Resolution Foundation

Capital gains

Public investment priorities for the 2025 Spending Review

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This research uses data from an online survey conducted by YouGov. Fieldwork for the survey was undertaken online between 17 – 18 February 2025, and the total sample size was 2,321 UK adults aged 18 and over. All figures have been weighted and are representative of all UK adults (aged 18+). The figures presented from the online survey have been analysed independently by the Resolution Foundation. The views expressed here are not the views of YouGov.

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Executive Summary

The 2025 Spending Review is a pivotal moment for a Government that has placed growth – and particularly investment – at the centre of its economic strategy. Following decades of chronic under-investment and facing a highly constrained fiscal environment, the Chancellor must now decide how to allocate a limited pot of capital spending in a way that both addresses the UK's legacy of frayed infrastructure and supports future ambitions for growth and higher living standards. This report assesses the scale of the challenge, the trade-offs involved, and the priorities that should guide capital allocation in the years ahead.

The UK's record on investment is poor by international standards. Since 1995, Britain has ranked in the bottom third of OECD countries for total investment as a share of GDP. And when it comes to public investment, the UK has spent less than the OECD average for most of the past two decades. Volatility has compounded this weakness: public sector net investment typically falls by around 20 per cent during periods of fiscal consolidation, and the UK is now the most volatile investor in the G7. This 'stop-start' pattern of investment weakens delivery, undermines departmental planning, and raises costs. This volatility also speaks to a deeper issue: when the public finances come under pressure, capital budgets have been first in the firing line.

Against this backdrop, the Chancellor's decision at the 2024 Autumn Budget and 2025 Spring Statement to boost capital

spending by over £100 billion over this Parliament was badly needed. And it should prove popular: nearly a third of adults now say they would prioritise long-term investment spending – such as schools, hospitals and infrastructure – if the Government had extra funds to allocate, compared to just under a quarter who favour tax cuts. The decision to invest more was also reinforced by the Chancellor's new fiscal framework, which excludes investment from its binding 'current balance' rule, and so removed the incentive to cut investment at the Spring Statement to meet the fiscal rules.

However, the scale of the challenge means that even this sizeable investment boost goes only so far. Much of the over £100 billion simply reverses steep cuts planned by the previous Government. Between 2023-24 and 2028-29, public investment was previously set to fall by 1 per cent of GDP; now, it will instead remain broadly flat as a proportion of national income through to 2029-30.

So the Spending Review will be far from an investment bonanza. If we assume a scenario where the Government merely hold departments' existing 2025-26 capital budgets flat in cash terms, the Government would have just £54 billion of additional funding to allocate over the rest of the Spending Review period. If they are held constant in real per capita terms, this drops to just £24 billion. And with new spending on defence already ringfenced – in line with commitments that will raise total defence spending to 2.5 per cent of GDP by 2027-28 – the remaining envelope for other priorities shrinks further from between £24 and £54 billion, to between £20 and £50 billion.

A legacy of under-investment in 'social' infrastructure should be addressed

Making the most of a modest increase in public investment requires strategic choices, and the case for prioritising areas suffering from particularly acute under-investment is strong. Since 2010, capital spending has been increasingly concentrated on 'economic' infrastructure such as energy, science and transport. Key gaps remain here, particularly in city transport

where poor connectivity continues to hold back productivity outside London. But public R&D spending is currently at record levels and net zero allocations are on track to meet climate commitments. Departments focused on 'social' infrastructure have fared much worse. The capital budget for the Ministry for Housing, Communities and Local Government, for example, has fallen by 44 per cent in real per capita terms since 2010; the Department of Education's is down by 57 per cent. Meanwhile, departments such as the Department for Science, Innovation and Technology have seen their capital budgets more than double.

This imbalance matters. The UK's social capital stock has been left depleted and degraded. In health, the NHS has one of the lowest levels of capital intensity in the OECD, with just 2,300 hospital beds per million people – 2,000 fewer than the OECD average – and a backlog of £13.8 billion in maintenance, including £2.7 billion deemed 'high risk'. Similarly, the number of affordable homes per 1,000 people in England has fallen by more than a third since 1980. Partly as a result, there are now 1.3 million households on Local Authority waiting lists and over 160,000 children living in temporary accommodation, as well as a spiralling housing support bill: more than a third of housing support in England, or nearly £12 billion, was paid by the state to private landlords in 2023-24. Prisons in England and Wales are operating at 110 per cent of official capacity, and the Government has already had to introduce early release measures to ease pressure.

Prioritising social investment should contribute to the Government's 'missions'

At the same time, the Government must balance these immediate needs with its long-term priorities. It has made economic growth and improved living standards the central missions of this Parliament, alongside goals on net zero, health and social mobility. Evidence suggests that public investment can support the growth mission – but its effects differ by type. Economic infrastructure tends to have the strongest long-run impact on growth: a 1 per cent of GDP rise in capital spending on

areas such as transport and energy is estimated to raise output by 4.9 per cent in the long term. Social infrastructure, such as health and housing, is somewhat less growth-enhancing on average – with an estimated output uplift of around 3.5 per cent.

But these top-down comparisons obscure important differences depending on the specific focus of social investment. In particular, there are good reasons to think that social investment could have an outsized effect on growth right now. Poor population health is holding back labour supply: there were around 2.2 million unemployed or inactive adults on NHS waiting lists at the start of last year. Targeted investment in health infrastructure could help improve NHS productivity, reduce waiting times and contribute to higher employment, easing one of the UK's key growth constraints. Similarly, Local Authorities with the highest need for social housing – measured by households in temporary accommodation – also tend to be among the most productive parts of the country. Delivering more affordable housing in high-productivity areas could enable more people to live and work in areas of greater economic opportunity.

Beyond growth, social investment can raise living standards, especially for lower-income households. Social infrastructure disproportionately benefits lower-income households, with around 80 per cent more of this investment supporting services used by the bottom half of the income distribution compared to the top half. In contrast, economic infrastructure spending, particularly on long-distance transport like rail, tends to favour higher-income households, who are far more likely to use these services. This overall progressivity of social investment means it has an impact on improving living standards for lower-income families that outweighs its slightly weaker impact on growth for these groups. And capital investment in these areas is not only progressive across the income distribution but also helps to address regional inequalities. In 2022-23, for example, capital spending on health was higher in the North West and West Midlands than in London or the South East.

The Government is right to focus on public investment. But

with limited headroom and mounting pressures, it cannot do everything. Investment to meet our net zero obligations and new defence priorities is largely locked in. Elsewhere, ministers must prioritise investments that pass two key tests: addressing past under-investment, and addressing the Government's missions by supporting growth and improving living standards. On that basis, the clearest priorities are housing and health, followed by targeted transport upgrades in second cities and urgent prison maintenance. Delivering on these priorities will not be easy – and shocks to growth or rising defence needs could force even tougher choices. However, some of these trade-offs could be eased if the Government successfully expands off-balance sheet financing – such as through loans and guarantees – or leverages private-sector investment, particularly in net zero and research and development where public-private partnerships are more viable. Ultimately, focussing direct government investment in health and housing would allow the Government to deal with the legacy they have inherited, while furthering their missions of boosting growth and raising living standards.

Section 1

There are big choices facing the Government at the Spending Review

The 2025 Spending Review is a key policy event for this Government – it has staked a lot of political capital on prioritising growth-boosting investment spending. How to allocate this capital spending between departments will require the Chancellor to make important choices about the future path of the UK, and the size and shape of the state.

The Chancellor is approaching the 2025 Spending Review having inherited a long history of under-investment. Public investment has lagged behind other advanced economies for decades, harming both productivity and growth. Cuts during periods of fiscal tightening have exacerbated this, creating a volatile 'stop-start' pattern of investment that undermines effective planning and delivery. The Government's decision to boost capital spending by over £100 billion this Parliament, at the Autumn 2024 Budget and 2025 Spring Statement, was a welcome response and helps reverse sharp cuts planned by the previous Government.

But public investment will still fall slightly as a share of GDP by the end of the decade, meaning that the room for manoeuvre at the Spending Review is smaller than it might seem. Much of the capital budget is realistically already spoken for: just maintaining existing departmental plans in nominal terms would use up all but £54 billion of overall capital allocations for the Spending Review. Ensuring existing departmental budgets keep pace with inflation and population growth over this period would leave a much narrower £24 billion for the Government to allocate on top of this. And some parts of the budget - such as defence, which is being driven by international commitments - are already spoken for. That reduces the £24-£54 billion range to £20–£50 billion in total available for the Government to allocate on a discretionary basis over the Spending Review.

This event is, in theory, a 'zero-based' Spending Review, in which the Chancellor could choose to make dramatic cuts to some departments to increase her margin for manoeuvre. But in reality, significant nominal cuts to departments with large capital spending envelopes are rare at Spending Reviews. In sum, the Chancellor must make

the most of the limited £20-50 billion pot at her discretion, directing investment where it can best address past under-investment, support economic growth, and ultimately improve living standards.

The 2025 Spending Review is an important event for the Government, and a key opportunity to set out its priorities for the rest of the Parliament. In particular, it is an opportunity to set out plans for the public investment, a core concern for this growth-minded Government. However, it will also have to reckon with a constrained fiscal environment and confront a legacy of decades of under-investment. So this report will consider the backdrop to the 2025 Spending Review, and how the Government can ensure public investment is allocated to the areas of Government that can have the maximum impact on their missions, while addressing areas of particularly acute past under investment.

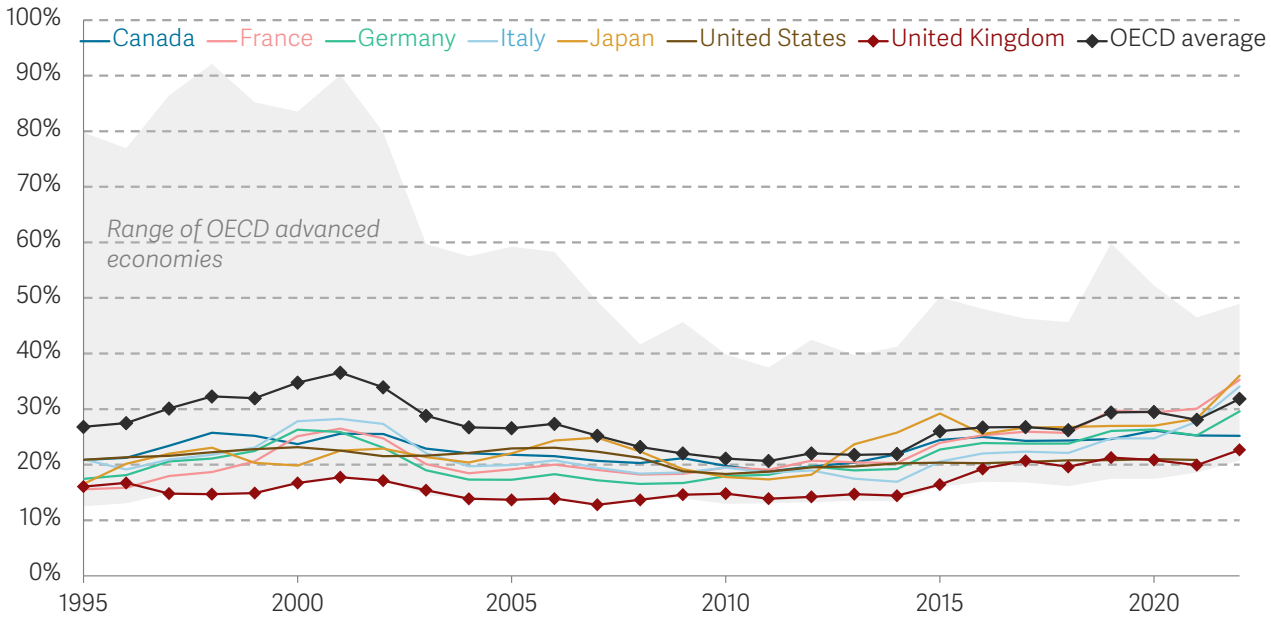
The UK has a long legacy of under-investment

Choices on public investment are being made in the context of Britain's long-standing low investment problem.[1] As illustrated by Figure 1, the UK has consistently underperformed in total investment relative to other advanced economics, ranking in the bottom third of OECD nations in most recent years. This chronic shortfall in investment has contributed to weak productivity growth, an essential driver of economic growth, which in turn limits the country's potential to improve living standards. Reversing this trajectory will require ambitious and long-term policy action, and likely much higher investment.

1 Resolution Foundation & Centre for Economic Performance, LSE, Ending Stagnation: A New Economic Strategy for Britain, Resolution Foundation, December 2023.

FIGURE 1: **The UK has a long legacy of under-investment in comparison to its international peers**

Total gross fixed capital formation as a proportion of GDP: advanced OECD economies and G7, 1995 to 2022



SOURCE: RF analysis of OECD.

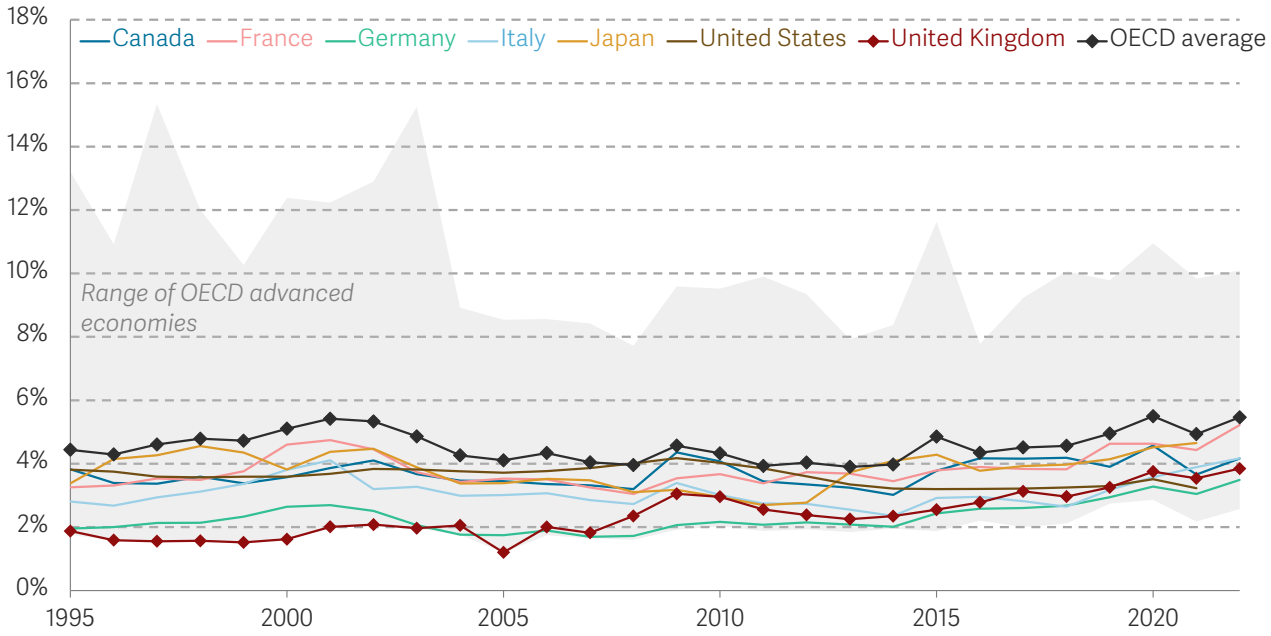
Addressing this chronic under-investment requires action by both public and private actors. Public investment in the UK typically only accounts for 15-20 per cent of total investment, with the rest coming from businesses, individuals and foreign investors. The Government is right, therefore, to seek to raise private investment through routes like pensions reform. But the OBR's central estimate is that, in the long-run, public investment is a complement for private investment; every £1 of public investment raises private investment too.[2]

Moreover, public investment is directly under the Government's control and so should play a key role in boosting overall investment and supporting long-term economic growth. As shown in Figure 2, for over two decades, public investment in the UK has consistently fallen below the OECD average for general government investment. It is only relatively recently that the UK has surpassed the public investment levels of even low investors such as Germany and Italy.

2 OBR, Economic and Fiscal Outlook, October 2024.

FIGURE 2: **Public investment in the UK has lagged behind average OECD levels for over two decades**

General government gross fixed capital formation as a proportion of GDP: advanced OECD economies and G7, 1995 to 2022



SOURCE: RF analysis of OECD.

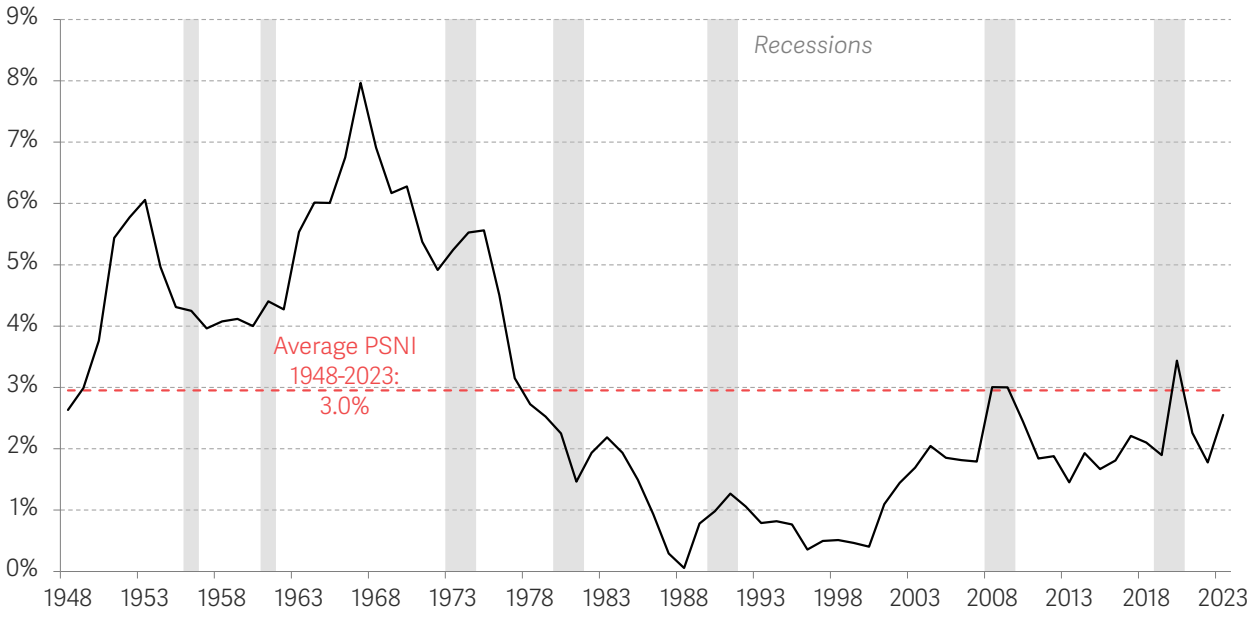
The issue lies not only in the low level of public investment, but also in its volatility. When the public finances come under pressure, investment is often seen as the most politically convenient area of spending to reduce. This means, even with the knowledge that reducing investment during downturns weakens long-term growth and resilience, public investment often bears the brunt of fiscal tightening.

As shown in Figure 3, public investment is often scaled back after periods of fiscal consolidation (shown by the shaded grey bars). Historically, these cuts have been severe. For example, in the aftermath of the 1990s recession, public investment more than halved. Across recent decades, the public sector net investment as a share of GDP has fallen by an average of 20 per cent during fiscal consolidations.[3]

3 This statistic is taken from F Odamtten & J Smith, Cutting the cuts: How the public sector can play its part in ending the UK's low-investment rut, The Resolution Foundation, March 2023.

FIGURE 3: **Repeated cuts to public investment occur in times of fiscal consolidation**

Public sector net investment, as a share of GDP: UK



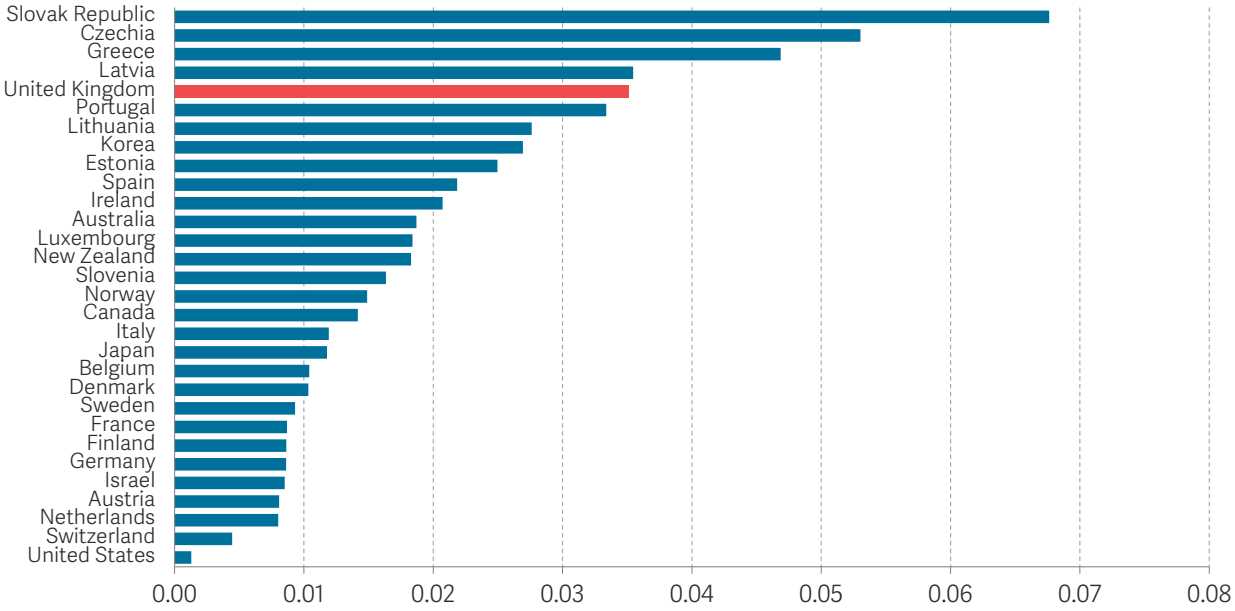
SOURCE: RF analysis of OBR, Economic & Fiscal Outlook, March 2025.

The scale of this volatility can be contextualised further by comparing it to other advanced economies as illustrated in Figure 4. The UK ranks in the top third of advanced OECD countries for volatility (as measured by the variance of year-on-year growth in general government gross fixed capital formation between 1995 and 2022), and is the most volatile investor in the G7. We have previously argued that such instability reflects structural weaknesses in the UK's fiscal framework. [4] This pattern of 'stop-start' spending makes it difficult to sustain investment over time – it undermines long-term planning and the ability to commit to major investment projects that require longer timelines. Moreover, sudden shifts, whether sharp increases or cuts, raise the cost of investment by disrupting supply chains and procurement processes.

4 F Odamtten & J Smith, Cutting the cuts: How the public sector can play its part in ending the UK's low-investment rut, The Resolution Foundation, March 2023.

FIGURE 4: **The UK ranks in the top third of advanced OECD countries with the highest volatility in general government investment**

Variance of year-on-year growth in general government gross fixed capital formation as a proportion of GDP: advanced OECD economies, 1995 to 2022



NOTES: Includes only advanced OECD economies for which data is available.
SOURCE: RF analysis of OECD.

The Government has increased public investment by over £100 billion since the March 2024 Budget, albeit from a low baseline

Given this long history of low and volatile public investment, the Government's focus on capital spending at their first Budget in Autumn 2024 was welcome. The Chancellor led her Budget with the statement that "public investment is badly needed in the UK",[5] committing to spending an extra £100 billion on public investment compared to the previous Government's plans. The Spring Statement subsequently increased capital departmental budgets by a further £13 billion between 2024-25 and 2029-30.[6]

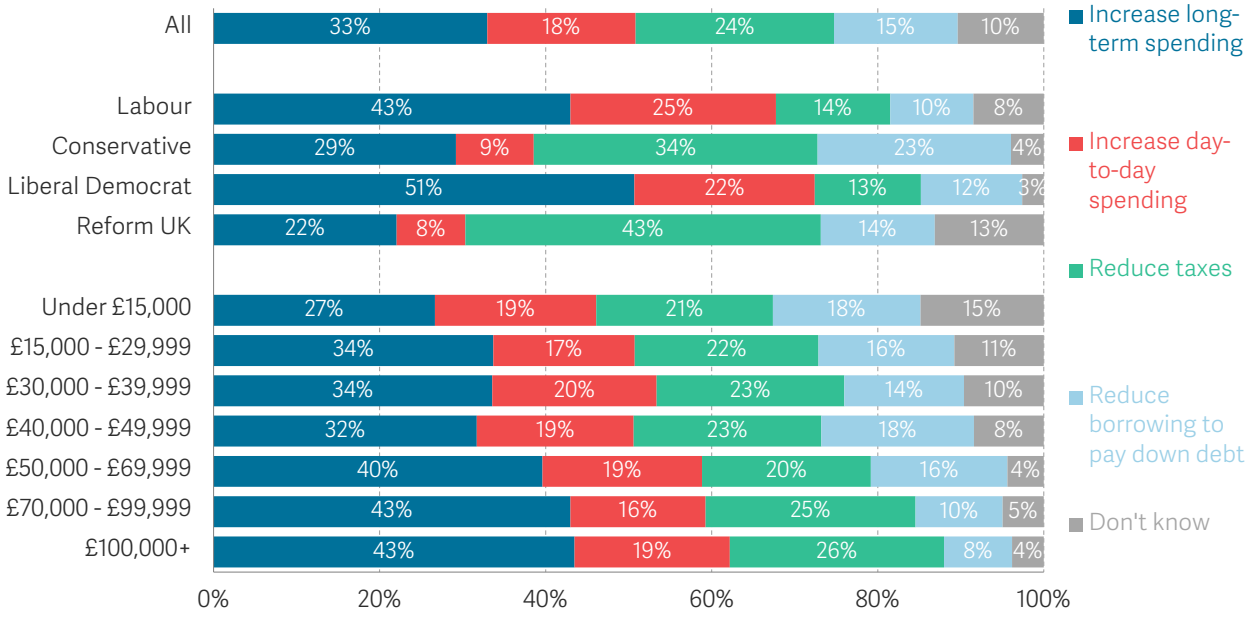
This is not just good economics, it's also good politics given the popularity of investment spending. One-in-three (33 per cent) respondents to a new survey commissioned from YouGov for this report reported that if the Government had additional money to spend, they should prioritise using it to increase 'long-term' investment spending (e.g. spending on buildings and equipment for hospitals or schools or roads or power and energy infrastructure), as shown in Figure 5. This compares to just under a quarter (24 per cent) of respondents who would prefer the Government to use any fiscal leeway to reduce taxes. This is not a uniform view across the public, with those who voted Conservative and Reform in the 2024 General Election much more likely to favour tax cuts over

5 HM Treasury and The Rt Hon Rachel Reeves MP, Autumn Budget 2024 speech, October 2024.
6 OBR, Economic and Fiscal Outlook, March 2025.

investment spending (by 5 and 21 percentage points respectively), compared to Labour and Lib Dem voters (who favoured investment over tax cuts by 29 and 38 percentage points respectively). Meanwhile, higher-income respondents (with incomes over £100,000) were more likely to prioritise longer-term investment spending (43 per cent) than average (33 per cent), while lower-income respondents were more likely to favour a cautious fiscal policy of paying down the Government's debts (18 per cent of those with incomes under £15,000, compared to an overall average of 15 per cent). Overall, though, a strategy of boosting public investment is one that currently commands significant public support.

FIGURE 5: **One-in-three respondents favour an increase in investment spending**

Proportion of respondents by their favoured approach to using any additional Government resources: UK, 17 – 18 February 2025



NOTES: All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 2,321 adults. Fieldwork was undertaken between 17 - 18 February 2025. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+). The question asked to participants was "Imagine the government had some money to spend. From the following, what do you think the government should prioritise?", with the options: "Increasing longer-term investment spending (e.g. spending on buildings and equipment for hospitals or schools or roads or power and energy infrastructure)"; "Increasing day-to-day spending (e.g. paying public sector workers like doctors and teachers, paying benefits and pensions)"; "Reducing taxes (e.g. income tax and VAT)" or "Reducing the amount of money the government borrows to reduce the UK's debts".
SOURCE: RF analysis of YouGov, 2025.

As well as larger capital budgets, the adoption of a combination of a current balance and a public sector net financial liabilities (PSNFL) rule in the Government's new fiscal framework also increases the Chancellor's capacity to expand public investment. The current balance rule explicitly excludes investment spending – meaning there is minimal

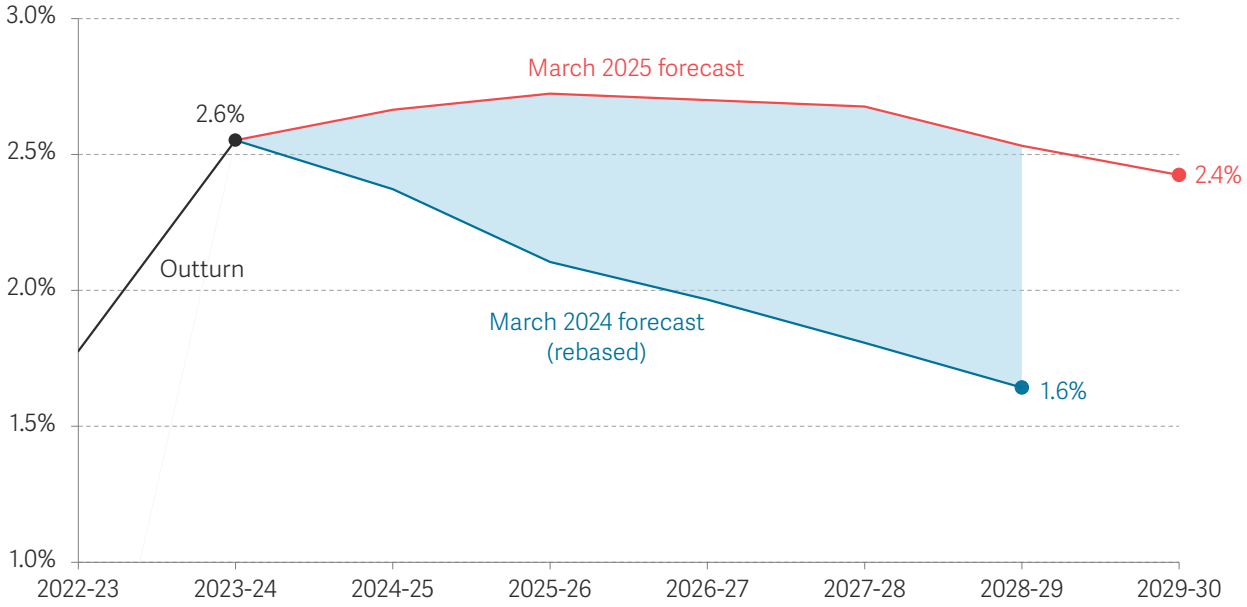
pressure on the Government to cut investment in the face of a declining current balance – and the move from a public sector net debt to a PSNFL rule expanded the Government's fiscal headroom to invest (although the choice of PSNFL rather than public sector net worth does still leave the option of using capital spending cuts to 'balance the books' against this rule, as we come back to in Section 4 of this report).[7]

But, despite the plans to boost capital departmental budgets by a total of £113 billion over the course of this Parliament compared to the March 2024 forecasts, the Government is by no means in an easy position as it approaches the Spending Review.[8] As with its day-to-day public services spending allocations (RDEL),[9] the Government announced large increases in public investment at the 2024 Autumn Budget to reverse the significant cuts that were pencilled in by the previous Government by 2029-30. As illustrated in Figure 6, on a like-for-like basis,[10] cuts of around a per cent of GDP between 2023-24 to 2028-29 were planned for public sector net investment at the March 2024 forecast. This means that despite large top ups to capital budgets at the Autumn 2024 and March 2025 fiscal events, relative to 2023-24, public investment is still actually slightly falling as a share of GDP by 2029-30.[11]

7 For more on how a PSNFL rule interacts with incentives to invest see C Aref-Adib et al., More, more, more: Putting the Autumn Budget 2024 decisions on tax, spending and borrowing into context, Resolution Foundation, October 2024.
8 This £113 billion figure relates to cumulative nominal CDEL spending changes from 2024-25 to 2029-30, as published in Tables 3.1 in OBR, Economic and Fiscal Outlook, March 2025 and OBR, Economic and Fiscal Outlook, March 2024.
9 C Aref-Adib et al., At your service? Why the 2025 Spending Review must reckon with the distribution of public service use, Resolution Foundation, April 2025.
10 In line with the OBR's approach in their March 2025 EFO, when presenting previous forecasts, we re-base these to include the 2024 Blue Book's 1.2 per cent upward revision to the level of nominal GDP in the second quarter of 2024 to present them on a comparable basis, but otherwise do not adjust the path of the forecast.
11 These figures relate to public sector net investment, which is total government investment net of depreciation. These will not match the Capital Departmental Expenditure Limit figures presented across the rest of this document, which relate to capital spending undertaken by departments (excluding any annually-managed capital spending, such as student loan capital grants).

FIGURE 6: **The Government's top-ups to capital spending reverse steep cuts pencilled in by the previous Government**

Public sector net investment, as a share of GDP: UK, 2022-23 to 2029-30



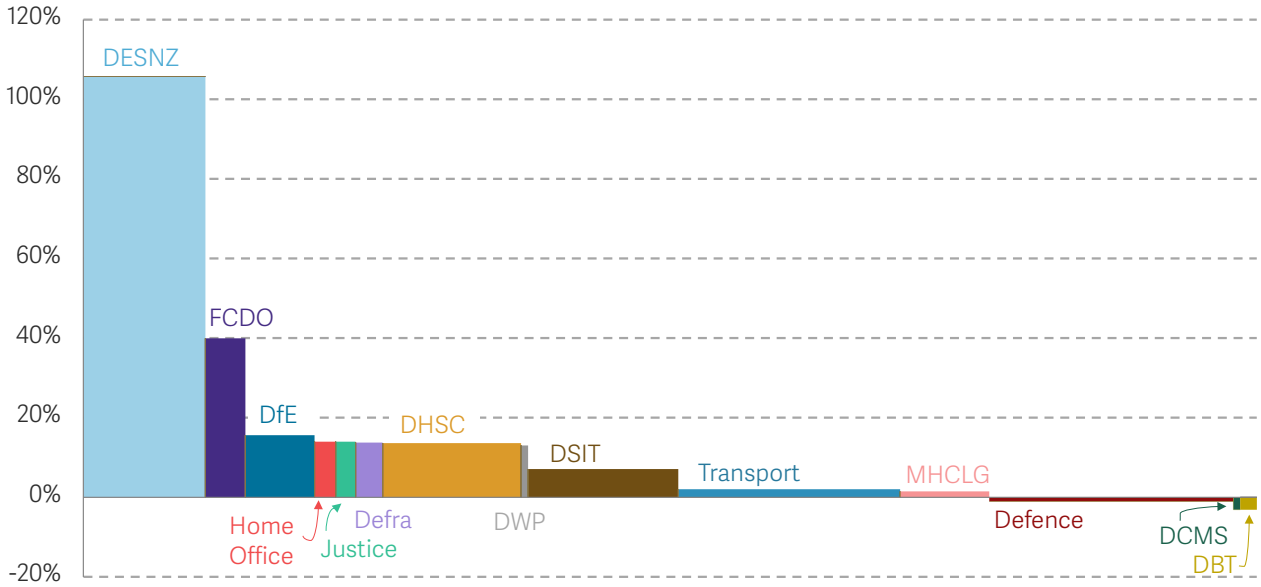
NOTES: The March 2024 forecast as share of GDP is the rebased figure accounting for revisions to nominal GDP data since this forecast was published.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, March 2025.

So against this backdrop of broadly flat public investment as a share of GDP, how much money does the Government have to allocate at the 2025 Spending Review? The baseline the Government starts with is relatively generous for many departments. Phase 1 of the Spending Review, which set out 2025-26 departmental budgets, saw most departments given higher real per capita capital budgets than 2024-25 (see Figure 7). The most significant increases relate to net zero-related investment, with the Department for Energy Security and Net Zero (DESNZ) seeing an increase in their budget from £5.7 billion in 2024-25 to £12.1 billion in 2025-26.[12] The Department for Education (DfE), the Home Office, Ministry of Justice (MoJ), Department for Environment, Food and Rural Affairs (DEFRA), and the Department for Health and Social Care (DHSC) also all saw real, per capita increases of 13 to 16 per cent in their capital budgets.

12 This includes construction costs for carbon capture and hydrogen projects that are assumed to be 'on-balance sheet' but may yet be considered to be taking place outside the public sector when the ONS makes a classification decision.

FIGURE 7: **Most departments saw real per-capita increases in their capital spending allocations at the 2024 Spending Review**

Real per capita growth in CDEL, by department, scaled to 2025-26 allocation: 2024-25 to 2025-26

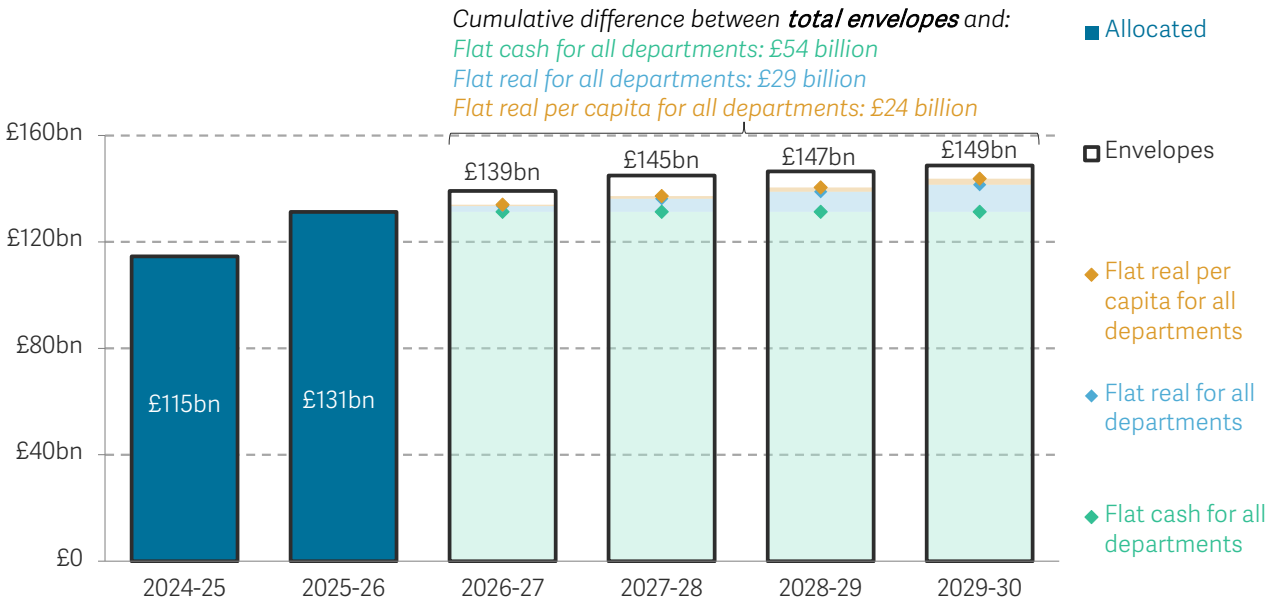


SOURCE: RF analysis of HM Treasury, Spring Statement 2025; OBR, Economic and Fiscal Outlook, March 2025.

Were the Government to hold these 2025-26 allocations broadly constant for all departments over the Spending Review period, much of their total capital spending envelope would be accounted for already. Even if it just did this in cash terms (which would be a £12 billion cut in real per-capita terms), this would leave only £54 billion for the Government to allocate between departments at the Spending Review in total across the period, as shown in the green bars in Figure 8. The blue and yellow bars in the chart below show that to maintain current spending allocations relative to inflation and population growth for all departments would leave a much narrower £24 billion of additional spending for the Government to allocate across the Spending Review period. This equates to an average of just £6 - £13.5 billion, or 4 - 9 per cent of total capital departmental budgets to spend on a discretionary basis per year.

FIGURE 8: **Were it to maintain departmental budgets, the Government would have just £24 to £54 billion additional investment to allocate at the Spending Review**

CDEL spending envelopes, nominal terms: UK



SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, March 2025; HM Treasury, Spring Statement March 2025.

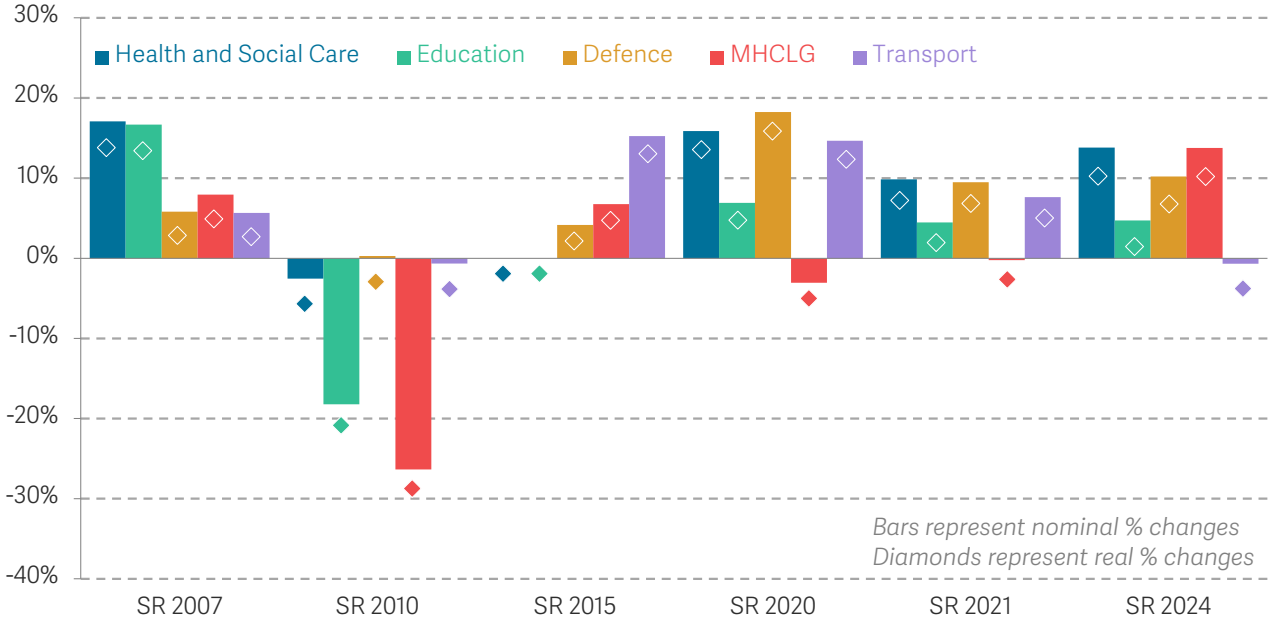
The above analysis assumes that the Government is starting from the basis that it will broadly maintain all departments' capital spending envelopes at current levels, leaving a relatively narrow margin of additional, discretionary spending to allocate on top at the Spending Review. However, the Government may choose to reallocate capital spending across departments more radically, allowing them more discretion over how the total envelope is allocated. This would, though, be a departure from the way Spending Reviews have tended to be carried out in recent history. Figure 9 shows the annualised nominal and real cuts announced at each Spending Review since 2007 for the five departments with the largest capital spending allocations in 2023-24 (together, these accounted for over 60 per cent (£65 billion) of CDEL spending in 2023-24).[13] The chart shows that it is relatively rare for these major capital spenders to see dramatic nominal cuts announced in Spending Reviews, bar the 2010 Spending Review that precipitated the 'austerity' period of spending cuts. And even in the 2010 Spending Review, Health, Defence and Transport only saw small cuts in their cash budgets. Meanwhile, real-terms cuts were faced more frequently by the five departments in the chart below, particularly in the 2015 Spending Review. Ultimately, Governments tend not to make large nominal cuts to the departments that spend significant amounts on capital, suggesting the capacity for

13 This is the most recent outturn year available for CDEL spending. The Department for Science, Innovation and Technology is actually the third largest in terms of CDEL spending by this metric, but is excluded from the below chart given changes in departmental boundaries over the past decade that make it difficult to make consistent comparisons.

dramatic re-allocation of funds between departments to give the Government greater discretion over the CDEL envelope is limited (although real-terms cuts may be used to reach the upper bound of the £24 to £54 billion estimate above).

FIGURE 9: **Nominal cuts in the capital budgets of departments with large capital spending allocations have been relatively rare in recent Spending Reviews**

Nominal (bars) and real (diamonds) annualised change in CDEL budgets announced over each Spending Review period, by department: 2007 to 2024



SOURCE: HM Treasury, 2007 Pre-Budget Report and Comprehensive Spending Review, October 2007; HM Treasury, Spending Review 2010, October 2010; HM Treasury, Spending Review and Autumn Statement 2015, November 2015; HM Treasury, Spending Review 2020, December 2020; HM Treasury, Autumn Budget and Spending Review 2021, October 2021; HM Treasury, Autumn Budget 2024, October 2024.

And there are also further limits to the types of capital spending that the Government can 'trade-off' against each other. For example, the Government has announced increases in overall defence spending, to bring it up to 2.5 per cent of GDP by 2027-28, reflecting international pressures driven by much higher geopolitical tensions. We therefore exclude defence spending from the 'trade-offs' the Government will be making between other types of spending. In practice this means we assume the nearly £5bn extra capital spending that is already allocated to defence (and that has not been off-set by corresponding ODA cuts) is a given, and unable to be re-allocated to other departments.[14] Factoring this into our above estimates of the total capital spending that is 'in play' at this Spending Review, the Government is then left with around £20 billion to spend on all other areas of capital spending should they maintain all departmental budgets in real per-capita terms, or up to £50 billion were they to hold all departmental budgets flat in nominal terms.

14 In practice, this may over-estimate the impact of the Government's defence commitments on our baseline, given some of the £5 billion promised might already be included in a scenario of the existing defence budget being maintained in real, per-capita terms.

Ultimately, even with this Government's over £100 billion top-up to capital budgets, they will still face tough decisions over how to prioritise the maximum £50 billion of additional capital spending that they have available to split between departments. To do this effectively they will need to consider how to address the legacy they have inherited in terms of acute under-investment in particular areas of the public sector, as well as drive forward their own ambitions to boost economic growth and living standards.

Three sections follow in the remainder of this report, structured as follows:

- Section 2 considers the implications of the Government's legacy of under-investment for where best to prioritise capital spending.
- Section 3 assesses the impact of various types of investment on the Government's ambitions to boost growth and living standards.
- Section 4 brings the two preceding sections together to identify priority areas for Government investment at the upcoming Spending Review.

Section 2

Addressing the legacy the Government has inherited

The UK's legacy of under-investment across the public sector has important implications for prioritising capital spending at the Spending Review. The UK faced significant cuts in public investment in the 1980s and 1990s, especially in housing and other forms of social investment. While recent years have seen a rebound in investment, this has primarily focused on economic infrastructure.

Looking in more detail at aspects of social investment, healthcare appears under-capitalised despite relatively generous capital funding compared to the OECD average, with far fewer hospital beds and MRI units per capita than the OECD average. The affordable housing stock has fallen significantly relative to population growth, worsening the housing crisis. Prisons face severe overcrowding and declining quality. And while education is due to see increases in capital spending per pupil, thanks to falls in the school-age population, challenges remain in maintaining the quality and condition of schools.

Economic infrastructure has fared better, particularly in investment in R&D and net zero spending, with substantial investments in recent years. Public R&D funding is at record levels, with £13.9 billion allocated for 2025-26. Investment in net zero also increased at the last Spending Review, with DESNZ's capital budget more than doubling in 2025-26 to £12.1 billion. However, transport infrastructure, especially rail electrification and city connectivity, remains relatively poor, with the UK lagging behind many OECD countries.

Overall, though, our assessment of historical under-investment suggests that social infrastructure – particularly housing, healthcare and prisons – should be the Government's main priority.

Section 1 argued that, even with the Autumn Budget and Spring Statement's over £100 billion top-up to capital budgets, the Government will still face tough decisions over how

to allocate the additional capital spending between departments. In this section, we discuss one key factor affecting those decisions: the state of our current stock of public capital after years of low public investment. We do this by considering broad historical and international comparisons, as well as more specific departmental trends to identify these areas.

In historical terms, economic infrastructure has fared better than social infrastructure

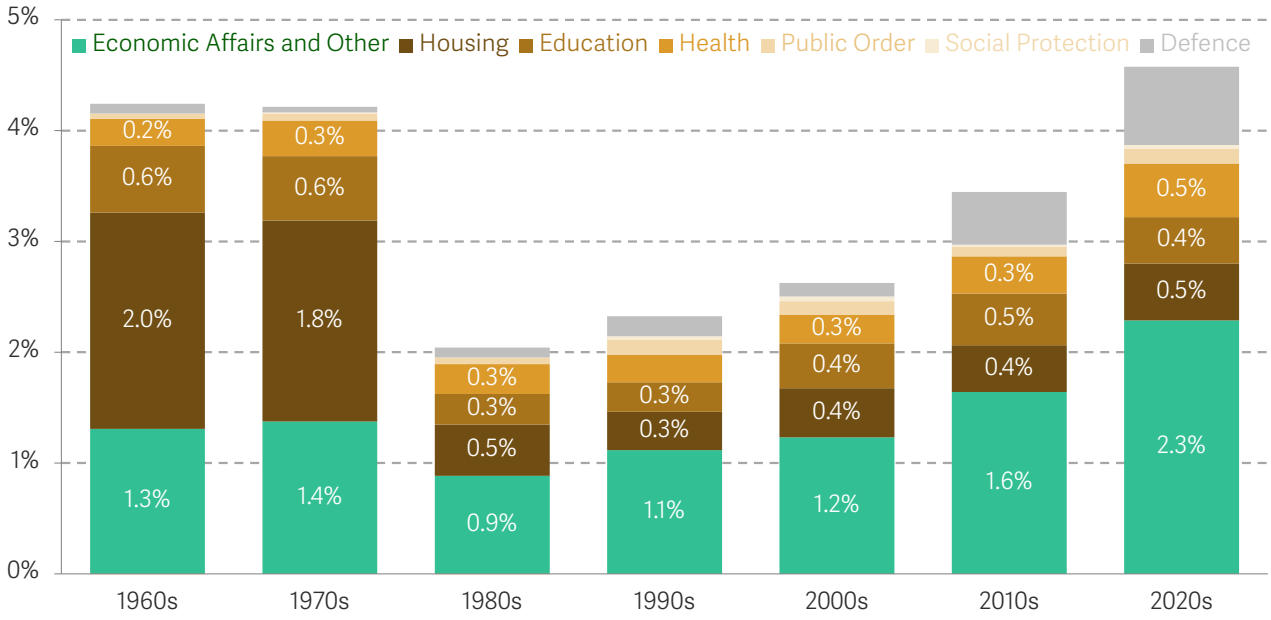
Broadly, investment can be categorised as either 'economic infrastructure' (such as roads, R&D and energy infrastructure), or 'social infrastructure' (such as capital investment in schools, hospitals and prisons). Breaking investment down this way suggests a delineation between public investment that is designed to maximise the productivity of the economy, and investment that instead primarily provides a public service. This is a very broad brush, and in using these terms we do not want to imply that social infrastructure has no economic benefit (as we'll come on to later). It is, though, a useful distinction to use given the strikingly different trends that have emerged in these types of public investment in recent history.

In particular, Figure 10 shows the proportion of GDP spent on different forms of public capital by decade. As set out above, overall public investment saw steep cuts in the 1980s and 1990s, primarily concentrated in the spending allocated to housing and health infrastructure, which fell by 1.3 and 0.3 percentage points of GDP respectively, as well as in economic infrastructure which saw a half of a percentage point fall between the 1970s and 1980s. In recent years, we've seen a reversal of this trend in economic infrastructure expenditure, which has so far averaged 2.3 per cent of GDP over the 2020s,[15] nearly a percentage point of GDP higher than even the high-investment era of the 1960s and 1970s. Within social infrastructure, investment in housing remains significantly below historical highs, at 0.5 per cent of GDP in the early 2020s, compared to 1.8 per cent of GDP over the 1970s, but there has been some recovery in education and health spending.

15 These figures relate to total public expenditure on capital and so are much higher than the public sector net investment figures presented in Section 1 which are net of depreciation.

FIGURE 10: **Economic infrastructure spending has seen a much more successful rebound from the cuts of the 1980s and 1990s**

Public sector capital expenditure on services by function as a proportion of GDP: 1960-2023, average by decade

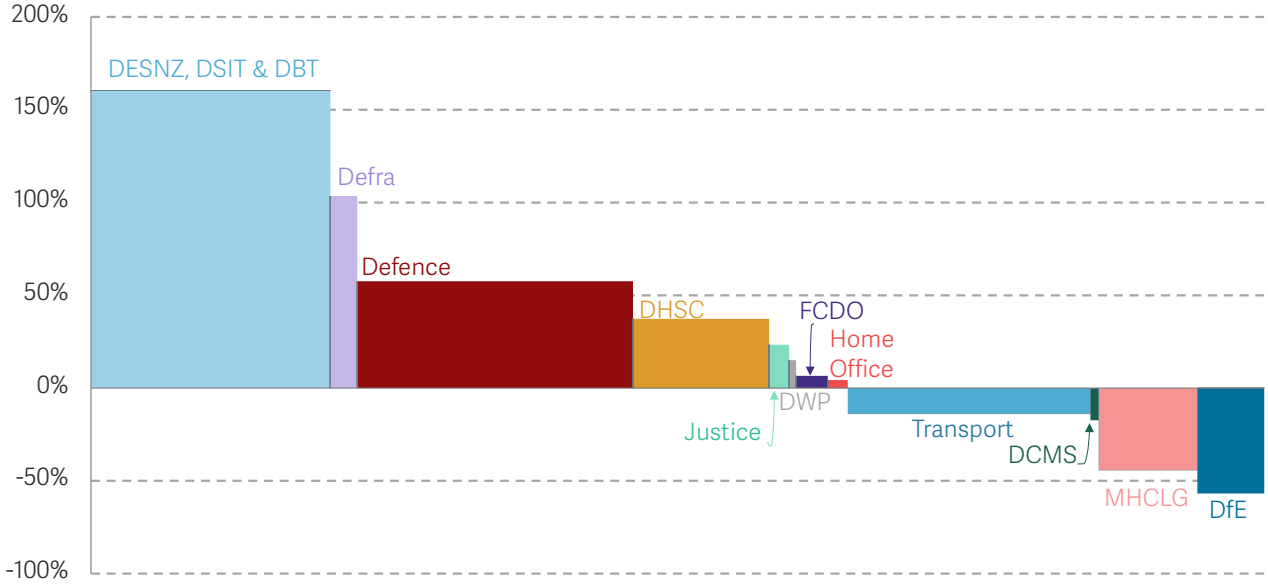


NOTES: The reclassification of single-use military equipment (SUME) between current and capital spending make comparisons of defence capital spending difficult over time, so defence spending has been split out. After 2000, data relates to public sector capital expenditure as published in HMT PESA tables; before 2000, data is spliced using trends in general government gross capital formation, as published by the IFS. 'Economic Affairs and Other' includes all investment spending not contained in other categories; this primarily reflects economic infrastructure.
SOURCE: RF analysis of IFS, 'Twenty-Five years of falling investment? Trends in capital spending on public services', November 2001; HM Treasury, Public Expenditure Statistical Analyses, various.

These trends are also broadly reflected at a departmental level, with post-austerity increases in capital spending also heavily concentrated in departments that primarily deliver economic infrastructure. Figure 11 illustrates the real, per-capita changes in capital departmental expenditure limits by department since 2010-11. The combined budgets of DESNZ, the Department for Science, Innovation and Technology (DSIT) and the Department for Business and Trade (DBT) have increased by 160 per cent, adjusted for inflation and population growth. Meanwhile, social-investment-focussed departments such as the Ministry for Housing, Communities and Local Government (MHCLG) and DfE saw real, per-capita cuts over this period, amounting to 44 and 57 per cent respectively. It is important to note that these changes in CDEL allocations for departments interact with, and often compound, changes in RDEL spending over this period. Box 1 sets out the interaction of CDEL and RDEL changes since 2010 in more detail.

FIGURE 11: **Departments that primarily deliver social investment have seen the largest real, per-capita cuts since 2010**

Real per capita growth in CDEL, by department, scaled to 2019-20 allocation: 2009-10 to 2024-25



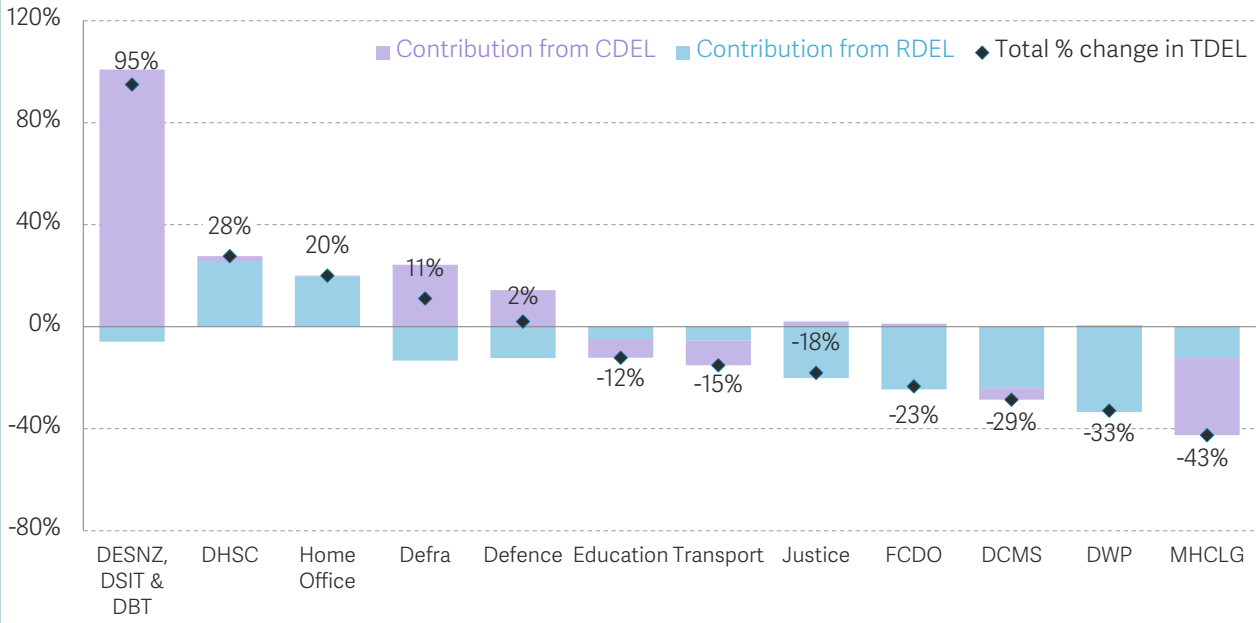
SOURCE: RF analysis of HM Treasury, Spring Statement March 2025; HM Treasury, Public Expenditure Statistical Analyses (PESA), various; OBR, Economic and Fiscal Outlook, March 2025.

BOX 1: How do capital spending allocations interact with day-to-day spending?

Since 2009-10, trends in Resource Departmental Expenditure Limits (RDEL) and Capital Departmental Expenditure Limits have varied across departments. Figure 12 illustrates the contribution of RDEL and CDEL to total changes in DEL since 2009-10. It is unsurprising that cuts to RDEL and CDEL tend to arrive in tandem, as it makes little sense to boost investment while cutting the day-to-day resources that could make use of that investment. For example, significant cuts to MHCLG capital budgets were also compounded by reductions in RDEL since 2009-10.

FIGURE 12: **Changes in RDEL and CDEL allocations often compound each other**

Contribution of CDEL and RDEL to real per capita growth in TDEL, by department: 2009-10 to 2024-25



SOURCE: RF analysis of HM Treasury, Spring Statement March 2025; HM Treasury, Public Expenditure Statistical Analyses (PESA), various; OBR, Economic and Fiscal Outlook, March 2025.

However, there are some departments that have seen off-setting movements in their RDEL and CDEL allocations, particularly where the department is particularly capital-spending focussed. For example, significant increases in CDEL spending on research and development primarily drive the dramatic increases seen in DESNZ, DSIT and DIT budgets over this period, despite modest falls in RDEL. Defra and MoD also saw higher capital budgets contributing to total DEL growth despite declines in their resource spending.

There are other significant interactions between CDEL and RDEL (and AME) spending. These include both the knock-on impacts of low levels of investment on the cost of delivering public services with a depleted capital stock, and additional subsidies required in, for example, the housing market to make up for a depleted social housing sector. These further interactions will be covered in more detail in Sections 2 and 4 of this report.

In recent years, social investment has been more affected by cuts than economic investment. However, this does not tell us much about the level of investment in various areas of the public sector compared to current need. To help with that, we now turn to more specific metrics of the need for capital spending across the public sector.

Across social infrastructure, needs are most acute in health, housing and prisons

The final part of this section looks at more granular measures of investment needs to illustrate areas of the public sector where under-investment is currently most acute. We start with social infrastructure, looking at health, housing, schools and prison infrastructure.[16]

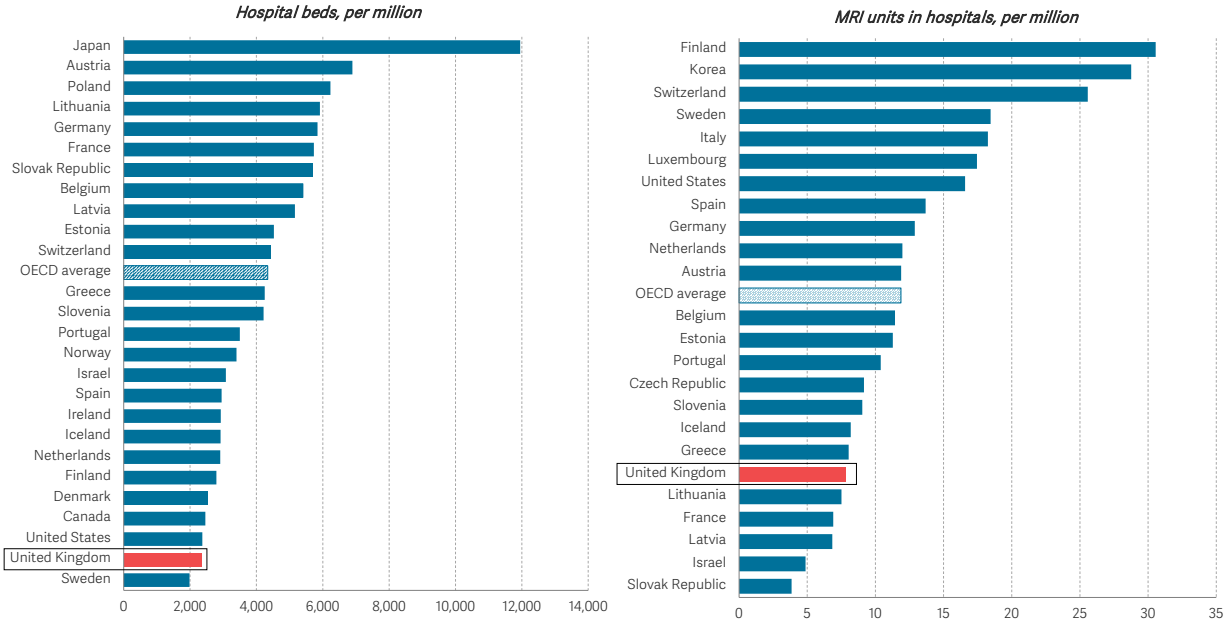
The UK does not have a particularly capital-intensive healthcare service

The UK's health investment is substantial compared to international averages (see Box 2 for further details of the UK's public investment in various sectors in international context). However, as Figure 13 shows, it does not appear that this is resulting in a particularly capital-intensive healthcare sector. The UK has the second lowest number of hospital beds per million inhabitants out of advanced economies in the OECD at just 2,300, two thousand fewer beds than the OECD average of 4,300 (left panel of Figure 13). And in terms of higher-tech health capital, the UK also performs relatively poorly in terms of the number of MRI scanners per thousand people, sitting at just under two-thirds of the OECD average (right panel of Figure 13).

16 This builds on: R Hughes et al., Euston we have a problem: Is Britain ready for an infrastructure revolution?, Resolution Foundation, March 2020

FIGURE 13: **The UK does not have a particularly capital-intensive healthcare service by international standards**

Number of hospital beds (left panel) and MRI units in hospitals (right panel), per million people: OECD countries, 2020-22



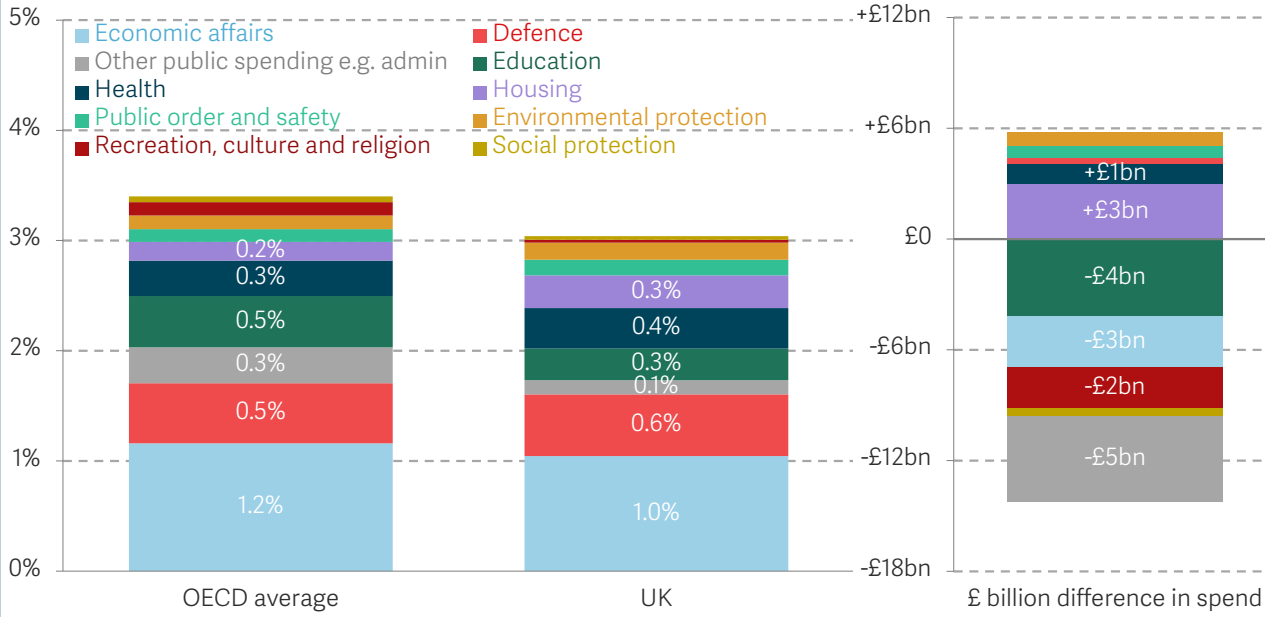
NOTES: Includes only OECD countries classified as advanced economies, and OECD countries without recent data are excluded. Hospital beds are presented as an average over available data between 2020 and 2022. MRI units data relates to 2020 only.
SOURCE: RF analysis of OECD, Healthcare Resources dataset.

BOX 2: **Compared with other countries, the UK has underinvested in economic infrastructure, defence and education**

As set out in Section 1, the UK underinvests overall relative to its international peers. However, this weakness in public investment is not equally shared across all areas of capital spending. As Figure 14 illustrates, compared to the OECD average, the UK invests 10 per cent less in economic affairs (£3 billion in 2024-25 prices), 38 per cent less in education (£4 billion), as well as in investment in recreation and religion. Off-setting this, the UK invests 14 per cent more than the OECD average on health (an extra £1 billion) and 74 per cent more on housing (an extra £3 billion).

FIGURE 14: **The UK under-invests in economic affairs and education relative to international peers**

General government public investment as a proportion of GDP (left panel) and difference between UK and OECD average spend (right panel), by function: UK and OECD average, 2021



NOTES: The above analysis includes Austria, Belgium, Chile, Czechia, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Latvia, Lithuania, Luxembourg, Netherlands, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, United Kingdom and United States.
SOURCE: RF analysis of OECD, Public finance main indicators - Government at a glance, 2023 edition.

These differences in spend across OECD countries reflect differences in how public services are delivered, and differences in the cost of various assets between countries.[17] For example, given that healthcare is nationalised in the UK, the UK is likely to spend much more on investment in health than countries with a more privatised approach to healthcare. Similarly, the UK invests more in housing compared to the OECD average and has the fourth largest social housing stock in the OECD, at over 16 per cent of our total housing stock, more than double the OECD average of 7 per cent.[18] However, extremely high housing costs in the UK make housing support from the state both more important, and more expensive, to provide than in countries with a cheaper housing market. Our previous research found that UK households face the highest quality-adjusted price of housing of any developed economy.[19]

17 Box 1 in R Hughes et al., Euston we have a problem: Is Britain ready for an infrastructure revolution?, Resolution Foundation, March 2020 provides more details on the challenges of international comparisons of capital investment spending.
18 PH3.2 Social rental dwellings stock in OECD, Affordable Housing Database.
19 A Corlett & L Judge, Housing Outlook Q1 2024, Resolution Foundation, March 2024.

Meanwhile, the quality of the UK's healthcare capital stock is also in question. There was an estimated backlog of £13.8 billion of maintenance within the NHS estate in 2023-24, including £2.7 billion of "high risk" maintenance.[20] Much of this maintenance spending would ultimately come from day-to-day RDEL allocations, but the scale of maintenance currently required suggests the need for larger-scale renovation or replacements that would likely be covered by CDEL spending. Against this backdrop it is perhaps unsurprising the Government has already committed to deliver the health infrastructure projects covered by the New Hospital Programme set up by the previous Government (which included re-building several hospitals constructed primarily using RAAC), estimated to cost an average of £3 billion per year by the early 2030s, once these schemes are under construction.[21]

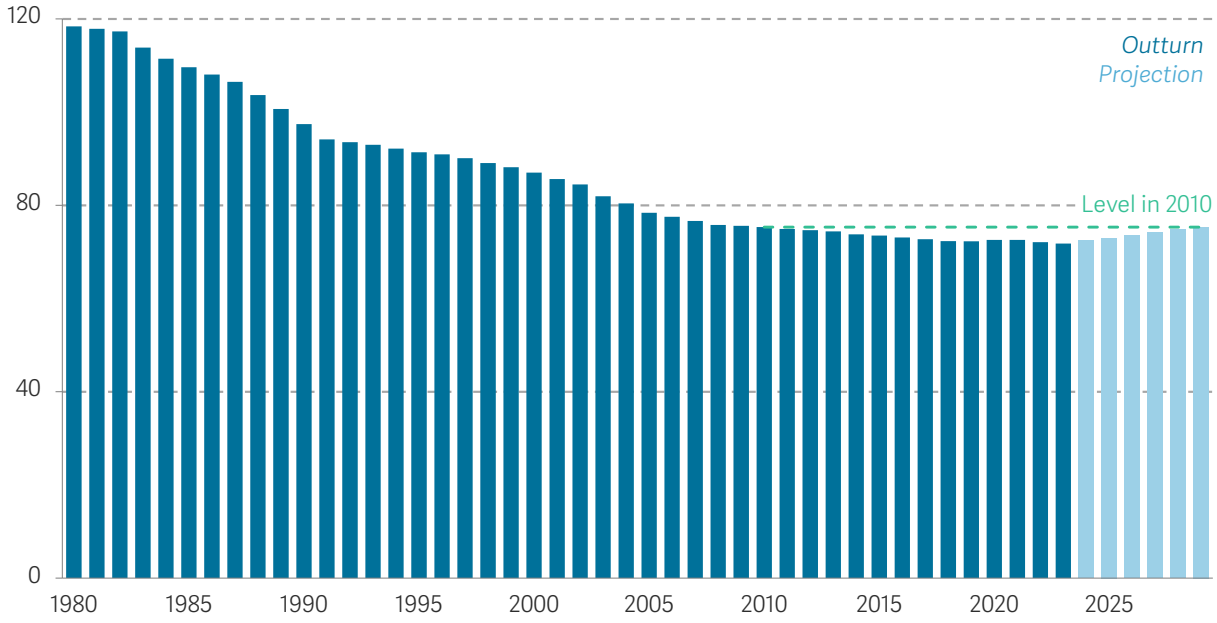
The affordable housing stock has fallen significantly relative to population

Looking at metrics of housing stress, the UK is clearly facing a housing affordability crisis.[22] There were over 1.3 million households on local authority housing waiting lists in England at the end of 2023-24, the highest figure for a decade.[23] At the sharpest end of housing pressures, 126,000 families were living in temporary accommodation in England in September 2024, including 164,000 children.[24] Meanwhile, England has seen a dramatic depletion of its affordable housing stock since 1980, driven in part by sales through Right to Buy, and a lack of commensurate building to replace these properties.[25] As shown in Figure 15, the number of affordable homes available per 1,000 people in England has fallen by over a third, from nearly 120 in 1980 to just over 70 by 2023. It would take the building of nearly 400,000 affordable homes, or over a quarter of the Government's targeted 1.5 million homes, just to return this ratio to 2010 levels.

20 NHS England, Estates Returns Information Collection, 2023-24.
21 Department of Health & Social Care, New Hospital Programme: plan for implementation, January 2025.
22 The following figures primarily focus on England, given housing is a devolved policy area. However, the Welsh Government, Scottish Government and Northern Ireland Assembly have all reported housing pressures. See, for example: Senedd Research, Wale'ss housing crisis: the role of social housing supply, February 2025; D Wallace Lockhart, Scottish government declares national housing emergency, BBC News, May 2024; Northern Ireland Executive, Housing Supply Strategy: A Home for Everyone 2024-2039, December 2024.
23 MHCLG, Social housing lettings in England, tenants: April 2023 to March 2024, February 2025.
24 MHCLG, Statutory homelessness England level time series "live tables", February 2025.
25 C Pacitti, The Resolution Foundation Housing Outlook Q1 2025, January 2025.

FIGURE 15: **The number of affordable homes relative to population has fallen by over a third since 1980**

Affordable housing stock per 1,000 people, outturn and projection: England, 1971 to 2029



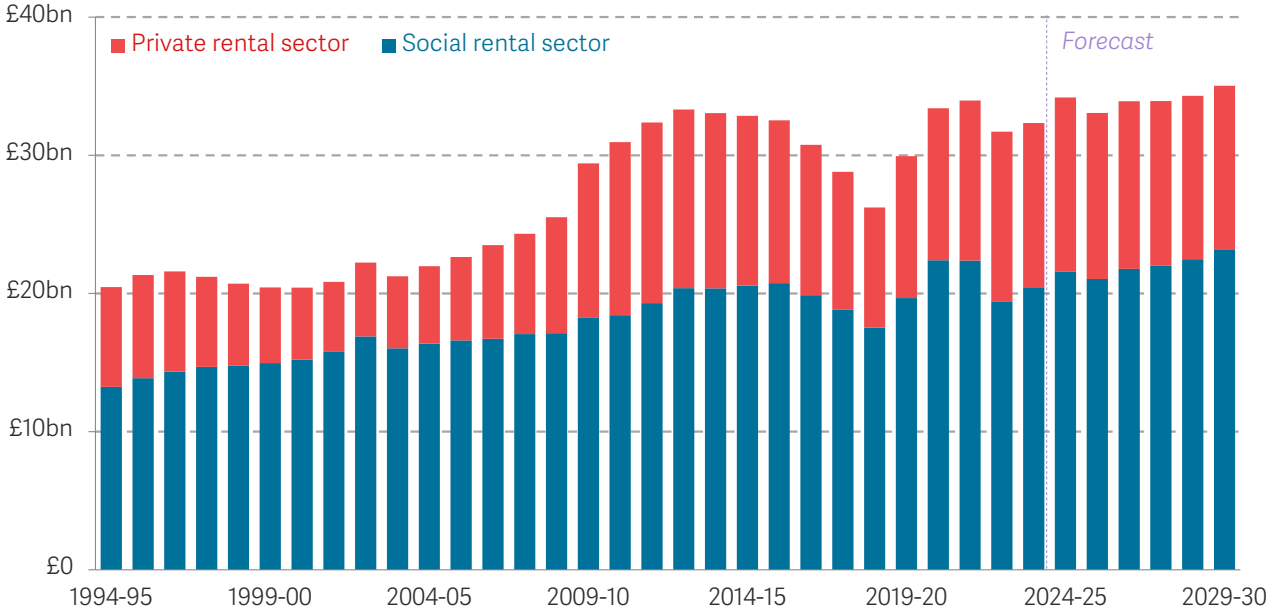
NOTES: Projection assumes the English population grows in line with UK population projections.
SOURCE: RF analysis of ONS, Population estimates for regions in England and Wales by sex and age, July 2024; ONS, National population projections: 2021-based interim, January 2024; MHCLG, Live table 104.

Moreover, under-investment in social housing has meant many low-income households instead live in the private rental sector. The proportion of low-to-middle income families renting privately rose from 18 per cent to 29 per cent between 1994-95 and 2022-23.[26] This has meant much less secure and lower-quality accommodation for tenants,[27] and much higher costs borne by the state. As shown in Figure 16, more than a third of housing support in England, or nearly £12 billion, was paid by the state to private landlords in 2023-24. The cost to the state of subsidising rent paid to private sector landlords has risen by 64 per cent in real-terms since the mid-1990s, compared to a 54 per cent rise in the total cost of subsidising households living in social rental accommodation, which totalled just over £20 billion in 2023-24.

26 M Brewer et al., Unsung Britain: The changing economic circumstances of the poorer half of Britain, Resolution Foundation, November 2024.
27 See for example MHCLG, English Housing Survey 2023 to 2024: headline findings on housing quality and energy efficiency, January 2025 for various metrics on Category 1 hazards and damp which illustrate much lower housing quality standards on average in the private rental sector.

FIGURE 16: **More than a third of housing support is now paid to private landlords**

Real cost of housing benefits, by tenure of recipient, 2024-25 prices: England



SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, March 2025; DWP, Outturn and Forecast Tables Spring Statement 2025.

It is also likely that the Government will need to directly invest in increasing affordable housing provision. Private developers do deliver affordable homes through, for example, their legal obligations under Section 106. Assuming a similar ratio of building through Section 106 to total new builds as currently would suggest that the Government's higher housing targets will mechanically add around 40,000 affordable homes to the total stock over the Parliament.[28] However, private developers are often accused of negotiating down their Section 106 obligations, and under-delivering affordable housing on the basis that it reduces the commercial viability of their housing development.

Moreover, in recent decades, the share of homes built for genuinely affordable social rent, rather than other forms of 'affordable' housing including shared ownership, has also fallen from over 85 per cent of affordable homes built in the early 1990s, to just over 15 per cent of new affordable homes in 2023-24.[29] Social homes, as the 'gold standard' of affordable housing, are much less likely to be delivered by private developers, and typically require a much higher capital grant from government. Direct government investment, in addition to turbo-charging progress against the Government's ambitious

28 C Aref-Adib et al., Building Blocks: Assessing the role of planning reform in meeting the Government's housing targets, Resolution Foundation, September 2024.
29 MHCLG, Live Table 1000.

target of delivering 1.5 million new homes over the Parliament, is therefore likely to be necessary to deliver truly affordable homes that address the housing crisis exacerbated by decades of acute under-investment.

Prison capacity constraints have reached crisis levels in recent years

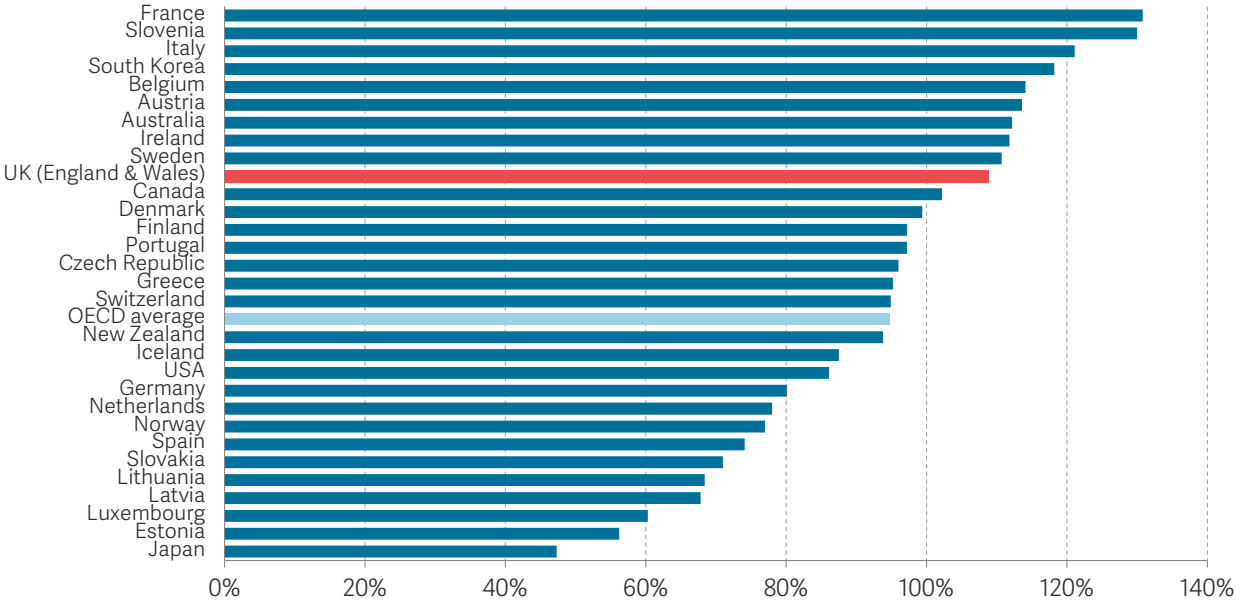
Similarly to both housing and health, spending comparisons with OECD averages do not adequately capture the challenges facing investment in the UK's prison system. The UK is more-or-less in line with OECD averages in its spending on "public order and safety", but this belies significant pressures in the scale and quality of the existing prison capital stock.

Figure 17 shows that England and Wales sit significantly above the average of OECD advanced economies in terms of prison occupancy, with prisons currently operating at nearly 110 per cent of their official capacity. In 2021, the Ministry of Justice was aiming to deliver 20,000 additional prison places by the mid-2020s, but as of September 2024 just 6,500 of these had been delivered.[30] In response to the severity of the pressures on the prison system, the Government in July 2024 announced a temporary change in the law that would release prisoners early, requiring them to serve 40 per cent rather than 50 per cent of eligible 'standard determinate sentences' in prison.[31] This resulted in over 3,100 prisoners leaving prison early, as of November 2024.[32] Following these measures an Independent Sentencing Review was established to re-evaluate the sentencing framework in England and Wales in part to "ensure we are never again in a position where the country has more prisoners than prison places".[33]

30 Parliamentary Accounts Committee, Prisons crisis: As justice system faces total gridlock in 2026, PAC calls for rapid action, UK Parliament, March 2025.
31 MoJ, HM Prison and Probation Service (HMPPS), Youth Custody Service and The Rt Hon Shabana Mahmood MP, New Lord Chancellor sets out measures to avert prison capacity crisis, July 2024.
32 MoJ and HMPPS, Standard Determinate Sentences (SDS40) Tranche release data, November 2024.
33 MoJ, Independent Sentencing Review 2024 to 2025, October 2024.

FIGURE 17: **Prisons in England and Wales are operating at around 110 per cent of their official capacity**

Prison occupancy level, based on official capacity: OECD advanced economies, most recent data available



SOURCE: RF analysis of World Prison Brief database.

Even following these measures, the Public Accounts Committee asked the Government to take action to address the prison estate "crisis" and described prisons as "alarmingly full". Their report suggested prison capacity will run out again in early 2026, and detailed that around a quarter of prisoners were sharing a cell designed for one person, and overcrowding was leading to escalating welfare issues including a 14 per cent increase in fights between prisoners and a 19 per cent increase on attacks on staff over the year to September 2024.[34] On top of severe capacity issues, the prisons estate also faces a backlog of maintenance issues relating to the quality of the capital stock, with estimates suggesting it would cost nearly £3 billion to bring the prison estate to a 'fair' standard of condition and fire safety and maintain this to the end of the decade.[35] As with the healthcare service, much of this cost would likely be classified as RDEL, but it illustrates the severe under-investment this aspect of the public sector has received in recent decades.

CDEL allocations for education are likely to be under slightly less pressure

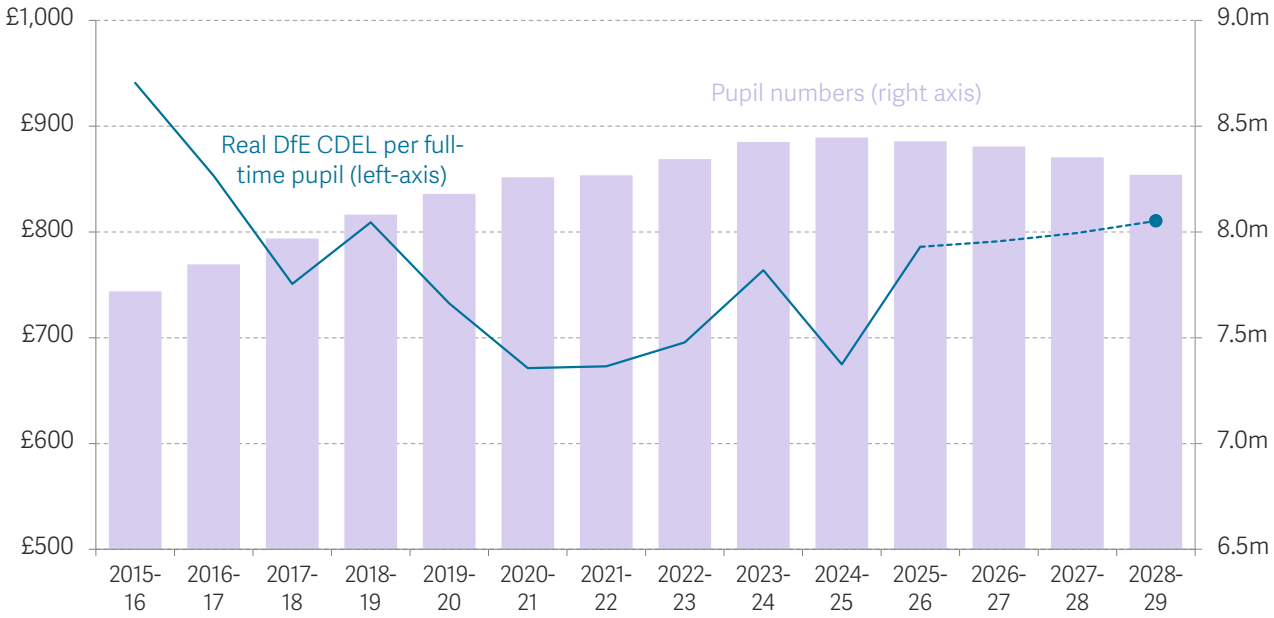
One piece of good news is that trends in capital investment in education are somewhat less worrying than for healthcare, housing or the prison service. As shown in Figure 18,

34 Parliamentary Accounts Committee, Prisons crisis: As justice system faces total gridlock in 2026, PAC calls for rapid action, UK Parliament, March 2025.
35 MoJ, HMPPS and Lord Timpson OBE, Prison Estate Conditions Survey Programme Summary Information, December 2024.

the number of school-age pupils in England is projected to fall from a peak of 8.4 million in 2024-25 to 8.3 million by 2028-29. Even if CDEL budgets for DfE were held flat in real terms in the upcoming Spending Review, CDEL per pupil would still be rising in real terms from 2025-26, by an average of over £8 per year, in 2024-25 prices.

FIGURE 18: **The number of children in full-time education is projected to peak in 2024-25**

Number of children in full-time education (right axis) and real Department for Education CDEL per pupil (left axis): England



NOTES: The DfE's projections relate to pupils aged up to 15 years old.
SOURCE: RF analysis of Department for Education, National pupil projections 2024; HM Treasury, Public Expenditure Statistical Analyses; HM Treasury, Spring Statement 2025, March 2025; OBR, Economic and Fiscal Outlook, March 2025.

It is true that falling numbers of pupils in full-time education does not necessarily mean falling cost pressures across all areas of education provision. For example, there is evidence of rising need for support for pupils with special educational needs and disabilities (SEND),[36] with around £1 billion of capital funding spent by DfE on this group in 2023-24.[37] However, the bulk of DfE's capital funding still relates to the funding of the primary and secondary school estate, where falling pupil numbers should broadly have the effect of easing capacity pressures on schools (in contrast to the pressures set out relating to healthcare, housing and prisons above). On the other hand, the schools estate is not immune to the quality issues mentioned in the above discussion of healthcare and prisons. In 2021, the Government estimated it would cost over £11 billion to repair or

36 C Aref-Adib et al., At your service? Why the 2025 Spending Review must reckon with the distribution of public service use, Resolution Foundation, April 2025.
37 DfE, Department for Education consolidated annual report and accounts: 2023 to 2024, July 2024.

replace all 'defective elements' in the school estate in England.[38] Since this survey took place, concerns emerging around RAAC in schools from summer 2023 have presumably added substantially to this cost.[39]

In terms of economic infrastructure, there are clear needs in transport investment

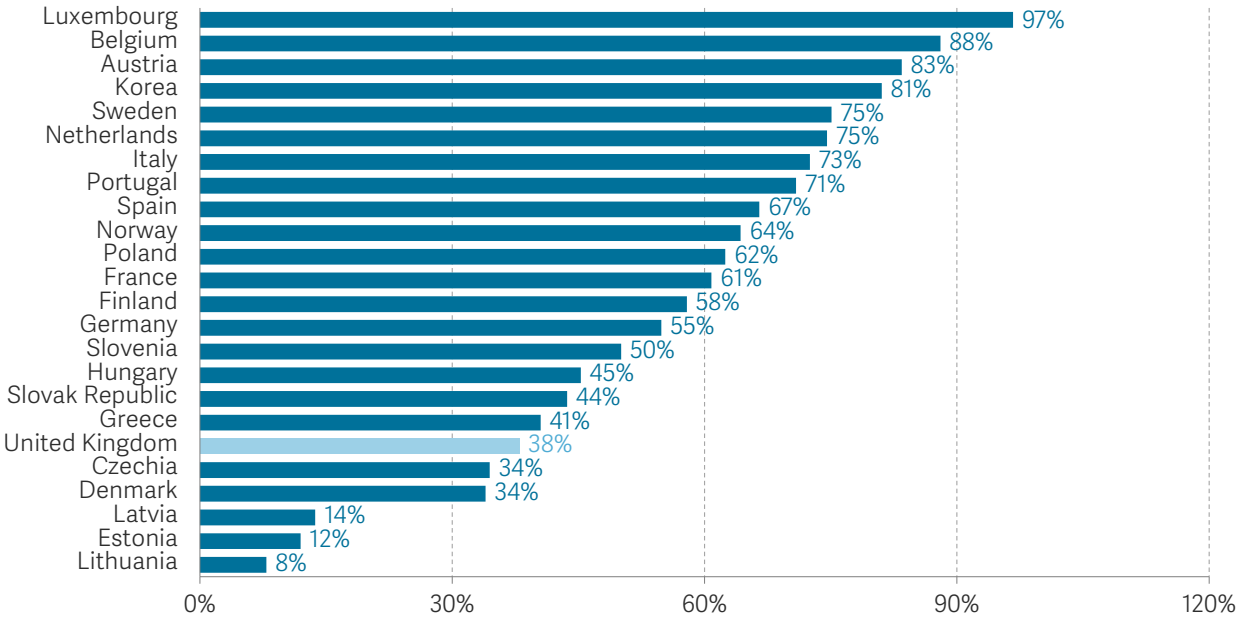
In general, economic infrastructure has fared better in historical terms than social investment, but this does not mean there are not areas of weakness in the UK's stock of economic capital. This section considers trends in forms of economic infrastructure including transport, research and development (R&D) and investment to meet net zero.

The UK's transport infrastructure lags international peers

There are many examples of our dated and inadequate transport infrastructure. Just 38 per cent of our rail network is electrified, well below most of our European peers (see Figure 19). This might be simply because our rail network is older than most, but electrification is also proceeding slowly, averaging just 100 km (0.6 per cent of the network) a year in the last five years.[40] At this pace it would take almost three decades to catch up to the current OECD average.

FIGURE 19: **Most OECD countries have more modern rail infrastructure than we do**

Share of rail track that is electrified: available OECD countries, 2023



SOURCE: RF analysis of OECD, Transport infrastructure indicators.

38 DfE, Condition of School Buildings Survey: Key findings, May 2021.
39 P Grimes & F Rankl, RAAC in the UK: Concerns and government response, House of Commons Library, January 2024.
40 Network Rail, Annual Return, accessed 16 April 2025

As well as being dated, our public transport infrastructure leaves British cities hard to navigate. Across the UK, just two-in-five can commute from the suburbs to the centre under in 30 minutes, compared with two-thirds in Europe.[41] It is commonly said that Leeds is the largest city in Europe without a mass transit system.[42] These poor networks are a drag on productivity, particularly for our big non-London cities.[43] This paints a picture of public transport systems that are still in need of substantial investment, particularly for intra-city travel.[44]

Research and Development spending is currently at record levels

Economic infrastructure investment in intangible assets, such as spending on R&D has a much stronger record in the UK, particularly over recent years. Overall investment in R&D in the UK exceeds the OECD average (although lags behind the US and Germany).[45] On top of this, the Government moved to significantly boost public R&D investment in the Autumn 2024 Budget, allocating £13.9 billion to DSIT in 2025-26 specifically for R&D. This sits within £20.4 billion of funding for R&D across all government departments.[46] If this funding is continued in real terms across the Spending Review period, then it would still be enough to maintain R&D investment at record levels.

The Government has already committed to roughly the scale of net zero investment that the CCC has said will be required to meet its emissions targets

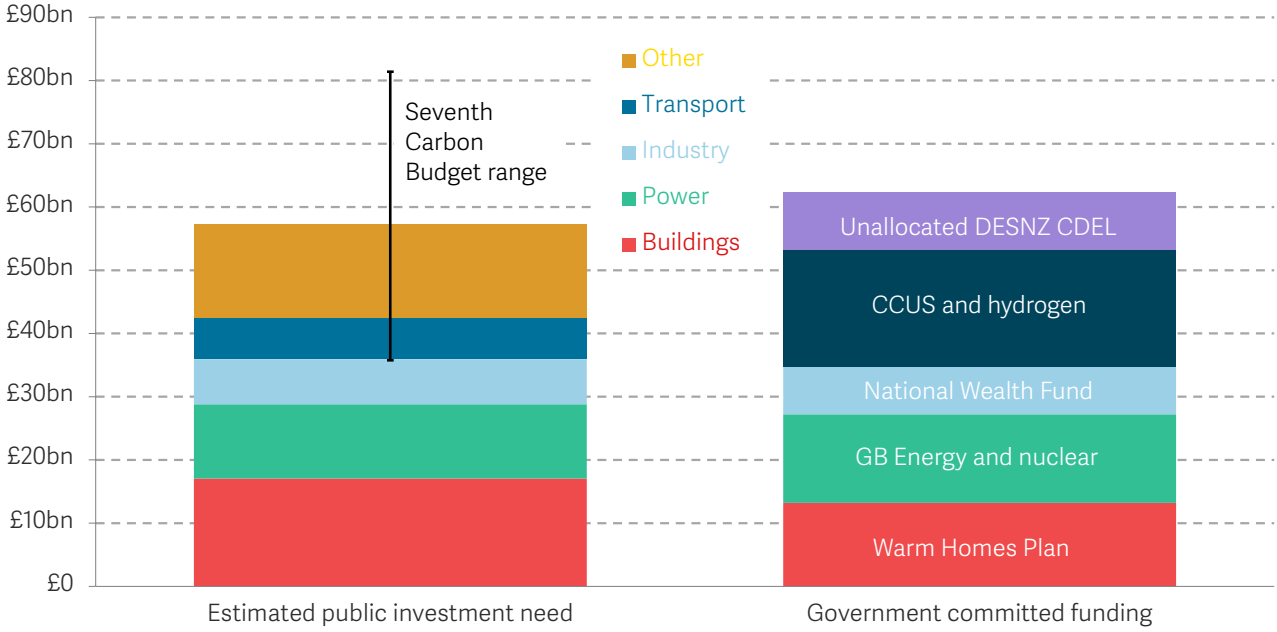
Another area of significant investment in the coming years is that required to meet the UK's net zero commitments, particularly for the electricity network. As Figure 20 shows, the Climate Change Committee – independent advisors to the Government on the best and lowest cost ways to meet net zero – suggests that public investment on net zero must reach between £36 billion and £81 billion over 2025 to 2029, with annual public investment needs rising by 78 per cent between 2025 and 2030.[47] Public investment must ramp up as our decarbonisation journey turns to sectors like homes which weigh more heavily on the public purse. The OBR estimated that the proportion of total investment needed to meet net zero that must be supplied by the public sector

41 G. Rodrigues and A. Breach, Centre for Cities, Measuring up: Comparing public transport in the UK and Europe's biggest cities, November 2021
42 N. Hellen, The Times, Cities can't grow because of bad public transport. What's the answer?, March 2024
43 P Brandily, et al., A tale of two cities (part 2): A plausible strategy for productivity growth in Greater Manchester and beyond, Resolution Foundation, June 2022
44 While the private sector is often responsible for operating trains and buses, almost all rail track and roads are state-owned, making public investment crucial for improving transport networks.
45 P Brandily et al., Beyond Boosterism: Realigning the policy ecosystem to unleash private investment for sustainable growth, Resolution Foundation, June 2023. The OECD definition of R&D spending includes some items such as tax credits that would not be part of CDEL spending allocations.
46 DSIT and The Rt Hon Peter Kyle MP, Record £13.9 billion of R&D funding unveiled to boost innovation, jobs and growth, April 2025.
47 Source: RF analysis of Climate Change Committee, Seventh Carbon Budget Dataset, February 2025. This differs from the range reported by the Climate Change Committee as it includes £5.5 billion of spending on Sizewell C that wasn't included as public spend in the CCC's analysis.

– rather than households and private companies – is over six-times higher for homes (44 per cent) than it is for the electricity sector (7 per cent).[48]

FIGURE 20: **Planned spend on net zero should be enough to meet climate targets**

Estimated public spending need and Government commitments by sector, 2025-26 to 2028-29



SOURCE: RF analysis of OBR, Fiscal risks report; CCC, Seventh Carbon Budget Dataset; HMT, Spring Statement 2025 tables; DESNZ, Main Estimates 2024-25.
NOTES: Estimated public investment need uses both forecasted additional capital investment under the Seventh Carbon Budget and Office of Budget Responsibility's estimations of public-private split. DESNZ CDEL is assumed to be sustained at 2025-26 levels to 2029-30, while manifesto commitments to GB Energy and National Wealth Fund are assumed to be additional to this.

This Government has responded to this growing need with big investments in the Department of Energy, Security and Net Zero, which saw its capital allocation more than double in the Autumn Budget, growing from £5.7 billion in 2024-25 to £12.1 billion in 2025-26 (or £9.1 billion a year once spend not related to net zero is excluded).[49] As Figure 20 shows, maintaining this budget in addition to promised spend on Great British Energy and National Wealth Fund will put Government spend on net zero in the right ballpark to meet climate targets over the next five years.

But Government should continue to interrogate the allocation of public funds across areas of net zero. For example, continuing to spend at 2025-26 levels on carbon capture, utilisation and storage would see £18.5 billion spent this Parliament, well above the £3.9

48 Office for Budget Responsibility, Fiscal risks report, July 2021.
49 Source: HM Treasury, Spring Statement 2025: Data Sources, April 2025. DESNZ spend not on net zero includes nuclear decommissioning, science and research, capability, and funding for GB Energy that is included separately as projected spend by GB Energy.

billion total additional capital expenditure the CCC suggest is required for engineered removals, and more even than that promised to upgrading homes by the Warm Homes Plan.[50] Now that funding for net zero is largely at the right level, it is these trade-offs that Government should focus on.

Overall, particularly acute investment needs are concentrated in social investment such as housing, health and prisons

Ultimately, it is social investment that has seen the steepest cuts since 2010-11, with investment in economic infrastructure seeing a dramatic resurgence in the 2020s. This has left the UK with particularly severe issues with a depleted and defective capital stock across housing, healthcare and the prison system. Economic infrastructure spending has been relatively much better served by recent capital spending allocations, particularly in terms of R&D and net zero-related investment. Transport investment is still relatively weak in the UK's second cities, although this remains a much less acute pressure than those facing low-investment public services. Overall, this is a challenging inheritance for a Government with limited resources, hoping to boost growth and living standards. The next section turns to the investment priorities that are most likely to deliver these objectives.

50 Source: Climate Change Committee, Seventh Carbon Budget Dataset, February 2025. The Climate Change Committee considers only deployment costs, while Government spending could also include innovation and support for nascent markets that fall outside of the scope of CCC analysis.

Section 3

Forward-looking priorities for public investment

So far, we have concentrated on what the legacy of past under-investment means for decisions at the Spending Review. But the Government must also weigh that against its forward-looking priorities, and particularly its 'missions' that cover health, law and order and social mobility, as well as it overarching aim of increasing growth and living standards. In that context, while there is range of estimates, evidence suggests that the impact of economic and social infrastructure spending on growth is positive, with the latter found to be around three-quarters as effective in driving long-run growth on average. That might suggest focusing on economic infrastructure projects, such as road and rail. But this ignores particular needs we have right now. Investment in health infrastructure, for example, will boost the number of treatments delivered by the NHS, potentially helping to increase labour-market participation. Also, building social housing where it is needed most could allow more workers into high-productivity areas, again boosting growth.

Focussing on economic infrastructure alone also ignores the effect of social investment in providing a targeted boost to those who have been hit hardest by the stagnation in living standards. This is partly because the public services which benefit from such investment disproportionately serve lower-income households. The extent to which this is true outweighs the difference in the growth boost from economic and social infrastructure, suggesting that the impact on the living standards of those on lower incomes could be greater from social investment. This is view is reinforced by new polling which suggests spending on health and housing infrastructure is particularly highly valued by lower-income families. But it is also because social investment also tends to benefit parts of the country outside London and the South East.

Having looked at what the legacy of under-investment means for the stock of public sector capital, in this section, we turn to the forward-looking priorities for public investment. Here the Government has made its ambitions clear by publishing a set of

'missions' which it intends as the priorities for this Parliament.[51] Chief among them is increasing economic growth, with the Government setting itself the ambitious goal of achieving the highest sustained growth rate in the G7. The ultimate aim here is to deliver sustained improvements in living standards which have proved elusive in recent years.[52] On this, the 'milestone' emphasised by the Government is increasing real household disposable income over the course of this Parliament along with improvements in GDP per person in every region and nation of the UK, so that the benefits of growth are felt by "everyone, everywhere".[53] There are also missions covering: the production of clean energy; reducing street crime; increasing social mobility; and improving health services, including by reducing waiting lists.[54]

The Government's missions provide a lens through which to prioritise public investment. Such spending is obviously relevant to how quickly the economy is able to grow. But investment spending is also important for the amount of public services government departments can deliver – for example, increasing the amount and quality of diagnostic equipment for the NHS will increase the number of procedures that can be undertaken. So below we discuss both impact of public investment on growth, but also how it can be used to boost public services. In doing so we argue that the ultimate goal for the Government should be improving people's lives, particularly those who have suffered more in terms of stagnating living standards - specifically lower-income families and those living outside of London and the South East.[55]

Evidence suggests that economic infrastructure spending does more to boost growth than other types of investment...

To start, we focus on what the evidence has to say about the impact of public investment on the size of the economy in the long run.

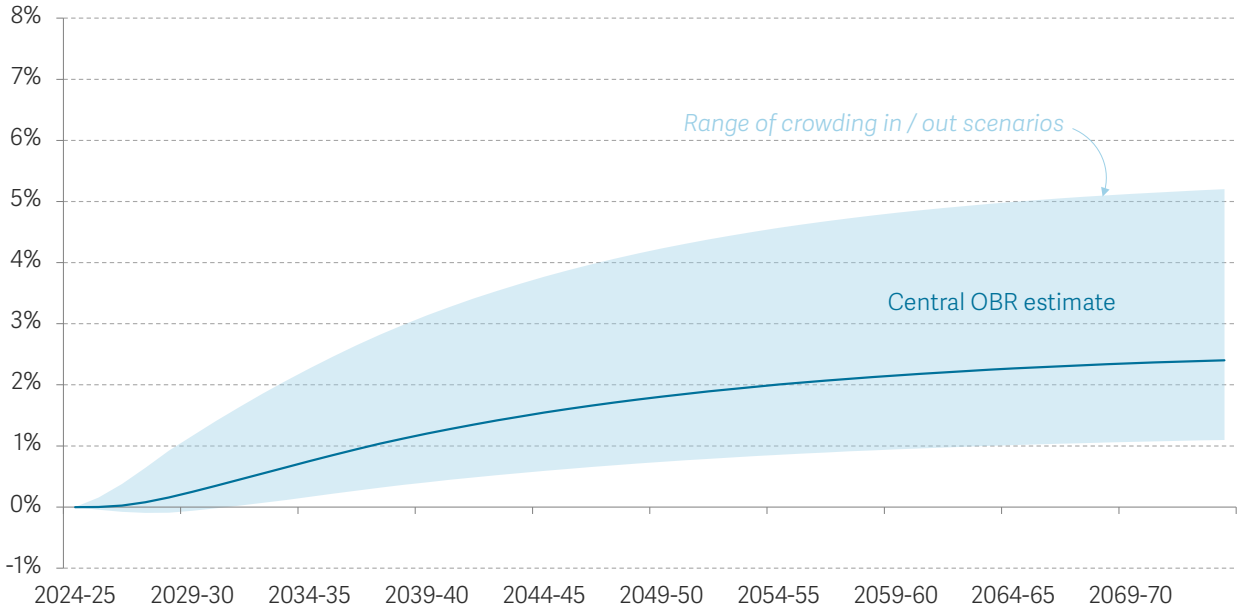
The message from numerous studies on the impact of public investment is clear: public investment boosts growth.[56] In terms of quantifying that impact, a good place to start is with the OBR's baseline estimate for the size of the effect.[57] The ultimate size of that impact depends on the elasticity of output with respect to public investment.[58] As shown in Figure 21, the OBR's baseline assumption is that a permanent 1 per cent increase in

51 These plans are summarised in HM Government, Plan for Change: Milestones for Mission-Led Government, 5 December 2024.
52 A Corlett & L Try, Hard times: Assessing household incomes since 2010, Resolution Foundation, June 2024.
53 These plans are summarised in HM Government, Plan for Change: Milestones for Mission-Led Government, 5 December 2024.
54 HM Government, Plan for Change: Milestones for Mission-Led Government, 5 December 2024.
55 M Brewer et al., Unsung Britain: The changing economic circumstances of the poorer half of Britain, Resolution Foundation, November 2024.
56 Broad 'meta' studies are provided by: P Bom & J Ligthart, What have we learned from three decades of research on the productivity of public capital?, Journal of Economic Surveys, 2014; and J A Núñez-Serrano & F J Velázquez, Is Public Capital Productive? Evidence from a Meta-analysis, Applied Economic Perspectives and Policy, 2017.
57 R Ghaw, R Obeng-Osei & T Wickstead, Public investment and potential output, OBR Discussion paper No. 5, August 2024.
58 The OBR use data on public and private stocks, estimating their combined impact on output using a simple 'Cobb-Douglas' production function.

public investment increases output by 2.4 per cent in the long run.[59] The size (and speed) of this effect is inevitably uncertain and depends on a number of assumptions – for example, Figure 21 shows a range of estimates for the size of the impact which vary by the extent to which public investment 'crowds in' private investment.

FIGURE 21: **The OBR assumes a permanent increase in public investment worth 1 per cent of national income will eventually boost output by 2.4 per cent**

OBR central estimate for the growth impacts of investment spending along with a range of scenarios for the extent to which private investment is crowded in / out: UK



SOURCE: OBR, Economic and Fiscal Outlook, October 2024.

One important way in which the size of this effect varies – which is not accounted for in the OBR's current baseline treatment – is by type of investment spending.[60] Table 1 shows a range of estimates for the output elasticity of public capital (the percentage change in output that follows from a 1 per cent increase in government capital). While there is clearly a range of estimates here, all suggest a positive impact with point estimates reasonably close to the OBR's baseline estimate of 0.10 (which implies a permanent increase in GDP of 0.1 per cent for every 1 per cent the Government is able to add to the public-sector capital stock). But also shown is a breakdown by type of investment, where the evidence suggests that, on average, social infrastructure is around three-quarters as effective as economic infrastructure in increasing the size of the economy.

59 The OBR assume that the effect is extremely slow, with long-run output only around 0.4 per cent higher after five years.
60 Of course it would not have been possible for the OBR to do so ahead of decisions which will be made by the Government at the Spending Review on the allocation of investment spending to departments.

TABLE 1: **Estimates of the output elasticity of public capital**

		Type of government capital		
	Study type	Total	Economic	Social
Bom & Ligthart (2014)	Meta study	0.122	0.170	
Núñez-Serrano & Velázquez (2016)	Meta study	0.132	0.146	
Calderón, Moral-Benito & Servén (2014)	Time series		0.080	0.100
Mas et al (1996)	Panel	0.070	0.077	
González-Páramo & Argimón (1997)	Panel		0.090	0.130
Dabán and Lamo (1999)	Panel		0.099	0.016
Average (mean)		0.108	0.110	0.082
Range of estimates			0.08-0.17	0.016-0.13

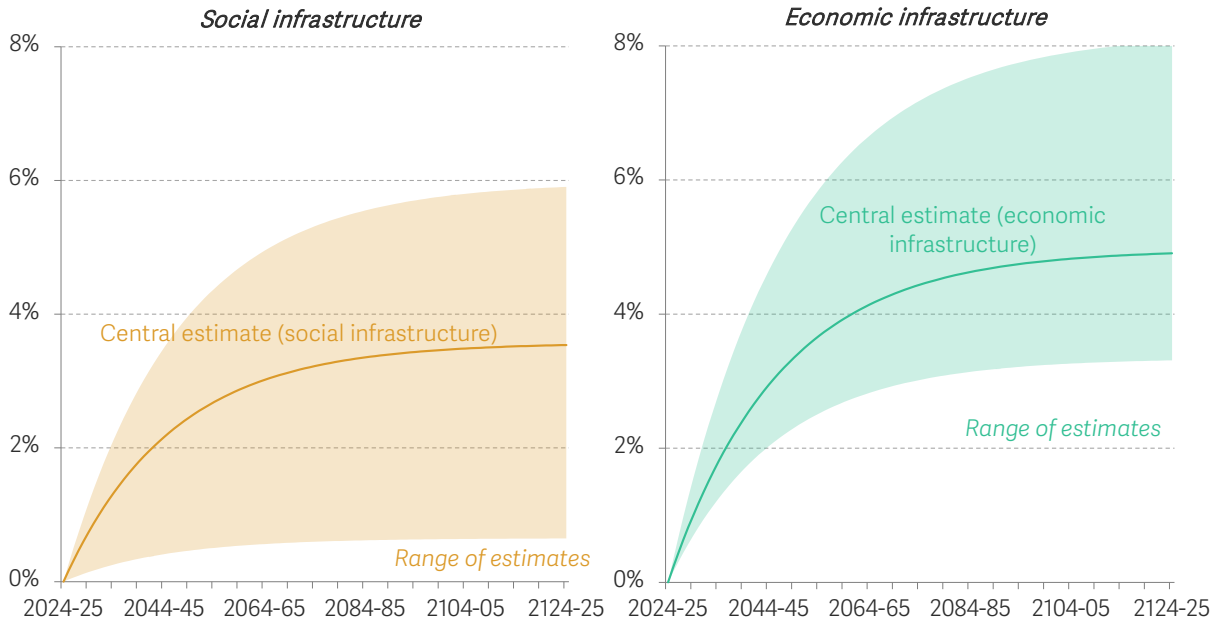
NOTES: Elasticities show long-run effects where available. All estimates are for advanced economies. In Bom & Ligthart (2014), economic infrastructure is taken to be what the authors describe as 'core' infrastructure; for Núñez-Serrano & Velázquez (2016), it is 'productive' investment.
SOURCE: P Bom & J Ligthart, What have we learned from three decades of research on the productivity of public capital?, Journal of Economic Surveys, 2014; J A Núñez-Serrano & F J Velázquez, Is Public Capital Productive? Evidence from a Meta-analysis, Applied Economic Perspectives and Policy, 2017; C Calderón, E Moral-Benito & L Servén, Is infrastructure capital productive? A panel heterogeneous approach, Journal of Applied Econometrics, 2014; M Mas et al., Infrastructures and productivity in the Spanish regions, Regional Studies, 1996; and J M González-Páramo & I Argimón, Efectos de la inversión en infraestructuras sobre la productividad y la renta de las CC.AA, in Infraestructuras y desarrollo regional: Efectos económicos de la Autopista del Atlántico, Colección Economía, Madrid, 1997; T Dabán & A Lamo, Convergence and public investment allocation, Documento de Trabajo D-99001, Ministerio de Economía y Hacienda, Madrid, 1999.

To make clear what this could mean for the Government's growth ambitions, Figure 22 translates those estimates into illustrative implications for GDP in a similar way to the OBR's estimate in Figure 21.[61] Based on Table 1, in the long run, a permanent increase in the social infrastructure investment rate of 1 per cent of national income permanently raises GDP by around 3.5 per cent; for economic infrastructure it is about 4.9 per cent. This means social infrastructure investment is around three-quarters as effective in driving growth as that in economic infrastructure.

61 In Figure 24 we abstract from the time lags that the OBR assume are inherent in the process of investing in public infrastructure. But, because we are ultimately interested in the long-run impact, this assumption does not affect the comparison with the OBR's own long-run estimates.

FIGURE 22: **Economic infrastructure investment is estimated to have a bigger effect on the size of the economy in the long run than social infrastructure**

Illustrative impact on GDP of a permanent 1 per cent of of baseline national income increase in social infrastructure (left panel) and economic infrastructure (right panel): UK



NOTES: Baseline assumes public-capital-to-GDP ratio of 50 per cent, steady state growth of 1 per cent and a baseline public-investment-to-GDP ratio of 2.5 per cent.
SOURCE: RF analysis.

Viewed through the lens of its impact on GDP growth, the lesson from a large volume of economic research is that the way to maximise your impact is to invest in economic infrastructure. This is essentially a strategy of building new infrastructure such as roads, railways and utilities. One area of economic infrastructure that doesn't conform to this stereotype is government R&D which is often included as part of economic infrastructure and has been found to drive long-run growth.[62] As discussed in Section 2 above, this is an area where successive governments have a strong record of investing. So, particularly in the light of the Government's growth mission, there seems to be a strong case for continuing such high levels.

It is clearly important for the Government to make strategic choices about the broad priorities for public investment. But it is also important that investment projects are selected, administered and planned effectively, so in Box 3 we discuss how the Government can make sure it's spending money well.

62 A J Fieldhouse & K Mertens, The Returns to Government R&D: Evidence from U.S. Appropriations Shocks, Working Paper 2305, Federal Reserve Bank of Dallas, 2024.

BOX 3: Achieving good investment outcomes will depend on the framework for delivering projects

As set out in our previous work, rather than focusing on the quantity of public investment, the Treasury should instead concentrate on its quality.[63] In particular, we have previously argued for three key changes to the investment framework to support the key roles played by the OBR and the National Infrastructure Commission (NIC).

First, to increase the period over which investment budgets are planned out in order to give financial managers certainty. The good news in this context is that the Government has said that it intends to provide five-year CDEL budgets at spending reviews – thus decoupling the horizon for investment plans and that for day-to-day departmental spending. This is a positive development but it's possible to go further here. Large-scale strategic infrastructure projects would also benefit from separate total budgets being voted by Parliament, increasing transparency and discipline. There should also be more flexibility around over when spending takes place – protecting investment decisions from annual budget debates with departments.

Second, local government should be given greater clarity over their capital budgets and increased agency to spend on their own priorities. Ensuring that local investment plans are consistent with the national growth strategy is key here. This means ringfenced money for Local Authorities. Powers should be handed to combined authorities, most obviously those led by the Mayors of the West Midlands and Greater Manchester. Treating these authorities in the same way as government departments for Spending Review purposes would be ideal.

And third, ensuring quality and transparency over the business cases for projects should be the core job of the Treasury in this context. Business and, crucially, strategic cases for major projects are not routinely published. This increases the risk of political interference. The Treasury would need to build its capacity in this area. This would be strengthened further by requiring an independent NIC to certify the business cases.

63 F Odamtten & J Smith, Cutting the cuts: How the public sector can play its part in ending the UK's low-investment rut, The Resolution Foundation, March 2023.

...but there are reasons for thinking that social investment may have an outsized impact on growth right now

Although it is tempting to conclude that concentrating investment in infrastructure to boost growth is the best approach, there are reasons for thinking that, given the position the country finds itself in, some types of social investment might have a larger impact on the economy now than they have in the past. This is particularly true for health and housing investment, which we turn to next.

Given a deterioration in the nation's health, investing in the NHS could provide a larger boost to the economy than it has in the past

Since the start of the pandemic, economic inactivity related to health has increased, although there is uncertainty about the exact size of the rise given problems with the data.[64] What is clear is that the UK is the only G7 country that has failed to return to pre-pandemic levels of employment, with labour shortages cited as a factor holding back growth.[65] As discussed in our previous work, this has been driven to a large extent by a deterioration in the health of the working-age population.[66]

Following a period of lower investment in the NHS, productivity has fallen and waiting lists have increased significantly. As shown in Figure 9 above, there were significant cuts to real health-service capital budgets at the Spending Reviews in 2009 and 2015. This will have contributed to weak labour productivity in healthcare – the level of productivity (quality-adjusted) in 2022 was below that in 2012 for example.[67] As discussed in Box 4, there are reasons for thinking that higher investment would contribute to higher healthcare productivity. This suggests that it's not unrealistic to think that targeted investment that bolsters services could lead to an increase in the number of treatments delivered by the NHS.

64 Data from the Labour Force Survey is currently particularly uncertain following a fall in response rates, with the level of employment likely to be significantly underestimated and the overall level of economic inactivity overestimated. That said, our recent work suggests that the rise in health-related inactivity can be corroborated by other sources (such as health-related benefit claims), even if there has been little to no rise in the ***overall inactivity rate. See Figure 7 in: A Corlett,*** Get Britain's Stats Working: Exploring alternatives to Labour Force Survey estimates, Resolution Foundation, November 2024.
65 Bank of England, Agents' summary of business and conditions – 2024 Q3, September 2024.
66 Murphy, A U-shaped legacy: taking stock of trends in economic inactivity in 2024, March 2024.
67 Source: ONS, Public service productivity estimates: total public service, March 2024. For a discussion of the issues surrounding NHS productivity, see: M Warner & B Zaranko, Is there really an NHS productivity crisis?, November 2023 which concludes that: "[i]t is difficult to measure NHS productivity. But the available evidence strongly suggests that the NHS is less productive now than pre-pandemic".

BOX 4: There is good reason to think that higher investment spending can boost healthcare productivity

It is standard to think of investment as a key driver of longer-term economic growth. But, when it comes to public services, there is relatively little data on the link between investment and the amount of services provided by the government. This is at least in part because it is difficult to measure the output of public services. The key issue here is that such services are often provided free at the point of delivery, meaning there are no observable prices, making it difficult to measure changes in their volume and value using the methods applied to the private sector.[68]

To get around this, the ONS provide quality-adjusted productivity indices for some key public services.[69] Those estimates show that some departments that have seen particularly large falls in public investment (see Figure 11) have also experienced very weak productivity. For example, the Department for Education capital spending budget has seen the largest fall in investment spending, and the ONS's quality-adjusted productivity index suggests that, controlling for inputs, the level of output in Education was below 1997 levels in 2022 – a very weak performance.

In this context, there has been much attention paid to NHS productivity.[70] Here the ONS data suggests productivity has fallen by around 10 per cent since the pandemic. There is clearly significant uncertainty about the extent of these falls. Nonetheless, it is clear that there is a problem of low NHS productivity despite increasing employment and spending.[71] But, taken at face value, this suggests there is reason to think higher investment should provide a boost to the output of NHS services. This idea resonates strongly with the evidence in Section 2 on the relatively low levels of diagnostic and other equipment in UK healthcare. To get a sense of how large this effect might be, ONS data suggests growth in the stock of capital available to the 'Human Health activities' sector slowed from 1.8 per cent on average between 1998 and 2010 to -0.1 per cent between 2011 and 2019. Such a slowing could account for roughly 4 per cent of the fall in the productivity of the sector, or nearly a sixth of the fall in productivity of the sector as a whole

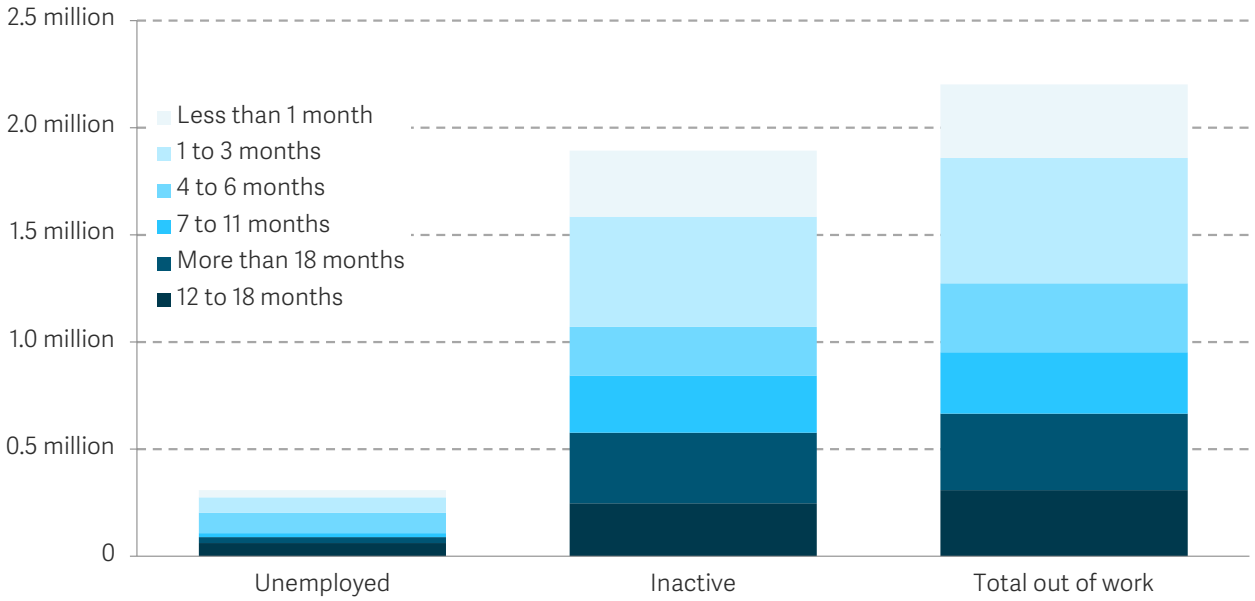
68 Prestwood, How we are transforming our understanding of public services productivity, ONS, October 2024, accessed 25 April 2025.
69 ONS, Public service productivity estimates: total public service, March 2024.
70 M Warner & B Zaranko, Is there really an NHS productivity crisis?, November 2023.
71 For a discussion see Box 2 in: S. Pittaway, Yanked away: Accounting for the post-pandemic productivity divergence between Britain and America, Resolution Foundation, April 2025.

during this period.[72] This suggests that lower investment has played a role in weak healthcare productivity – and that we should be confident that an increase in investment could lead to an improvement – although there are clearly other factors at play.

Survey evidence suggests there are significant numbers of people out of work on NHS waiting lists. As shown in Figure 23, ONS survey evidence suggests around 2.2 million working-age people who are inactive or unemployed were waiting for NHS treatment at the start of last year. As the OBR has pointed out, available evidence suggests that NHS waiting lists is not the main cause of health-related economic inactivity.[73] Nonetheless, looking ahead, increasing NHS productivity and so reducing waiting lists should help improve health outcomes and so would likely contribute to higher labour-force participation.

FIGURE 23: **Around 2.2 million working-age people who are inactive or unemployed are waiting for NHS treatment**

Number of working-age people out of work waiting for a hospital appointment, test, or treatment through the NHS by employment status: UK, 18 October 2023 to 1 January 2024



NOTES: Covers those out of employment aged 16-64. Working-age inactive category excludes those who said they were retired.
SOURCE: ONS, Opinions and Lifestyle Survey.

72 This calculation is based on ONS data on the output of the 'Human Health activities' sector, hours worked in that sector and the amount of capital assuming that labour accounts for around three-quarters of costs of that sector (as implied by 2022 Supply and Use Tables). Sources: ONS, Output per hour worked by division, UK, February 2025; ONS, Capital stocks and fixed capital consumption, November 2024; and ONS, Input-output supply and use tables, October 2024.
73 OBR, Fiscal risks and sustainability, July 2023.

And easing housing shortages should also support growth in high-productivity areas

As we showed in Figure 15, one economic bottleneck is the low availability of affordable, high-quality housing.[74] So building housing in areas with the most acute housing need should be part of the Government's investment strategy.[75] But there is evidence that such an expansion in housing supply would also disproportionately ease housing constraints in high-productivity areas. Of course, defining where social housing should be situated across the country is highly complex and requires consideration of integration with existing residents. But to get a sense of where houses might be built, we can use as a proxy the number of households (per thousand) in a Local Authority currently living in temporary accommodation as a metric for local social-housing need. In Figure 24 we compare that metric to local-level productivity data. This shows that building social homes in areas of high housing need is also consistent with expanding housing supply in the higher productivity areas of England. As we've argued previously, expanding housing supply in high productivity areas will be key to achieving the Government's growth mission.[76] And this relationship holds even if we exclude London local authorities (as areas of typically high productivity and high housing pressure).

74 C Aref-Adib at al., Home truths: Putting housing policy in context for the 2024 general election, Resolution Foundation, June 2024.
75 Indeed, the Government has already announced ambitious targets for building new houses: C Aref-Adib, J Marshall & C Pacitti, Building blocks: Assessing the role of planning reform in meeting the Government's housing targets, Resolution Foundation, September 2024.
76 E Fry & G Thwaites, The growth mindset: Sizing up the Government's growth agenda, September 2024.

FIGURE 24: **Local areas with the greatest need for social housing also tend to be areas of high productivity**

Average number of households in temporary accommodation per 1,000 households in a local authority, by productivity deciles: England, 2022

NOTES: For local authorities that were missing temporary accommodation data in Q4 2022, the closest quarter where data is available is used instead.
SOURCE: RF analysis of ONS, Subregional productivity: labour productivity indices by UK ITL2 and ITL3 subregions, June 2024; MHCLG, Statutory homelessness in England: October to December 2022.

Higher social investment would also provide a broader boost to living standards

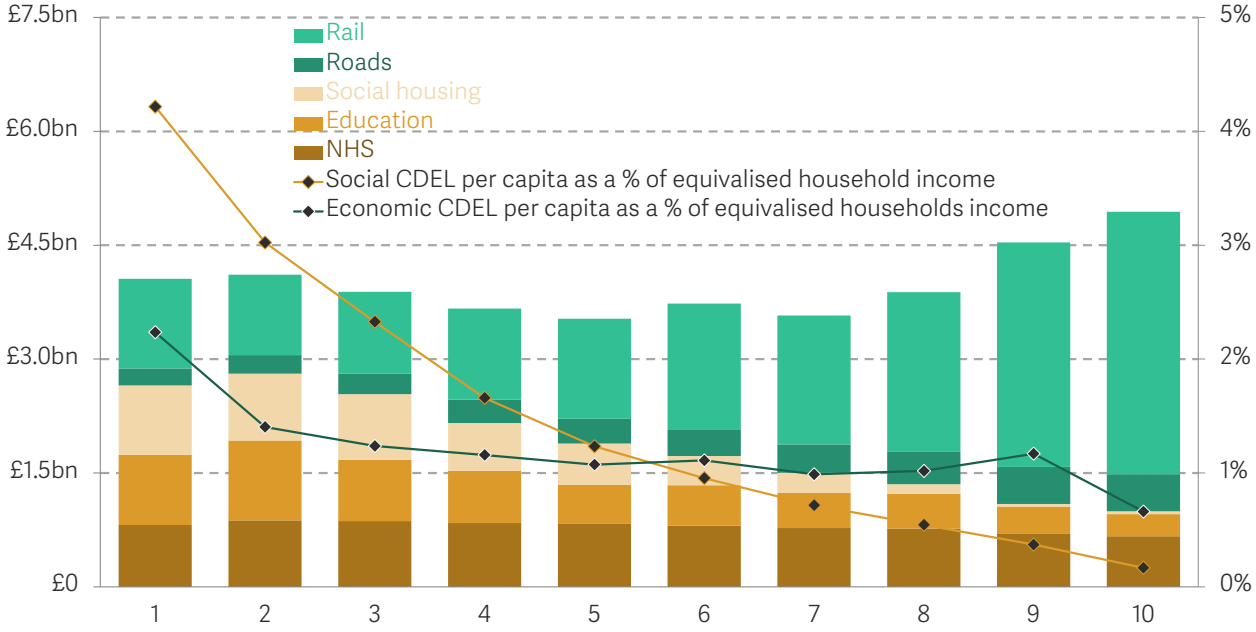
As we have discussed in previous work, public services provide important 'in kind' benefits to families.[77] These are disproportionately important for low-to-middle income families. Because higher investment in social infrastructure should increase the quantity of public services delivered by departments (as discussed in Box 4), such investment is a progressive way to increase broader living standards. This direct boost to broader living standards means that, for lower-income households, the effect of social investment is likely to be larger than for economic infrastructure. To see why this is the case, Figure 25 plots social infrastructure spending (in yellow) and economic infrastructure (in green) weighted by the eventual beneficiary of the services across the income distribution. This is calculated using our previous bottom-up analysis of public services and includes only areas of capital spending where we can identify a direct benefit (i.e. while defence and R&D investment may have indirect benefits across the income distribution these are not included in our modelling).[78] This analysis shows that investment in social infrastructure

77 C Aref-Adib, E Fry & Z Leather, At your service?: Why the 2025 Spending Review must reckon with the distribution of public service use, Resolution Foundation, April 2025.
78 C Aref-Adib, E Fry & Z Leather, At your service?: Why the 2025 Spending Review must reckon with the distribution of public service use, Resolution Foundation, April 2025.

disproportionately benefits public services that are used by lower-income households. This is true even in cash terms, with around 80 per cent more social-infrastructure investment going to public services used by the bottom half of the distribution than go to the top half. But, when viewed relative to income, this rises to around 450 per cent. This suggests that the progressivity of social infrastructure investment offsets its smaller impact on growth and so has a larger impact on the living standards of low-to-middle income families than economic infrastructure.

FIGURE 25: **Social infrastructure investment spending disproportionately benefits public services used by lower-income families**

Value of capital spending on public services allocated by eventual beneficiary of the service, split by income decile: England, 2023-24



NOTES: See Annex 1 of C Aref-Adib et al., At your service? Why the 2025 Spending Review must reckon with the distribution of public service use, April 2025 for a full list of assumptions in the distributional model. Model relates to all households, including pensioners.
SOURCE: RF Analysis of DWP, Households Below Average Income; Family Resources Survey; ONS, Wealth & Assets Survey; Understanding Society; National Travel Survey; DHSC, Annual Report and Accounts 2023-24, March 2024; Department for Education, Annual Report and Accounts 2023-24, July 2024; DfT, Annual Report and Accounts 2023-24, July 2024; MHCLG, Annual Report and Accounts 2023-24, July 2024.

By contrast, the impact of transport infrastructure spending is much more regressive, with transport services used disproportionately by richer families. In cash terms, the top half of the distribution benefits 80 per cent more from investment in road and rail projects than the bottom half. The main driver of this is high rail use among richer travellers, as Figure 26 shows.

However, this hides differences between types of infrastructure. Those in the richest income quintile make trips over 50 miles (excluding business travel) three-times as frequently as those in the lowest-income quintile. That means the direct benefits of a

project like HS2, connecting Birmingham to London (118 miles), will be concentrated on the richest. However, travel within cities is much more even, with the richest- and poorest-income quintiles accounting for a similar proportion of trips within cities under 20 miles (17 to 18 per cent). This suggests that focusing on supporting intra- rather than inter-city travel would share the benefits of any additional transport investment most broadly.

FIGURE 26: **The benefits of inner-city public transport will be felt more broadly than inter-city networks**

Distribution of short trips in non-London urban areas (left) and rail trips over 50 miles (right)

NOTES: This includes all trips regardless of mode, reflecting the fact that new infrastructure is likely to replace existing journeys taken by other means. Short trips are those between 3 and 20 miles that start and end in a city.
SOURCE: RF analysis of DfT, National Travel Survey.

As well as being more progressive across the income distribution, increasing social infrastructure investment can help to re-balance regionally

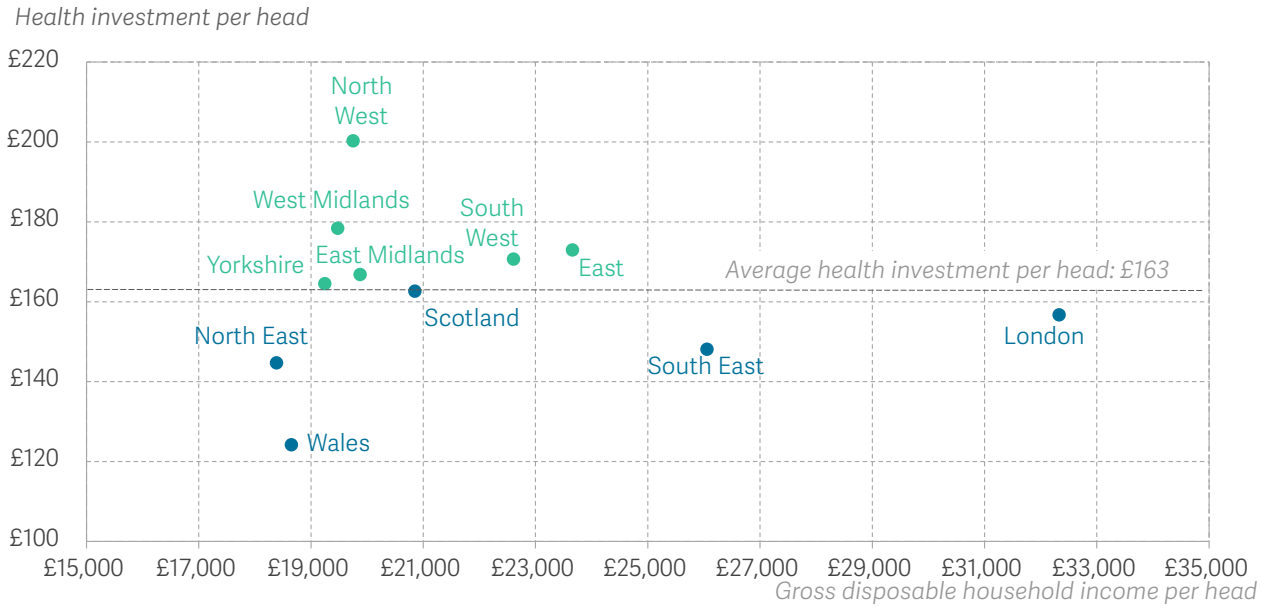
There is good reason to think that social investment will also act to reduce regional differences in living standards. As we have shown in previous work, economic infrastructure is heavily skewed towards London and the South East.[79] But spending on social capital is more mixed. For example, as shown in Figure 27, London and the wider South East both received lower-than-average per-person capital spending on healthcare in 2022-23. The highest such spending was in the North West, the West Midlands and the East of England, all of which have lower living standards (at least as measured by gross

79 A Bailey et al., Euston, we have a problem: Is Britain ready for an infrastructure revolution?, Resolution Foundation, March 2020.

household disposable income). So, even if the Government simply continues investing in a similar way in the coming years, the benefits should accrue disproportionately to regions outside London and the South East, contributing to narrowing of gaps in broader living standards across the UK, in line with the Government's mission for "higher living standards in every part of the UK".[80]

FIGURE 27: **The highest levels of health infrastructure investment are found outside London and the South East**

Regional distribution of spending on health capital spending: UK



NOTES: Gross disposable household income per head is measured in current basic prices.
SOURCE: RF analysis of ONS, Country and public sector finances supplementary tables.

New polling evidence suggests that health and housing infrastructure are particularly valued by lower-income households

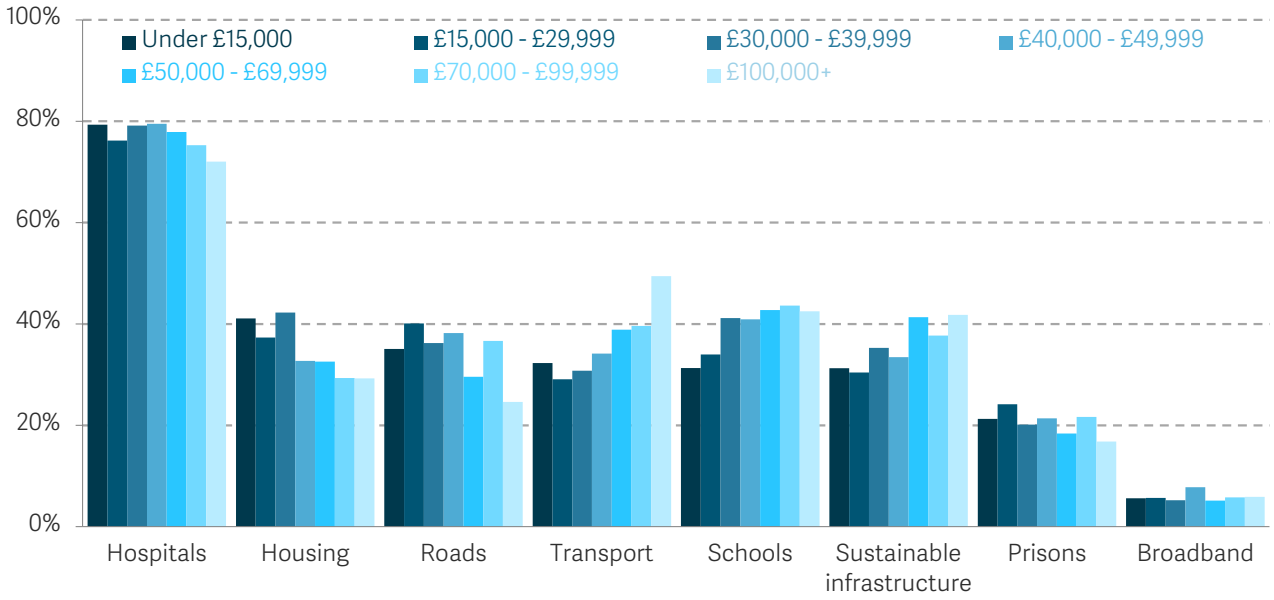
Finally, our evidence on the role that social investment can play in boosting growth and broader measures of living standards resonates with new survey evidence on the investment priorities of lower-income families. Figure 28 shows there are some categories of investment with broad support of respondents when asked where spending to improve public investment is most needed: spending on hospitals was in the top three priorities for over three-quarters of respondents (76 per cent); on the other hand, only one-in-five (20 per cent) across all adults polled thought prisons were a 'top three' investment priority. But those on lower incomes were much more likely to say that social housing investment should be a priority, with 41 per cent of respondents with incomes under £15,000 ranking this as a top three priority, compared to just 29 per cent of

80 HM Government, Plan for Change: Milestones for Mission-Led Government, 5 December 2024.

respondent with an income of over £100,000. Going the other way, more regressive forms of investment, such as public transport spending, were much more favoured by higher-income respondents, who are much more likely to see the benefits of this spending. Of those in the highest income category, 49 per cent prioritised transport spending, compared to 32 per cent in the lowest income category. This evidence suggests that higher social investment fits with the priorities of poorer families.

FIGURE 28: **More progressive forms of investment are more popular with those on lower incomes**

Proportion of respondents ranking each type of investment in the 'top three' priorities for spending, by income category: UK, 17 – 18 February 2025



NOTES: All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 2,321 adults. Fieldwork was undertaken between 17 - 18 February 2025. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+). The question asked to participants was: 'The Government has promised to increase public spending on longer-term investment projects (e.g. building and equipment not on day-to-day costs such as staff or pensions). From the following, where do you think spending to improve public investment is most needed?", with the ranked options above.
SOURCE: RF analysis of YouGov, 2025.

Against the backdrop of difficult decisions on how to invest at the Spending Review, it will be essential that the Government prioritises areas where it can have most impact. If the only priority is growth, then a 'build baby, build' strategy of focusing on economic infrastructure would seem to be the right one. But investing in health services and social housing could, plausibly, have an outsized impact on growth given bottlenecks facing the economy. And if the ultimate aim really is living standards, then the case is much less clear cut: the role social investment plays in boosting lower-income living standards directly combined with a disproportionate impact on regions and nations outside London and the South East, suggests a broader investment strategy may be more effective in

meeting the Government's underlying aims. In the next section we confront these trade-offs directly, assessing how the Government should approach the big decisions it faces on how to invest at the Spending Review.

Section 4

Making trade-offs

Having set out the areas suffering from under-investment, and how extra investment will best meet the Government's missions, we now explore how the Government should balance these priorities, given tight capital limits. These constraints have become tighter since the Autumn 2024 Budget after the pledge to increase defence spending in reaction to geopolitical pressures, and the remaining budget should go to areas that deliver best across two key considerations: fixing areas of particularly severe under-investment, and improving living standards, including through higher growth.

There is a strong case for thinking that housing and health meet both criteria and should be the highest priority. On a lower priority, targeted transport upgrades in second cities will boost growth, and investment in prisons is sorely needed to address severe capacity constraints. Finally, the relatively generous existing funding settlements for investment to meet our net zero targets and R&D should both be maintained, given our legally binding climate commitments and the benefits of R&D to economic growth.

Looking ahead, the trade-offs facing the Chancellor could get even harder. Changes to the economic outlook or new global shocks could tighten capital budgets even more. Meanwhile, opportunities to ease constraints, such as off-balance sheet financing to leverage private investment, are limited by the nature of some public investments and strict Treasury guardrails. In this context, a strategic approach to capital allocation is essential to ensure public investment delivers the maximum benefit in a constrained fiscal environment.

The previous two sections have set out the domains that have faced particularly acute under-investment in the past, and those areas where additional investment would best further the Government's ambitions for the future. But with relatively tight constraints on total capital spending, the Government will have to prioritise investments that best deliver across both of these criteria. This final section looks at what investments score

particularly well against these two priorities, and factors that might tighten or loosen these trade-offs.

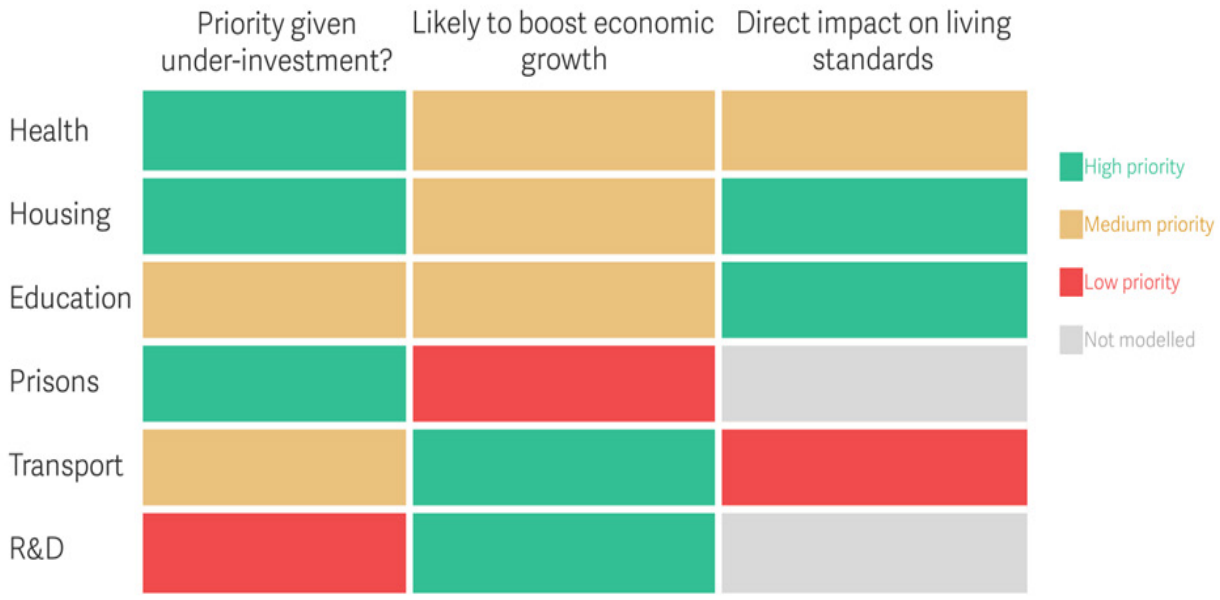
The Government will need to trade off the most pressing investment needs against making progress on living standards and economic growth

In some areas of capital spend, the Government has a limited ability to reduce existing allocations to fund other priorities. This particularly applies to defence spending, where increases over the Spending Review period have been pledged in response to new geopolitical pressures. Although, as we set out below, there are still choices about how far and how fast to go to address these pressures, it is unlikely that the Government can row back on the defence spending uplift promised at the 2025 Spring Statement.

For the rest of the capital investment envelope, across both social and economic infrastructure, the Government should seek to address the most acute under-investment it has inherited, while also aiming to prioritise investment that helps meet its ambitions on living standards and economic growth. Having combined the results of our analysis in the previous two sections (see Figure 29), our view is that housing and health infrastructure are the areas most likely to meet these criteria; they have significant existing challenges, and impacts will be felt proportionately more by low-to-middle income families (housing by much more so than health investment).

FIGURE 29: **Housing and health should be core investment priorities**

Criteria for prioritising investment, by investment type



SOURCE: RF analysis.

This is not to say that other areas of investment are unimportant. There are severe issues in the prison system, for example, as well as a strong argument from a growth perspective for more intra-urban transport investment. However, social infrastructure can also boost growth, and has more direct impacts on households' standard of living, meaning that funding for transport investment should be limited to areas where it can have particularly beneficial effects, such as in the UK's second cities.[81]

Finally, R&D investment also has the potential to boost growth substantially, and net zero spending is crucial to meet our legally binding climate commitments. Both, though, have received relatively generous existing spending allocations that should be maintained, rather than supplemented. In addition, both are particularly amenable to support from private investment, as set out below.

The extent to which these trade-offs prove to be binding is uncertain

The constraints within which the Government is allocating spending are relatively tight, as set out in Section 1. However, there remains considerable uncertainty around just how difficult these trade-offs will be in the future. For example, one reason the Government might have to make even more significant trade-offs is if they are unable to maintain the capital spending envelopes they have promised. There is currently relatively narrow headroom against the Government's PSNFL rule – which is the one that constrains borrowing to pay for capital spending – at just £15.1 billion. This rule is largely irrelevant to the Chancellor's fiscal arithmetic, because the current balance rule has an even-narrower headroom of £9.9 billion.

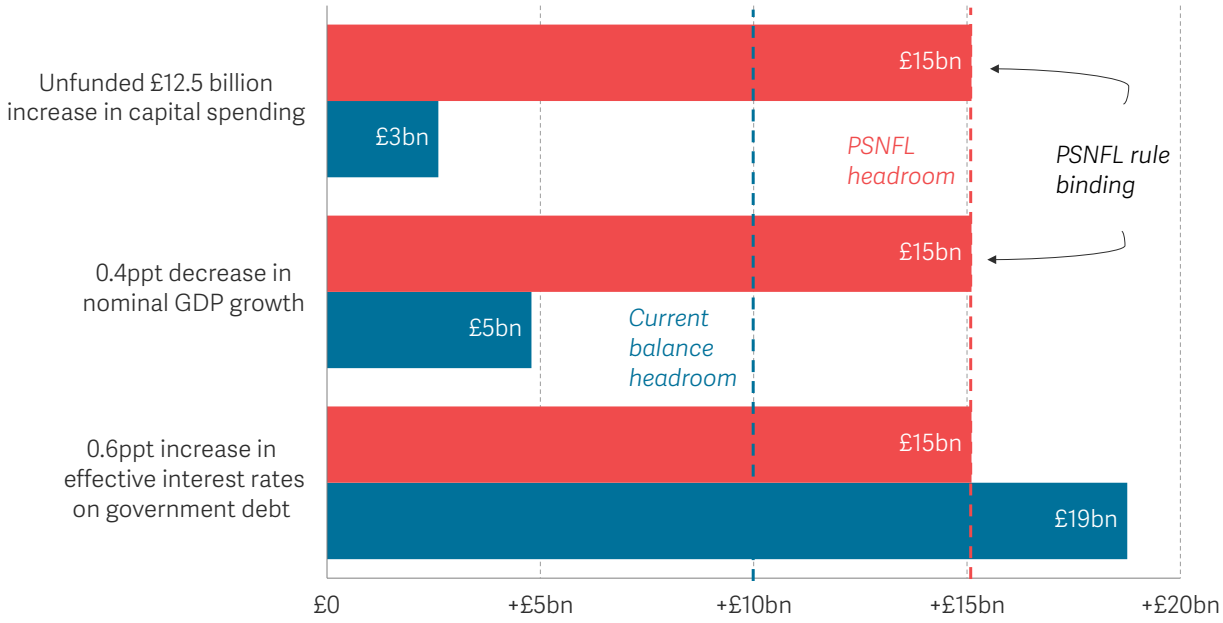
But Figure 30 illustrates two scenarios in which the PSNFL rule would become the binding fiscal constraint. For example, a 0.4 percentage point fall in the nominal growth of the economy in the final year of the forecast would be enough to make the PSNFL rule bind instead of the current balance rule.[82] Significant unfunded capital spending increases would also reduce headroom against the PSNFL rule by much more than the current balance rule, with over £12.5 billion of additional capital spending needed for the PSNFL rule to bind. This is in contrast to changes in interest rates, which, as shown in Figure 30, increase the current deficit by much more than PSNFL.

81 P Brandily et al., A tale of two cities (part 1): A plausible strategy for productivity growth in Birmingham and beyond, Resolution Foundation, September 2023; A tale of two cities (part 2): A plausible strategy for productivity growth in Greater Manchester and beyond, September 2023.

82 The PSNFL rule looks at whether PSNFL as a share of GDP falls between one year and the next. It is therefore particularly sensitive to the rate of growth in GDP between those two years. By contrast, the current balance rule is measured in pounds and is affected only by the direct fiscal consequences of there being a smaller or larger economy.

FIGURE 30: **A downgrade to nominal GDP growth of 0.4 percentage points in the final year of the forecast could cause the PSNFL fiscal rule to bind**

Decrease in headroom against the PSNFL and current balance fiscal rules under three scenarios that would break the Government's PSNFL fiscal rule: 2029-30



SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, March 2025.

As set out in Section 1, a binding PSNFL rule might encourage the Chancellor to make cuts to capital spending to increase her headroom (if she did not want to increase taxes or cut day-to-day spending), a course of action that has proved attractive to her predecessors. That said, a 0.4 percentage point reduction in the nominal growth of the economy would be a significant downgrade, and over £12.5 billion would be a substantial unfunded increase in capital spending, making neither scenario particularly likely in the near-term.

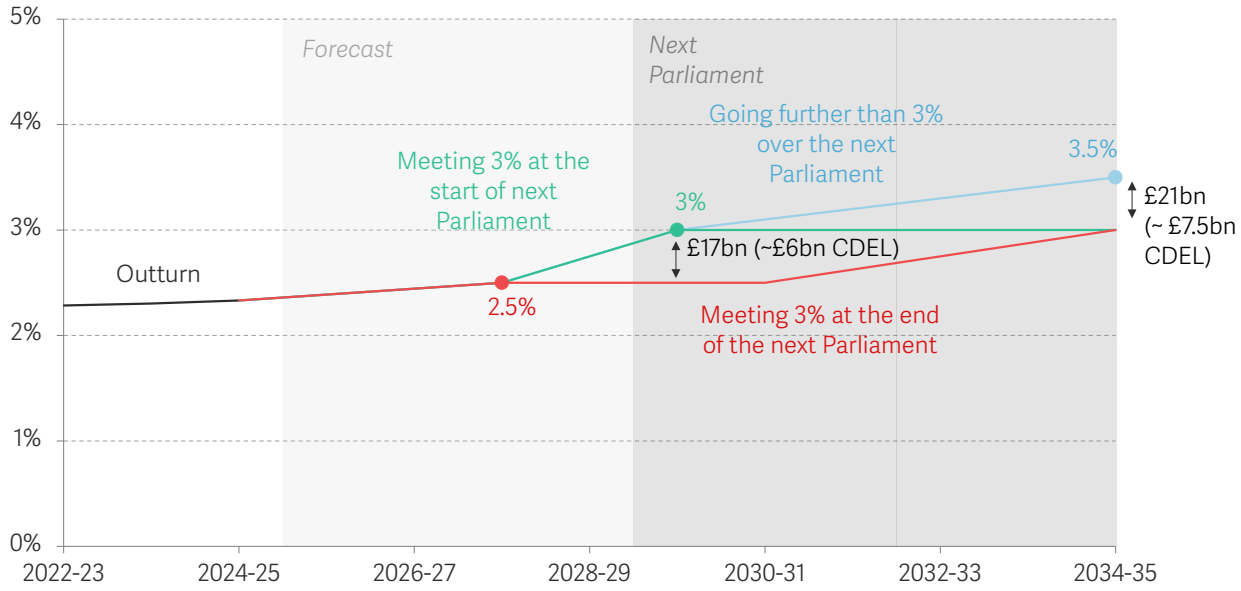
A second threat to the Government's fiscal choices is if external shocks dramatically increase the need for investment in a specific area of the public sector, such as has happened recently with defence. Figure 31 illustrates various scenarios where the Government goes further in ramping up defence spending. In particular, the Government has to date committed to spending 3 per cent of GDP on defence in the next Parliament. Were they to decide they needed to reach this at the earliest possible date, 2030-31, then this would cost an additional £17 billion in 2029-30 relative to holding defence spending at 2.5 per cent, around £6 billion of which could be capital spending.[83] But if they decided to go further and spend, for example, 3.5 per cent of GDP on defence by the end of the next Parliament, then this could entail a further £21 billion in 2034-35 relative to defence

83 This assumes the proportion of total defence spending that is capital spending (under the NATO definition) remains at the average share over the past three years of outturn. However, the most recent defence spending uplift was much more capital-focussed, and the £6 and £7.5 billion mentioned would be higher if future rises in defence spending were similar in composition.

spending at 3 per cent of GDP, including around £7.5 billion in capital. Geopolitical tensions are not the only shock to spending allocations that might materialise in the coming Parliament, but this is just one illustration of the pressures that could leave the Government facing even tougher constraints when allocating capital spending.

FIGURE 31: **Going further, or faster, in ramping up defence would entail significant costs**

NATO definition of defence spending, as a share of GDP under various scenarios: UK, 2022-23 to 2024-25



SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, October 2024; OBR, Long-term economic determinants, March 2024 and NATO, Defence Expenditure of NATO Countries (2014 – 2024).

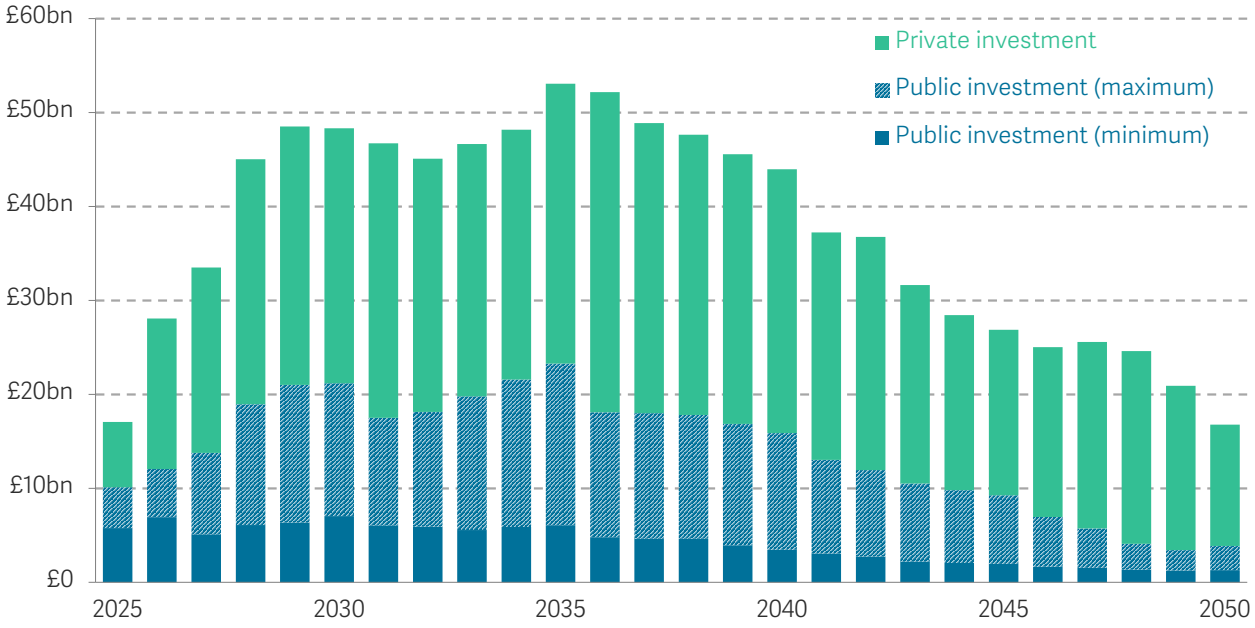
On the upside, however, trade-offs could be eased if the Government can deliver some investment off-balance sheet via loan or guarantee schemes, or entirely via the private sector. The Government certainly has clear ambitions to crowd in private finance and to make greater use of loans and guarantees. The choice of a PSNFL rule significantly reduces the fiscal impact of lending activities, given that financial assets associated with loans are mostly netted off from lending liabilities, leaving loans from the public to the private sector (broadly) fiscally neutral. The Government has also established the National Wealth Fund, which aims to "catalyse" £70 billion of private investment primarily in an 'off-balance sheet' manner.[84] Recent announcements relating to the Fund have included £1.3 billion of social housing energy efficiency investment taking place via guarantees extended by the National Wealth Fund to lenders such as Barclays, NatWest, Lloyds Bank and The Housing Finance Corporation.[85]

84 HM Treasury, Autumn Budget 2024, October 2024.
85 National Wealth Fund, National Wealth Fund and NatWest Group to deliver £500m of funding for social housing retrofit, April 2025.

There are three key limitations to the impact of lending activities and private investment in reducing the fiscal constraints faced by the government. First, certain types of investment are much more amenable than others to being carried out by, or in collaboration with, the private sector. For example, the CCC estimates that at least 64 per cent of the net zero investment required in the UK will be conducted by the private sector (see Figure 32), making this a strong candidate for further private sector involvement. Similarly, R&D is fertile ground for public-private collaborations, with estimates of state support for industrial R&D in the biotech sector suggesting every pound of public funding 'crowded in' an estimated £4 to £5 of private investment.[86]

FIGURE 32: **The CCC estimates at least 64 per cent of net zero investment will be conducted by the private sector**

Estimated range of private and public expenditure to reach net zero greenhouse gas emissions by 2050



SOURCE: RF analysis of the Seventh Carbon Budget, The Climate Change Committee.

Meanwhile, previous efforts to involve private sector financing in investment more directly linked to delivering public services (especially those that do not themselves generate a commercial cash flow), such as schools and prisons, have proved costly for the taxpayer in the long run.[87] This suggests that the Government should primarily prioritise areas less amenable to private sector investment in its CDEL spending.

The second limitation is the 'guardrails' that the Treasury has set to limit the fiscal risks associated with loans and guarantee schemes.[88] These are currently relatively tight limits

86 D Willetts, How to do industrial strategy: A guide for practitioners, Resolution Foundation, April 2025.
87 L Booth, Goodbye PFI, House of Commons Library, October 2018.
88 HM Treasury, Financial transaction control framework, April 2025.

that set out controls, including limiting the number of public bodies that are able to carry out large-scale lending activities, and a baseline return that this lending must deliver (i.e. higher than the relevant gilt rate). These sort of controls are important to avoid any fiscal illusions that would ultimately hurt future taxpayers. But the Government should regularly revisit these 'guardrails' to effectively strike the balance between acceptable levels of fiscal risk and incentivising genuinely additional private investment. In particular, there may be a case for widening the list of public bodies that are able to undertake large lending projects to include GB Energy (integral to boosting infrastructure in the national grid) and Homes England (core to delivering the Government's housing missions). On the other hand, additional monitoring and reporting of the total scale of lending activities is likely also be needed.

The third limitation to the ability to crowd-in private finance is the public sector accounting rules, in particular those that determine which projects and entities are "classified" by the ONS as part of the public sector. A new infrastructure project, for example, that is part government-funded and part private-sector funded could be classified as either in the public or private sector. If the project is deemed part of the public sector, than all of its expenditure will count as public sector spending (and not just the element that is government funded). These judgements are made by understanding where the risk and reward truly sits, using rules set out in the European System of Accounts (ESA). Doing this involves considerations like whether the government is the "predominant source of financing" for the project, or whether the government exerts control in other ways, such as appointing the majority of "directors or key personnel".[89] As the National Audit Office has recently recommended, governments should pursue the most effective delivering and financing strategy regardless of classification rules.[90] But those rules do mean that private sector funding only eases fiscal trade-offs where the ownership, risk and reward of a project is substantially transferred to the private sector.

These three key limitations to the expansion of 'off-balance sheet' lending, as well as the downside risks to capital budgets mentioned above, suggest that it's unlikely the Government will see a significant loosening in their capital constraints, meaning that it will be necessary to undertake the sort of prioritisation of funding set out in this report.

The Government should prioritise investment in housing and health

Ultimately, if the Government wants to avoid dramatic cuts to departmental budgets, then it will likely have around £20-50 billion of capital spending to allocate over the next five years. Some areas of spending are likely to be externally determined: our climate targets require current net zero investment to be maintained, and geopolitical tensions

89 ONS, UK economic statistics sector and transaction classifications: the classification process, April 2025.
90 National Audit Office, Lessons learned: private finance for infrastructure, March 2025.

have meant defence spending is set to reach 3 per cent of GDP next Parliament. But with its remaining spending discretion, the Government should prioritise investment based on areas of particularly acute historical under-investment, and the future impacts on living standards and economic growth. Investment that is likely to be well targeted across both of these criteria includes social investment in housing and health, with investment in the prison system and well-targeted transport infrastructure projects in the UK's second cities being secondary priorities. Focussing investment in these areas would allow the Government to deal with the challenging legacy they have inherited, while furthering their missions to boost growth and living standards across the Parliament.

Annex 1 – Data citations

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