Infrastructure Outlook 2026: the year policy must turn into projects

Phil Kent, investment adviser to GCP Infrastructure Investments Limited, and Shayan Ratnasingam, senior research analyst for TM Gravis UK Infrastructure Income, give their outlook for the UK infrastructure sector in 2026.

"We believe the outlook for UK infrastructure investing in 2026 marks a significant transition, moving from a period defined by setting out ambitious Government vision and policy reform to a period of unlocking capital investment opportunities.

"Following a phase where policymakers articulated critical needs, the coming year should see the delivery of key legislation which should bring forward capital expenditure programmes and evolving procurement models. For investors seeking defensive, long-term returns and attractive income, infrastructure maintains its core and vital role in asset allocation."

From ambition to action: policy drivers in 2026

We entered 2025 on the back of the UK Government publishing it's ambitious, and hugely challenging, target of decarbonising the power grid before 2030 (Clean Power Plan 2030). In June 2025, the Government announced it's 10-year vision for the UK economy through the publication of The UK's Modern Industrial Strategy. This highlighted that infrastructure is critical to *"provide the foundation of high-growth sectors need to innovate, grow, and compete globally".* The 10-year infrastructure strategy, also published in June, highlights the need for £500 billion of investment from the private sector over the next decade, alongside £725 billion from the public sector.

The Infrastructure and Planning Bill, due to conclude by the end of 2025, is key a step in improving certainty and decision-making in the planning system and unlock capital investment decisions. Furthermore, the consolidation of three Government departments into NISTA (the National Infrastructure Service Transformation Authority) is a positive step towards enabling projects to happen.

Whilst the Government has been busy with the policy agenda, the National Wealth Fund (formerly the UK Infrastructure Bank) is actively investing in projects crowding in private capital investments in areas such as battery storage, full-fibre fibre connectivity, district heating, grid infrastructure and supply chain resilience. The newly setup GB Energy has also been deploying capital into rooftop solar across NHS sites and public buildings and recently published its strategic plan to *"play a central role and act as the UK's energy champion for many decades to come".*

As we move into 2026, the focus must shift to translating these policies and visions into concrete actions and opportunities. Several key regulatory milestones underscore the immediate need for capital expenditure:

Water sector: Ofwat's recent price determination set a record level of capital expenditure by water companies at £104 billion for the next five-year regulatory period. The publication of the 2025 Cunliffe

Review into the water sector called for a 25-year National Water Strategy emphasising the significant investment required in the sector's ageing infrastructure.

Electricity Transmission and distribution: In early December Ofgem published its final determination (RIIO-T3) for Electricity Transmission operators (high-voltage lines) awarding £10.3bn of expenditure. The Energy Networks Association (ENA) highlighted that this settlement sets up Britain's electricity transmission networks to invest over £70 billion by 2031 to modernise the grid. With electricity demand projected to at least double by 2050, multi decade investment is crucial to enable the connection of cheaper forms of power and reduce overall system costs. For example, National Grid's[1] capital plan for the upcoming regulatory period will connect an additional 35GW of generation capacity. The RIIO T3 determination is expected to conclude in Q1 2026. The National System Operator (NESO) also announced it had concluded its review of the projects looking to connect to the electricity network, streamlining the queue from 700GW to 283 GW of generation and storage capacity to be connected by 2035 by prioritising projects that were both 'ready' and 'needed' This will send a clear signal to investors as to where new generation and demand needs to be built, supporting capital allocation decisions. A future key milestone will be the outcome of the price control for the electricity distribution sector starting 1 April 2028 (RIIO-ED3).

Renewables: in 2025 the sector finally received clarity around zonal pricing which can give investors' confidence in the structure of the future energy markets. Reforms around future Contract for Difference (CfD) auction rounds in 2026 should ensure future support is structured to procure new renewable capacity to meet 2030 targets. The Government has set ambitious targets to secure 43-50 GW of offshore wind, 27-29 GW of onshore wind and 45-47 GW of solar generation by 2030. The recent connections reform will also be a key driver of unlocking vital investments.

Nuclear: The Government has propelled the UK's nuclear power strategy through the financial close of Sizewell C, and kick-started the UK's small modular reactor ("SMR") economy through confirmation of Wylfa in North Wales as the site for the country's first SMR. The UK's future energy system is expected to require up to 22GW of baseload nuclear power by 2050[2], up from c.6GW operational today providing around 15% of the UK's current electricity requirements. All but one of the UK's 9 operational sites are scheduled to retire by 2030, before the sites at Hinkley Point C and Sizewell C become operational. The future of nuclear will require significant capital investment in the decades to come. The implementation of the recommendations from the recent review of the regulation of nuclear sector by John Fingleton will hopefully unlock future investment in the sector at a lower cost.

AI Growth Zones: The Government announced the delivery of 'AI Growth Zones' to drive the UK's AI economy. To support this in November the Government released it's *"Delivering AI Growth Zones"* policy paper which highlighted key priorities in grid capacity, networks and energy prices in addition to those in the Planning and Infrastructure bill. The Government announced its ambition to unlock capital for UK data centre development through a dedicated *AI Growth Zone Delivery Unit* within the Department for Science, Innovation and Technology to identify suitable sites for AI data centres, identify investors and support the delivery of designated sites. The Government also announced targeted support mechanisms to reduce the electricity costs of data centres in AI Growth Zones. The UK has already seen inward investments from the likes of Blackstone, BlackRock and Microsoft. The investment in the sector will go beyond building data centres and should encourage broader infrastructure investments in local communities.

Transport: in the year the Government committed to £15.6 billion for city-region transport budgets to transform infrastructure to support the delivery of new homes and improve mobility. It further committed to continue to support key infrastructure projects such as the delivery of the lower Thames Crossing, the TransPennine Route and East West Rail projects. The Government has also committed £500m towards EV charging infrastructure to support the electrification of our roads.

Strategic shifts and the energy trilemma

While decarbonisation remains central, policy focus has broadened, driven by the energy trilemma: security, affordability, and sustainability. Security of supply and energy costs have become prominent political issues, reflected in Governmental action. Renewable energy and grid infrastructure are seen as critical for delivering both energy security and decarbonisation.

A notable development in addressing energy costs was the reallocation of 75% of renewable obligation costs away from consumer energy bills and onto general taxation announced in the Autum Budget. This suggests the Government is listening to guidance from the bosses of the “big six” energy suppliers on tackling energy pricing, which they provided to House of Commons Energy Security and Net Zero Select Committee in November. Furthermore, the Government confirmed an increase in the relief of its Networking Compensation Scheme from 60 to 90% which will cut the electricity costs for around 550 energy intensive businesses by c.£35-40/MWh from 2027.

These initiatives underpin the continued support for private sector investment in the energy transition, supporting key industries, and bringing down household bills.

Modern procurement

In terms of how new infrastructure is financed, 2026 may see a resurgence of the Public Private Partnership (PPP) model. Following the decline of PFI (Private Finance Initiative) in England, there's now a recognition that PPP can be an effective way to procure private finance. The Autumn budget confirmed that a revised PPP model would initially be applied to the healthcare sector: we await further details in 2026.

Overall, the funding approach will be evolutionary rather than revolutionary. Mechanisms are being adapted—such as the Direct Procurement for Customers model (water) or the Regulated Asset Base (RAB) model—to capture the benefits of private sector procurement while efficiently allocating risk.

For instance, Sizewell C used an innovative RAB mechanism where the Government provided a cost-overrun guarantee above a certain level, transferring specific risks back to the public sector where the private sector couldn't reasonably bear them. This focus on risk sharing aligns well with models that could attract UK pension schemes, following the Mansion House Accords commitment to investing in UK-backed assets.

Compelling value: attractive yields and NAV validation

Despite the challenging economic backdrop, the investment case for infrastructure remains robust. Infrastructure assets are inherently defensive, non-correlated, and underpinned by the value of real physical assets providing critical, long-term services to society.

Importantly, many infrastructure investment trusts are currently trading at very attractive levels. Compared to the 10-year gilt, investors can currently access a 500 to 600 basis point pickup in income. This income is generally stable and sustainable, underpinned by highly contracted or regulated revenue streams. For example, GCP Infrastructure Investments Limited (GCP) is trading at around a 10% dividend yield to the share price and has paid income consistently for the last 15 years, underpinned by a diverse and operational portfolio of predominantly debt exposures to UK infrastructure projects.

While many companies are trading at sizeable share price discounts, there is transactional evidence that support underlying net asset values (NAV). This includes recent M&A activity, such as the acquisition of BBGI and Harmony Energy very close to NAV, and asset sales such as those completed by companies like GCP on average, at NAV, should bolster investor confidence that the stated NAV is a reliable foundation for asset value.

Policy risk must be managed

While momentum is strong, a balanced view requires acknowledging potential risks. Maintaining investor confidence is paramount. Initiatives that retrospectively change the basis on which long-term investment decisions were made—such as the ongoing consultation to change the renewable obligation and feed-in-tariff indexation methodology—can be highly damaging. Any retrospective change risks undermining established regimes that have successfully attracted substantial capital.

As the UK enters future auction rounds, such as AR7, to meet its 2030 targets, it is vital that the Government ensures policy settings are consistent and appropriate to maintain long-term project confidence.

The core thesis of infrastructure—accessing real assets providing essential services—absolutely remains true. At what may be a peak in the rate cycle, investors can access the asset class's intrinsic value, defensive nature, and attractive yield, making diversification into infrastructure as important as ever.

[1] *There are three Transmission Operators in the UK National Grid Electricity Transmission (England & Wales), SP Energy Networks (Southern Scotland), and Scottish & Southern Electricity Networks (SSEN) Transmission (Northern Scotland)*

[2] *NESO: 2025 Future Energy Scenarios: Pathways to Net Zero*

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