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BRIEFING

The UK Defence Investment Plan: what to watch

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The UK Government published its long-awaited Defence Investment Plan (DIP) on 30 June 2026, announcing an uplift in defence expenditure and establishing a roadmap for investment across priority capabilities.

The DIP confirms £298 billion of investment over the next four years, including £15 billion of additional funding above the previous Spending Review settlement. It envisages a sustained increase in annual defence expenditure, rising to nearly £80 billion by 2029 (approximately 2.7% of GDP). Early reactions to the DIP question whether this will place the UK on the right trajectory to meet its NATO commitment of spending 3.5% of GDP by 2035. The funding gap in the costings, which the next Prime Minister will need to plug, is also under scrutiny.

The UK Government's headline investment commitments include:

- Over £63 billion for the UK’s nuclear deterrent, including funding for Dreadnought and SSN-AUKUS submarines.
- £11 billion for munitions and weapons, including long-range strike capabilities and low-cost systems.
- Over £5 billion to deliver a "drone transformation" across the Armed Forces, including £650 million for expendable autonomous systems.
- More than £8 billion for the Global Combat Air Programme (GCAP) to develop next-generation combat air capabilities.

Consistent with the 2025 Strategic Defence Review (SDR), the DIP focuses on modernising military capability and deepening collaboration with allies and industry as part of a broader shift towards "warfighting readiness".

This briefing covers **five key areas** that businesses and investors should watch closely.

1. A partnership approach: increased role for private capital participation and strengthened public capital institutions

The DIP marks the transition of UK defence from a purely publicly funded model to a hybrid public-private financing ecosystem, with material investment opportunities emerging across infrastructure, industrial capacity and technology. Attracting private capital into the defence sector is a key element of the investment strategy. The DIP identifies several new investment mechanisms and institutions designed to move and allocate capital at the requisite scale and speed, unlock private investment and provide lenders and investors with greater certainty and confidence regarding investment resilience and growth prospects.

The DIP stops short of specifying funding allocation models or changes to mandatory participation criteria, guarantee structures or subsidy controls. However, it does announce that "*novel funding mechanisms*" will be used to finance underwater critical infrastructure projects.

To provide greater clarity on how this will be achieved, the DIP outlines the following core initiatives:

- A £50 billion Defence Export Facility, a financing and credit-support mechanism intended to support large-scale UK defence exports through export credit support, guarantees and buyer financing, making UK defence businesses more competitive.
- The forthcoming publication of the Defence Finance and Investment Strategy and the Defence Investment Roadmap, together with the convening of a Defence Investment Summit to bring together and align private and public investment institutions, government and other market participants.
- The Defence Investment Unit (situated within the National Armaments Director Group of the MoD) will form the central contact point for private and public investment expertise and liaison.
- The National Wealth Fund's first defence-sector investment and its work with the British Business Bank, with the shared objective of increasing capital flows to innovation and dual-use SMEs.
- The Defence Investors' Advisory Group, described as a key government-private sector liaison body and source of expertise, comprising senior stakeholders, from veterans and defence primes to lenders, banks, venture capital and growth capital investors.

The Government's stated intention to "crowd in private investment" and provide increased lending, equity investment and guarantees to British companies in the sector should further de-risk investment into defence and dual-use SMEs. UK Defence Innovation, launched on 1 July 2025, has been explicitly structured to co-invest with private capital. It has a dedicated private-investment pillar focused on supporting dual-use innovation from SMEs and academic spinouts. Initiatives such as the "Defence Unicorn" search (providing up to £100 million of accelerated contracts for British technology firms that have not previously accessed MoD contracts) provide a clear demand signal and a de-risking mechanism for venture capital and growth equity investors.

This, in turn, should create investment opportunities for institutional private equity capital. It is likely to result in an increase in funding rounds combining UK Government investors and private capital providers, as seen in investments such as that in 2024 by NSSIF and Baillie Gifford in Tekever and in 2025 by NSSIF, NIF and Superangel in Kraken Technologies.

This de-risking element is also reflected in the segmented procurement framework outlined in the DIP which, if successfully implemented, should compress the time from innovation to contract. Not only should this encourage early-stage investment, but may also create opportunities for mid-market buy-and-build strategies within and across specific technology sub-sectors (for example, counter-drone, cyber, autonomy and advanced composites). More broadly, the planned investments in the defence estate may generate longer-term opportunities for infrastructure investors, potentially alongside adjacent opportunities in energy security and the energy transition, as well as for private credit providers, particularly as traditional bank lending faces increasing constraints.

The DIP clearly presents a strong demand signal. However, investors will need to remain mindful of the existing regulatory landscape, most notably the National Security and Investment Act 2021 (particularly relevant for equity investments) and export controls, which are especially important in the context of dual-use technologies.

2. Prioritisation of advanced capabilities and emerging technologies

The DIP places significant emphasis on accelerating next-generation warfare capabilities, particularly those that are digitally enabled, AI-driven and dual-use in nature. These capabilities are framed as essential to both defence readiness and economic growth.

- Within the space domain, the UK plans to invest £3.2 billion over the next four years to develop sovereign space capabilities and protect critical national and allied assets in orbit through enhanced space situational awareness capabilities. This includes:
  - space-based intelligence, surveillance and reconnaissance (ISR);
  - the Deep Space Advanced Radar Capability; and
  - a new Integrated Air, Space and Missile Defence Operations Centre (IASMDOC).
- These initiatives may create sustained opportunities across the value chain, particularly for providers of satellite communications, space-based ISR and space-control capabilities, as well as for investors seeking exposure to sovereign defence and dual-use technologies.
- The life of the SKYNET 5 military communications satellite system is to be extended rather than replaced in the near term. This change of direction is to be offset through procurement approaches such as "space as a service" solutions. This suggests opportunities for investors in service-based and managed-service models, with a greater role for commercial providers partnering with government, defence organisations and allies. Areas of opportunity may include data processing, AI-driven analytics, software, command-and-control systems, geospatial analysis and imagery exploitation.
- Within the cyber and electromagnetic (cyberEM) domain, £2.5 billion is to be invested in establishing and scaling the Defence Cyber and Electromagnetic Force to defend against more than 90,000 cyberattacks on defence systems annually.

- AI-driven and autonomous capabilities are clear priorities. In particular:
  - The DIP places significant emphasis on the Digital Backbone and Digital Targeting Web and their use of AI and data integration to support AI-enabled cross-domain coordination, with more than £7 billion allocated over the next four years.
  - Taskforce RAID (Rapid AI Delivery), announced in June 2026, is intended to accelerate the deployment of AI capabilities across defence assets, technologies and operations. £200 million has been allocated to four challenge areas: automated planning, AI-enabled swarm technology, augmented intelligence fusion and operational effectiveness enhancement in denied and degraded environments.
  - £1.6 billion is planned for UK Defence Innovation (UKDI) over the next four years to accelerate the development and adoption of advanced and dual-use technologies across Defence, including AI and quantum technologies.

The DIP contemplates extensive use of AI-driven intelligence to support autonomous decision-making and digitally enabled warfighting operations. Leveraging technologies that depend upon large datasets requires careful consideration of the applicable data protection, data use and data-sharing frameworks. Where such datasets contain personal data, the UK GDPR and the Data Protection Act 2018 apply alongside applicable national security and law enforcement exemptions. Businesses and investors should also consider issues of algorithmic accountability as this legal landscape continues to evolve both domestically and internationally.

3. Strategic autonomy development: defence industrial strategy and UK supply chain resilience

A central pillar of DIP is strengthening the domestic defence industrial base, by favouring UK-based production in public defence procurements:

- The DIP announces a series of planned "backing British" measures under which the UK Government will give more weight in its procurement decisions to British companies with a local presence and long-term commitment to British communities and supply chains.
- The DIP says this will include a "buy British by default" approach in priority sub-sectors (which, pursuant to previous UK Government announcements, include shipbuilding and steelmaking).
- The DIP does not provide detail on how the UK Government plans to accomplish this whilst honouring its obligations to provide equal access to public tenders to suppliers from countries with which it has reciprocal international trade agreements – including the US, Japan, Australia and EU member states. It is anticipated that the UK Government will make greater use of the national security exemption to the Procurement Act 2023 to exempt certain public procurements from the Act's restrictions, including the equal access obligation. Such an approach could lead to friction with the UK's international treaty partners.
- As an alternative to "backing British", the DIP briefly touches upon the MoD's recently proposed "offsets" regime, which would require any

foreign contractor who wins a UK defence contract to channel investment into UK supply chains.

4. Procurement reform and speed of delivery

Apart from announcing the "backing British" procurement approach, the DIP introduces no new procurement initiatives. Instead, it favourably highlights a number of recently introduced initiatives which the Government believes will help achieve its goals of reforming and streamlining defence procurement. They include:

- Simplifying and speeding up procurement – through Procurement Segmentation (applying different approaches and timelines to procurements of different size and scope, using a three-tiered approach) and Accelerating Commercial Pathways (designating specific, set approaches, or Pathways, which procurements will follow – including Standard, SME, Design to Cost and Urgent Pathways and the "Commercial X" Pathway for accelerating the procurement of digital technologies and groundbreaking innovations). The DIP is confident that these programmes, introduced in the recent SDR, are helping the UK Government to "*prioritise outcomes, enhance collaboration with industry, reduce duplication and deliver greater value for money*."
- Supporting new procurement agencies and institutions – including:
    - National Armaments Director Group (NAD) as the agency solely responsible for defence procurement – implementing requirements set out by the Ministry of Defence but separating procurement/investment responsibilities from the MoD. With a streamlined operating model and a mandate to engage early with industry and defence experts and "improve Defence's role as a customer", the NAD has been described as the biggest institutional change to the MoD in 50 years.
    - The ongoing effort among HM Treasury and the governments of Finland and the Netherlands (open to other interested NATO members) to establish a Multilateral Defence Mechanism that will lend to members for joint procurement, stockpiling on members' behalf and supply chain finance. This would be a welcome development as joint European procurement initiatives are frequently recommended and supported but not often followed through.
- Further reforms to non-competitive tendering processes – the DIP suggests that there will be further reforms to the Single Source Contract Regulations, which aim to ensure value for money in contracts which the UK Government does not award pursuant to a competitive tendering process (such as defence contracts awarded directly under the national security exemption). Further reforms being considered are aimed at improving productivity, reducing delay and ensuring improved contract performance.

5. International partnerships and strategic alignment

The DIP affirms the importance that the UK places on international collaboration to help bolster collective deterrence and economic resilience. It highlights existing partnerships, while providing some greater specificity on funding and outputs. Beyond the £8.6 billion investment in GCAP, little is new, but the inclusion of existing commitments offers them both fresh emphasis and funding visibility.

Key examples of the UK's international approach include the following:

- Investing £8.6 billion in GCAP with Italy and Japan to develop a sixth-generation combat aircraft.
- Under AUKUS: (i) building up to 12 SSN-AUKUS nuclear-powered attack submarines; and (ii) investing in weapons systems and sensors for underwater autonomous and uncrewed vessels.
- The replacement of the Multi-Role Strike Ship programme with an intention to "*explore opportunities*" under the UK-Netherlands-led Amphibious Transport Ship Programme.
- The building of a new combined 13-strong fleet of submarine-hunting frigates as part of the UK’s Strategic Partnership with Norway under the Lunna House Agreement.
- Assisting Türkiye with the development of its own Typhoon fighter jet force – an £8 billion export arrangement agreed in 2025, and one which strengthens NATO's eastern flank.
- Inviting Joint Expeditionary Force (JEF) nations to join the UK's "Northern Navies" initiative to build hybrid capabilities together in the northern and high northern seas, in parallel with leading NATO's Arctic Sentry mission.

The DIP affirms traditional alliances and describes the UK's defence policy as "NATO first" but not "NATO only". Despite recent tensions in the US–UK relationship arising from the conflict with Iran, the United States "remains the UK's closest defence and security ally". Consistent with the EU's ReArm Europe / Readiness 2030 agenda, the UK vows to strengthen collaboration with European allies and, within NATO, to take more responsibility for European security.

Unsurprisingly, the DIP does not highlight the legal challenges defence actors may face when leveraging business opportunities arising from UK international partnerships. The emphasis on interoperability across partnerships fails to acknowledge the complexity of domestic legal regimes. These may differ in material respects, such as those governing defence procurement, data management, technology transfer and intellectual property. Businesses and investors involved in international programmes will need to ensure legal arrangements are structured carefully and undertake ongoing due diligence. The UK’s ambition to expand its defence exports may also raise litigation risks for companies, given the European trend of challenges to arms exports in controversial conflict contexts.

Conclusion

The DIP has significant implications for businesses and investors across the defence and dual-use sectors.

Clifford Chance will continue to monitor the progress and implementation of the DIP, alongside wider developments across the defence and security landscape.

If you have any questions or would like to discuss how these developments may affect your business, please contact any of the Clifford Chance contacts listed on the following page.

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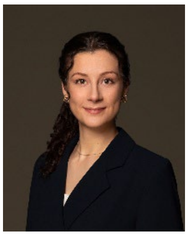

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