Snapshot by:

BUILDUK
Leading the Construction Industry

The cost of doing business:

Foundational Sector Snapshot

Construction

Key messages

- Construction generates around **£158.7bn in GVA** each year and supports approximately **2,269,000 jobs directly**, rising to around **3.1 million across the wider supply chain**[1]. This equates to almost 10% of the working age population.
- **Cost pressures are being driven by labour shortages, higher employment costs, elevated material prices and rising finance costs.** Peak increases in 2021/22 exceeded 20-30% for some materials. Whilst some prices have stabilised, they remain elevated relative to pre-pandemic levels[2].
- **Government can support delivery** by improving planning, building safety and approval processes to deliver the infrastructure pipeline, acting as a best practice construction client by implementing the construction playbook and reducing policy and regulatory costs that are undermining employer confidence and project viability.

Table 1: Key business tax contribution figures for the construction industry[3]

	2024/25	2025/26	Difference
Business tax contribution	£19.61bn	£21.94bn	+11.9%
Tax contribution as a share of GVA	12.6%	13.9%	+1.3 ppt
Employers' NICs	£5.73bn	£7.15bn	+24.8%

Strategic importance

Construction and housebuilding are foundational to a safe and secure population and economic growth. Every other sector relies on the built environment, and the infrastructure and services that construction delivers. The sector provides and maintains homes, essential social infrastructure such as, schools, hospitals, prisons, economic infrastructure including transport systems, communications networks, energy and service supplies, and commercial assets including logistics, data centre, manufacturing, retail and office facilities all of which enable businesses and communities to function.

The sector is also central to the delivery of national priorities. With a 10-year Infrastructure Strategy and a £700bn+ pipeline of public sector projects, growth in energy transmission, grid upgrades, transport schemes and housing will all depend on the capacity and confidence of construction and civil engineering firms throughout the whole supply chain. As the economy becomes more dependent on digital and low-carbon infrastructure, construction will continue to be a critical delivery partner for both public and private investment.

The sector covers a huge range of disciplines and activities with more than 350,000 construction firms operating across the UK, over 95% of which are SMEs[4]. This means that cost increases, cashflow pressures and project delays can quickly affect supply chain resilience, employment and the ability of firms to invest in skills, productivity and future capacity.

Growing cost pressures

Construction businesses are facing rising costs across labour, materials, energy and finance. Labour costs have increased significantly since 2019, driven by wage inflation, skills shortages and higher Employer National Insurance Contributions (NICs). Skills shortages are acute at all levels from trades, engineering and project management roles, while an ageing workforce and reduced EU labour inflows have constrained labour supply.

Material and energy costs have also risen sharply. Energy-intensive materials such as steel, cement and glass saw substantial price increases following the energy price shock, while peak increases in 2021/22 exceeded 20-30% for some materials including steel, timber, concrete and aggregates[5]. Although some prices have stabilised, costs remain elevated relative to pre-pandemic levels.

Higher interest rates are reducing developers' appetite to invest and delaying projects, with SMEs facing tighter lending conditions and higher financing costs. Firms are responding by renegotiating contracts, reducing margins, delaying investment, limiting hiring and becoming more selective about who they bid for and work with. In housebuilding, development has almost come to a standstill in some areas as projects are delayed or have become increasingly unviable.

Improving the operating environment

It is becoming more and more challenging for construction business at all levels of the supply chain as they are subject to increasing regulatory requirements and costs. As the sector responsible for delivering housing, infrastructure and the built assets needed across the economy, Build UK back 5 Ps required to Power Up Construction:

1. **Pipeline** – an agreed and funded pipeline of sustainable economic and social infrastructure, which is regularly reviewed and updated, and is delivered to a timetable providing certainty and continuity

2 **Places to Live** – suitable and sufficient places to live delivered through improved planning, more suitable sites, a Government funded programme of Council housing and a properly funded retrofit plan

3 **Procurement** – effective and efficient procurement of projects including implementation of the Construction Playbook, appropriate allocation of risk and fair payment practices

4 **Performance** – enhanced performance throughout the supply chain with clear regulation and standards consistently applied to deliver safe buildings and high-quality infrastructure

5 **People** – investment in the development of people supported from education into employment and through their careers

The sector faces several structural challenges that are delaying delivery and undermining investor confidence.

Pipeline and Places to Live

Delays in decisions, the planning process, building safety approvals, nutrient neutrality rules and grid connections are just some of the barriers to project delivery. The Building Safety Regime has introduced new requirements and gateway processes, with Gateway Two adding up to a year to some projects. With significant inflation, delays lead to increasing costs and changing investment cycles which can make projects unviable in all sectors but particularly in housebuilding where regulatory costs, planning delays and weak demand are already reducing activity.

Procurement and Performance

The Public Sector is the sector's largest client and, whilst recognising that is made up of a multitude of Government Departments, Local and Regional Mayoral Authorities, unnecessary and costly requirements, alongside inconsistent implementation of agreed policy including the Construction Playbook, is missing the opportunity to drive best practice and continuous improvement which would significantly improve performance, productivity and delivery of all types of construction and infrastructure.

People

The construction sector continues to face persistent skills shortages across trades, engineering, project management and technical roles. Employers report that higher minimum wage costs, Employer NICs and employment regulation are making it more expensive and higher risk to recruit and train new entrants, particularly younger workers. This is worsening long-term skills challenges in a sector that needs workforce capacity to deliver housing, infrastructure and net zero projects.

Energy and material costs

In addition, fuel and energy costs remain a significant challenge for the sector both in direct costs but also through the cost of materials and products which are manufactured in the UK or imported and transport costs. As the war in the Middle East remains unresolved further increases in inflation are expected and these costs are becoming increasingly difficult for businesses to manage and are contributing to the unviability of projects. Build UK argue the new steel quotas and tariffs will add to these costs and result in further delays to projects with UK fabricators being asked to compete in a market where input costs are being pushed up, while overseas competitors can still ship fabricated steelwork into the UK without being caught by the tariff regime.

These costs will be increased further with the introduction of Carbon Border Adjustment Mechanism (CBAM) from 1 January 2027 which will directly impact imports of aluminium, cement, iron and steel.

Tackling the regulatory burden

Construction businesses operate within a complex regulatory environment spanning planning, environmental protection, building safety, employment regulation and product standards. Businesses report that the burden is often driven, not by individual regulations in isolation, but by the way legislation is implemented and administered in practice.

In addition, the construction sector is weighed down by the additional cost of multiple taxes and levies imposed on a supply chain with a high level of business risk and extremely small margins.

Levy / Contribution	Charged on
Biodiversity Net Gain (BNG)	All major and small developments in England
Building Safety Levy	New homes built (England) – From October 2026
CITB Levy	PAYE and CIS payments
Community Infrastructure Levy (CIL)	All liable new floorspace in areas with adopted schedule
Extended Producer Responsibility	Packaging
Landfill Tax	Disposal of waste at landfill sites
Proposed Infrastructure Levy (IL)	Future replacement for CIL & s106
Residential Property Developer Tax	Profits over £25 million
Section 106 Planning Obligations	Individual projects
Section 278	Highway impact
Steel Quotas and Tariffs	Import of steel products from July 2026

Within this wider regulatory landscape, Build UK has identified a number of areas where Government could have a significant impact on project delivery, investment and business competitiveness:

1. Pipeline and Procurement

Challenge: The Government, through the Cabinet Office and NISTA, has published its 10-year infrastructure strategy and pipeline however delivery of the projects and programmes is now vital to secure investment and sustain the supply chain.

Build UK recommendations:

- The Government to publicly reconfirm its commitment to the pipeline
- RAG rate projects and programmes to demonstrate delivery against the pipeline
- Identify projects implementing the Construction Playbook

Expected impact: Increased confidence in both funders and the construction supply chain to invest in projects, plant and equipment, digital processes and people to deliver growth and opportunities across the UK.

2. Places to live

Challenge: The bureaucratic, insufficiently resourced and inconsistent planning system, the cumulative burden of multiple taxes, levies and obligations and an inefficient Building Safety gateway regime is delaying projects including much needed housing, leading to both social and economic infrastructure becoming extremely slow and costly to deliver and, in some cases, unviable.

Build UK recommendations:

- Require all local authorities to adopt the digital planning portal and core consistent requirements
- Improve the Building Control digital portal to streamline the application process and reduce invalid and insufficient applications
- Increase resourcing for the Building Safety Regulator
- Delay the introduction of the Building Safety Levy
- Use CIL funding collected to deliver the infrastructure as intended
- Introduce a framework of S106 to deliver a fair and consistent approach that responds to local needs
- Introduce exemptions or reductions of taxes and levies where developments deliver strategic priorities

- Review the Steel Quotas and Tariffs
- Require all public sector clients to implement the Construction Playbook

Expected impact: An increase in vital homes and infrastructure delivered at pace and scale, much more cost effectively to the benefit of communities, regions and business sectors.

3. People – the Skills System

Challenge: The skills system is incredibly complex and extremely difficult to navigate with frequent changes in policy and funding, restrictions on employing young people and employers feeling excluded from decisions that directly affect them. This results in fewer opportunities being offered and low achievement rates. In addition, many employers feel they are paying multiple times for skills through the Apprenticeship and CITB levies and increased National Insurance contributions.

Build UK recommendations:

- Appropriately fund apprenticeships, routes to technical training and identified skills gaps
- Support the development of a Construction Apprenticeship Network
- Introduce school and holiday clubs that provide young people with essential work and life skills
- Cease funding for training courses that are not supported by employers

Expected Impact: Employers are able to offer more opportunities with a clear Journey from Education to Employment for new entrants and see an increase in skills at all levels, leading to improved productivity.

Endnotes

[1] ONS (2026), *GDP output approach – low level aggregates*, available from: GDP output approach – low-level aggregates - Office for National Statistics
[2] https://www.constructionleadershipcouncil.co.uk/news/construction-product-availability-statement-16/
[3] The CBI used its business tax contribution analysis in which we break down taxes by industry on a 2-digit SIC level. For employers' NICS we used the latest ASHE and BRES datasets to distribute ER NICs by industry. To estimate the contribution as a share of GVA, we used the latest ONS GVA estimates by industry to estimate the sectoral business tax contribution. Where it was not possible to assign the sector firmly to one or multiple 2-digit SICs, we asked TAs to provide data which we used and scaled accordingly. It should be noted that for some sectors there is a larger margin of error in the contribution statistics given 2-digit SICs do not necessarily fully align with the specific activities progressed in certain sectors. For the construction sector, we used SIC F.
[4] https://www.gov.uk/government/groups/bis-construction-sector-team
[5] https://www.bcis.co.uk/insight/are-higher-construction-materials-prices-the-new-normal/

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cbi.org.uk