform allows greater visibility of tenders. Aside from sensitive commercial information, competitors can see the winning bidder's submission and contract performance. This seems a good move for raising standards all round. The greater scrutiny could help prevent greenwashing too. Also of note: there's now a centrally managed debarment list, which obviously poses reputational and commercial risk.

First new tender notices

We saw a rush of last-minute tender activity under the old system, just before the Act went live. In the first four weeks of the new system, there were fewer tender notices than usual. Of the 430 published, 236 were low level (below £250k). It looks like

contracting authorities are testing the water, mitigating risk with smaller contracts. There were only six new open frameworks, at the time of checking, out of 34 frameworks advertised, again indicating caution.

So, it's early days and we wait to see how this progresses. Wouldn't it be great if, by working together, we can achieve the outcomes that the Procurement Act set out to reform the public procurement system? Why would we not want to enhance efficiency; ensure fairness; deliver better value for money; promote competition; improve transparency, and support the national strategic priorities? These sound like an excellent idea, especially given the disruptions in markets right now.



Peter Masonbrook
Regional Director

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