



Mind the (Investment) Gap

Reimagining how the UK funds
and delivers new capital projects

January 2026



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Executive summary

- Over the last year, the Government, developers, investors and others have made significant progress in addressing the UK's 'investment gap' via a combination of new government and private funding.
- At the same time, total investment requirements are increasing. The UK's ambition to increase defence spending as a share of GDP to 3% and 5%, by early 2030s and 2035 respectively, has become the single largest driver of change in the public capital outlook, with a significant number of unfunded projects – rising from 16% of total unfunded projects in 2024 to 41% in 2025.
- As a result, the overall value of currently unfunded programmes through to 2040 has increased from £1.6tn to £1.7tn, rising to almost £2tn in a 5% scenario.
- We estimate that £1.1tn will be covered by government funding, leaving a funding gap of £583bn in a 3% scenario and £817 billion under a 5% scenario. This compares to a gap of £670bn when we published 2024's version of this report.
- While a challenge, it's possible to close this gap via a combination of technology adoption, better delivery models and alternative finance.

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Progress towards closing the investment gap

Most Western governments face a combination of fiscal constraints and increasing investment requirements. Among the root causes? The need to adjust to a higher cost of capital, ageing populations, geopolitical uncertainty, disruptive technology and the drive to clean energy. This, in turn, is creating significant 'investment gaps' that likely need to be plugged by a combination of innovation, new technology adoption, wider productivity gains and alternative finance.

Quantifying the investment gap

In 2024, EY-Parthenon quantified the investment gap that is opening up in the UK. To do this, we compared spending requirements across five capital priority areas – economic, social, green, strategic (including defence) and technological infrastructure – with what the UK Government is projected to spend on capital programmes through to 2040.

Applying a bottom-up approach, we looked at the pipeline of more than 1,000 projects scheduled to commence or complete by 2040. Our analysis focused exclusively on capital investment expected to come from public funding – typically captured within the UK's Capital Departmental Expenditure Limit (CDEL).

EY-Parthenon's approach took two factors into account:

- First, the value of projects currently unfunded – those that, to date, have not been allocated public spending or have no clear path to funding, in full or at all; and
- Second, the share of these unfunded projects that, based on historic trends, is likely to receive future funding within the CDEL envelope.

Together, these measures show how the UK's planned investment projects stack up against current budgets and highlight the funding shortfall expected through 2040.

The UK is making progress ... until the 5% defence target is factored in

There have been three major developments in the past year:

1. The UK Government has unlocked significantly more capital investment, including via new fiscal rules – Public Sector Net Financial Liabilities (PSNFL) – that allow for non-financial assets to be netted off against liabilities. This has given departments greater flexibility in funding capital investment.
2. Several projects that were, at least in part, unfunded in 2024 have now either received funding or are on a clear path to funding. These include Sizewell C, the Lower Thames Crossing and partial funding of the New Hospital Programme. These allocations reflect the Government's commitment to accelerate progress on nationally significant infrastructure, and reduce near-term unfunded exposure in energy, transport and social infrastructure. On projects like Sizewell C, the Government has set a global standard by also attracting private investments via an alternative funding model – a Regulated Asset Base (RAB) model, in this case.
3. At the same time, new funding requirements have been added – most notably the commitment to spend the equivalent of 3% and 5% of GDP¹ on defence by early 2030s and 2035, respectively. This new commitment fundamentally changes the shape of the country's capital agenda. While the 3% target can be absorbed within the current CDEL envelope to 2030, the 5% target creates substantial additional pressure, expanding the total unfunded envelope.

1. GDP assumptions are based on OBR forecasts through to 2030 and, from 2031-2040, predicted GDP growth is based on Oxford Economics forecasts, updated in October 2025.

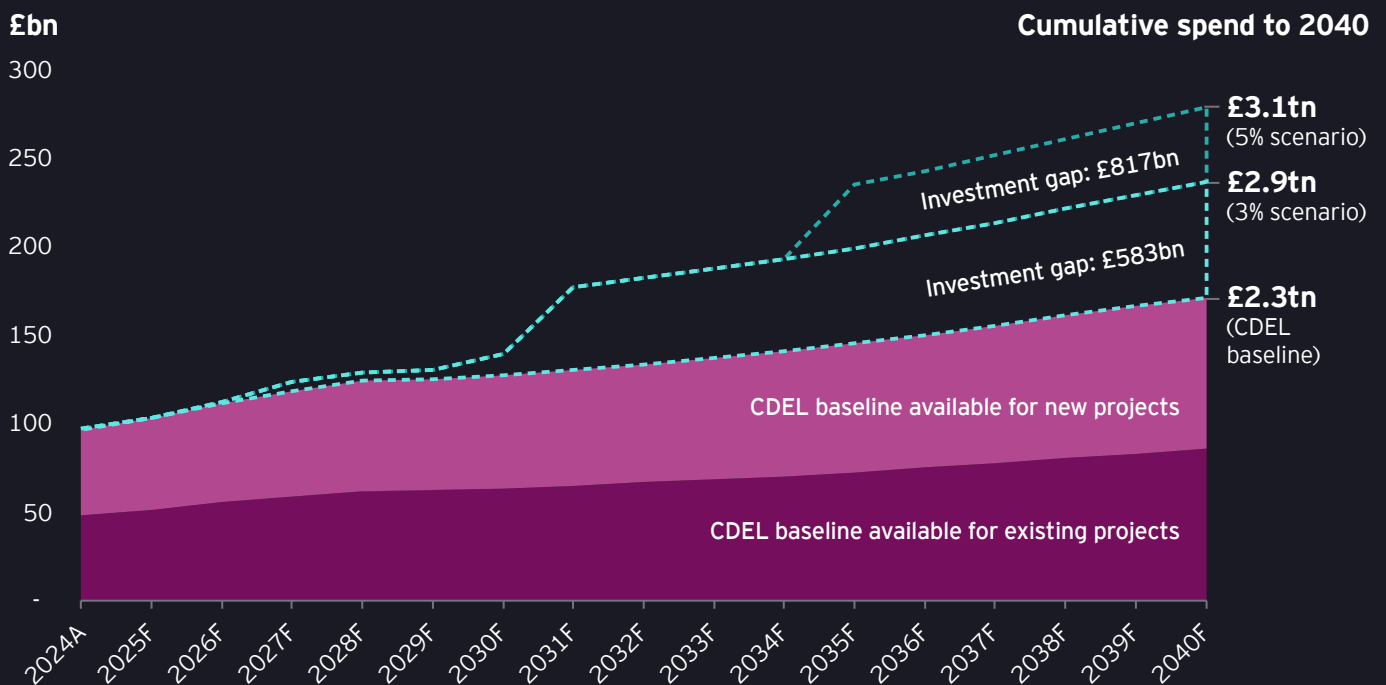
Progress towards closing the investment gap

The net effect is that, compared to 2024²:

- The overall value of currently unfunded programmes through to 2040 has increased from ~£1.6tn to ~£1.7tn under a 3% defence scenario³ and ~£1.96tn under a 5% scenario.⁴
- After accounting for the share of currently unfunded programmes likely to receive funding from the future CDEL envelope, the investment gap has decreased from £670bn in 2024's assessment to £583bn in a 3% scenario – rising sharply to £817bn under a 5% scenario.



Investment gap caused by difference between government capital spending (CDEL) available for new projects⁵ vs value of unfunded programmes through to 2040



2. 'Mind the (Investment) Gap', EY-Parthenon, September 2024.

3. Assuming defence expenditure increases to 3% in 2030 and is then capped at 3% until 2040; CDEL allocation proportions as per Spring Statement 2025 forecasts.

4. Assuming defence expenditure increases to 3.5% in 2035 with additional 1.5% spend requirement on resilience and security; CDEL allocation proportions as at 2029, per Spring Statement 2025 forecasts.

5. CDEL baseline estimate to 2040 is based on OBR's forecasts to 2029-30, and from then to 2040, CDEL spend as a proportion of GDP based on projected proportions, accounting for the recent increase in CDEL compared to the two decade average. To estimate the CDEL budget available for new projects, we analysed the historic proportion of spending on new projects relative to the total value of ongoing projects, as reported in National Infrastructure and Service Transformation Authority (NISTA) estimates. We then adjusted these expenditures for project lifespans, resulting in an estimated average annual CDEL budget allocation to new investments ranging from 46% to 58%, with a central estimate of around 50%.

Defence and the new strategic pressure

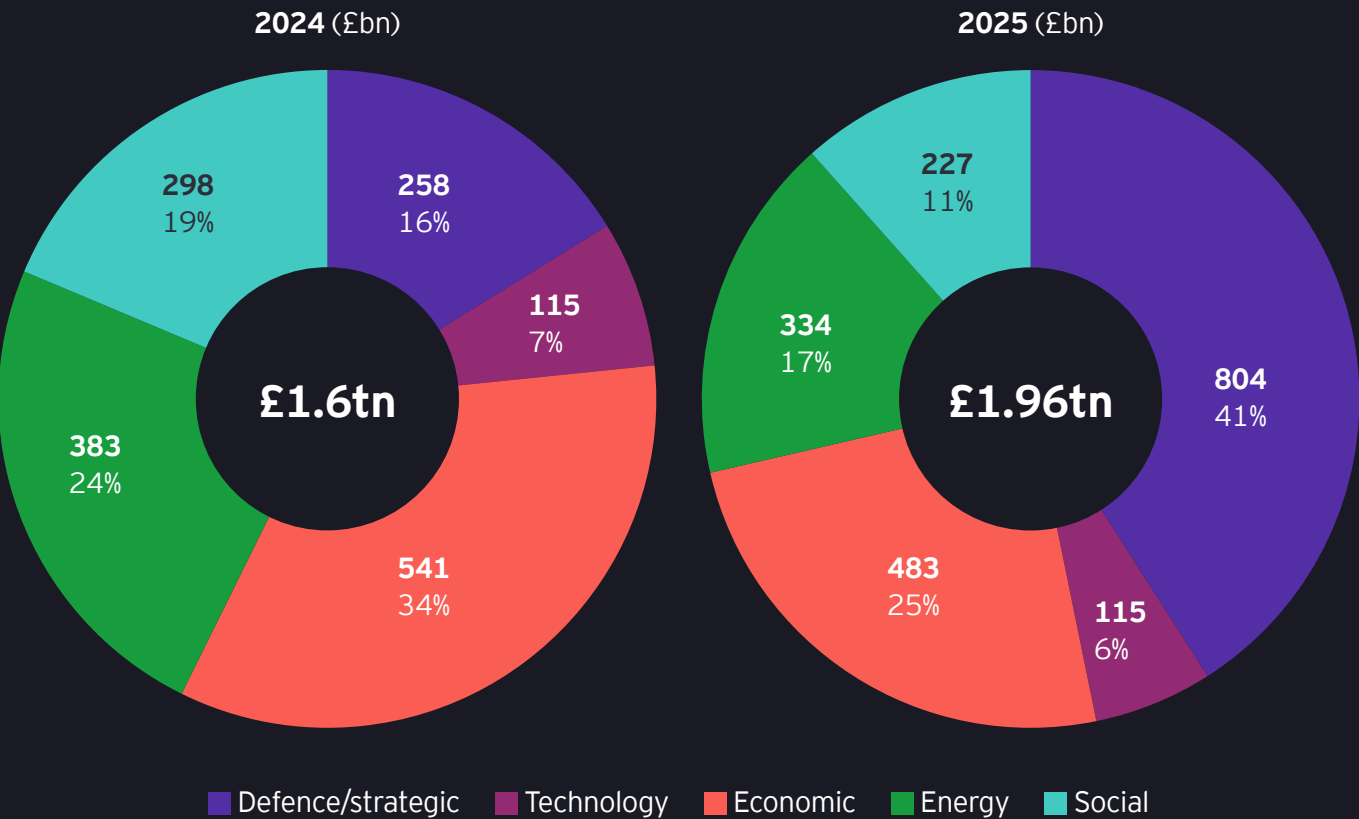


The UK’s defence ambition has become the single largest driver of change in the public capital outlook, with a significant number of unfunded projects – rising from 16% of total unfunded projects in 2024 to 41% in 2025.

These include major programmes across nuclear and naval, defence innovation and autonomous systems, munitions and energetics manufacturing, as well as areas like digitalisation, cyber, strategic infrastructure, accommodation and real estate modernisation.⁶

The breadth of programmes highlights an important shift in mindset. Defence is no longer viewed as a purely military capability, but instead as a strategic industrial investment – with potential to stimulate technology development, advanced manufacturing and national resilience.

Sector split of unfunded capital projects under the 5% defence spend scenario



6. See also 'The Equipment Plan 2023 to 2033', National Audit Office (2023); 'NISTA pipeline, Defence Equipment and Support: Corporate Plan (2025 to 2026)', Ministry of Defence (2025); and 'The Strategic Defence Review 2025 – Making Britain Safer: secure at home, strong abroad', Ministry of Defence (2025).

Technology and digital infrastructure: key investment priorities

While predominantly privately funded, technology and digital infrastructure projects are now also national investment priorities.

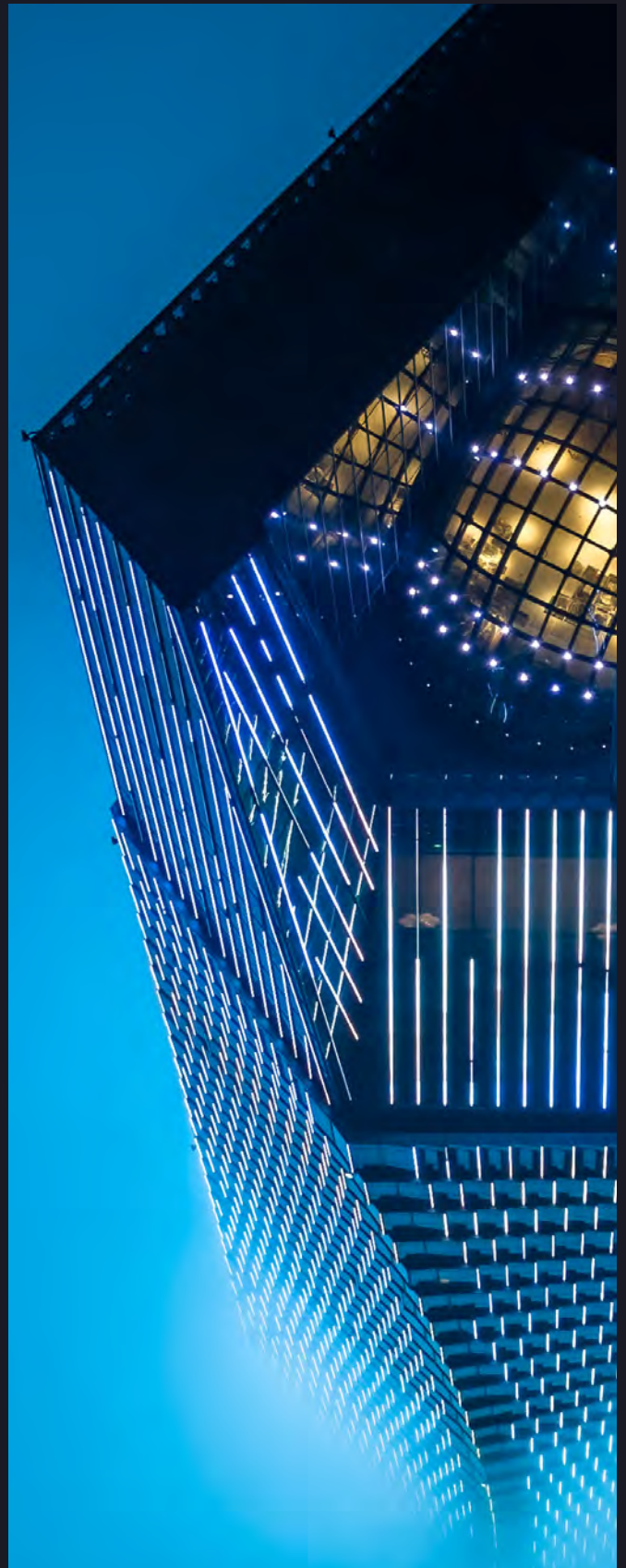
The rapid expansion of artificial intelligence (AI), data-intensive industries, and cybersecurity capabilities has created a new layer of capital demand that parallels traditional infrastructure – yet remains largely financed through private channels rather than public budgets.

EY-Parthenon analysis shows that this category increasingly overlaps with both strategic and green investment. For example, data centres and computing infrastructure – the backbone of the UK's AI and cloud economy – are now competing for grid capacity on the same scale as renewable energy projects.

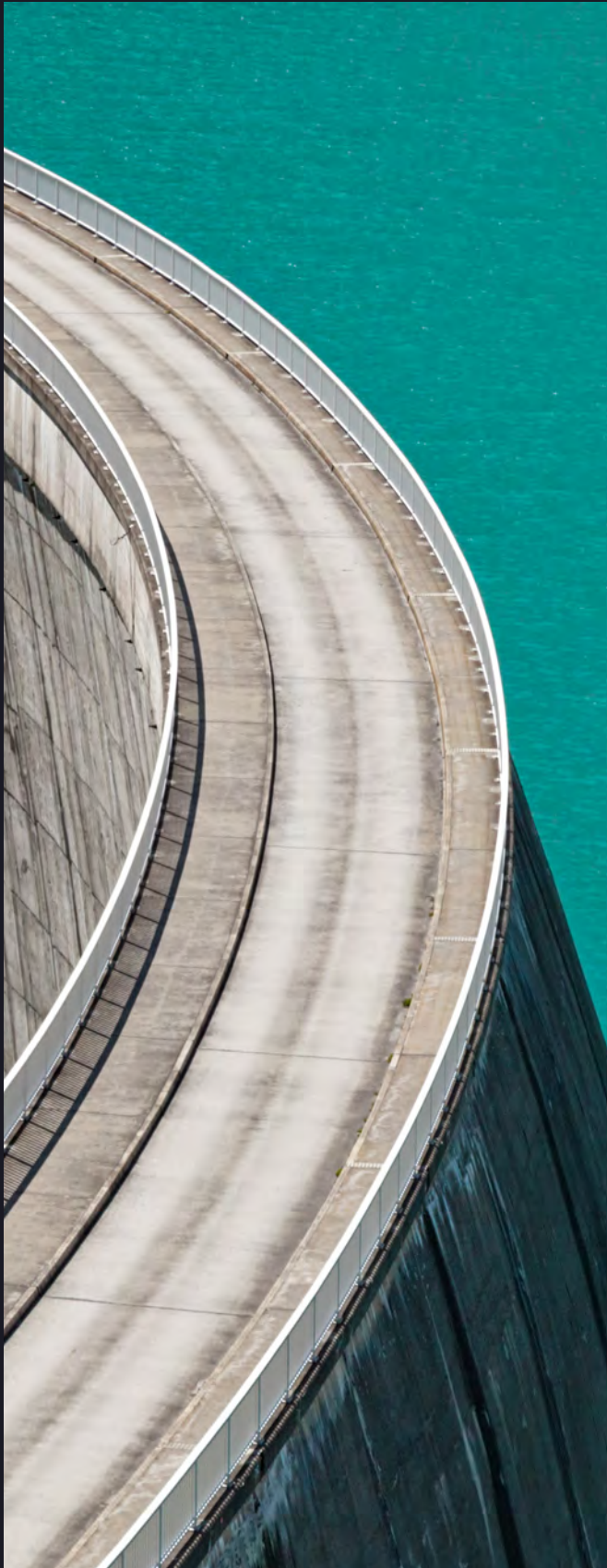
Similarly, the UK's ambitions in advanced manufacturing, semiconductor production and digital connectivity depend on enabling investments in fibre networks, research and innovation hubs, and resilient supply chains.

The University of Sheffield Advanced Manufacturing and Research Centre (AMRC) and EY's Unlocking Strategic Advantage report highlights how scaling dual-use technologies – such as AI, autonomy and cyber – will require closer alignment between government, defence, academia, and private finance ecosystems.

Digital infrastructure is one of the key levers through which productivity, innovation and fiscal sustainability intersect. This means that, in future, the Government may come under pressure to take a larger role in this area in a way not currently reflected in the pipeline.



The solution? It's still alternative funding, technology and productivity



In 2024, we recommended three major areas to close the investment gap: technology adoption, productivity improvement and alternative funding models. These remain the core levers and, if anything, their potential impact has grown over the past year.

Across capital programmes, evidence shows that combining innovation, process efficiency and private investment can deliver substantial cost and productivity gains. EY-Parthenon analysis suggests that, together, these levers could close a large share of the UK's projected investment shortfall by 2040.

1. Alternative funding: mobilising private capital

In 2024, we explored several models for attracting more private investment into infrastructure and energy projects, aiming to close the funding gap without increasing taxes or government borrowing. Since then, we have seen examples of some of these models in practice in new projects, including the Regulated Asset Base (RAB) model via the Lower Thames Crossing. Solutions like this have helped reduce the funding gap from £670bn to £583bn.

In connection with the 2025 Autumn Budget, the Government published a document helpfully setting out more of its approach to crowding in private investment with respect to, for example, balance sheet treatment and its approach to Value for Money assessments. This provided further clarity for investors and others. Clearly given the challenge of bridging the increased funding gap of £813bn and reaching the 5% target in defence via only government funding, alternative investment now needs to play a major part in boosting security capabilities more broadly.

Defence represents a natural proving ground for new financing and delivery models. The scale and diversity of its capital requirements – ranging from logistics and digital systems to advanced manufacturing – make it an interesting contender for hybrid public-private solutions that can later be applied more broadly across government portfolios.

The solution? It's still alternative funding, technology and productivity

Organisational capabilities including scalable adaptability, strategic agility and coordinating collective strength of defense will also be needed to achieve strategic objectives.⁷

This is especially true because as stated above, like in technology, defence goals now increasingly overlap with industrial resilience and national capability in areas such as advanced manufacturing, energy, logistics, and transport.⁸

The 5% target is understood to involve only public investment, but the UK needs to develop a fundamentally updated strategic sourcing model – one that will enable collaborative partnerships with the entire ecosystem. This requires flexible, mutually beneficial commercial engagement to enable rapid iteration of capabilities. Bringing partners into this ecosystem at speed involves innovative thinking about funding mechanisms and a dedicated effort to simplify and optimise rules and processes – as is being explored in the National Infrastructure and Construction Pipeline, where alternative funding mechanisms are being included in the UK's overall capital-investment outlook.



Several tools and approaches can help to bring in private and alternative funding:

- **Capability as a Service models** – leasing or outcome-based contracts allowing departments to pay for performance rather than upfront assets; when done right, this can reduce fiscal pressure and bring in the private sector more.
- **Venture and private-capital participation** – the US and other governments are now actively looking at how to unlock more venture capital and private equity capital. Earlier this year, the Financial Conduct Authority clarified that ESG rules do not prevent investment in defence companies. Venture capital investment in European defence technology has since reached around \$1.5bn⁹ and, while this remains small relative to the overall investment gap, it demonstrates growing appetite and potential.
- **Modernised Public Private Partnership (PPP) and Regulated Asset Base (RAB) models** – suitable for revenue-generating assets such as energy storage, SMRs, and digital networks, as well as some assets that are not revenue generating. These could be particularly effective models for attracting capital from pension funds (another significant source of capital).
- **Cluster and co-investment models** – cluster-based partnerships that co-finance strategic infrastructure (such as Regional Advanced Manufacturing Zones) or Norway's public-private undersea infrastructure model) can combine sovereign oversight with private delivery and innovation capability. Regional innovation centres, such as the AMRC and Catapult hubs, can be aligned with institutional and venture capital partners to scale advanced manufacturing and digital capability.

7. See 'EY Why Europe needs to invest in its defense institutions' (October 2025).

8. 'The UK's Modern Industrial Strategy 2025, Department for Business and Trade' (June 2025).

9. 'Investors confront top of European defence start-up "hype cycle"' (The Financial Times, 14 October 2025).

The solution? It's still alternative funding, technology and productivity

2. Technology: scaling digital efficiency

The pace of technological adoption has accelerated sharply across the infrastructure and defence ecosystems. Digital twins, automation, and AI-enabled project management tools are increasingly mainstream, delivering consistent efficiency improvements across design, construction and operations.

The AMRC and EY Unlocking Strategic Advantage report highlights case studies where digital simulation and predictive analytics achieved productivity gains exceeding 20% – as seen in AMRC's Foundry 2030 programme and other advanced manufacturing pilots. On this basis, we believe the 10% average cost saving per project we estimated in 2024 is trending upwards.

3. More for less: better delivery methods

Improved design integration, better front-end planning and low-carbon construction methods are now proving to be some of the most effective ways to deliver both fiscal savings and sustainability outcomes. Evidence from large-scale infrastructure and industrial programmes shows that design-led coordination can reduce total project costs by 20-25% while cutting delivery times by 10-15%.¹⁰ In a fiscally constrained environment, the key is also to continue to look for synergies. We see projects that, for example, improve productivity by using less carbon – sometimes achieving productivity gains of 12% or more.¹¹

If fully deployed, these models could mobilise tens of billions of pounds in non-government capital, reducing fiscal pressure while accelerating delivery of critical national infrastructure.

In addition, a range of reviews – including the AMRC and EY Unlocking Strategic Advantage report, the Defence and Economic Growth Taskforce (2025), and successive NAO assessments of the Defence Equipment Plan (2023) – have highlighted complementary reforms to procurement and acquisition processes that could further improve efficiency and reduce cost to the Exchequer.

As set out in our 2024 report, the above models and avenues for closing the gap are also highly relevant for a range of other infrastructure assets across all five buckets of capital priorities.

This also links to the wider point, that even if all the capital required to close the investment gap could be unlocked, supply chains would need to be able to deliver such a significant pipeline of projects. So any measures around alternative funding also have to go hand-in-hand with preparing both the market and the wider value chain for a significant ramp-up.

An ecosystem-wide effort to drive change

Closing the investment gap is a challenge. But it's far from impossible. To realise this objective, the entire ecosystem of investors, developers, suppliers and policymakers needs to continue to adopt all the tools at its disposal across technology, efficiency savings and alternative investment.

10. Based on Infrastructure ports authority – 'Setting up for success: The importance of front-end loading' and estimates using EY's AI Value Accelerator on use cases in infrastructure and construction.

11. Based on EY analysis on a UK road infrastructure project.

Our approach is multidisciplinary and supports the entire asset lifecycle



In **concept**, we unlock project finance and support with licensing and approvals



In **set-up**, we focus on creating the enterprise and preparing it to succeed e.g.:



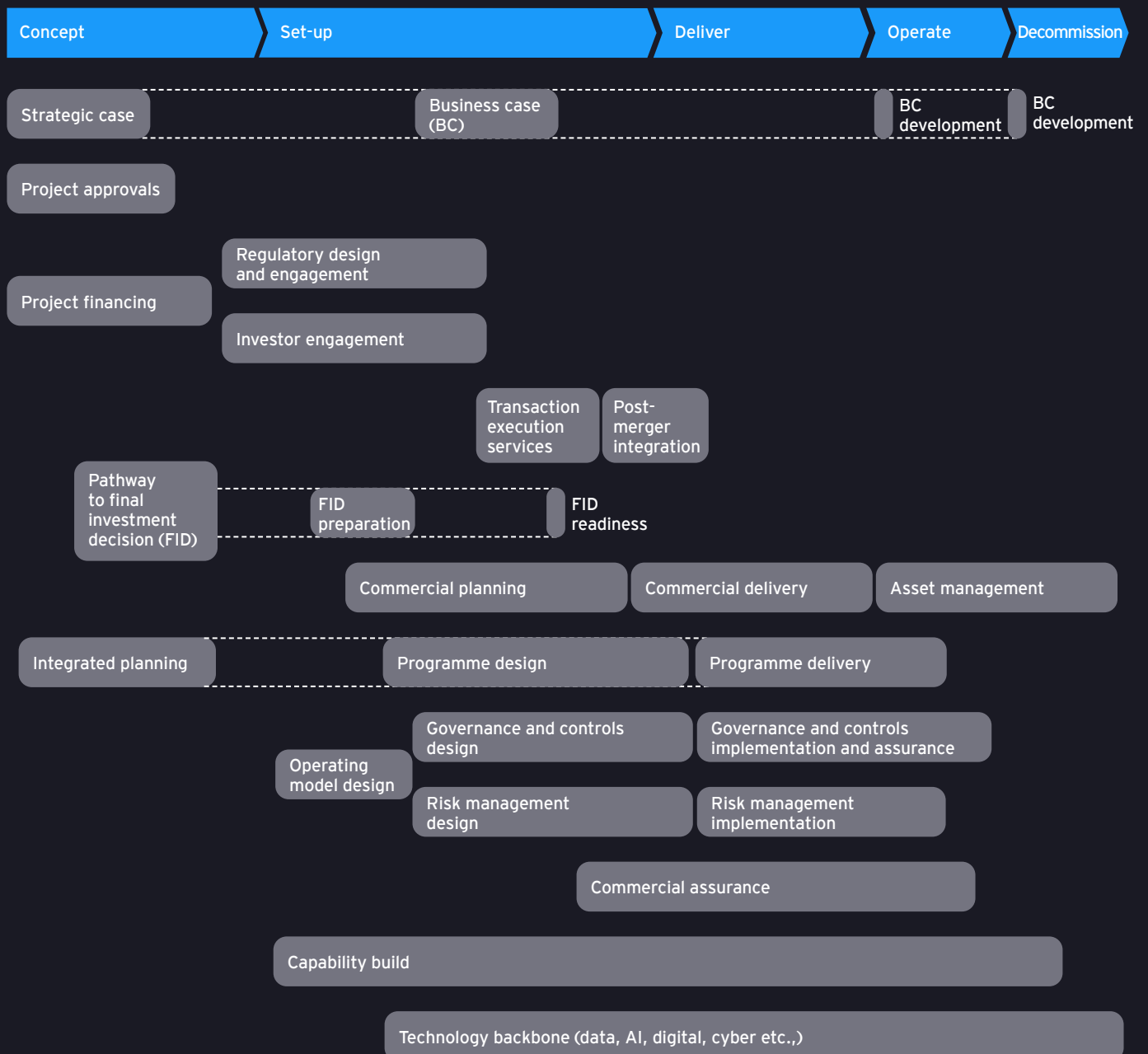
Once into **delivery**, our focus shifts towards implementing strategies, anticipating e.g.:



As we enter **operations**, we prepare owners to receive and get the most out of the asset e.g.:



When continued asset ownership does not fit with the business strategy, we help owners prepare for **decommissioning**, e.g.:



Authors



Mats Persson
UK&I Macro and
Geostrategy Leader
mpersson@parthenon.ey.com



Andrea Powell
UK Infrastructure
Leader
apowell@uk.ey.com



Idris Memon
EMEIA Defence
Leader
imemon@uk.ey.com

With thanks to Vivienne Geard, Aakash Jajodia and Rexina Lopes.



Peter Arnold
UK Chief Economist
parnold@parthenon.ey.com



Chris Lewis
Advisory – Energy and
and Infrastructure
clewis2@uk.ey.com



Lucy MacArthur
Infrastructure Advisory
lmacarthur@parthenon.ey.com



Shane MacSweeney
Global Infrastructure
Leader
shane.macsweeney@parthenon.ey.com



Kamal Patel
Strategy –
Infrastructure
kamal.l.patel@parthenon.ey.com



Gareth Rees
Infrastructure
Advisory
grees@parthenon.ey.com



Paul Rees Jones
Strategy – Energy
and Infrastructure
preesjones@parthenon.ey.com



Guy Turner
Defence
gturner1@uk.ey.com



Graham Wright
Tax – Energy and
Infrastructure
gwright1@uk.ey.com

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