

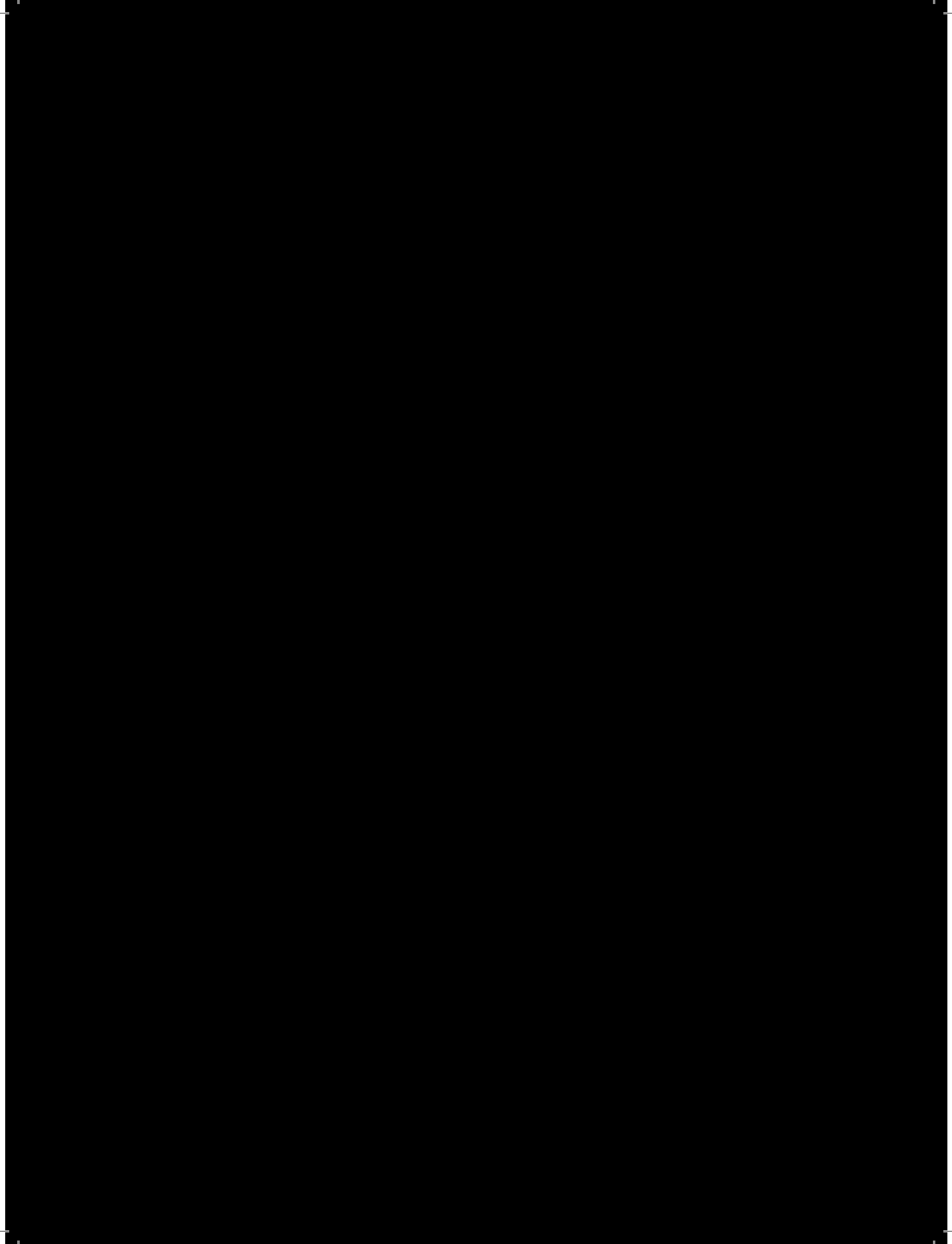
# DEFENCE & ECONOMIC GROWTH TASKFORCE

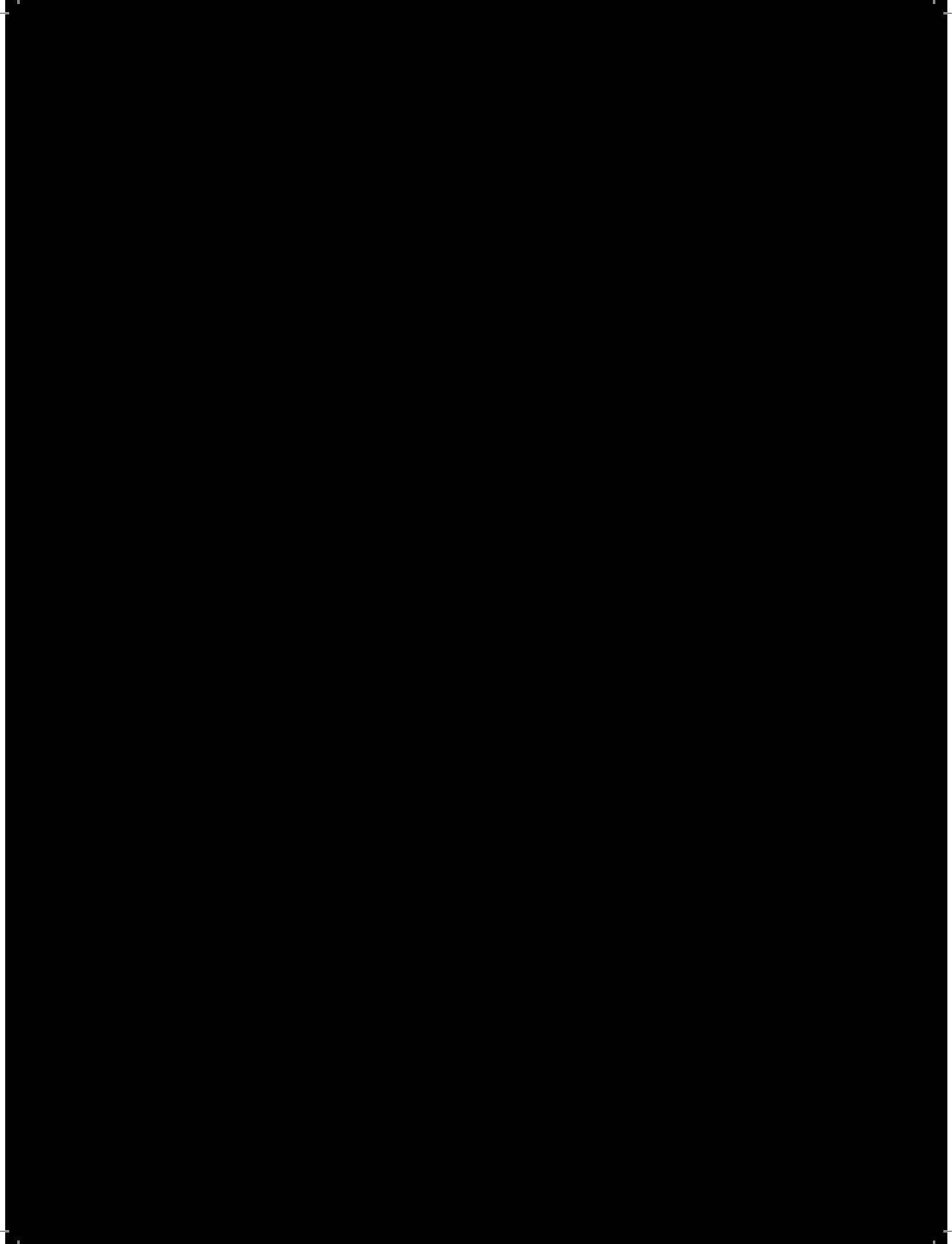
8th July 2025

in collaboration with



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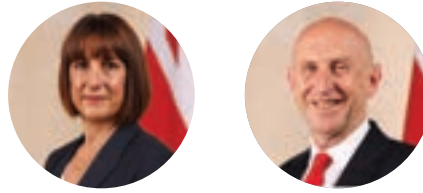
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## MINISTERIAL FOREWORD

**The Rt Hon Rachel Reeves MP  
& The Rt Hon John Healey MP**  
Chancellor of the Exchequer  
& Secretary of State for Defence



As global threats evolve and the international landscape becomes more uncertain, it is essential that our approach to defence is not only about safeguarding the nation, but also about driving prosperity and productivity across the UK. Economic growth is the only way to pay for our public services, including Defence, and raise living standards across the UK. We must make Defence an engine for growth — one that leverages our world-class industry, outstanding research base, and the unrivalled capabilities of our financial services sector to boost the productive capacity of the UK economy. Doing so will also reinforce our drive to ensure that our Armed Forces have the cutting-edge capabilities that they need to make Britain secure at home and strong abroad.

This report from the Defence & Economic Growth Taskforce sets out recommendations to ensure that every pound invested in defence delivers maximum value for our economy, supports high-quality jobs in every region, and reinforces the UK's position as a global leader in innovation.

The Taskforce's recommendations are clear: to realise the full economic potential of defence, government and industry must work in partnership to ensure the sector is best able to leverage the UK's competitive edge and boost innovation. We must provide industry and investors with the certainty they need through a long-term Defence Investment Plan, reset the national conversation about the value of defence to our society, and ensure that our procurement, export, and innovation strategies are all geared towards unlocking growth.

This means not just spending more, but spending wisely: reforming procurement to reward domestic value creation, scaling up dual-use technologies, and making the UK the most attractive destination for private capital in defence. In parallel, it is critical that industry and financial institutions work together with government to improve the landscape for defence firms, such as improving access to finance and partnering on regional policy to drive growth. By doing so, we can ensure that our increased investment in security also delivers tangible benefits to communities and businesses across the country.

This is a generational opportunity. By combining the strengths of our defence and financial sectors, and by mobilising both public and private capital, we can create a reinforcing circle of innovation, investment, and resilience. We very warmly welcome the work of the Taskforce and are grateful to the members for their time, expertise and advice. The recommendations in this report will help inform the government's forthcoming Defence Industrial Strategy and underpin our commitment to a stronger, more prosperous Britain. Working together, we can ensure that defence is not just a shield for our nation, but a powerful engine for our economic renewal.

## CO-CHAIR FOREWORD

**Lisa Quest & Rain Newton-Smith**

Managing Partner and Head of UKI at Oliver Wyman  
& CEO of Confederation of British Industry (CBI)



As we enter this era of threat and challenge, we recognise the urgency of radical reform to revitalise the UK defence industry as a cornerstone of both national security, and economic prosperity. Furthermore, a thriving, resilient defence sector is not just a safeguard; it is an engine for growth and innovation throughout the UK.

Whilst ongoing change initiatives are driving reform across government, true progress hinges on developing strong relationships, a shared understanding and meaningful collaboration between the finance community and defence and dual-use companies of all shapes and sizes, anchored in a 'Team UK' approach.

This Taskforce has emerged from a collective commitment to convert the government pledge to spend 5% of GDP on national security into real opportunity. As NATO countries commit to increasing defence expenditure, setting up the European defence procurement market for double digit growth over the next decade, now is the time to be bold. By providing additive and tangible recommendations that build on the extensive body of government work, this Taskforce aims to accelerate the enhancement of the UK's world-leading defence capabilities and simultaneously drive sustainable economic growth across all regions of the UK.

The recommendations we put forth are a call to arms for stakeholders across the Armed Forces, government, the defence industry, universities, and the finance and investment community — to act collaboratively and quickly, forging a unified front in the face of evolving global challenges. Central to a resilient 'Team UK' approach is pan-government support for the sector, with strategic alignment across industry and finance, and delivering commitments at pace.

We firmly believe that increasing defence spending can act as a powerful force multiplier in our economy. We advocate for a coordinated strategy that mobilises capital flows through foundational and targeted shifts. The foundational recommendations seek to strengthen demand signals provided by the 10-year Defence Investment Plan, recognising that capital follows contracts, and to reset and reinvigorate the national dialogue, celebrating 'Team UK'.

The detailed recommendations include contracting reforms to strengthen domestic capabilities, scaling dual-use opportunities and supporting SMEs to enhance growth, expanding access to international markets to increase UK revenue, and streamlining navigation of the institutional and regulatory landscape for all stakeholders. It is vital that we foster national innovation and make defence-related companies more attractive and internationally competitive, thereby mobilising private capital to support industry resilience and further expansion. Altogether, this will create an environment where defence and dual-use companies are emboldened and equipped to become market-makers, across both priority hardware and evolving software capabilities.

With unified purpose and swift action, we can ensure the UK's £36 billion defence industry thrives as a pillar of national strength and an engine for sustainable economic growth, harnessing the full potential of our world-leading financial services ecosystem and innovative defence sector. We invite you to engage with our recommendations and support their implementation at pace, ensuring a secure, prosperous future for the UK.

# EXECUTIVE SUMMARY

The UK is at a critical moment to build strengthened defence capabilities and resilience in the wider economy. In response to a changing global defence landscape, the UK government has committed to spending 5% of GDP on national security, with a projected 3.5% on core defence. There is a clear opportunity and imperative for the UK to mobilise and attract capital flows to maximise economic growth and productivity. This is only possible with government, academia, defence industry, investors and financial institutions pulling together as a team — Team UK.

This Defence & Economic Growth Taskforce, led by the Confederation of British Industry (CBI) with Oliver Wyman, with additional secretariat support from trade association ADS and PA Consulting, has brought together leaders from across the defence industry and financial services and investment ecosystem to co-create a set of strategic recommendations for the Chancellor of the Exchequer RT Hon Rachel Reeves MP and Defence Secretary RT Hon John Healey MP. These recommendations build on the policy direction set out in the Strategic Defence Review (SDR), Spending Review (SR), Industrial Strategy (IS), National Security Strategy, Trade Strategy, and set out at the NATO Summit, all of which were announced over the 12-week duration of the Taskforce. These recommendations set the stage for the forthcoming Defence Industrial Strategy, in which government is expected to set out further details on plans to strengthen the defence industrial base.

This Taskforce recommends that to realise the opportunity at stake, we must above all else:

- I. Strengthen the demand signal to the market** — Including through the 10-year Defence Investment Plan which must outline (i) what government plans to buy and the capabilities it plans to invest in, (ii) when government plans to buy it, and (iii) how much the government plans to spend. Substantially improved visibility is a prerequisite to generating accelerated investment in the sector.
- II. Reset and reinvigorate the national public dialogue to define and embed a cross-sector 'Team UK' mindset and approach** — Spearheaded by leaders across government, private sector and academia. A reset understanding of the importance of building growth-driving defence capability is a key enabler to attract both capital and talent to the sector.

Specifically, the Taskforce outlines 4 interrelated target outcomes supported by a set of 8 additional recommendations encompassing near-term quick wins and longer-term structural reforms:

- 1. Deploy UK defence spending as an economic force multiplier.** Clarity on the roles and responsibilities across government departments and publicly funded bodies in identifying and scaling dual-use opportunities for UK Intellectual Property (IP) is critical to enable a more strategic and coordinated approach to realising the spill-over benefits of investment into defence. Longer term, the reform of procurement and contracting processes for defence capabilities is imperative to secure sustainable growth and resilience for the UK sector. Central to this vision is embedding the 'Team UK' mindset throughout the procurement lifecycle, incorporating explicit recognition of value generated for the UK economy in the procurement award process.
- 2. Improve the attractiveness and international competitiveness of defence-related companies.** Rapid implementation of the SDR commitments to establish a new Defence Exports Office will build industry and investor confidence, as will the development of a detailed delivery blueprint underpinning the new Defence Industrial Joint Council (DIJC), including for the Defence Investors Advisory Group (DIAG). Longer term, the UK's approach to international partnerships will be critical for increasing access for UK companies to international markets.
- 3. Mobilise trusted private sector investment.** UK banks, pension funds, investment managers and asset owners should take action now to review potential investment due diligence-based exclusions related to defence. There is a clear opportunity and need for government and private sector to work together to explore options for innovative financing and service delivery models across defence capabilities and infrastructure that deliver enhanced value for money while also creating the opportunity for increased market returns. Longer term, critical work must be done, at home and overseas, to position the UK as the leading global hub for defence investment and financing.
- 4. Attract finance to build a resilient and government-aligned defence supply chain.** In the short-term, confirmation of the Defence Growth Deals announced in the SR, alongside investment in talent and skills, will be critical for attracting greater participation in the defence industrial base. Longer term, it is essential that cross-sector stakeholders collaborate to identify opportunities to improve supply and value chain finance, including through programmatic supply chain finance solutions, alongside enhancements to working capital.

This is a generational opportunity to capture accelerated growth, address productivity issues and combine our powerhouse financial services sector with world class defence capabilities. The Defence & Economic Growth Taskforce will support government to ensure that recommendations are taken forward by the new cross-Whitehall Defence Growth Board and DIJC.

# SUMMARY OF RECOMMENDATIONS

## Foundational recommendations

FI	<b>Ministry of Defence (MOD)</b> to ensure the implementation of the Strategic Defence Review (SDR) recommendation for a <b>10-year Defence Investment Plan</b> outlines (i) what government plans to buy and the capabilities it plans to invest in, (ii) when government plans to buy it, and (iii) how much the government plans to spend, to provide a strengthened demand signal that is translated into contracts at pace, whilst maintaining flexibility required to adapt to changing defence requirements. The demand signal and investment plan should be provided at the highest level of granularity which maintains the highest possible reliability to guarantee commitment to spending. This could be further supported by the creation of a UK defence industry problem book
FII	<b>Prime Minister, with Cabinet and leaders across industry and academia</b> to reset and reinvigorate <b>national public dialogue</b> to define and embed a cross-sector 'Team UK' mindset and approach, informed by draft Taskforce principles. Initiative to be capacitated by a team within Cabinet Office

## Target outcome 1: Deploy UK defence spending as an economic force multiplier

1.1. Reform procurement and contracting	1.1.1. <b>MOD and HM Treasury (HMT)</b> to explore the inclusion of explicit measures within the <b>procurement award process to assess and capture the value generated for the UK economy</b> (for example, via UK talent development and retention, investment, job creation, and IP development)
	1.1.2. <b>MOD to review supplier profit restrictions</b> with the intent to encourage greater risk sharing from private sector and incentivise private sector investment in UK productivity (for example, potential parameter tweaks, selective cap removal, or adoption of new approaches), building on the SDR recommendation to amend single source contract regulations
	1.1.3. <b>MOD</b> to implement SDR recommendations for <b>new segmented approach to procurement in a way that streamlines contracting practices for small and medium-sized enterprises (SMEs) and mid-markets</b> , including new entrants, and delivers benefit to wider supply chain, including (i) co-creating new commercial pathways underpinning segmented approach with SMEs and mid-markets, (ii) reviewing delegated authority thresholds, considering the risk and complexity of investments and the acquisition lifecycle, and implement proof-of-concept contracts to accelerate pace, (iii) engaging industry to understand which aspects of the financial services and investment ecosystem which are most relevant for each of the segments
1.2. Identify and scale dual-use opportunities for UK IP	1.2.1 <b>HM Government (HMG)</b> to clarify the <b>roles and responsibilities</b> in driving forward the dual-use agenda, including identifying cross-Whitehall governance and coordination mechanisms. Specifically, this should include (i) clarity on strategic coordination of ongoing initiatives across Whitehall (including between MOD, Department for Science, Innovation and Technology (DSIT) and Department for Business and Trade (DBT)), with front-line command and more broadly with NATO allies, (ii) better visibility and connectedness between key delivery bodies, researchers and innovators working on dual-use technologies and (iii) identifying technology and service requirements in the defence acquisition pipeline with onwads dual-use or commercial applications
	1.2.2 <b>HMT and MOD via the Strategic Public Investment Forum</b> , to generate and review options for accelerating and scaling civilian applications of defence IP, including better aligning and integrating existing publicly funded technology transfer and private capital mobilisation capabilities (for example, within Ploughshare, Government Office for Technology Transfer (GOTT), National Wealth Fund (NWF) and British Business Bank (BBB)) in order to accelerate and scale civilian applications of defence IP
	1.2.3 <b>DSIT</b> to commission UK Research & Innovation (UKRI), with the Intellectual Property Office (IPO) and others to develop a <b>pilot for the use of advanced analytics</b> on patents and research publications to identify additional opportunities for dual-use applications

1.2.4 MOD to ensure the **review of Intellectual Property (IP) handling practices** recommended in the SDR is aligned with the drive for increased defence and dual-use innovation and investment, without compromising national security objectives

1.2.5 **HMT and HM Revenue and Customs (HMRC)** to work with industry to understand stakeholder feedback on **administrative barriers in claiming R&D tax relief** for defence and dual-use projects, and to continue to improve the administration of the reliefs in order to enhance certainty and access for legitimate claimants while maintaining effective controls

## Target outcome 2: Improve international competitiveness and attractiveness of defence-related companies

### 2.1. Increase access to international markets

2.1.1 **MOD, with the Foreign, Commonwealth and Development Office (FCDO) and (DBT)**, to identify opportunities to **influence international procurement frameworks and partnerships**, including the NATO industrial defence framework via NATO forums, as part of implementing the SDR recommendation to take a 'NATO First' approach to international partnerships, and identify opportunities with value to the UK from: (i) increasing the UK's share of existing international procurements, (ii) expanding new joint or international procurement efforts, and (iii) aligning international partnerships to support UK companies to develop exportable offers

2.1.2 **MOD** to ensure the implementation of the SDR recommendation to **establish a Defence Exports Office** involves a clear mandate and sufficient capacity and capability, including SME and mid-market expertise. It should consider as implementation priorities: (i) coordinating Ministerial and industry engagement to champion UK defence overseas and secure export contracts, (ii) developing a new framework for building and sustaining government-to-government relationships, (iii) supporting a review of export licensing policies, (iv) exploring the role of defence offsets in international trade, (v) exploring a specific defence exports roadshow, (vi) designing an 'exportability' assessment into procurement business case development, (vii) continue to leverage and operate through DBT's international network of trade envoys, and (viii) providing an integrated offer with UK Export Finance (UKEF). Continuity of service must be guaranteed following the machinery of government change. All measures should also enhance the UK's attractiveness as a base for international companies

2.1.3 Building on EU-UK Pact, **HMG** to continue to refine the benefits case for full access to **EU Security Action for Europe (SAFE)** Fund, for example through off-balance sheet financing options and increased share of international procurements for UK companies

### 2.2. Improve defence and investment community collaboration and information sharing

2.2.1 **MOD, with industry support**, to build comprehensive delivery model and programme of work to empower the **Defence Industrial Joint Council (DIJC)** as the **single strategic interface** to streamline community building and market engagement. The Taskforce recommends that next steps include developing and publishing detailed (i) governance model, (ii) target outcomes and key success measures, (iii) delivery blueprint, including operating model and relevant sub-structures, (iv) prioritised programme of work aligned with target outcomes, and (v) augmented secretariat support. The Taskforce further recommends that the DIJC secretariat is sufficiently capacitated, and with right expertise, to drive forward delivery at pace

2.2.2 **MOD** to establish the **Defence Investors' Advisory Group (DIAG)** recommended by the SDR and ensure it is aligned underneath the top-level direction provided by the DIJC. Specifically, this Taskforce recommends that the DIAG: (i) build on the dialogue fostered through this initial work, (ii) shape the development of the Defence Financial Services Strategy, (iii) advise on the creation of a financial services and investment community of interest that leverages wider government structures, including the Office for Investment, (iv) capture feedback around enduring blockers to capital mobilisation into the sector, and (v) contribute to and monitor delivery in line with DIJC priorities

### Target outcome 3: Mobilise trusted private sector investment

#### 3.1. Refine and amplify guidance on policy and regulatory considerations

3.1.1 **UK banks, pension funds, investment managers and asset owners to review investment due diligence-based exclusions** related to defence

3.1.2 **HMG and the Financial Conduct Authority (FCA)** to undertake further engagement with the defence industry, non-governmental organisations (NGOs), financial institutions, the investment community and, where relevant, fellow regulators, to understand any barriers to investment, including the application of ESG regulations. **HMG** to undertake further engagement with the defence industry, NGOs, financial institutions, and the investment community on broader human rights due diligence obligations

3.1.3 **HMT, with DSIT**, to develop **trusted capital principles**, to empower financial institutions, investors, and companies operating in the defence sector, and explore **with the MOD and DIAG** options for convening a trusted capital network

3.1.4 **MOD** to **streamline standards for defence industry value chain and supply chain due diligence**, including working towards increased transparency and accessibility of information, exploring **with financial institutions** opportunities for increasing visibility and accessibility of defence company compliance (for example, with human rights due diligence obligations) to improve efficiency, and driving adoption of standards across the financial sector

3.1.5 **MOD** to establish **single-point-of-contact to triage information requests** required to support due diligence and disclosure requirements, and help investors navigate international compliance

#### 3.2. Catalyse and leverage private capital including through targeted and coherent offering from UK public financial institutions

3.2.1 **HMT, with MOD, via the Strategic Public Investment Forum, to review current and proposed offer from participants in the UK public financial services ecosystem**, including for example the NWF, BBB, UKEF, and UK Defence Innovation (UKDI), **to UK defence and dual-use** companies, projects and investors, identifying opportunities to better mobilise increased private investment. This review also should consider opportunities to better coordinate grant funding, loans, guarantees and other forms of financial assistance

3.2.2 **MOD, with HMT and industry leaders**, to explore options for **innovative financing and service delivery models** across defence capabilities and infrastructure that deliver value for money and create the opportunity for increased market returns

3.2.3 **The National Security Strategic Investment Fund (NSSIF)**'s continuation and further **expansion into defence** (as announced in the Spending Review (SR) 2025) to be implemented in a way that (i) retains best practices around contracting pull through and signaling to the market, (ii) continues to provide a signal to the market about capabilities that are in demand to stimulate further private investment, (iii) is supported by clear communication to the market around respective roles between NSSIF and UKDI, and (iv) does not dilute its impact on the security sector

3.2.4 **City of London organisations** to leverage existing fora and engagement mechanisms to **position London as the leading global hub** for defence investment. This would include attracting domestic and global allied capital into the UK's defence industrial base, enabling innovative financing approaches and reinforcing the UK's role as a gateway for secure and strategic capital flows into global allied defence and resilience infrastructure, as well as supporting defence as a growth-driving sector right across the UK

3.2.5 **DBT, with MOD**, to convene stakeholders to explore opportunities for UK-based defence industry **Corporate Venture Capitals (CVCs)** to expand investment in the sector, including consideration of learnings from cross-sector and international peers

**Target outcome 4: Attract finance to shape a UK defence supply chain that is resilient and aligned with government priorities**

**4.1. Foster national defence innovation and skills ecosystem**

- 4.1.1 **MOD, with Other Government Departments (OGDs), devolved governments, and industry to leverage the Defence Growth Deals** announced in the SR to support local ecosystems to develop innovations with dual-use applications and develop a package that: (i) drives interconnection between academia, defence industry and local government, including the Local Innovation Partnership Fund, (ii) fosters development of regional clusters, and (iii) maintains national resilience. Within this context, **industry** to identify and implement ways to maximise growth outcomes in their regional footprints
- 4.1.2 **Industry bodies, including the CBI and trade association ADS**, to engage across sectors and with academia to **identify opportunities for contributing to the UK defence base** and wider supply chain
- 4.1.3 **MOD** to improve **accessibility and availability of testing and evaluation facilities and services** for existing and potential new defence suppliers of all sizes, with a particular focus on accelerating the development of innovative capabilities
- 4.1.4 **DBT and MOD** to work with **OGDs, industry, financial services and investors**, to pursue ambition for **UK supply chain resilience and defence industrial readiness**. **Focus areas could include** identifying single points of failure in UK supply chains, or developing strategies for investing in onshoring and allied near-shoring of priority capabilities and production
- 4.1.5 **MOD and industry** together to build on existing initiatives, to **co-invest and commit to funding and developing talent and skills**, including: (i) **MOD and industry primes** co-funding defence industry training to support advancement of skills, applying lessons from the construction skills programme, (ii) **industry primes** committing to sponsoring post-graduate academic scholarships to attract specialist technical talent to sector, (iii) **professional bodies and fellowships** improving knowledge and visibility of opportunities in defence within existing training schemes and adjacent sectors, (iv) **DSIT**, reviewing how to drive uptake in investor skills programmes, such as the Science and Technology Venture Capital Fellowship

**4.1. Enhance targeted SME support**

- 4.2.1 **MOD SME Support Centre** to provide **simplified access to services and MOD stakeholders** for innovative defence SMEs, including new entrants, to address specific pain points identified through DBT SME Strategy, SDR and Defence Industrial Strategy research
- 4.2.2 **UK Banks and industry Primes** to collaborate to identify opportunities to improve **supply and value chain finance** for example, by changing supply chain payment terms, or by establishing new or expanding existing supply chain financing platforms for defence
- 4.2.3 **MOD, with FCDO and industry leaders**, to increase collaboration and partnerships with **Ukraine defence SMEs** to capture learnings from rapid innovation cycles and cutting-edge technology development

# INTRODUCTION

## CONTEXT

In response to a shifting global context, the Confederation of British Industry (CBI), with Oliver Wyman and support from the **Chancellor of the Exchequer The Rt Hon Rachel Reeves MP, and Secretary of State for Defence The Rt Hon John Healey MP**, has formed the Defence & Economic Growth Taskforce. The Taskforce is led by CEOs from across the defence industry and financial services and investment ecosystem, with additional secretariat support from PA Consulting and Trade Association ADS.

The UK faces a changing threat landscape that necessitates a robust response. The government has already committed to increasing defence spending to 2.5% of Gross Domestic Product (GDP) by April 2027, and pledged 5% to be spent on national security by 2035<sup>1</sup>, with 3.5% of GDP to be spent on core defence<sup>2</sup>, alongside a further 1.5% on resilience<sup>3</sup> and security as announced at the June 2025 NATO summit. By prioritising defence spending, the government aims to reinforce the UK's position as a leading global player in defence in tandem with NATO peers.

However, whilst this 2.5% target for 2027 is expected to cover existing gaps, there is likely limited extra funding over the next two years for the technology-driven modernisation required<sup>4</sup>. The National Audit Office reports Ministry of Defence (MOD) acknowledgement of the unsustainability of the 2023-2033 equipment plan (to be replaced by the upcoming 10-year Defence Investment Plan as announced by the Strategic Defence Review (SDR)), with costs exceeding budgets by £16.9 billion<sup>5</sup>. Additionally, the Royal United Services Institute (RUSI) estimates an additional £1 billion annually is needed for armed forces pay settlements in 2023-24<sup>6</sup>.

Furthermore, the evolving global threat picture is placing increased pressure on defence supply chains to be agile and responsive. By strengthening domestic production, the UK can enhance supply chain resilience and ensure that it is well-equipped to address both current and future national security challenges, and to support its allies.

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1 GOV.UK, UK to deliver on 5% NATO pledge as Government drives greater security for working people, 23 June 2025

2 Defence expenditure is defined by NATO as payments made by a national government (excluding regional, local and municipal authorities) specifically to meet the needs of its armed forces, those of Allies or of the Alliance (NATO)

3 Resilience in a NATO context refers to the capacity, at national and collective level, to prepare for, resist, respond to, and quickly recover from strategic shocks and disruptions, across the full spectrum of threats. Simply put, it is the ability for the Allies individually, Alliance collectively and NATO as an organisation to face disruptions and shocks and continue their activities (NATO)

4 Royal United Services Institute, The New Approach to the UK Strategic Defence Review: Tests for Success, 2024

5 National Audit Office, The Equipment Plan 2023-2033, 2023

6 Royal United Services Institute, UK Defence Spending Decisions Can't Wait for the Strategic Defence Review, 2024

Despite existing challenges, the UK government emphasises the potential for increased private investment to enhance national security and stimulate economic growth. In April 2025, Secretary of State for Defence, The Rt Hon John Healey MP emphasised how defence can be seen as an ethical investment, and highlighted initiatives such as a £400 million budget for UK Defence Innovation (UKDI) and a £250 million investment in UK tech firm Roke for missile defence<sup>7</sup>. Additionally, he highlighted the need for collaboration between investors and innovators to create jobs and bolster security, while addressing barriers to private finance in the defence sector.

The UK-EU defence partnership announced in May of this year enhances financial and operational cooperation with Europe, structured collaboration mechanisms, and participation in EU-led missions<sup>8</sup>. The SDR published in June 2025 proposes a landmark shift within defence, including shifting to a NATO First strategy, harnessing lessons of innovation from Ukraine, and critically, driving jobs and prosperity through a new partnership with industry, procurement reforms and backing businesses generating value in the UK<sup>9</sup>.

As the sector undergoes a significant transformation, public sentiment is improving, and the private sector — both industry and investors — are becoming increasingly vital. This shift reflects a broader trend where private investment is not only contributing to defence capabilities but also playing a pivotal role in innovation in critical dual-use technologies<sup>10</sup>, such as artificial intelligence, quantum, and cyber, which generate higher returns<sup>11</sup>.

As part of the active landscape of defence reform, the forthcoming Defence Industrial Strategy will outline plans for sector growth, including through key forums such as the Defence Industrial Joint Council (DIJC), recognising a strong defence ecosystem is central to broader economic resilience and investment. The sector's growth and innovation potential are significant; however, success depends on effective ongoing coordination among industry, investors, and wider stakeholders.

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7 GOV.UK press release, New 'engine for growth' package announced as Defence Secretary closes London Stock Exchange, 2025

8 GOV.UK policy paper, UK-EU security and Defence partnership, 2025

9 Strategic Defence Review, 2025

10 Dual-use technologies are technologies with both civilian and military uses. When this report refers to dual-use opportunities, this is intended to cover both civilian-to-military and military-to-civilian unless stated otherwise

11 Oliver Wyman, Win-Wins: Accelerating the Delivery of Defense Sector Capabilities

## OBJECTIVES OF THIS TASKFORCE

The Defence & Economic Growth Taskforce is a private sector-led initiative that has been formed to bring together key actors across the defence sector, financial services, and investment ecosystem to develop a set of strategic recommendations at pace, reporting jointly to the Chancellor and Secretary of State for Defence (see Appendix A for list all Taskforce members).

The recommendations of this Taskforce will seek to accelerate the work of longer-term initiatives (including the DIJC<sup>12</sup> and the Defence Growth Board). This Taskforce sets out a series of recommendations for how, through targeted actions by both government and industry, the UK can maximise this opportunity to drive growth and productivity alongside building priority defence capability.

The Taskforce has aligned with the Chancellor and Secretary of State around an overarching exam question:



### **In response to a changing defence landscape, how do we mobilise and attract capital flows to maximise economic growth and productivity?**

This question is not new, but the bringing together of key decision makers across government and the private sector with a commitment to act represents a step change in opportunity. The Taskforce will contribute by synthesising latest thinking on these topics, shining a light on existing best practices, and progressing thinking around innovative proposals and approaches. Fundamentally it will also co-create recommendations directly with key actors responsible for implementation helping to accelerate delivery.

Since the work of the Taskforce commenced in May 2025, it has been tracking closely with wider policy and strategy development and spending commitments, including those shown in Exhibit 1 (also see Appendix B for additional ongoing initiatives). This report seeks to (i) acknowledge where new policy or spending commitments are deemed critical to realising target outcomes and (ii) identify opportunities to go further, including more detailed considerations to guide implementation.

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<sup>12</sup> GOV.UK policy paper, DIJC Statement of Intent, 2024

**Exhibit 1: Summary of relevant publications and announcements**

in chronological order

<b>Item</b>	<b>Date</b>	<b>Owner</b>	<b>Description</b>
<b>Finance and investment for UK defence</b>	28 May 2025	TheCityUK, ADS	Policy proposals to address financing and investment challenges
<b>Strategic Defence Review</b>	2 June 2025	MOD	Government plan for changes in defence over the next decade and beyond
<b>Rewiring British Defence Financing</b>	9 June 2025	Luke Charters MP, Alex Baker MP	Summary of challenges in defence financing, and recommendations
<b>Defence Industrial Joint Council</b>	9 June 2025	MOD	Announcement of DIJC members
<b>Spending Review</b>	10 June 2025	HM Treasury (HMT)	Departmental budgets until 2029, capital investment budgets until 2030
<b>UK Infrastructure: A 10 Year Strategy</b>	19 June 2025	HMT	Government's long-term plan for economic, housing and social infrastructure to drive growth
<b>The UK's Modern Industrial Strategy</b>	23 June 2025	HM Government (HMG)	10-year plan to increase business investment in 8 priority growth-driving sectors, including defence
<b>NATO Summit</b>	24-25 June 2025	NATO Heads of State	Summit to address the challenges facing the NATO alliance and further strengthen NATO's deterrence and defence
<b>National Security Strategy</b>	24 June 2025	HMG	Strategy combining relevant reviews across government
<b>Trade Strategy</b>	26 June 2025	Department for Business and Trade (DBT)	Strategy to guide approach to international trade, aiming for sustainable and resilient growth
<b>Defence Industrial Strategy</b>	Forthcoming	MOD	Sector plan underpinning the Modern Industrial Strategy
<b>Defence Investment Plan</b>	Autumn	MOD	Successor to the Defence Equipment Plan

While national security considerations were agreed as out of scope for this Taskforce, the closely related nature of the two sectors means that many of the recommendations presented here may offer valuable insights for the security domain. The Taskforce encourages further work to assess how these lessons can be applied in a security context and to identify additional areas where targeted action could drive greater impact, particularly given the commitment to spending 1.5% of GDP on resilience and security by 2035.

## TARGET OUTCOMES

In order to answer the exam question, the Taskforce has aligned around four distinct but interrelated target outcomes:

### Exhibit 2: Target outcomes



Against each of the target outcomes, the Taskforce has outlined key recommendations and sub-recommendations outlining what industry and government stakeholders can do to achieve these. A set of high-level design principles guided the refinement of recommendations, ensuring the recommendations were **additive**, **aligned** with in-flight initiatives and **implementable** (see Appendix C). The Taskforce has actively incorporated a broad and diverse range of perspectives from across government and industry. This has been achieved both through the direct participation of Taskforce members and through input gathered via multiple industry and public sector reference panels convened by the Taskforce. This inclusive approach ensures the recommendations are implementable, well-informed, balanced, and reflective of the needs and priorities of stakeholders across the wider defence ecosystem.

## KEY CONTEXTUAL ANALYSIS

As global leaders, the UK defence and financial services sectors were recognised in the UK modern industrial strategy as priority growth-driving sectors. Focussing on defence, MOD spending supports around 1 in 60 UK jobs, and the majority of spend with industry and commerce takes place outside of London and the South East<sup>13</sup>. Whilst the UK defence industry saw limited growth over the past decade, it is now accelerating following the changed threat landscape in Europe; this Taskforce is therefore building on upwards momentum in the domestic industry and a growing global opportunity. Furthermore, Exhibit 3 shows government spending has historically represented two-thirds of defence sector turnover, with one-third supported by defence exports.

<sup>13</sup> GOV.UK, MOD estimate as described in the UK Modern Industrial Strategy, 2024

**Exhibit 3: UK defence sector turnover<sup>14</sup>**

2015-2024, £ billion

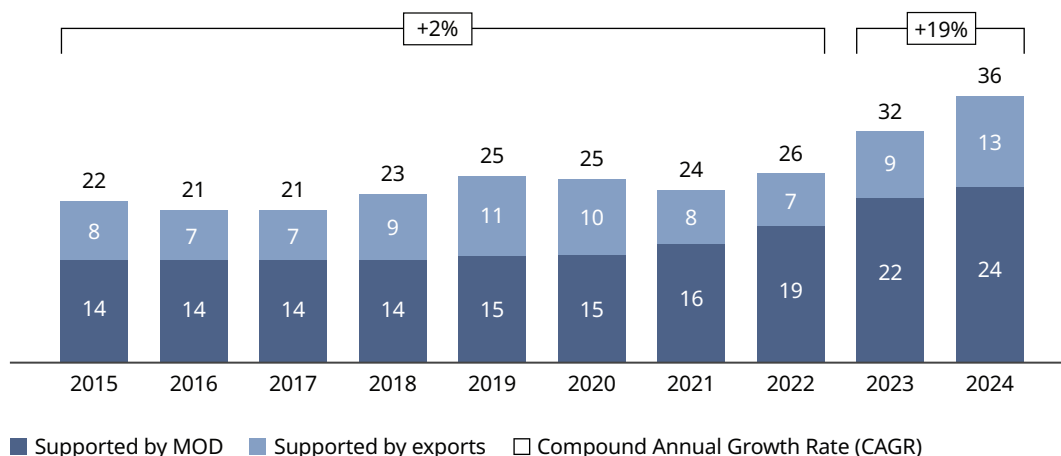
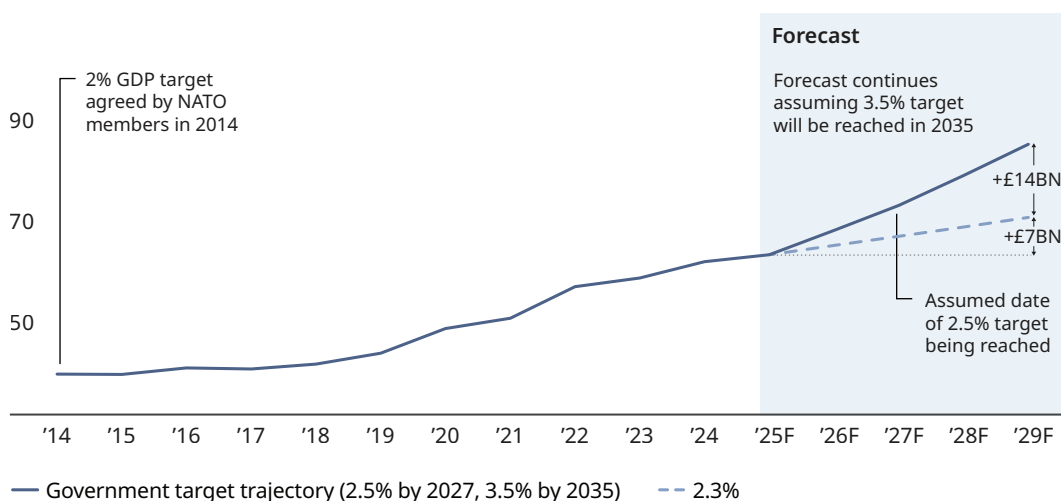


Exhibit 4 shows the forecasted increase in UK government defence spending within this parliament (until 2029), in line with government announcements. 2.5% of GDP was pledged to be reached by 2027, and 3.5% by 2035 (core defence only). In Exhibit 4 the percentage growth from 2027 until the end of the parliament has been assumed as a linear trajectory towards achieving 3.5% of GDP in 2035. How this increased spending is deployed will ultimately affect the economic impact achieved (for example, the volume of additional funding allocated to R&D, capability development, innovation and investment with UK industry, etc.).

**Exhibit 4: UK defence spending<sup>15</sup>**

2014-2029F, £ billion



<sup>14</sup> ADS; Export turnover represents revenue generated from exports in a given year rather than total value of orders in the year

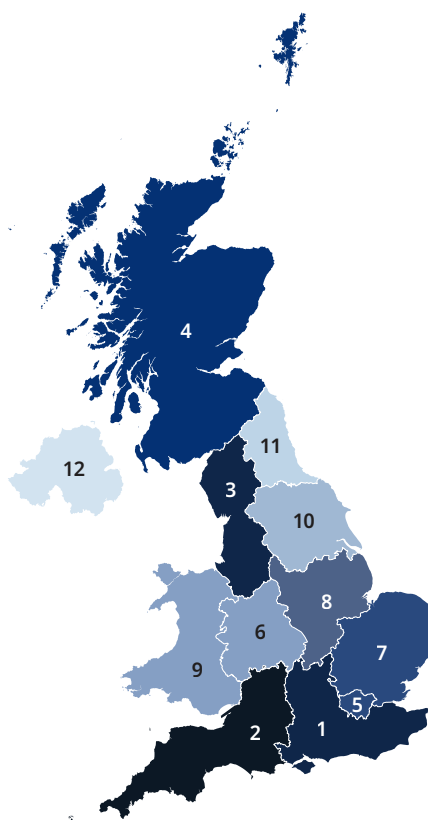
<sup>15</sup> Historic — 2% GDP NATO target; 2.3% current spending from GOV.UK Spring Statement, Forecast — assumes linear increase from 2.5% target in 2027 to 3.5% of GDP in 2035, using average of OBR and IMF projections for GDP |

Sources: GOV.UK, ONS, IMF, UK Parliament, OBR

**Exhibit 5: UK defence sector by region<sup>16</sup>**

2023/2024

Region	MOD expenditure with UK industry	Employment
1 South-East	£7.1 BN	37,700
2 South-West	£6.9 BN	40,000
3 North-West	£3.8 BN	23,750
4 Scotland	£2.1 BN	14,750
5 London	£2.1 BN	10,500
6 West Midlands	£1.6 BN	7,250
7 East of England	£1.5 BN	10,000
8 East Midlands	£1.4 BN	8,000
9 Wales	£910 M	5,750
10 Yorkshire & the Humber	£630 M	3,000
11 North-East	£380 M	2,500
12 Northern Ireland	£240 M	800

High  Low

Map shading reflects employment

A correlation can be observed between regions of the UK where MOD spend is highest and the number of defence-related jobs. As shown in Exhibit 5, the regions with the highest MOD spend, specifically the South-East and South-West, host the largest number of defence employees nationwide.

The relationship between government spending and defence exports as a proportion of defence turnover, as shown in Exhibit 3, holds true in relation to GVA, with exports representing a third of defence GVA — with Trade Association ADS reporting that export orders rose to £14.5 billion of orders in 2023<sup>17</sup>.

<sup>16</sup> GOV.UK, MOD Defence spend by UK region; ADS, Defence Turnover & Employment by UK region

<sup>17</sup> ADS

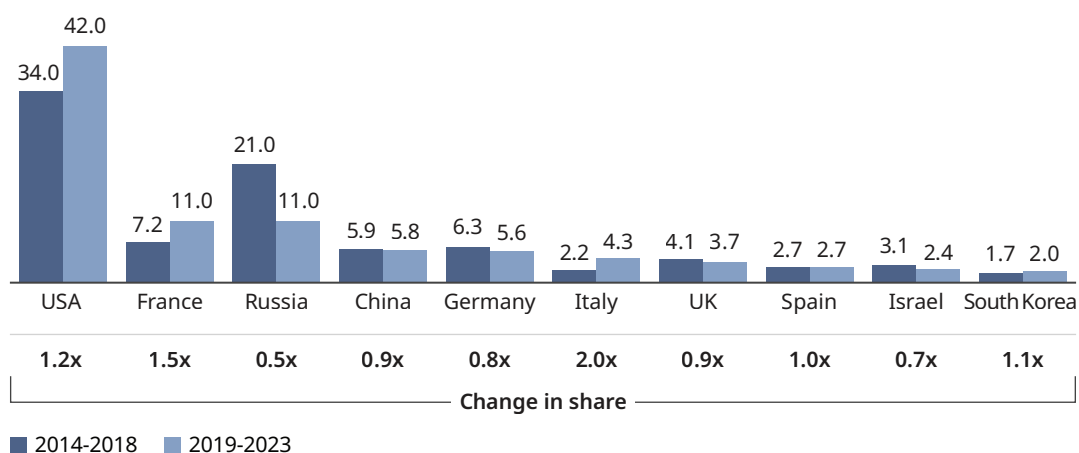
However, between 2018 and 2023, whilst defence expenditure in key export markets, Europe and the Middle East, grew 26% in aggregate<sup>18</sup>, UK exports to these regions grew only 7% using a 5-year rolling average<sup>19</sup>, indicating that while demand for defence solutions is rising, the UK faces challenges in fully capitalising on these opportunities.

Moreover, Exhibit 6 shows the UK's share of global defence exports has decreased over the last five years, from 4.1% in 2014-2018 to 3.7% in 2019-2023<sup>20</sup>. Exhibit 7 shows the UK represents a lower share of the defence export market relative to its global GDP share when compared with other large exporters, suggesting potential for growth.

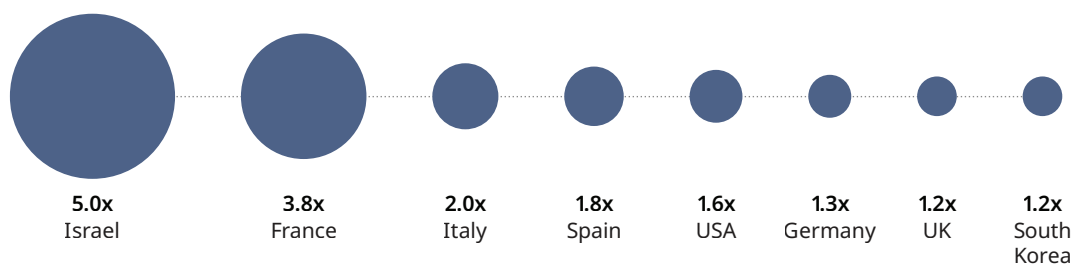
Therefore, improving defence sector GVA and boosting the UK's share of the global export industry has formed a key part of this Taskforce's recommendations.

#### Exhibit 6: Share of global defence export market for the top 10 exporters over time<sup>21</sup>

Percentage share (%)



#### Exhibit 7: Ratio of global arms export market share to global GDP share<sup>22</sup>



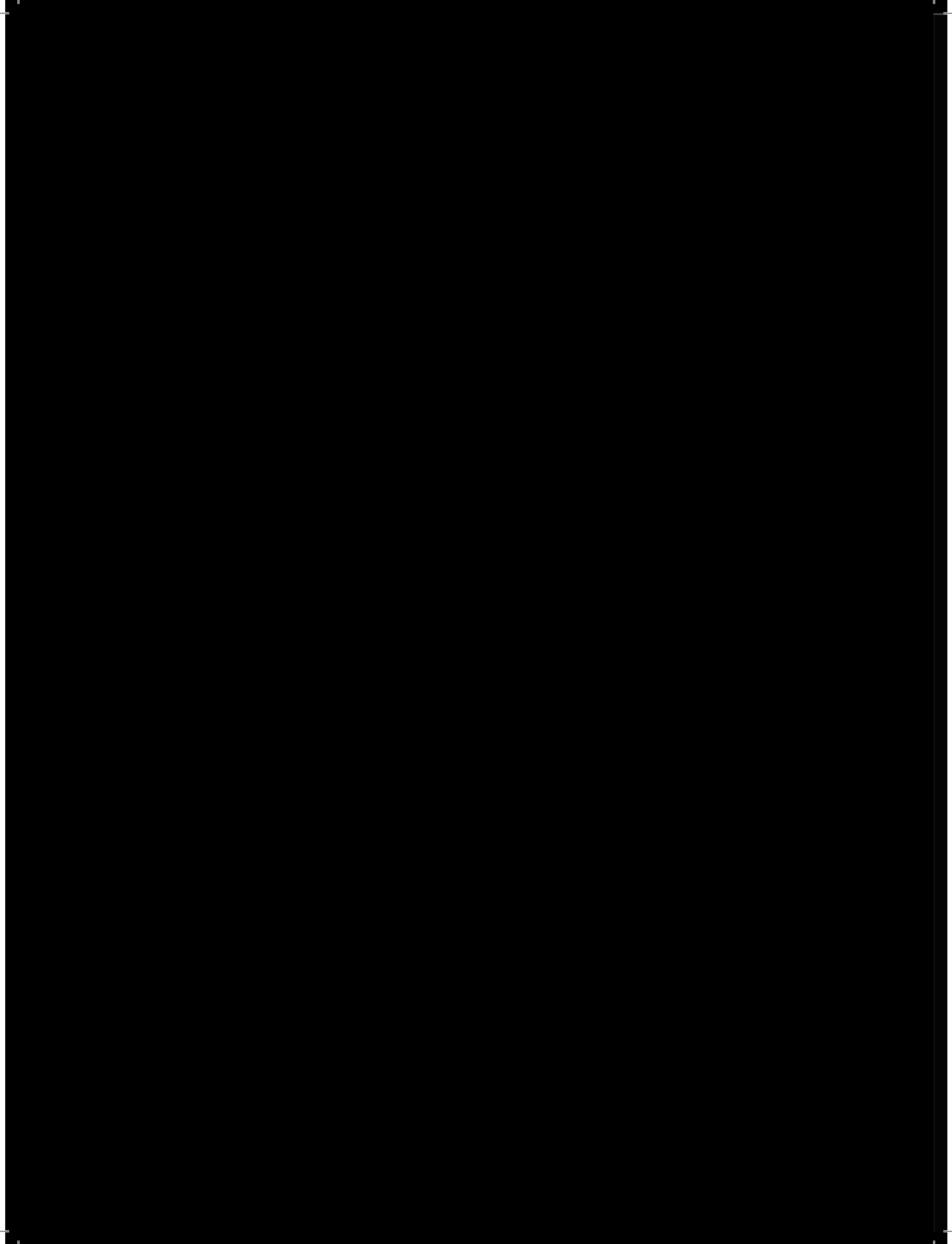
<sup>18</sup> SIPRI Military expenditure, using constant 2023 prices (\$) and excluding Ukraine

<sup>19</sup> GOV.UK, Value of UK defence export orders by destination region, 5 years moving average

<sup>20</sup> Stockholm International Peace Research Institute, Trends in international arms transfers 2023

<sup>21</sup> SIPRI, Share of global arms export market

<sup>22</sup> SIPRI, UN Trade & Development





## **FOUNDATIONAL RECOMMENDATIONS**

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# THE FOUNDATIONAL RECOMMENDATIONS

## CONTEXT

To effectively mobilise and attract capital flows that maximise economic growth and productivity, two foundational challenges must be addressed:

- i. **Demand signals** — Demand signals are often weak, inconsistent, or unclear, undermining investor confidence and limiting the sector's ability to attract long-term capital.
- ii. **Public dialogue** — The prevailing negative narratives around the defence industry create barriers to investment from certain capital pools and discourage broader societal engagement.

To overcome these obstacles, the Taskforce's foundational recommendations focus on **strengthening demand signals and revitalising public dialogue** — through coordinated, cross-government and industry alignment around a new **'Team UK' approach**.

## RECOMMENDATIONS

### Foundational Recommendation 1

**Building on the SDR recommendation for a 10-year Defence Investment Plan, this Taskforce further recommends that MOD incorporates the following critical enhancements in its implementation:**

**SDR:** We will develop a new **Defence Investment Plan** to deliver the SDR's vision. We will ensure the Plan is deliverable and affordable, considers infrastructure alongside capabilities, enables flexibility to seize new technology opportunities, and maximises the benefits of defence spending to grow the UK economy. This will supersede the old-style Defence Equipment Plan.

- i. **Ensure the 10-year Defence Investment Plan provides greater clarity on what MOD plans to buy and the capabilities it plans to invest in** — The 10-year Defence Investment Plan should provide clear, detailed visibility into government procurement intentions, specifying the capabilities and technologies to be acquired at the highest practical level of granularity, balancing detail with accuracy. Where procurement plans are well-defined, maximum disclosure should be provided to industry. In cases where the government is still shaping its approach, clear problem statements should be shared, enabling collaborative solutions with industry partners. This approach can be further enhanced by introducing a comprehensive UK defence industry problem book (building on the Front-Line Command and upcoming Army editions), which outlines more detailed future challenges and problem statements that industry can innovatively engage with.

This should draw on successful models such as DIANA in NATO<sup>23</sup> and problem books used in the UK's transport<sup>24</sup> and utility<sup>25</sup> sectors. In addition to a problem book, MOD could explore the creation of a thematic lookbook detailing target technologies for investment.

- ii. **Ensure the 10-year Defence Investment Plan provides greater clarity and certainty on funding** — The 10-year Defence Investment Plan should specify the financial commitment allocated to each planned procurement, providing industry and investors with the certainty needed to plan and invest effectively. While recognising the need for flexibility in procurement and funding, it is essential to uphold delivery of committed funding proposals to maintain confidence in future commitments. Clear articulation of funding levels and the timing profile of spend will support timely capability development and offer investors greater visibility on expected returns, thereby reinforcing market confidence and encouraging sustained, long-term capital flows into the sector.
- iii. **Ensure the 10-year Defence Investment Plan provides greater clarity and transparency on procurement timelines** — The 10-year Defence Investment Plan should clearly specify the timing of planned acquisitions, offering industry a predictable, long-term schedule that strengthens demand signals and enables contracts to be awarded at pace. Building on this, MOD should embrace integrated business planning to drive integration between delivery and the Defence Investment Plan.

#### CASE STUDY TO DRAW LEARNINGS FROM

##### **FRANCE'S MILITARY PROGRAMMING LAW (LPM), 2024-2030<sup>26</sup>**

**Key context:** France's Military Programming Law provides spending commitments (€413 billion) over a 6-year period from 2024-2030, sets out broader strategic objectives (such as defence partnerships) and gives detail on specific procurement targets.

**Key outcome:** It provides a demand signal championed at the highest political level in France, with strategic relevance to both industry and private capital.

#### CASE STUDY TO DRAW LEARNINGS FROM

##### **AUSTRALIAN DEFENCE STRATEGIC UPDATE AND THE FORCE STRUCTURE PLAN<sup>27</sup>**

**Key context:** Australia's Strategic Defence Update and its Force Structure Plan in 2020 outlined a clear and reliable forecast of their defence budget for the coming decade.

**Key outcome:** They provided a clear demand signal to the market of the country's defence investment priorities as well as clear timelines of when the country expects to procure them, with AU\$575 billion funding allocated across the decade from 2020 to 2030.

<sup>23</sup> DIANA

<sup>24</sup> Network Rail, Challenge statements

<sup>25</sup> UK Water Industry Research, The Big Questions

<sup>26</sup> European Security & Defence

<sup>27</sup> Australian Government, 2020 Force Structure Plan; Australian Government, Defence Projects (outlined for Air, Land, Sea, Joint, Sustainment & Minor)

## **Foundation Recommendation 2**

**Prime Minister, with Cabinet Office and leaders across industry and academia, to reset and reinvigorate national public dialogue to define and embed a cross-sector 'Team UK' mindset and approach, informed by draft Taskforce principles. Initiative to be capacitated by a team within Cabinet Office.**

A constructive and renewed public dialogue around defence is essential to unlocking investment, attracting top talent, and accelerating dual-use technology transitions. The Taskforce recommends that the Prime Minister, with support from the Cabinet Office and leaders across industry and academia, reinvigorates the national conversation on defence, highlighting its role as both a pillar of national resilience and a driver of economic growth. This narrative should build on the positive momentum in recent years (with support for increasing defence spending rising from 30% of surveyed individuals in 2022<sup>28</sup> to 42% in 2024<sup>29</sup> and 49% in June 2025<sup>30</sup>) and draw lessons from successful national and international campaigns that have mobilised public sentiment around key priorities including "Destination Nuclear"<sup>31</sup>, USA "Support our troops"<sup>32</sup>, and "#WeAreNato"<sup>33</sup>. This should also leverage learnings from the Defence Growth Partnership's work on recognising the value of defence in the UK<sup>34</sup>.

The Taskforce recommends the initial focus of the public dialogue is centred on building alignment around defining 'Team UK' in the context of a changing defence landscape. The Taskforce has developed the following draft principles to initiate and accelerate this dialogue:

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28 Ipsos, Opinion split as to whether government spending on Defence and the Armed Forces should be increased, decreased or stay the same, 2022

29 Ipsos, Four in ten support plans to increase Defence spending, but majority do not trust Conservatives to have right policies on Defence, 2024

30 YouGov UK, Do you think Defence spending should be increased, decreased, or remain at about its current level?, 2025

31 Destinationnuclear.com

32 Supportourtroops.org

33 NATO

34 UKDSC, UK Defence Growth Partnership

### Exhibit 8: Draft principles for 'Team UK'

**Buy from companies generating value in the UK**

to ensure spending directly supports domestic economic growth, job creation, and the development of critical national capabilities

**Collaborate with UK companies in strategy-setting**

to ensure co-created solutions are tailored to national priorities

**Support UK financiers committing to UK-based investment**

through creating the correct incentives to prioritise UK-based investments

**Encourage UK IP generation**

to maintain technological leadership and secure long-term economic benefits

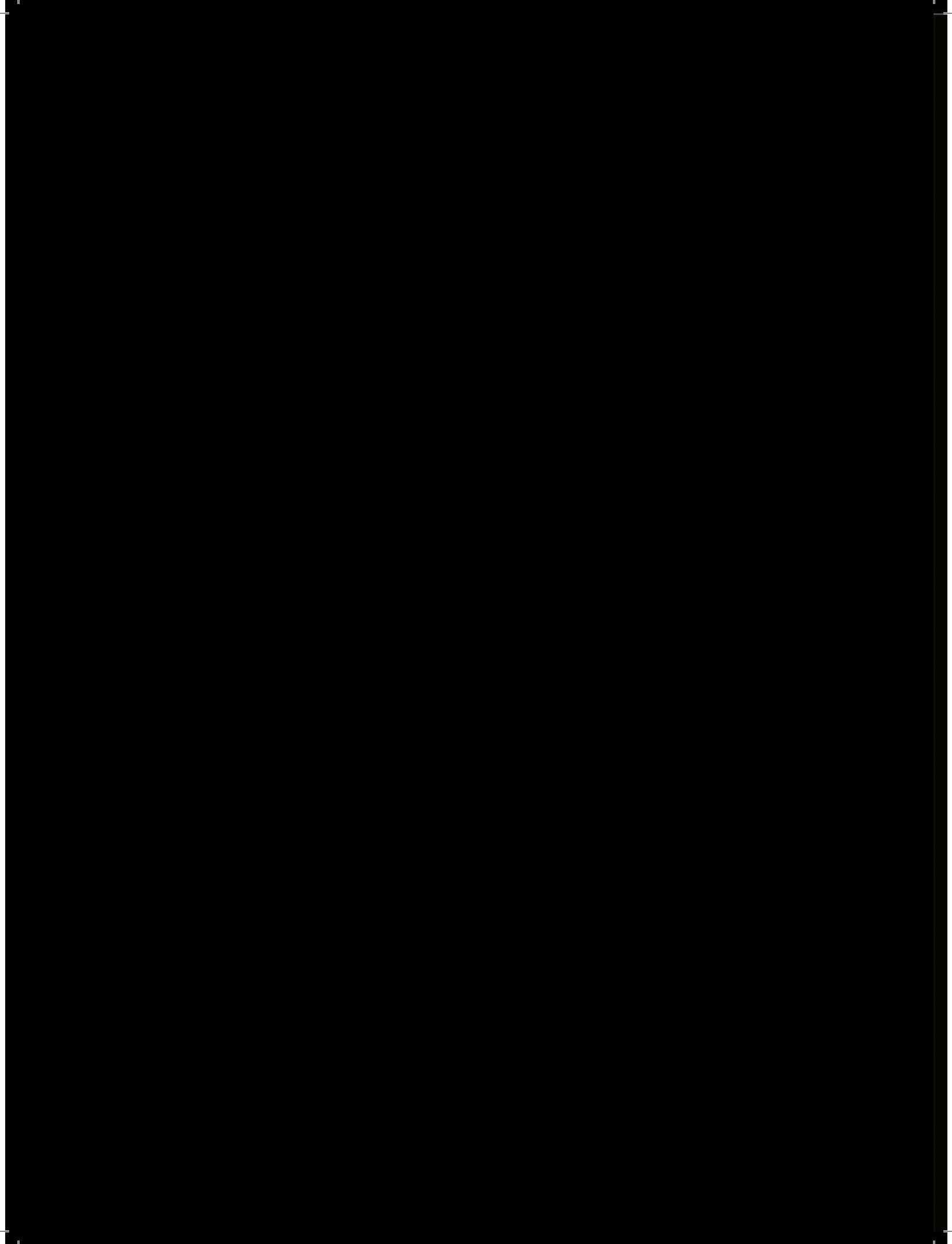
**Deploy a pan-government approach to using 'Team UK' principles to decision making**

ensuring prioritisation of national investment into strategic defence and dual-use opportunities

**Embed 'Team UK' mindset in industry approach**

through encouraging companies to work collaboratively, share best practices, and align their strategies with national objectives

Delivered successfully, a reinvigorated national dialogue centred on the 'Team UK' ethos — characterised by strong industry alignment, strategic leadership from government, and a unified approach among all stakeholders will **unlock greater flows of capital and talent** into the defence sector





# TARGET OUTCOME 01

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Deploy UK defence  
**spending** as an **economic**  
**force multiplier**

## TARGET OUTCOME 1

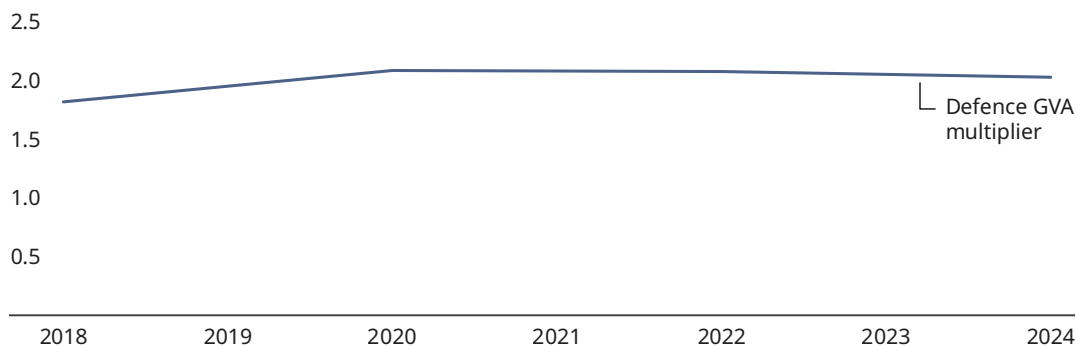
## DEPLOY UK DEFENCE SPENDING AS AN ECONOMIC FORCE MULTIPLIER

### KEY CONTEXT, CHALLENGES AND OPPORTUNITIES

As the government boosts defence spending to drive greater national security, there is potential to enhance the defence dividend, increasing the impact of every pound spent. In 2024, Trade Association ADS reported the value of the defence industry contribution to the UK economy as £15 billion. This GVA figure represents value generated by industry that, according to ADS, creates further indirect value through a multiplier effect of 2.03. Exhibit 9 shows that this multiplier has stagnated since 2020.

#### Exhibit 9: ADS defence GVA multiplier<sup>35</sup>

2016-2024

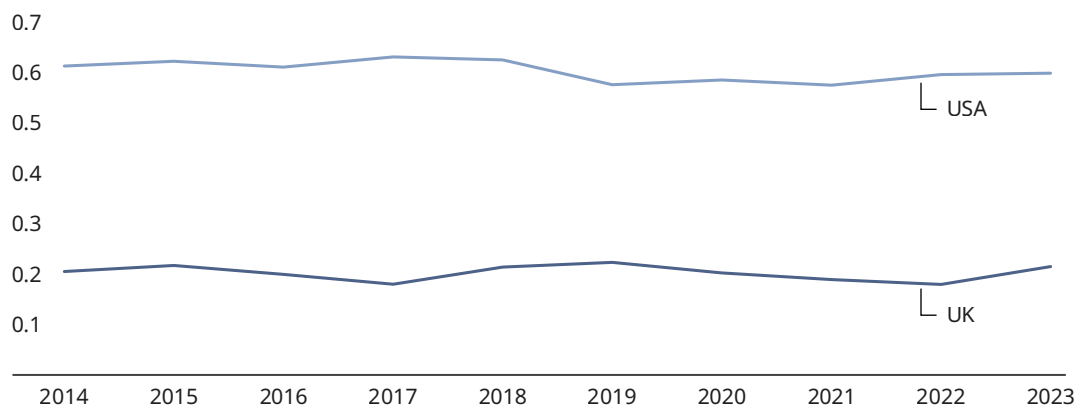


Calculating the ratio between the total domestic defence expenditure and total defence GVA in the USA and the UK provides an international comparison. Exhibit 10 shows the relatively flat and low profile of the ratio between defence GVA and UK defence expenditure between 2014 and 2023, with fluctuations ranging from a peak of 0.22 to a low of 0.18, indicating lower growth returns from defence expenditure. In contrast, the US, experiences a much higher defence expenditure to defence GVA ratio, reaching highs of 0.62 during this period. The significantly lower ratio in the UK underscores the broader challenges of translating increased government investment in defence into economic growth within the country.

<sup>35</sup> ADS

**Exhibit 10: Ratio of GVA from defence and total defence expenditure<sup>36</sup>**

2014-2023



There are several potential reasons underpinning this limited GVA capture from defence expenditure in the UK, including:

- i. **Limited domestic value capture** — A significant proportion of defence expenditure flows overseas, which not only reduces the direct economic contribution of the sector but also hinders the development of advanced intellectual property and critical capabilities within the UK.
- ii. **Lack of dual-use focus** — Compared to peer nations, there is insufficient emphasis on dual-use opportunities within the UK defence sector, which restricts the translation of defence R&D into commercial applications, and vice versa.<sup>37</sup> This limits productivity growth, reduces the potential for technology spillovers, and constrains the broader economic impact of defence innovation.
- iii. **Sub-optimal procurement processes** — Current procurement and contracting processes are complex, and often come with a high cost of participating, deterring new entrants and stifling innovation.

**EXAMPLE METRIC TO MONITOR**

Increased efficiency and effectiveness of government defence spending (for example, defence multiplier)

Suggested owner: HM Treasury

<sup>36</sup> UK — MOD (departmental expenditure limit), ADS (GVA) | USA — NATO (defence expenditure), Bureau of Economic Analysis (value added by industry — national defence)

<sup>37</sup> NATO Parliamentary Assembly, Critical dual-use technologies: commercial, regulatory, societal and national security challenges, 2024

## TASKFORCE RECOMMENDATIONS

The Taskforce has developed a set of overarching recommendations, each supported by detailed sub-recommendations, aimed at addressing the key challenges that currently limit the effectiveness of UK defence spending as an economic force multiplier.

### RECOMMENDATION 1.1: REFORM PROCUREMENT AND CONTRACTING

Historically, MOD procurement has focused on traditional evaluation and open competition, with limited emphasis on broader economic value. With ongoing reforms, there is now an opportunity to place UK economic impact at the heart of contracting, foster earlier and deeper collaboration with industry, and encourage shared risk through modern profit mechanisms. Achieving this will require a shift in MOD procurement mindset, prioritising investment, growth, and upskilling teams to better understand the needs of both finance and defence industry partners, thereby strengthening domestic value creation.

**Recommendation 1.1.1: MOD and HM Treasury (HMT) to explore the inclusion of explicit measures within the procurement award process to assess and capture the value generated for the UK economy (for example, via UK talent development and retention, investment, job creation, and IP development)**

Official government guidance on public expenditure, (the “Green Book”) incorporates economic growth impact through the Value for Money (VfM) criteria, assessing contributions to broader policy objectives. However, within defence, MOD does not have a developed and consistent approach to deploying this VfM guidance in procurement<sup>38</sup>, risking lower economic impact. The Taskforce recommends that VfM be clearly defined and systematically embedded within defence procurement, with a specific focus on UK value creation, without compromising pace in procurement. Potential aspects for consideration include: UK talent development and retention, investment, UK job creation and sustainment, and contribution to UK IP generation. These should be considered with regards to both the prime contractor and the wider supply chain, with clear accountability mechanisms embedded to ensure intended value is realised. Further consideration should also be taken for how to capture regional impacts of any proposed changes.

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<sup>38</sup> A government review identified 6 major issues with the VfM guidance (non-defence specific) — HMG, Green Book Review 2025: Findings and actions

**Recommendation 1.1.2: MOD to review supplier profit restrictions, with the intent to encourage greater risk sharing from private sector and incentivise private sector investment in UK productivity (for example, potential parameter tweaks, selective cap removal, or adoption of new approaches), building on the SDR recommendation to amend single source contract regulations**

**SDR:** By April 2026, the MOD should develop a package of support for its industrial partners that removes barriers to collaboration and drives better, more cost-effective results: reducing by at least 50% the burden of Defence Standards and Conditions; **working across Government to amend the Single Source Contract Regulations;** reforming regulations, Intellectual Property handling, and security clearance requirements; and providing access to intelligence, data, and test and evaluation sites

Current profit restriction structures often dampen incentives for cost reduction, resulting in stable but limited returns and discouraging industry and private capital from investing in productivity improvements. A public review should assess the downstream impacts of supplier profit restrictions, including the role of the Single Source Regulations Office (SSRO). The review could consider alternative models — such as raising the incentive cap (for example, to align with the USA approach), increasing the Cost-Related Allowance (CRA) band or introducing exemptions for R&D-intensive or export-oriented contracts. Approaches like the USA model, which allows profit renegotiation for demonstrated cost savings, should also be evaluated to better align incentives with innovation and efficiency.

**Recommendation 1.1.3: MOD to implement SDR recommendations for new segmented approach to procurement in a way that streamlines contracting practices for small and medium-sized enterprises (SMEs) and mid-markets, including new entrants, and delivers benefit to wider supply chain, including:**

**SDR:** New, segmented approach to procurement:

- Major modular platforms (contracting within two years).
- Pace-setting spiral and modular upgrades (contracting within a year).
- Rapid commercial exploitation (contracting within three months), with at least 10% of the MOD's equipment procurement budget spent on novel technologies each year.

- i. **Co-create new commercial pathways underpinning new segmented approach with SME and mid-market firms** — Co-creating commercial pathways underpinning the new segmented approach will ensure the specific needs of mid-market firms and SMEs are embedded, extending benefits across the broader supply chain. This should include simplifying bidding processes to reduce complexity, cost, and lead-times, leveraging the service-agnostic capability portfolios established by the SDR, drawing on the agility and rapid exploitation best practices set by Commercial X, the MOD's technology acquisition arm<sup>39</sup>. The MOD should also track and publicly report the number of SME and mid-market firms contracting directly in each segment, setting explicit targets for the commercial exploitation category, alongside tracking the 10% target for novel technology spending within the equipment procurement budget. This transparency will drive accountability and enable targeted, data-driven support for SME and mid-market participation.
- ii. **Review delegated authority thresholds, considering the risk and complexity of investments and the acquisition lifecycle, and implement proof-of-concept contracts to accelerate pace** — The new segmented approach rightly emphasises the need to accelerate contracting, especially within the “commercial exploitation” segment. This could be underpinned by a review, with industry input, of MOD spending thresholds, basing thresholds on the risk and complexity of the investment and not just the financial value, to drive pace in the decision making that precedes contract letting. This should also consider the acquisition lifecycle stage, encouraging delegation to those accountable for delivery in downstream investment decisions (for example, Full Business Cases, as per the Green Book). To support increased commercial flexibility, the Taskforce recommends an increased focus on procuring smaller ticket items at earlier stages via proof-of-concept contracts to inject much-needed cash flow.
- iii. **Engage industry to understand which aspects of the financial services and investment ecosystem are most relevant for each of the segments** — A segmented approach to defence procurement and innovation requires mapping the financial services and investment ecosystem at each stage of the commercialisation and supply chain pathway. By proactively engaging the financial sector throughout the design of commercial pathways, MOD can ensure that procurement processes are calibrated to attract the right type of capital at the right stage. Exhibit 11 presents the Taskforce's initial perspective on this segmentation, and continued dialogue is invited as these processes are refined and implemented.

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39 Gov.UK

**Exhibit 11: Capital flows aligned with segmented procurement approach<sup>40</sup>**

	Capital layer <sup>1,2</sup>	Typical Ticket and Tenor	Technology readiness	Return expectations (IRR)	Rapid Commercial Exploitation <1-year time horizon	Pace-Setting Spiral and Modular Upgrades ~2-year time horizon	Major modular platforms +5-year time horizon
GRANTS	Public grants and R&D grants	£50K-5M (non-dilutive)	Early TRL, spin outs	N/A			
EQUITY	Angel/Seed VC	£0.25-3M (3-5 yr)	Prove concepts (TRL 3-4)	30-40%			
	Early-stage <sup>3</sup> VC (incl. NSSIF)	£5-15M (5-7 yr)	Dual-use maturation (TRL 3-5)	20-30%			
	Growth/Scale capital	£15-100M (7-10 yr)	Factory buildout	15-25%			
	PE	£25M+ (5-7 yr)	Commercial	15-20%			
DEBT	Commercial debt and guarantees	Revolvers, invoice finance (3-5 yr)	Cash-flow smoothing	8-12%			
	Private debt	Varies	Varies	4-7%			
	Supply chain finance	Varies (1-3 yr)	Commercial	2-5%			
	Capital markets	Ticket value varies	Commercial	4-7%			

**MOD critical infrastructure remains an important point of investment consideration for infrastructure finance suppliers**

Low relevancy  High relevancy

1. Capital layer mapping — Companies funded through each capital layer will typically do business through the pathways highlighted as having high reference

2. Additional layer — Public national/multilateral development finance can be further used to catalyse public investment into the sector

3. Most likely involved in the testing phase

<sup>40</sup> Rewiring British Defence Financing, SDR, Oliver Wyman analysis — time horizon refers to time taken to award contract

## **RECOMMENDATION 1.2: IDENTIFY AND SCALE DUAL-USE OPPORTUNITIES FOR UK IP**

Dual-use opportunities offer significant potential to maximise the economic return of UK government spending and investment. The Taskforce recommends systematically identifying, supporting, and funding these opportunities, including both defence into commercial, and commercial into defence use cases, underpinned by an attractive approach to Intellectual Property handling to ensure both defence and commercial benefits are fully realised.

**Recommendation 1.2.1: HMG to clarify the roles and responsibilities in driving forward the dual-use agenda, including identifying cross-Whitehall governance and coordination mechanisms. Specifically, this should include:**

- i. **Clarity on strategic coordination of ongoing initiatives across Whitehall (including between MOD, Department for Science, Innovation and Technology (DSIT) and Department for Business and Trade (DBT)), with front-line command and more broadly with NATO allies** — dual-use capabilities should be considered across policymaking, ensuring a two-way dialogue with front line command. This should also extend to cross border innovation flows within NATO, via DIANA and other strategic allies, and there should be exploration of where the Defence Growth Board can provide oversight.
- ii. **Better visibility and connectedness between key delivery bodies, researchers and innovators working on dual-use technologies** — To drive innovation, there is a need to create and strengthen communities of researchers working across dual-use technologies, bridging the defence and civilian research ecosystems. This should include improved connectivity between Ploughshare, the Government Office for Technology Transfer, UK Innovation & Science Seed Fund (NSSIF), universities, and others.
- iii. **Identifying technology and service requirements in the defence acquisition pipeline with onwards dual-use or commercial applications** — For opportunities identified through proactive pipeline scanning, central coordination across government is required, facilitating the pull-through of innovation.

**Recommendation 1.2.2: HMT and MOD, via the Strategic Public Investment Forum, to generate and review options for better aligning and integrating existing publicly funded technology transfer and private capital mobilisation capabilities (for example, within Ploughshare, Government Office for Technology Transfer, National Wealth Fund (NWF) and British Business Bank(BBB)) in order to accelerate and scale civilian applications of defence IP**

Clearly defined pathways for the commercialisation of defence IP and knowledge are critical to facilitate accelerated transitions to commercial application. An independent review should assess the efficacy of the existing approach and develop options for improved alignment and integration, such as better integrating the existing and evolving service offer, including with the newly announced UKDI offering, or creating a new co-investment vehicle. Considerations for the review should include the visibility of government owned IP, clarity of criteria for IP selection, the transparency of processes for evaluating commercial potential, how early evaluation is undertaken, and mechanisms for crowding-in private investment to support the scaling of spin-outs.

**Recommendation 1.2.3: DSIT to commission UK Research & Innovation (UKRI), with the Intellectual Property Office (IPO) and others to develop a pilot for the use of advanced analytics on patents and research publications to identify additional opportunities for dual-use applications**

Advanced analytics can accelerate the identification of dual-use opportunities, particularly within the broader civilian innovation landscape. For example, DSIT could adopt best practices from Singapore — where artificial intelligence is used to auto-classify patents by technology domain<sup>41</sup> — by launching an AI-driven system to automatically identify patents with dual-use potential. This would enable the rapid triage and exploration of promising innovations, ensuring that high-value opportunities are systematically captured and advanced for both defence and commercial applications.

**Recommendation 1.2.4: MOD to ensure the review of Intellectual Property (IP) handling practices recommended in the SDR is aligned with the drive for increased defence and dual-use innovation and investment, without compromising national security objectives**

**SDR:** By April 2026, the MOD should develop a package of support for its industrial partners that removes barriers to collaboration and drives better, more cost-effective results: reducing by at least 50% the burden of Defence Standards and Conditions; working across government to amend the Single Source Contract Regulations; reforming regulations, **Intellectual Property handling**, and security clearance requirements; and providing access to intelligence, data, and test and evaluation sites.

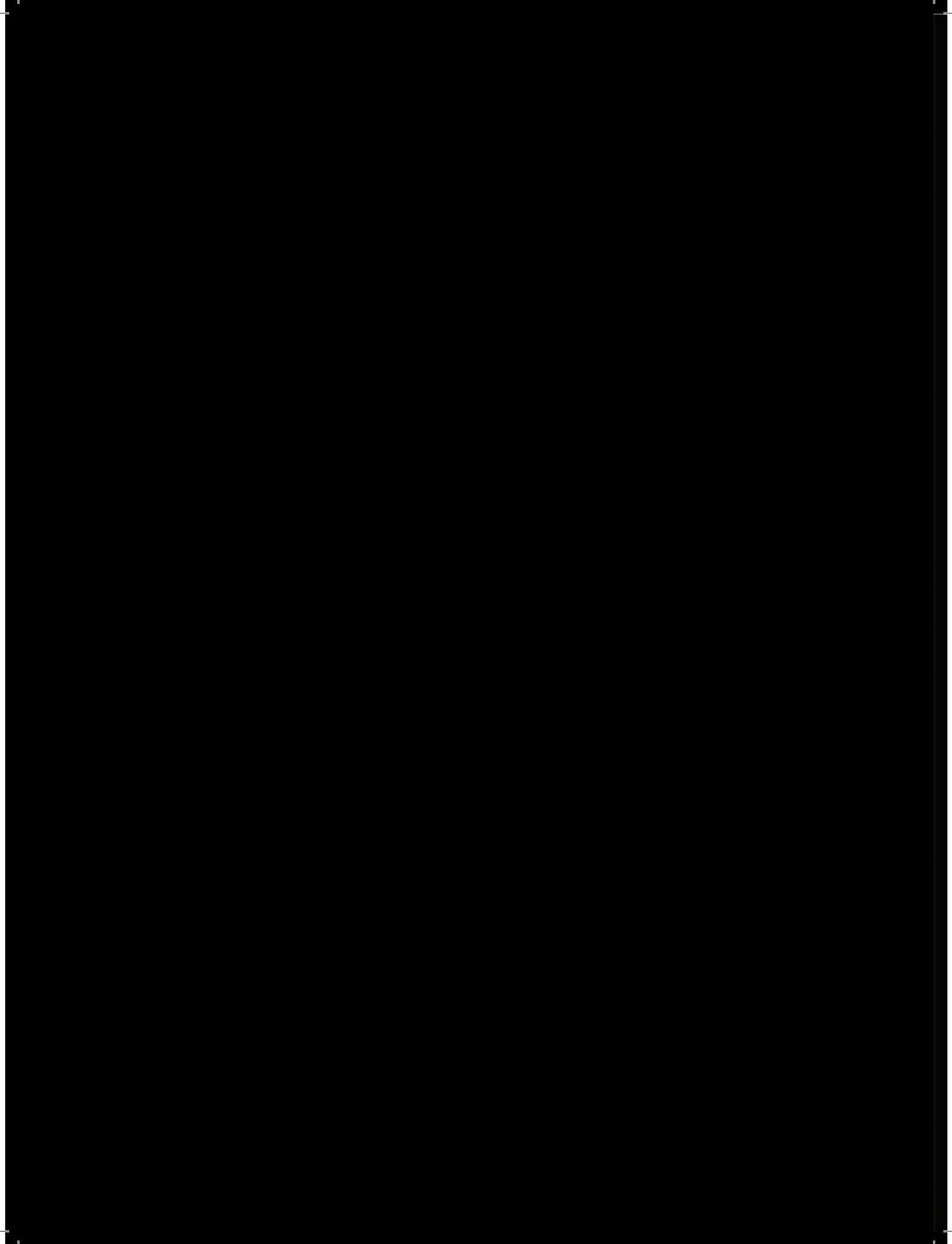
IP is essential for the company valuations undertaken by prospective investors and a key driver for wider economic growth. Through engagement with the private sector, the review should seek to explore levels of understanding of MOD defence IP handling across both industry and the finance and investment community, identifying any opportunities to improve understanding and any areas for improvement.

**Recommendation 1.2.5: HMT and HM Revenue and Customs (HMRC) to work with industry to understand stakeholder feedback on administrative barriers in claiming R&D tax relief for defence and dual-use projects, and to continue to improve the administration of the reliefs in order to enhance certainty and access for legitimate claimants while maintaining effective controls**

Defence and dual-use companies have reported experiencing challenges accessing R&D tax reliefs, including linked to contract non-disclosure agreements (NDAs). This should be explored further through industry engagement. We recommend HMT and HMRC ensures the administration of the system is efficient, including for SMEs and mid-market companies with limited capital for R&D investment<sup>42</sup>. HMRC should continue to work with industry to improve the administration of the reliefs, including considering any issues facing the defence industry specifically.

<sup>41</sup> WIPO IP Offices and AI initiatives index; AskGov — FAQ on National Security Clearance

<sup>42</sup> ADS, GMB Union, Prospect, Securing Our Future, Together





# TARGET OUTCOME 02

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Improve **attractiveness**  
**and international**  
**competitiveness** of  
defence-related companies

## TARGET OUTCOME 2

# IMPROVE ATTRACTIVENESS AND INTERNATIONAL COMPETITIVENESS OF DEFENCE-RELATED COMPANIES

## KEY CONTEXT, CHALLENGES AND OPPORTUNITIES

Elevating the capabilities and global market presence of defence companies located in and contributing to the UK economy can unlock new revenue opportunities through expansion of the addressable market, attracting both new entrants and private sector investment. This can create a virtuous cycle, where increased funding leads to innovation, improved production capabilities, and ultimately, greater competitiveness in both domestic and international markets.

Despite the committed uplift in UK government spending on defence, government spending is ultimately finite. The UK must continue to strengthen the domestic defence market to incentivise capital expenditure and increase attractiveness to investors, drawing finance flows to companies in the UK. There is a compelling incentive to double down on and further elevate the UK defence sector as a global leader, capitalising on international revenue pools. By enhancing and showcasing the quality and breadth of companies within the UK supply chain, UK firms can establish themselves as suppliers of choice in international markets.

Moreover, with the prominence of mass-produced, affordable, autonomous systems reshaping warfare, international competitiveness is no longer solely defined by the large-scale systems which have traditionally been the focus of procurement. As these lower cost systems undergo more frequent cycles of innovation, it is essential to ensure the UK defence and dual-use industry can develop at the pace required to meet the needs of international markets.

Alignment with international markets, through joint procurement and co-created roadmaps with peers, is essential for providing domestic industry with the appropriate export demand signals<sup>43</sup>. Success is also inhibited by the barriers and friction created by long processing times and lack of resourcing in key export agencies.

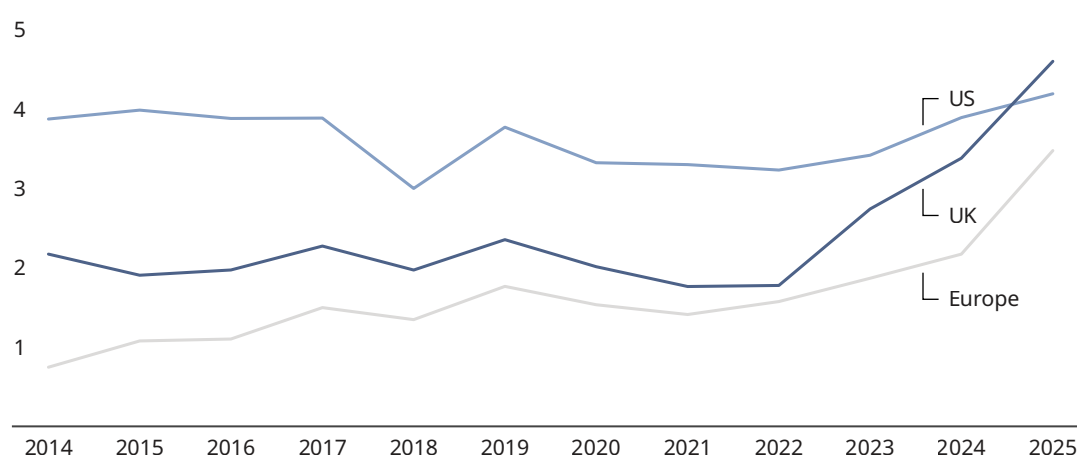
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43 ADS, Defence Sector UK Outlook 2025

Critical defence capabilities must be prioritised alongside identifying dual-use technologies which enable and support these capabilities. Investing in dual-use development is vital for realising wider growth outcomes and allows UK defence companies to unlock new revenue streams, drive productivity, create high-skilled jobs and stimulate technological advancements. This prioritisation entails supporting defence and dual-use technologies to transition from initial demonstrations to operationalisation, leaping the “valley of death” which stifles innovation.

#### Exhibit 12: Market capitalisation of listed defence companies as a % of GDP<sup>44</sup>

2014-2025



Listed UK defence company valuations have more than doubled since the start of the war in Ukraine, as reflected in Exhibit 12 above. Specifically, listed UK defence companies’ market capitalisation-to-GDP ratio has caught up with and surpassed the US. European firms have also followed that trend, albeit with a delay. The recommendations of this Taskforce seek to build upon this momentum.

#### EXAMPLE METRIC TO MONITOR

An increase in the Return on Investment (RoI) in defence-related companies

Suggested owner: Department for Business and Trade

<sup>44</sup> European market capitalisation and GDP only for the subset of European countries with listed defence companies; Latest figures are from May 2025, CapiQ, UN Trade & Development Bank, IMF

## TASKFORCE RECOMMENDATIONS

This Taskforce has identified two key overarching recommendations with detailed sub-recommendations seeking to address key challenges constraining the attractiveness and international competitiveness of UK defence-related companies.

### RECOMMENDATION 2.1: INCREASE ACCESS TO INTERNATIONAL MARKETS

Growing the international presence of the UK defence industry requires a government strategy which aligns UK defence with international needs. Championing UK capabilities on the international stage, complemented by export support, will enable companies to capitalise on additional opportunities.

**Recommendation 2.1.1: MOD, with the Foreign, Commonwealth and Development Office (FCDO) and DBT, to identify opportunities to influence international procurement frameworks and partnerships, including the NATO industrial defence framework via NATO forums, as part of implementing the SDR recommendation to take a 'NATO' First approach to international partnerships, and identify opportunities with value to the UK from:**

**SDR:** This will be achieved by the UK leading within NATO and taking on more responsibility for European European security. That's why our **defence policy is 'NATO First'**. The UK's strategic strength comes from our allies and, in a dangerous world, our unshakeable commitment to NATO means we will never fight alone. But 'NATO First' does not mean 'NATO only' — and we remain committed to our allies and partners across the world, as our security is closely connected.

- i. **Increasing the UK's share of existing international procurements** — The MOD, working through NATO forums and beyond, and in partnership with FCDO and DBT, should proactively identify opportunities to expand the UK's participation in established international procurement programmes — such as GCAP and AUKUS. While core suppliers are often predetermined within these agreements, system upgrades and evolving capability requirements present valuable entry points. This should include MOD, FCDO and DBT identifying where the UK is leading across NATO and wider allies and collaborating closely with industry to effectively showcase the UK's technical strengths and capabilities, positioning UK firms to proactively shape the needs of these programmes and secure a greater share of future opportunities as they arise.
- ii. **Expanding new joint or international procurement efforts** — Expanding joint or international procurement agreements presents a significant opportunity to unlock new revenue streams for defence companies operating in the UK, with formal international partnerships giving investors greater confidence and certainty that government spend will be delivered in those areas, strengthening demand signals. Achieving success in this area will require proactive negotiation at the intergovernmental level, underpinned by robust evidence of UK industry capabilities.

The MOD, working closely with the FCDO and DBT, should take a leading role in shaping new joint procurement initiatives — both within NATO and with other key partners — by providing thought leadership in defining requirements and advocating for the inclusion of UK strengths in capability planning. At the same time, targeted support should be provided to further develop the UK defence industrial base, ensuring it is well-positioned to compete and deliver on the opportunities these new agreements will create. MOD should also explore rejuvenating joint capability development mechanisms such as Permanent Structured Cooperation (PESCO).

- iii. Aligning international partnerships to support UK companies to develop exportable offers** — The Taskforce recommends that the MOD work closely with its counterparts in allied nations to align development roadmaps and requirements, enabling UK companies to design systems with clear export potential from the outset. By co-creating capability roadmaps with international partners, the UK can prioritise development of domestic solutions that are compatible with allied needs, enhancing international competitiveness and significantly increasing export opportunities for UK industry. Strategic leadership from the MOD and government is a critical enabler to driving these partnerships at scale.

**Recommendation 2.1.2: MOD to ensure the implementation of the SDR recommendation to establish a Defence Export Office involves a clear mandate and sufficient capacity and capability, including SME and mid-market expertise. It should consider as implementation priorities:**

**SDR:** The UK must establish the necessary conditions for boosting defence exports and joint capability partnerships under the leadership of the National Armaments Director. This should include:

- Clear governance, accountability, and streamlined processes. Responsibility for UK Defence and Security Exports should be transferred from the Department for Business and Trade to the MOD. The MOD should coordinate with other relevant departments to achieve its export goals.
- A new framework for building and sustaining government-to-government relationships, including through ongoing military-to-military collaboration, with a view to delivering export opportunities for UK businesses.
- A review of export licensing policies. This should include considering how to improve prioritisation and provide clarity to industry and international partners<sup>45</sup>.

<sup>45</sup> Strategic Defence Review, 2025, p.63

- i. **Coordinating ministerial and industry engagement to champion UK defence overseas and secure export contracts** — Championing UK defence and highlighting aspects of use by British Armed forces provides a clear stamp of quality and demand signal to foreign ministries of defence and boosts firms abilities to secure export orders.
- ii. **Developing a new framework for building and sustaining government-to-government relationships** — The framework should be designed to strengthen the UK's relationships with other governments, facilitate export sales, and advance strategic alignment and joint procurement opportunities. This framework should work alongside the EU-UK defence partnership, with robust regional coordination as an enabler to the UK fostering strong bilateral partnerships which have defence as a central pillar.
- iii. **Supporting a review of export licensing policies** — The Taskforce recommends a comprehensive review of export licensing policies to reduce friction, improve speed and ensure adequate resourcing to deliver at required pace, to lower perceived barriers to exporting defence and dual-use products. While maintaining the integrity of essential export controls, the focus should be on simplification and friction reduction to make exports more viable for domestic producers — particularly SMEs — by streamlining processes, increasing transparency, and expediting approvals. These reforms will encourage export growth, enhance the global competitiveness of UK companies, and enable established exporters to respond more rapidly to international opportunities.
- iv. **Explore the role of defence offsets in international trade, through working with DBT in the context of wider trade strategy** — In line with the 'Team UK' approach, defence offsets present an opportunity for MOD to achieve procurement objectives while reinforcing support for UK industry. By offsetting defence imports with corresponding export commitments — typically negotiated at the bilateral level — the Defence Exports Office can ensure that international trade in defence delivers reciprocal value to the domestic sector. Building on existing approaches to trade offsets, the Taskforce recommends that clear criteria for defence offsets be defined and tested, enabling the MOD to assess their effectiveness and welcome continued dialogue on this topic in the future.
- v. **Exploring a specific defence exports roadshow** — The Taskforce recommends that the Defence Exports Office explores the launch of a dedicated defence exports roadshow, building on the success of the cross-industry "Made in the UK, Sold to the World" series initiated in April 2025<sup>46</sup>. By positioning the government as a vital reference customer and actively endorsing UK defence companies on the international stage, this roadshow will provide a significant boost to demand for exportable products. Such visible government support is a key factor in enhancing credibility, opening new markets, and driving export growth, particularly for smaller defence participants.
- vi. **Designing an 'exportability' assessment into procurement business case development** — The Taskforce recommends an 'exportability' assessment be systematically integrated into the development of procurement business cases. Embedding export considerations early in the procurement process will encourage domestic industry to design and produce solutions with international markets in mind. Close alignment with international partnerships and capability roadmaps will further enable the Defence Exports Office to accurately assess and maximise the export potential of new capabilities.

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46 GOV.UK

**vii. Continuing leveraging and operating through DBT’s international network of trade envoys** — Building on lessons learned from the Science and Innovation Network such as the importance of building networks of trusted relationships, maintaining cohesion with DBT’s broader export network will be critical to ensuring defence export strategies are aligned with and appropriate to wider trade relationships (building on the recently published Trade Strategy by DBT<sup>47</sup>), particularly given the Defence Export Office’s proposed placement within the MOD.

**viii. Providing an integrated offer with UK Export Finance (UKEF)** — Building on the recently announced increase to UKEF’s direct lending capacity for defence (increasing from £8 billion to £13 billion, with £3 billion ring-fenced for defence only<sup>48</sup>), the Taskforce recommends the Defence Exports Office works closely with UKEF, to develop further dedicated export finance capacity for defence to ensure a clear and integrated offer for the defence industry, including sector-specific and SME-specific considerations, as proposed in the Rewiring British Defence Financing paper<sup>49</sup>. The review of UKEF’s mandate announced in the Modern Industrial Strategy may also create opportunities for UKEF to improve its offer to the sector<sup>50</sup>.

#### CASE STUDY TO DRAW LEARNINGS FROM

#### DEFENCE EXPORT ADVOCACY BY SENIOR GOVERNMENTAL OFFICIALS IN FRANCE

**Key context:** In France, senior ministerial support for defence exports is commonplace, with exports championed by the President, Defence Minister and other departments.

**Key outcome:** Government-to-government advocacy secures export deals and is one of the drivers of France’s growing share of the defence export market.

**Example:** In 2015, Rafale had never successfully exported their fighter jets, until the French President and Defence Minister directly advocated for them in Egypt, securing an export of 24 jets<sup>51</sup>. The advocacy was backed by whole-of-government support, including senior air-force officials certifying the early delivery promise, and the Treasury securing state financing support. After France delivered on the deal within five months, there were subsequent G2G Rafale sales to Qatar and India<sup>52</sup>, and France was cemented as a key supplier to Egypt.

47 GOV.UK, The UK’s Trade Strategy, 26 June 2025

48 GOV.UK, £2 billion boost for defence sector to unlock orders from allies, 14 March 2025

49 Rewiring British Defence Financing, 2025, p.4

50 GOV.UK, Modern Industrial Strategy, p.50

51 La Tribune, “Arms exports (3/4): Egypt, the divine surprise in 2014”; France 24, “France confirms sale of 24 Rafale fighter jets to Qatar”; Defense News, “France Delivers First Rafales to Egypt”

52 Ibid.

**Recommendation 2.1.3: Building on EU-UK Pact, HMG to continue to refine the benefits case for full access to EU Security Action for Europe (SAFE) Fund, for example through off-balance sheet financing options and increased share of international procurements for UK companies**

SAFE enables participating countries and companies to access EU-backed loans, grants, and co-investment, enhancing collaboration and competitiveness in strategic sectors such as defence. Currently, the UK involvement will be limited to sub-contracting roles, restricting UK value to just 35% of final system costs<sup>53</sup>. A thorough benefits case review should consider the advantages of securing full SAFE participation status — granting the UK the ability to participate fully in joint procurement projects supported by €150 billion in EU-backed financing. This would expand revenue opportunities for UK firms, foster stronger integration between European and UK defence industries, and allow access to triple-A rated capital as well as off-balance sheet financing options.

**RECOMMENDATION 2.2: IMPROVE DEFENCE AND INVESTMENT COMMUNITY COLLABORATION AND INFORMATION SHARING**

The economic attractiveness of UK defence companies relies on robust collaboration between industry, government, and investors. The Defence Industrial Joint Council (DIJC) is uniquely positioned to serve as the single strategic interface for the sector, offering direct engagement and clear communication channels. By fulfilling this role, the DIJC can ensure that companies have opportunities to showcase their capabilities, investors gain deeper sector insight, and all parties remain strategically aligned — enabling rapid and effective responses to evolving market opportunities and national priorities.

**Recommendation 2.2.1: MOD, with industry support, to build a comprehensive delivery model and programme of work to empower the DIJC as the single strategic interface to streamline community building and market engagement**

The DIJC should provide a single strategic interface for the market. Therefore, designing the correct delivery model for the DIJC is critical — key aspects of the design include:

- i. **Governance model** — Including mandate, decision making, accountability and alignment with other bodies for example, the Defence Growth Board
- ii. **Target outcomes** — Accompanied by key success measures
- iii. **Delivery blueprint** — Encompassing operating model, sub-structures and mechanisms for delivery and collaboration, including plans for integration of efforts into MOD policy teams
- iv. **Prioritised programme of work** — Ensuring a clear pipeline of actionable work with measurable delivery outcomes and prioritised initiatives to take forward. This may include priority problem sets to collaborate on

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<sup>53</sup> European Commission

- v. **Augmented secretariat support** — With responsibility for coordination, stakeholder engagement, and for shaping, supporting, and enabling the implementation of DIJC initiatives

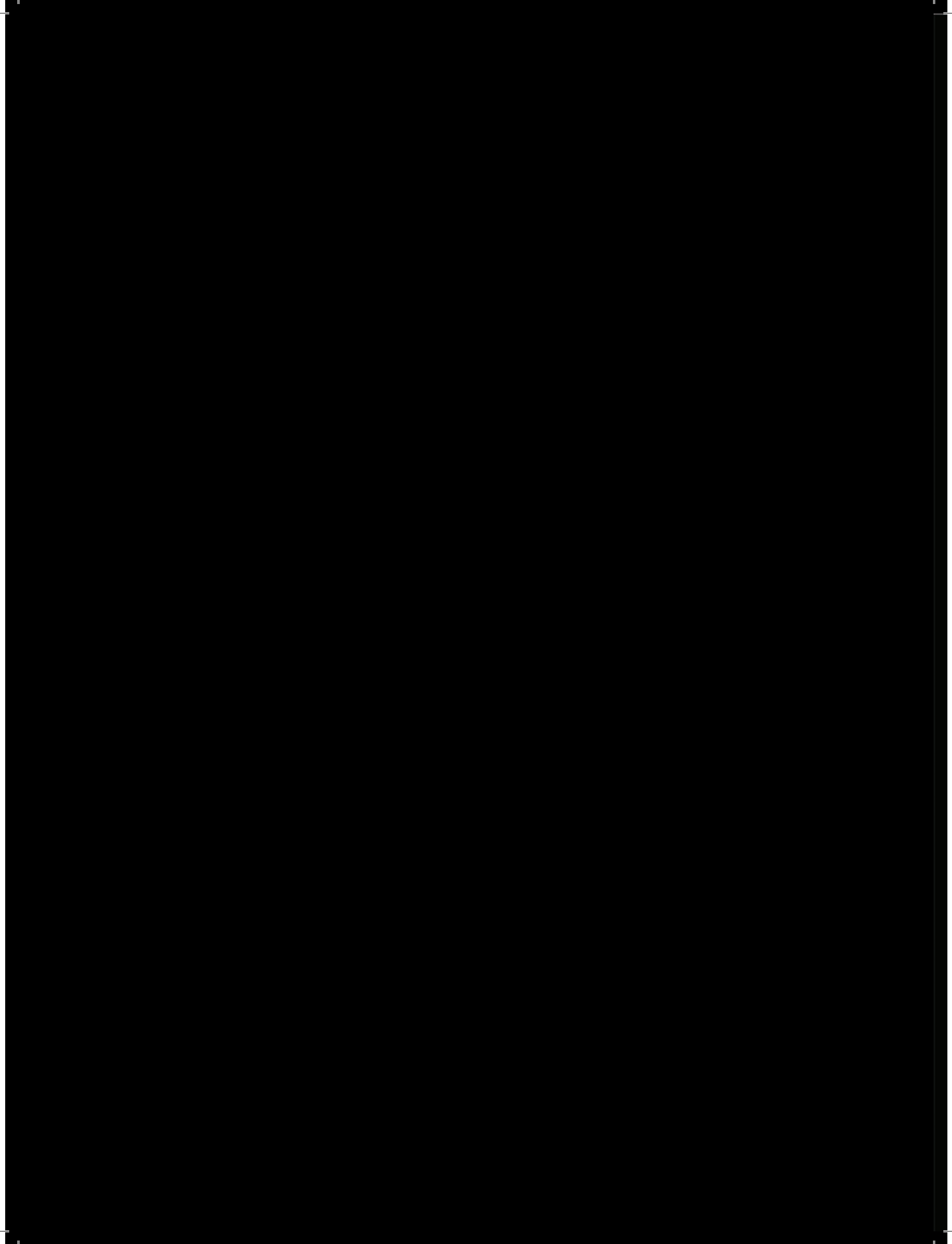
The Taskforce further recommends that the DIJC secretariat is sufficiently capacitated with right expertise, to drive forward delivery at pace.

**Recommendation 2.2.2: MOD to establish the Defence Investors' Advisory Group (DIAG) recommended by the SDR and ensure it is aligned underneath the top-level direction provided by the DIJC. Specifically, this Taskforce recommends that the DIAG:**

**SDR:** In particular, defence should build relationships with the investors behind the innovators. External expertise should be systematically accessed through a new **Defence Investors' Advisory Group** whose membership includes venture capital and private equity investors, while private finance should be crowded in under new funding models.<sup>54</sup>

- i. **Build on the dialogue fostered by this Taskforce** — The DIJC should ensure the DIAG can act as a permanent advisory body that brings together all types of financial institutions, government, and defence stakeholders. The DIAG should advise government on how to foster a community of defence industry, financial services and investors, including through regular meetings and streamlined access to information. The community should convene flagship events and create structural mechanisms for continuous collaboration and open communication. For continuity, MOD should consider an ongoing role for Taskforce members as part of the DIAG.
- ii. **Shape the development of the Defence Financial Services Strategy** — This Taskforce recommends the DIAG leverages the expertise of this current Taskforce and builds on the cross-sector dialogue and alignment already achieved, to shape the development of the Defence Financial Services Strategy.
- iii. **Advise on the creation of a financial services and investment community of interest that leverages wider government structures, including the Office for Investment** — The DIAG should advise the government on how to engage with the financial services and investment community, including financial institutions with a lower historical involvement in defence, such as pension funds, to ensure diffusion of information and streamlined user journeys for investors.
- iv. **Capture feedback around enduring blockers to capital mobilisation into the sector** — To ensure effective support to private capital from government and industry, the DIAG should escalate blockers to capital mobilisation and advocate for policy and regulatory support, while championing the implementation of this Taskforce's recommendations.
- v. **Contribute to and monitor delivery in line with DIJC priorities** — The DIAG should contribute to delivery of initiatives and track and report progress against target outcomes.

<sup>54</sup> Strategic Defence Review, 2025, p.16





# TARGET OUTCOME 03

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Mobilise **trusted private  
sector investment**

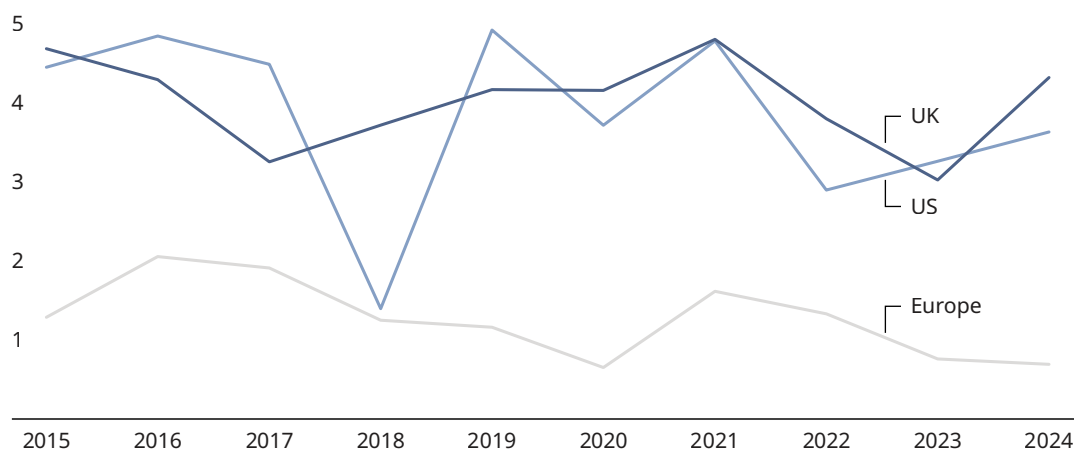
## TARGET OUTCOME 3

# MOBILISE TRUSTED PRIVATE SECTOR INVESTMENT

## KEY CONTEXT, CHALLENGES AND OPPORTUNITIES

The private equity buyout and venture capital deal volumes relative to GDP UK defence sector have historically lagged those in the USA. However, Exhibit 13 and Exhibit 14 show how the UK is beginning to close this gap. Despite this trend, buyout and venture capital deal values tend to be higher in the USA compared to the UK and Europe. However, the UK does feature notable high-value buyout deals that significantly exceed the peaks seen in the other two regions. Whilst buyouts in isolation are not solely indicative of achieving this target outcome, this upwards trend underscores the importance of enhancing the flow of trusted private sector investment into the defence industry.

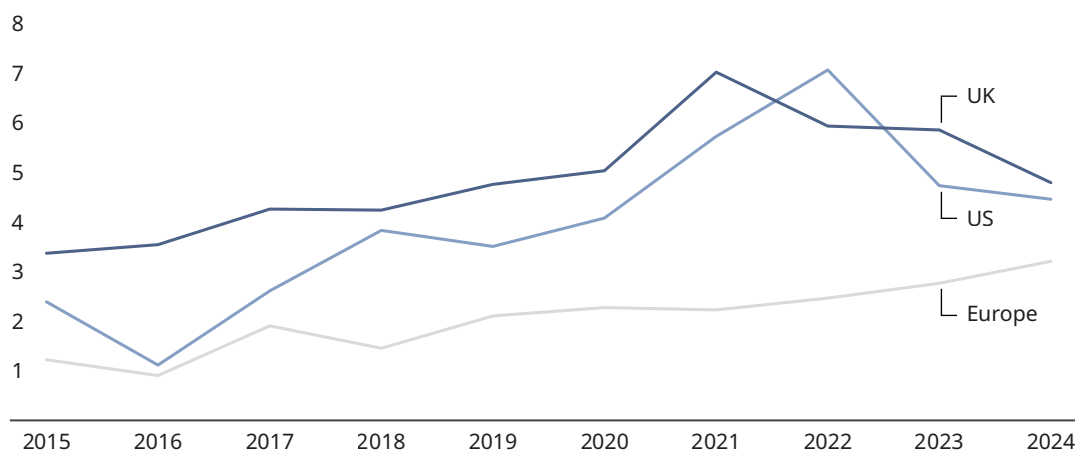
**Exhibit 13: Ratio of deal volume to GDP for defence sector buyouts in the USA, UK and Europe<sup>55</sup>**  
number of deals per \$ trillion of GDP



<sup>55</sup> Preqin, Global Defence sector buyouts | IMF

#### Exhibit 14: Ratio of deal volume to GDP for defence sector venture capital deals in the USA, UK and Europe<sup>56</sup>

number of deals per \$ trillion of GDP



Increasing trusted private sector investment is crucial for enabling defence companies to enhance their focus on dual-use technologies and for fostering innovation among SMEs, start-ups and scale-ups, which may lack the financial security of long-term government contracts. The Taskforce has identified these smaller entities as facing significant financial barriers that hinder their ability to capitalise on emerging opportunities in the defence landscape<sup>57</sup> and ultimately hinder their ability to scale and address the “missing middle” gap in the UK.

As new technologies continue to reshape advanced defence capabilities, unlocking innovation through private sector investment is imperative. This approach not only supports growth within the defence sector but also contributes to broader economic growth and productivity. Fostering a robust investment environment ensures that the UK remains competitive in the global defence market while driving innovation and economic development.

#### EXAMPLE METRIC TO MONITOR

Increased volume of trusted private capital flows into defence sector as a proportion of the country's GDP

Suggested owner: HM Treasury

<sup>56</sup> Prequin, Global defence sector venture capital | IMF

<sup>57</sup> TheCityUK, ADS, Finance and investment for UK defence

## TASKFORCE RECOMMENDATIONS

This Taskforce has identified two overarching recommendations with detailed sub-recommendations, seeking to address key challenges constraining trusted private sector investment flows into defence.

### RECOMMENDATION 3.1: REFINE AND AMPLIFY GUIDANCE ON POLICY AND REGULATORY CONSIDERATIONS

The Taskforce seeks to mobilise investment by simplifying the conditions for investment through clarity of regulation and streamlining the due diligence process. To align with these guidance changes, this Taskforce encourages the review of investment policies from private investors, particularly surrounding the position of defence as positive within Environmental, Social and Governance (ESG) considerations.

#### **Recommendation 3.1.1: UK banks, pension funds, investment managers and asset owners to review investment due diligence-based exclusions related to defence**

As of March 2024, only 29.8% of EU and UK domiciled ESG funds had any exposure to aerospace & defence<sup>58</sup>, implying a significant missed opportunity. Noting institutions may have legacy exclusions of defence, the Taskforce recommends that UK financial institutions conduct reviews of internal policies towards defence, considering the latest guidance, including from the Financial Conduct Authority (FCA) in March 2025<sup>59</sup>, and the governmental support for defence as core to ESG principles<sup>60</sup>. This will enable financial institutions to redefine their relationships with the defence industry, capitalising on the current positive momentum and avoid unnecessary situations of debanking.

#### **Recommendation 3.1.2: HMG and FCA to undertake further engagement with the Defence industry, NGOs, financial institutions, the investment community and, where relevant, fellow regulators, to understand any barriers to investment, including the application of ESG regulations. HMG to undertake further engagement with the Defence Industry, NGOs, financial institutions and the investment community on broader human rights due diligence obligations**

Whilst regulation may not officially pose barriers to defence investment, further engagement is required to identify areas where streamlined, consistent guidance is required, for example perceived ESG constraints on defence investment. Building on this, the Taskforce also recommends that HMG work with the OECD and UN to understand how human rights due diligence obligations, the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct, and the United Nations Guiding Principles (UNGPs) should apply to financial institutions supporting the defence sector, alongside financial crime compliance requirements for UK banks engaging in the defence sector. This engagement should seek to build confidence for those seeking to participate in the sector.

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<sup>58</sup> Principles for Responsible Investment, "The defence sector in focus: Common ESG risks", 2024

<sup>59</sup> FCA, Our position on sustainability regulations and UK defence, 11 March 2025

<sup>60</sup> TheCityUK, ADS, Finance and investment for UK defence

**Recommendation 3.1.3: HMT with DSIT to develop trusted capital principles, to empower financial institutions, investors, and companies operating in the defence sector, and explore with the MOD and DIAG options for convening a trusted capital network**

Trusted capital principles will clarify how industry and investors can interpret and apply the term “trusted capital” to ensure ongoing alignment with policy, thereby increasing confidence for both providers and recipients of investment. Additionally, convening a trusted capital network could further accelerate the investment process, reducing delays associated with the rigorous due diligence standards required for defence investments, whilst maintaining robust safeguards for national security.

**Recommendation 3.1.4: MOD to streamline standards for defence industry value chain and supply chain due diligence, including working towards increased transparency and accessibility of information, exploring with financial institutions opportunities for increasing visibility and accessibility of defence company compliance (for example, with human rights due diligence obligations) to improve efficiency, and driving adoption of standards across the financial sector**

By establishing clear, consistent guidelines underneath existing FCA standards (for example sanctions, KYC, cyber security and information assurance, ESG etc.) and encouraging their adoption by the financial sector, MOD can reduce complexity and compliance burdens for both suppliers and investors. In streamlining these standards, MOD should leverage the extensive due diligence requirements native to the industry and simplify, rather than create new standards, to minimise additional burdens placed on the financial sector. Moreover, increasing supply chain transparency from prime contractors down to lower tier suppliers, as encouraged in the Rewiring British Defence Financing report<sup>61</sup>, can facilitate due diligence by both the government and private investors and should be explored in a manner which balances transparency with security, expanding on peer examples such as the 2022 USA National Defence Industrial Strategy (NDIS) recommendation to leverage data analytics to improve sub-tier visibility<sup>62</sup>. Building on recommendation 3.1.2., further engagement with regulatory bodies to support the interpretation of regulation is encouraged.

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<sup>61</sup> Rewiring British Defence Financing, 2025, p.5

<sup>62</sup> U.S DoD, Fact Sheet: National Defence Industrial Strategy, 2022

**Recommendation 3.1.5: MOD to establish single-point-of-contact to triage information requests required to support due diligence and disclosure requirements, and help investors navigate international compliance**

The single point of contact dedicated to triaging information requests from investors, streamlining the process of due diligence and disclosure should provide timely, coordinated responses to investor enquiries, helping to clarify compliance requirements and facilitate access to necessary information. This team requires investment skills and knowledge and should be contactable via a single email address with a clear service-level agreement for response times, with in-person appointments available on request. By supporting investors in navigating complex international regulatory landscapes, this initiative will reduce friction in the investment process and enhance transparency.

**RECOMMENDATION 3.2: CATALYSE AND LEVERAGE PRIVATE CAPITAL INCLUDING THROUGH A TARGETED AND COHERENT OFFERING FROM UK PUBLIC FINANCIAL INSTITUTIONS**

Public financial institutions play a critical role in mobilising private capital by signalling demand for key technologies, sharing risk to incentivise investment in operating companies, and bridging funding gaps for early-stage firms to accelerate their path to commercialisation and private financing. The Taskforce recommends a more ambitious and targeted deployment of existing programmes to support the defence sector, underpinned by enhanced strategic coordination among public financial institutions.

**Recommendation 3.2.1: HMT, with MOD via the Strategic Public Investment Forum, to review current and proposed offer from participants in the UK public financial services ecosystem, including for example the NWF, BBB, UKEF, and UKDI, to UK defence sector and dual-use companies, projects, and investors, identifying opportunities to better mobilise private investment. This review should also consider opportunities to better coordinate grant funding, loans, guarantees and other forms of financial assistance.**

A comprehensive analysis of the organisations operating in the UK public finance ecosystem (including those identified in Exhibit 15) is essential to identify gaps and opportunities for increased support across the defence and dual-use innovation ecosystem. By mapping the full spectrum of public funding instruments — from early-stage grants and innovation loans to scale-up finance, defence guarantee schemes and large infrastructure investments — government and private sector stakeholders can pinpoint where additional resources, coordination, or new mechanisms are needed.

**Exhibit 15: Summary of UK public financial services ecosystem participants' current role in defence**

<b>Ecosystem participant</b>	<b>Remit</b>	<b>Current offering to UK Defence sector</b>
<b>UK Research and Innovation (UKRI) including Innovate UK</b>	Cross-sector	Provides grants, R&D loans and Catapult support to defence companies, alongside companies in other sectors, enabling access to skills and infrastructure, with investor partners providing private capital alongside government capital. Connects civilian businesses with defence markets, and partners with BBB for funding continuum.
<b>British Business Bank (BBB)</b>	Cross-sector	Provides investment capability to NSSIF, with scope for increased defence investment given significant uplift in capacity (£10.3 billion) <sup>63</sup> announced in the Spending Review.
<b>National Wealth Fund (NWF)</b>	Cross-sector	Provides funding for late-stage, capital-intensive assets that are critical to the defence ecosystem — such as gigafactories and critical minerals processing facilities. Mandated to consider investments in dual-use technologies through the Statement of Strategic Priorities <sup>64</sup> .
<b>National Security Strategic Investment Fund (NSSIF)</b>	Security & Defence	Joint initiative between Government and BBB. NSSIF invests commercially, alongside other investors, in innovative start-ups with dual-use potential.
<b>UK Export Finance (UKEF)</b>	Cross-sector	Provides guarantees and direct lending to other governments to support the purchase of goods and services from the UK, with a strong record of support for the defence sector. Within a wider boost in the Spending Review, an additional £2 billion of direct lending has been ringfenced to defence. Also provides credit and political risk insurance directly to UK exporters, and guarantees working capital loans to UK exporters <sup>65</sup> .
<b>Advanced Research and Invention Agency (ARIA)</b>	Cross-sector	Provides R&D funding in underexplored areas in the UK, sponsored by DSIT. At least £1 billion over the Spending Review has been committed to scale up the agency <sup>66</sup> .
<b>UK Innovation Science Seed Fund (UKI2S)</b>	Cross-sector	National seed investment fund supporting early-stage businesses and spinouts, with defence and security as one of several focus areas <sup>67</sup> .
<b>Defence Research and Evaluation Org (DREO)</b>	Defence	New organisation, announced in SDR, providing support for early-stage research and acting as a gateway to academia and research organisations across UK and allied countries.
<b>UK Defence Innovation (UKDI)</b>	Defence	New organisation, announced in SDR, focused on harnessing commercial innovation in defence, including dual-use technologies. Expected ringfenced annual budget of at least £400 million <sup>68</sup> .

<sup>63</sup> Spending Review, 2025, p.33

<sup>64</sup> GOV.UK, Statement of Strategic Priorities to the National Wealth Fund, 19 March 2025

<sup>65</sup> GOV.UK, £2 billion boost for defence sector to unlock orders from allies, 14 March 2025

<sup>66</sup> Spending Review, 2025, p.34

<sup>67</sup> UKI2S

<sup>68</sup> Strategic Defence Review, 2025, p.16

**Recommendation 3.2.2: MOD, with HMT and industry leaders, to explore options for innovative financing and service delivery models across defence capabilities and infrastructure, that deliver value for money and create the opportunity for increased market returns**

The scale of capital required to build and modernise UK defence capabilities likely exceeds what government alone can deliver, even with increased commitments. The Taskforce recommends exploring innovative investment solutions, such as structured equity mechanisms and innovative delivery models for capabilities, infrastructure and housing. This could build on international learnings, for example, from SpaceX's partnership with the USA government and the Defense Innovation Unit Experimental (DIUx). Future pilots could address persistent funding gaps in the middle market and attract significant international capital into the sector, with government participation structured to catalyse private investment at scale, and with a view to potential future expansion.

Pilots in defence should also draw learnings from the Public Private Partnerships (PPPs) being considered across health infrastructure and decarbonisation projects, as set out in the government's recently published 10-year Infrastructure Strategy<sup>69</sup>. Next steps could include identifying key initiatives to prioritise for piloting the investment arrangement, targeting projects with the highest benefits and feasibility of partnership.

**CASE STUDY TO DRAW LEARNINGS FROM  
SPACEX<sup>70</sup>**

**Key context:** SpaceX's growth was catalysed by a risk-sharing model under NASA's Commercial Orbital Transportation Services (COTS) program, in which NASA provided funding which was required to be matched by significant private investment (founder capital, venture investment, loans, early revenue).

**Key outcome:** This approach enabled SpaceX to transition from prototype to operational launch services, significantly reducing costs and timelines compared to traditional procurement.

**Detail:** NASA, as the lead investor in COTS, offered funding to companies which agreed to meet technical and private finance milestones, at which point they receive additional milestone-based payments and co-investment. It entered its arrangement with SpaceX in 2006, with a focus on launch vehicles and automated spacecraft, catalysing its growth. Upon success, NASA transitioned to being a commercial customer. Of the \$500 million of government funding, \$278 million was awarded to SpaceX in the first round<sup>71</sup>.

<sup>69</sup> HMG, UK Infrastructure: A 10 Year Strategy

<sup>70</sup> NASA

<sup>71</sup> Ibid.

**Recommendation 3.2.3: The NSSIF's continuation continuation and further expansion into defence (as announced in the SR 2025) to be implemented in a way that:**

- i. Retains best practices around contracting pull through and signalling to the market.
- ii. Continues to provide a signal to the market about capabilities that are in demand to stimulate further private investment.
- iii. Is supported by clear communication to the market around respective roles between NSSIF and UKDI, ensuring respective offers are complementary rather than duplicative.
- iv. Does not dilute its impact on the security sector.

**Recommendation 3.2.4: City of London organisations to leverage existing fora and engagement mechanisms to position London as the leading global hub for defence investment. This would include attracting domestic and global allied capital into the UK's defence industrial base, enabling innovative financing approaches and reinforcing the UK's role as a gateway for secure and strategic capital flows into global allied defence and resilience infrastructure, as well as supporting defence as a growth-driving sector right across the UK**

London is a world-leading financial services hub, home to the largest banks and asset managers, whilst also being a centre for venture capital activity. This should be leveraged to position London as an international hub for defence and dual-use financing and investment, driving national investment and trusted foreign investment into the UK's defence industry and becoming the premium destination for the defence financing needs of allied countries. This hub will create the conditions to encourage innovative investment approaches into defence and could foster initiatives such as the Defence, Security and Resilience Bank (DSRB); a proposed multilateral defence bank, that could mobilise private finance capabilities needed for defence, security and resilience in NATO, and across the EU and Indo-Pacific allied nations. A next step on this could be to convene a conference with key UK government stakeholders, including HMT and MOD, as well as international governments and banks, hosted by the DSRB Development Group.

**CASE STUDY TO DRAW LEARNINGS FROM**

**NATO INNOVATION FUND (NIF), LONDON-BASED AND FOUNDED IN 2022<sup>72</sup>**

**Key context:** €1 billion+ Innovation Fund across nine deep-tech verticals with main Western European office in London (alongside its sister accelerator DIANA, with a main office also in London)

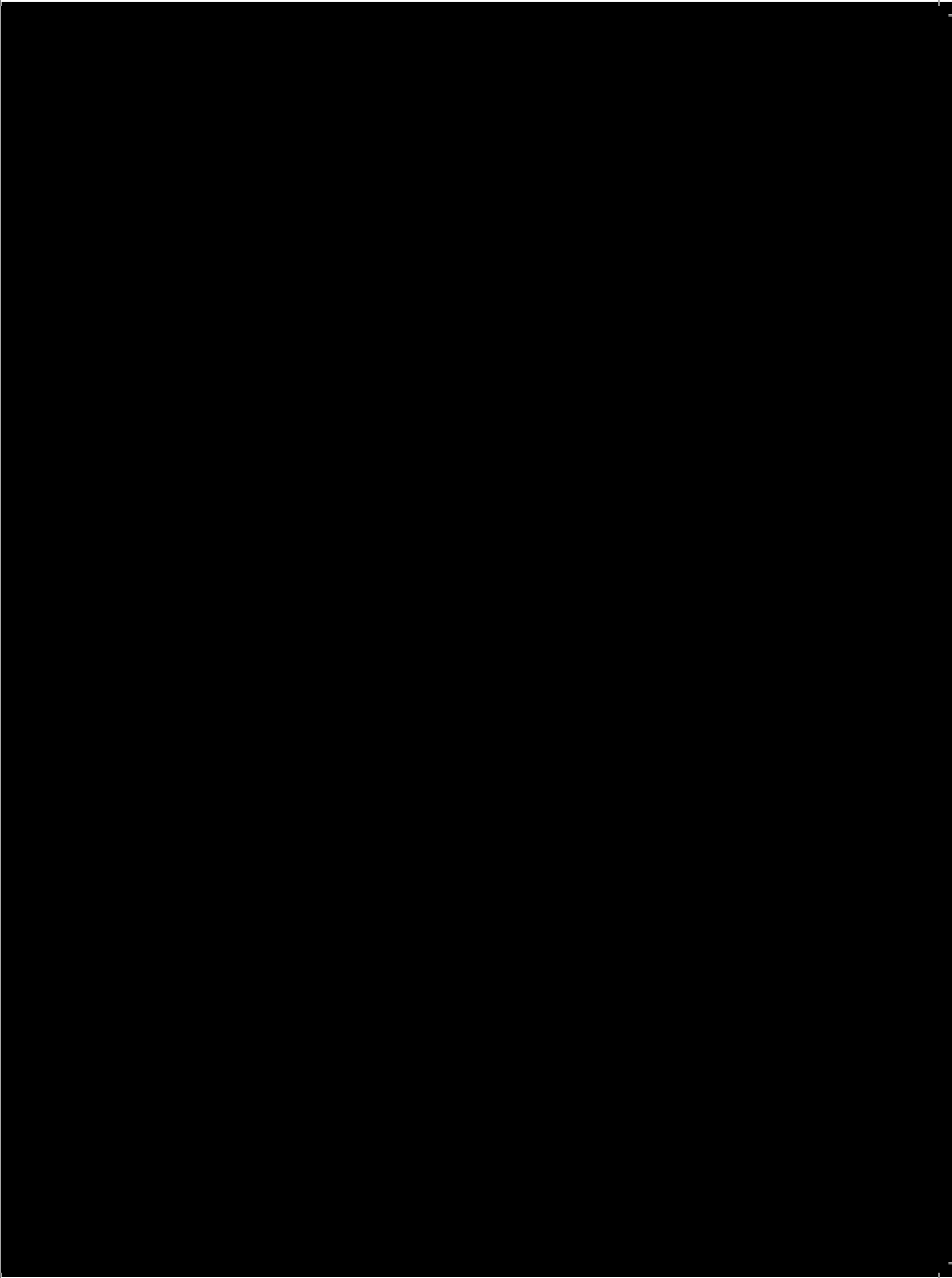
**Key outcomes:** Reinforces London's status as Europe's foremost financial centre, particularly its ability to channel venture capital into dual-use deep tech.

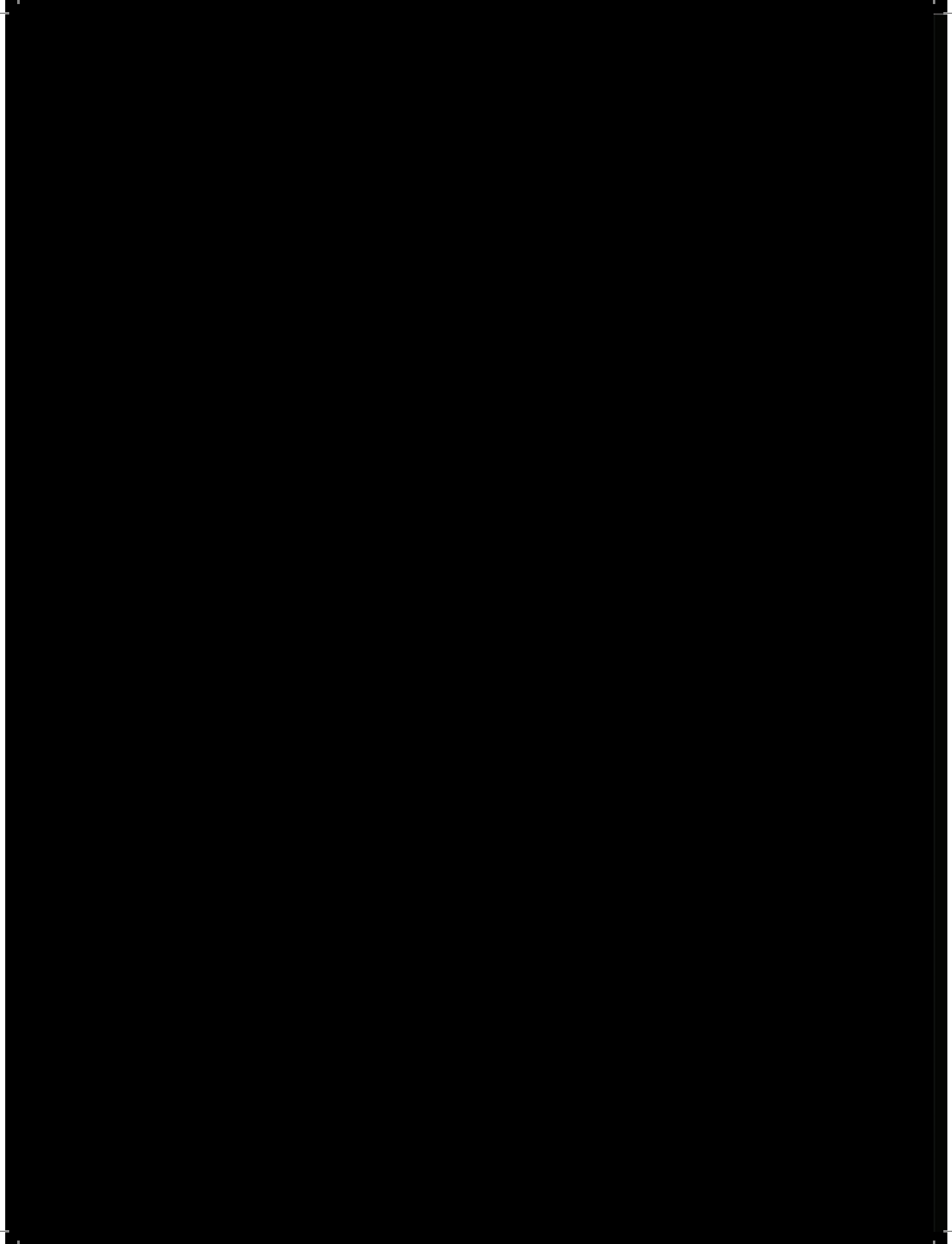
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<sup>72</sup> NATO Innovation Fund

**Recommendation 3.2.5: DBT, with MOD, to convene stakeholders to explore opportunities for UK-based defence industry Corporate Venture Capitals (CVCs) to expand investment in the sector, including consideration of learnings from cross-sector and international peers**

CVC units concentrate private capital with direct industry expertise to fast-track innovation. Noting in the UK landscape it is only the leading primes with defence CVC arms, sharing learnings and benchmarking against other sectors and international peers may reveal opportunities for wider adoption, such as co-investment opportunities between CVCs and existing scaling funds, or between primes.







# TARGET OUTCOME 04

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Attract finance to shape  
a UK defence supply  
chain that is **resilient  
and aligned with  
government priorities**

#### TARGET OUTCOME 4

## ATTRACT FINANCE TO SHAPE A UK DEFENCE SUPPLY CHAIN THAT IS RESILIENT AND ALIGNED WITH GOVERNMENT PRIORITIES

### KEY CONTEXT, CHALLENGES AND OPPORTUNITIES

A robust supply chain and supportive ecosystem enhances operational readiness, enabling defence firms to swiftly respond to evolving demands and maintain their competitiveness. By diversifying suppliers and strengthening local production capabilities, the UK can mitigate risks associated with supply chain disruptions and enhance national security.

The UK government has identified critical sectors such as cyber security, advanced manufacturing, artificial intelligence and dual-use technologies as vital for national security and economic growth<sup>73</sup>. The defence sector is essential for advancing these critical sectors, as a vector for investing in, developing, and applying new technologies. Attracting investments into these areas ensures the development of those priority sectors in the UK, supporting other industries and improving the UK's offering abroad.

Increasing risk-adjusted returns is the key pre-requisite to attracting finance into the UK defence supply chain. However, aligning provision of different types of finance and skills to the needs and requirements of all types and sizes of companies operating in the sector will support the growth and resilience of the sector.

Alongside the development of a robust supply chain of companies, ensuring the supply of a skilled and agile workforce is critical to a resilient industry. A growing defence sector needs to be matched by a growing pool of talent, and defence lacks an advanced talent proposition, particularly in the context of negative perceptions of the sector<sup>74</sup>, and suffers from demographic challenges in the talent pipeline<sup>75</sup>. The focus on dual-use technologies also calls for greater emphasis on attractive diverse skillsets into defence, such as AI-skilled employees, where defence lags behind<sup>76</sup>.

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<sup>73</sup> Department for Science, Innovation and Technology, Science and Technology Framework, 2025

<sup>74</sup> Oliver Wyman, Win-Wins: Accelerating the Delivery of Defense Capability

<sup>75</sup> Department for Education, Skills England: Sector skills need assessments "Defence"

<sup>76</sup> Ibid.

Finally, the defence supply chain in the UK is dominated by a small number of world-leading large companies, who have world-leading capabilities across all aspects of the sector. The UK also boasts a variety of quality defence start-ups, scale-ups and SMEs. However, at the mid-tier level, despite notable quality players, there is a clear gap to be filled, with challenges in securing financing and constraints on experimentation limiting growth.

#### EXAMPLE METRIC TO MONITOR

Increased growth and size of defence companies operating in critical sectors

Suggested owner: DSIT/Defence Research and Evaluation Organisation

## TASKFORCE RECOMMENDATIONS

This Taskforce has identified two overarching recommendations with detailed sub-recommendations seeking to address challenges with attracting finance into the defence supply chain.

### RECOMMENDATION 4.1: FOSTER NATIONAL DEFENCE INNOVATION AND SKILLS ECOSYSTEM

An ecosystem of innovation requires consistent talent development and attraction, access to testing and evaluation, supportive regional infrastructure, and no critical supply chain gaps. The Taskforce recommendations aim to strengthen those foundations for innovation.

**Recommendation 4.1.1: MOD, with Other Government Departments (OGDs), devolved governments, and industry, to leverage the Defence Growth Deals announced in the SR to support local ecosystems to develop innovations with dual-use applications and develop a package that:**

- i. **Drives interconnection between academia, defence industry and local government, including the Local Innovation Partnership Fund** — Efforts should prioritise deep integration in the local economy and gaining support from local policymakers, without siloing defence. An example of a successful regional integration is that of Formula 1's cluster in Northamptonshire, the success of which has attracted non-UK originating companies to relocate.

- ii. **Fosters development of regional clusters** — Efforts should be made to integrate infrastructure planning with targeted incentive packages. Drawing on applicable learnings from the Freeports Programme launched in 2021 — which contributed to defence through advancements in manufacturing — this approach will help build local centres of excellence and drive innovation across the sector, building on the regional innovation hubs proposed in the Rewiring British Defence Financing paper.<sup>77</sup> By strengthening the regional ecosystem, this recommendation reinforces both the ‘Team UK’ ethos and the Value for Money approach to procurement, coinciding with the reforms to the Green Book proposed in the SR regarding investment outside of London and the South East.<sup>78</sup>
- iii. **Maintains national resilience** — The defence industrial base should be closely monitored to ensure capabilities are sufficiently dispersed for resilience against threats.

Within this context, industry should identify and implement ways to maximise growth outcomes in their regional footprints.

#### CASE STUDY TO DRAW LEARNINGS FROM

#### **FORMULA 1 REGIONAL CLUSTER “MOTORSPORT VALLEY”<sup>79</sup>**

**Key context:** A regional cluster of Formula 1 motorsport companies, centered around Oxfordshire, has the highest concentration of high-performance motorsport engineering globally. In 2013, the Technology Strategy Board, now called Innovate UK, launched a £1 million competition for innovative businesses in the motorsport industry, with the aim to encourage innovation in the cluster.

**Key outcomes:** By taking advantage of government grants and R&D tax credits in the UK, motorsport companies in the UK now invest up to 30% of turnover into R&D, which is significantly higher than traditional road car-manufacturers<sup>80</sup>. The cluster has increased speed of innovation and R&D and driven knowledge transfer partnerships between Formula 1 teams and engineers.

**Recommendation 4.1.2: Industry bodies, including the the Confederation of British Industry and trade association ADS, to engage across sectors and with academia to identify opportunities for contributing to the UK defence base and wider supply chain**

Sectoral industry bodies can play a pivotal role in facilitating a national dialogue throughout the implementation phase of the Industrial Strategy. By leveraging their extensive networks, they can engage the broader industrial base — from SMEs to major suppliers — ensuring inclusive participation and alignment. These bodies are well-placed to translate the Modern Industrial Strategy’s objectives into actionable guidance and best practices, while surfacing insights and practical feedback from across the ecosystem.

<sup>77</sup> Rewiring British Defence Financing, 2025, p.4

<sup>78</sup> Spending Review, 2025, p.4

<sup>79</sup> Institution of Mechanical Engineers, Government funding for motorsport R&D

<sup>80</sup> Forrest Brown, Celebrating Motorsport Valley

This approach ensures that diverse perspectives inform policy development, support effective execution, and help embed the Industrial Strategy throughout the entire defence sector.

**Recommendation 4.1.3: MOD to improve accessibility and availability of testing and evaluation facilities and services for existing and potential defence suppliers of all sizes, with a particular focus on accelerating the development of innovative capabilities**

**SDR:** By April 2026, the MOD should develop a package of support for its industrial partners that removes barriers to collaboration and drives better, more cost-effective results: reducing by at least 50% the burden of Defence Standards and Conditions; working across government to amend the Single Source Contract Regulations; reforming regulations, Intellectual Property handling, and security clearance requirements; and providing access to intelligence, data, and test and evaluation sites<sup>81</sup>.

Access to testing and evaluation infrastructure is essential for prototyping and commercial pull-through. Any gaps in testing infrastructure serves as a constraint on innovation. MOD could work with civil facilities such as the Catapult network and broader research and technology organisations to review availability of relevant testing infrastructure and fill any identified gaps in access. This could explore the creation of dedicated “sandbox” environments where companies across the defence supply chain, including SMEs and mid-market firms, can safely trial and refine innovative capabilities. Access criteria, scheduling, and technical support should be clearly defined and widely communicated, ensuring that promising new technologies are not held back by lack of testing opportunities. Partnerships with universities, Catapult centres, and regional clusters could further expand the reach of these facilities, enabling cross-sector innovation and knowledge sharing.

A thorough review of the regulatory and administrative landscape should identify opportunities to streamline approval processes, simplify compliance requirements, align civilian and military standards, and introduce fast-track pathways for high-potential projects. By integrating these efforts with the SDR’s recommendation to develop a comprehensive support package for industrial partners, the MOD can remove obstacles to collaboration, accelerate the development cycle, and deliver more cost-effective and impactful results.

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<sup>81</sup> Strategic Defence Review, 2025, p.62

**Recommendation 4.1.4: DBT and MOD, to work with OGDs, industry, financial services and investors, to pursue ambition for UK supply chain resilience and defence industrial readiness. Focus areas could include identifying single points of failure in UK supply chains, or developing strategies for investing in onshoring and allied near-shoring of priority capabilities and production**

Targeted collaboration should be explored to identify and address points of failure and weakness in global supply chains. This partnership could leverage data sharing, risk analyses, and collaborative workshops to systematically map critical dependencies and vulnerabilities across key defence capabilities and components. Going further, once any single points of failure are identified, strategies for priority onshoring or allied near-shoring of essential capabilities and production could be explored. These strategies could involve coordinated investment in domestic manufacturing, targeted incentives for UK-based suppliers, and the development of contingency plans for rapid scale-up in times of crisis. This should build on the work being delivered by the MOD Defence Supply Chain Capability Programme (DSCCP).

**Recommendation 4.1.5: MOD and industry together to co-invest and commit to funding and developing talent and skills, building on existing initiatives, including:**

- i. MOD and industry primes co-funding defence industry training to support advancement of skills, applying lessons from the Construction Skills Programme —**  
There are currently over 35,000 job vacancies in defence<sup>82</sup>; supporting skills development through funding apprenticeships, T-levels, and advanced education is needed to expand access to necessary education, strengthen links between the defence industry and academia, for example universities, and increase pull-through to employment. This should be aligned with initiatives from the Department for Education and Skills England.
- ii. Industry Primes sponsoring post-graduate academic scholarships to attract specialist technical talent to sector —** Sponsorship of post-graduate scholarships will enable the development and retention of specialist knowledge in the defence sector, and particular emphasis should be placed on the priority technologies the industry aligns around. Moreover, scholarships will enable students of diverse backgrounds to access opportunities in defence, further broadening the available pool of talent.
- iii. Professional bodies and fellowships improving knowledge and visibility of opportunities in defence within existing training schemes and adjacent sectors —**  
Developing UK talent must go hand-in-hand with actively directing skilled individuals toward opportunities in the defence sector. This requires coordinated engagement with training programmes, universities, and other educational institutions to raise awareness of the diverse and rewarding careers available in defence. For example, as nearly half of defence employers report a shortage in engineering skills<sup>83</sup>, there is a compelling case for deeper collaboration with the Royal Academy of Engineering to create clear and accessible pathways into defence careers. Integrating such partnerships into a reinvigorated national public dialogue — centred on the ‘Team UK’ ethos — will further strengthen the sector’s talent proposition on a global scale.

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82 ONS

83 Guidant Global

- iv. **DSIT reviewing how to drive uptake in investor skills programmes, such as the Science and Technology Venture Capital Fellowship<sup>84</sup>** — Growing the defence and dual-use expertise of investors will drive integration between the defence and investment community, unlocking new financing opportunities. Existing fellowships should be leveraged and promoted to drive understanding of the UK technology landscape.

**CASE STUDY TO DRAW LEARNINGS FROM  
CONSTRUCTION SKILLS PROGRAMME<sup>85</sup>**

**Key Context:** Co-funded industry placements are part of a broader skills package for the construction sector, including Technical Excellence Colleges, increased funding, expanded skills bootcamps.

**Key outcomes:** Ensuring learners progress into the construction sector.

**Detail:** As announced in March 2025, the government is committing £100MM alongside £32MM from the Construction Industry Training Board, to fund over 40,000 industry placement each year for all Level 2 and 3 learners.

## **RECOMMENDATION 4.2: ENHANCE TARGETED SME SUPPORT**

To foster SME growth and therefore the resilience of the broader supply chain, dedicated support and emphasis is required throughout procurement, public finance, and infrastructure development. The Taskforce recommends increasing the access SMEs have to support, infrastructure and supply chain finance, in addition to the exploration of learnings from Ukrainian defence SMEs.

**Recommendation 4.2.1: MOD SME Support Centre to provide simplified access to services and MOD stakeholders for innovative defence SMEs, including new entrants, to address specific pain points identified through the DBT SME Strategy, SDR, and Defence Industrial Strategy industry engagement**

Creating a supportive environment for SMEs is critical to expanding the “missing middle” and enabling start-ups and scale-ups to grow within the defence sector. With only 4% of direct MOD defence spend reaching SMEs in 2023/24 — down from 5% the previous year<sup>86</sup> — there is a clear imperative to broaden outreach and support beyond existing contract holders. Programmes and partnerships should offer inclusive access to resources, mentoring, finance pathways (including practical guidance on NSSIF and UKDI), and wider participation in supply chain and innovation initiatives.

<sup>84</sup> GOV.UK

<sup>85</sup> GOV.UK, “Government unleashes next generation of construction workers to build 1.5m homes”, 2025

<sup>86</sup> GOV.UK

Critically, the current SME support landscape is fragmented across multiple entities such as DASA and UKDSE, making it challenging for SMEs to navigate services and engage the right MOD stakeholders. The SME Support Centre should establish a single-entry point, modelled after France's Defence Accelerator launched by Bpifrance in 2024<sup>87</sup> — which consolidates coaching, export insurance, and financing under one roof — to reduce barriers to entry and enhance SME engagement. The SME Support Centre should be mindful to align and integrate support services with existing initiatives like the new general Business Growth Service.<sup>88</sup>

**Recommendation 4.2.2: UK Banks and industry primes to collaborate to identify opportunities to improve supply and value chain finance, for example by changing supply chain payment terms, or by establishing new or expanding existing supply chain financing platforms for defence**

Collaboration is required to identify and address the limitations of existing supply chain financing options, to lower the cost of capital for suppliers, reduce prices for MOD and improve international competitiveness. One practical solution to explore is the implementation of a reverse factoring approach. This not only ensures faster payments further down the supply chain — improving their cash flow and financial stability — but also allows them to benefit from the stronger credit rating of the Prime, reducing financing costs. Banks and industry primes could also partner to develop programmatic supply chain finance solutions. These may include innovative financing vehicles which create a portfolio of companies based on an established or expected supply chain and provide finance to fund capital expenditure across the portfolio. Learnings could be taken from the Elite Leonardo Lounge, a partnership between ELITE, a programme by the London Stock Exchange Group, and Leonardo, which strengthened Leonardo's supply chain through providing funding opportunities alongside networking and managerial training<sup>89</sup>. Any future collaboration should build on the best practice encouraged by the Fair Payment Code.

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<sup>87</sup> Bpifrance

<sup>88</sup> GOV.UK, Government growth service to save small business time and money

<sup>89</sup> Leonardo, "Leonardo establishes Leonardo corporate lounge: a partnership with elite, borsa italiana to foster suppliers' sustainable growth", "Leonardo: launched the second group of the ELITE Leonardo lounge", 2019

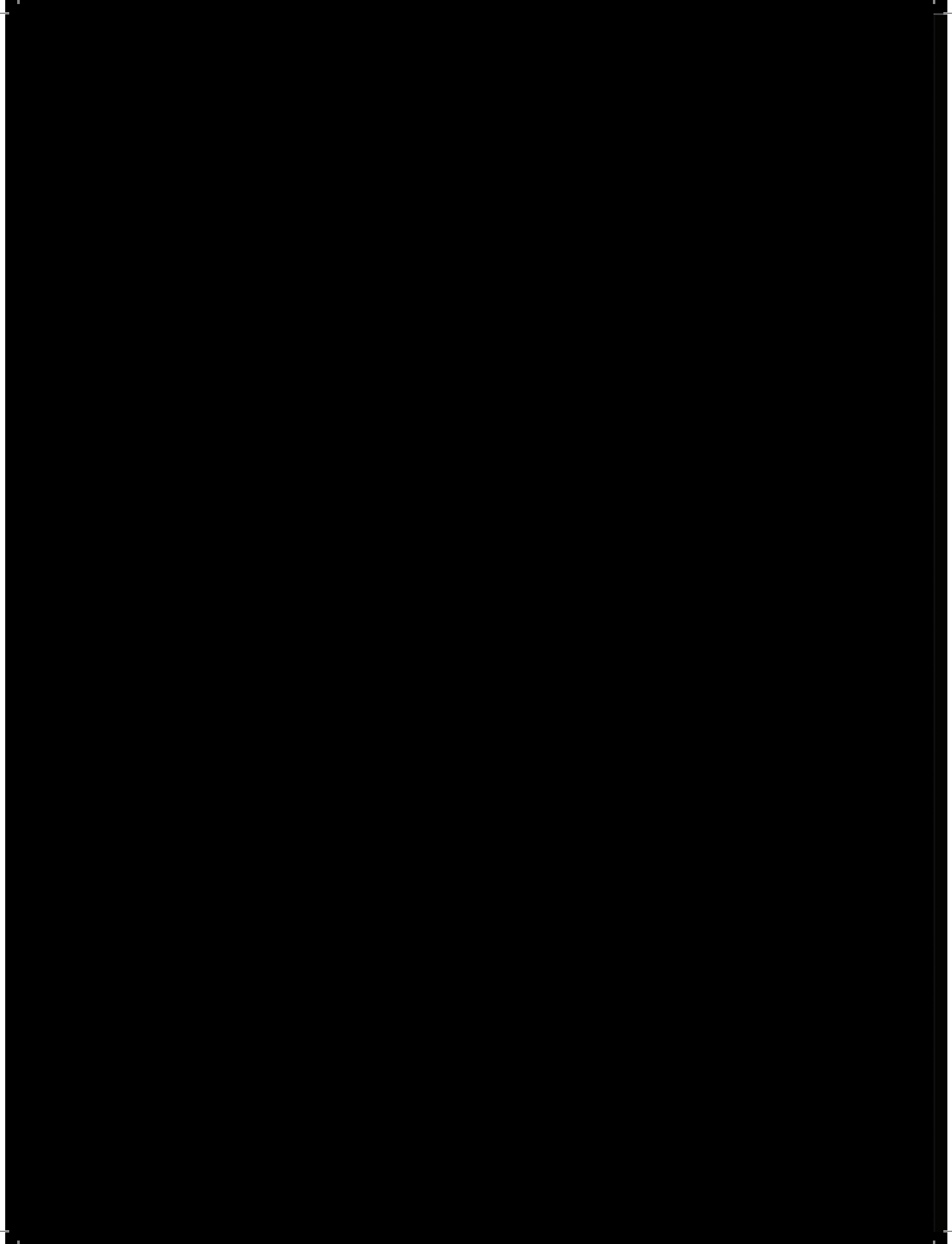
**Recommendation 4.2.3: MOD, with FCDO and industry leaders, to increase collaboration and partnerships with Ukraine defence SMEs to capture learnings from rapid innovation cycles and cutting-edge technology development**

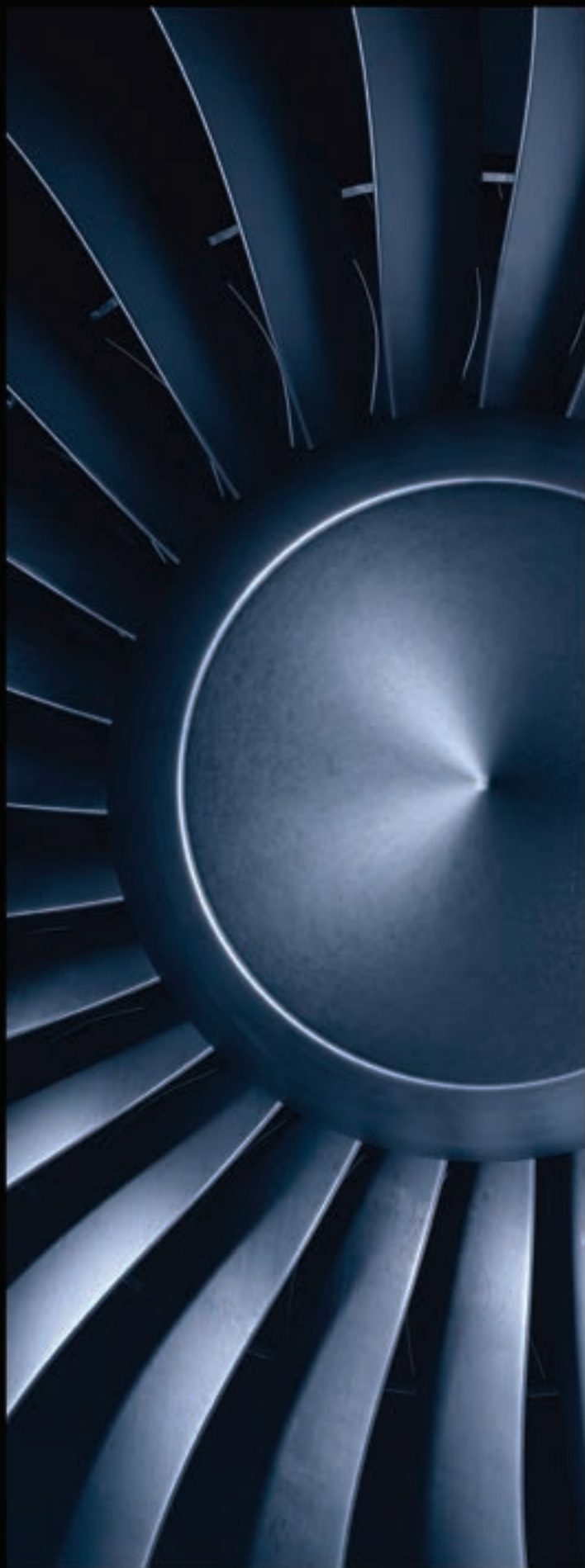
As reflected in the SDR, Ukraine has shown effective innovation entails a “find it, buy it, use it” approach, undertaken at pace<sup>90</sup>. Over the past three years, Ukraine has managed to rapidly mobilise defence and civil technology start-ups and SMEs to support their war effort. This has led to highly condensed cycle times that are often as short as ~12 weeks. This speed is underpinned by a disaggregated procurement model, with in-theatre feedback loops that drive rapid iteration. Ukraine has also developed world-leading technologies for AI and swarming, electronic countermeasures (for example, fibreoptic controls), and drone-launching drones (for example, drone boats launching FPV attack drones). Collectively these innovations provide lessons that the UK defence industry can use to accelerate cycle times, improve resilience, and better leverage SMEs. Example activities to take forward this recommendation could include establishing twinned defence-tech innovation hubs in the UK and Ukraine (including in proximity to the frontline) building on existing initiatives such as the UK-Ukraine TechBridge<sup>91</sup>.

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<sup>90</sup> Strategic Defence Review, 2025, p.43

<sup>91</sup> The UK-Ukraine TechBridge is a strategic partnership between the UK Government, Ukraine Ministry of Digital Transformation and Ukraine Ministry of Foreign Affairs to forge connections between tech ecosystems





# POTENTIAL MARKET IMPACT AND METRICS

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# POTENTIAL MARKET IMPACT AND METRICS

If delivered successfully, the recommendations set out by this Taskforce provide a targeted and actionable pathway to increasing the economic output of the UK defence sector. To demonstrate the potential scale of this benefit, the Taskforce identifies two key areas for further analysis:

1. **Export growth** — The likely potential increase in global export demand UK companies could expect to capture as a result of our recommendations
2. **Defence company revenue growth** — The likely uplift in growth potential for defence companies based in the UK as a result of our recommendations

The following section provides indicative forecasts for these analyses, however, it is important to acknowledge certain key limitations which have led to a small sample size and reduced analytical precision. There is broad agreement that traditional classification tools like Office for National Statistics (ONS) Standard Industrial Classification (SIC) codes fail to capture the full scope of the UK defence industry, largely due to their static structure and inability to reflect dual-use goods or companies operating across multiple sectors. This has led to inconsistent data across stakeholders such as the MOD, JEDHub, and trade association ADS, highlighting the need for harmonisation. The Data City (TDC), a UK tech firm, offers a more dynamic alternative through AI-driven Real-Time Industrial Classifications (RTICs), which are updated continuously using natural language processing and will help to identify firms that are potentially active in the defence industry. TDC is set to be key to government departments, having contributed to DSIT's Invest 2035 strategy. However, the defence RTIC remains underdeveloped and lacks the granularity needed for accurate sector representation. Given these limitations, future work should explore how ONS can work with ADS, MOD, and DBT to size the defence sector using weighted SIC codes, following the model used for life sciences.

With these limitations in mind, these analyses should be viewed as a helpful starting point for further, more detailed analysis to begin tracking the implementation and benefit capture of the recommendations included in this report.

## Export growth

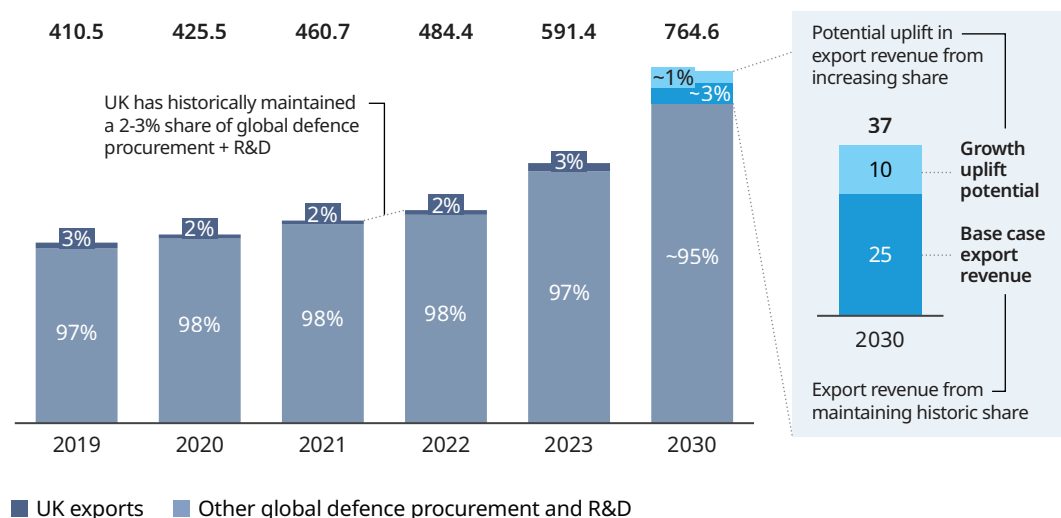
Historically the UK share of global defence R&D and procurement spending has remained stagnant at around 2-3%<sup>92</sup>. Exhibit 16 represents two potential scenarios for the evolution of the share of UK defence exports as a proportion of global defence R&D and procurement spending.

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92 Global R&D and procurement spending — Janes & Oliver Wyman internal analysis | UK defence exports — GOV.UK

**Exhibit 16: UK export revenue as a proportion of total global defence investment<sup>93</sup>**

2019-2023 &amp; 2030F, \$ billion



In 2023, UK export revenue stood at circa \$17.6bn from capturing approximately 3% of global defence procurement and R&D spending<sup>94</sup>. The base case scenario shown in Exhibit 16 and Exhibit 17 assumes a continued increase in this spending whilst holding UK share constant at 3%, resulting in circa \$26 billion in export revenue in 2030.

The Taskforce believes there is significant potential to boost UK defence export revenue beyond the current base case by implementing the strategic recommendations outlined in this report. Targeted actions — such as Cabinet Ministers publicly championing the sector, leveraging active use by British Armed Forces as a hallmark of quality, and ensuring the Defence Exports Office is equipped to actively enhance the UK's export competitiveness within NATO and globally (see recommendation 2.1.2) — would generate stronger demand signals to foreign Ministries of Defence and enhance the UK's competitive export position. As illustrated in the “growth uplift potential” scenario in Exhibit 16, successfully executing these measures could enable the UK to capture a 50% greater share of defence spending in the key export markets of Europe and the Middle East and Africa, delivering an estimated \$11 billion increase in export revenue in 2030.

<sup>93</sup> Janes, Global Defence investment (procurement + R&D) | Janes & Oliver Wyman analysis, Global defence procurement + R&D forecast | GOV.UK, Export revenue by region

<sup>94</sup> Janes & Oliver Wyman analysis

**Exhibit 17: Export share by region to Export revenue — sensitivity matrix<sup>95</sup>**

In \$ billion

	Defence procurement and R&D (2030F)	Historical UK export share <sup>1</sup>	1.5x uplift to UK export share in key markets <sup>2</sup>	Base case revenue at constant export Share	Implied revenue with 1.5x share in key markets
Europe	238	7%	10% (1.5x)	16	23
Middle East & Africa	50	12%	18% (1.5x)	6	9
Asia	97	2%	2% (1x)	1	1
Americas	380	1%	1% (1x)	3	3
<b>Total</b>				<b>26</b>	<b>37</b>

■ Base case scenario    ■ Base case + growth uplift potential

1. Historical UK export share (2023) used in base case export revenue scenario

2. UK export share increased in Europe Middle East &amp; Africa

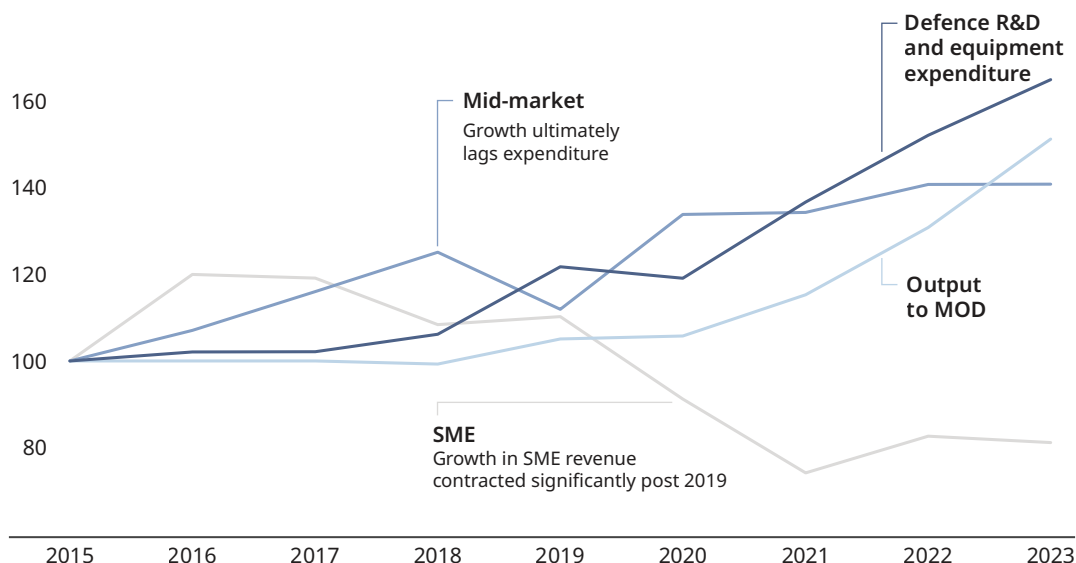
**Defence company revenue growth**

Historically, growth in UK defence R&D and equipment spending has outpaced the revenue growth and expansion of defence sector companies — particularly among SMEs and mid-markets included in our sample. As evidenced in Exhibit 18, revenue for SMEs has contracted in recent years despite rising government investment, while mid-markets have lagged spending growth, albeit tracking it more closely. This persistent disconnect highlights significant untapped potential. Increasing alignment of defence company revenue growth to public defence spending provides an opportunity to drive much broader sector-wide economic benefits.

<sup>95</sup> Janes, Global Defence procurement + R&D | Janes & Oliver Wyman analysis, Global defence procurement + R&D forecast | GOV.UK, Export revenue by region

**Exhibit 18: Growth in revenue of defence sector relative to government defence R&D and equipment expenditure by SME, mid-market<sup>96</sup>**

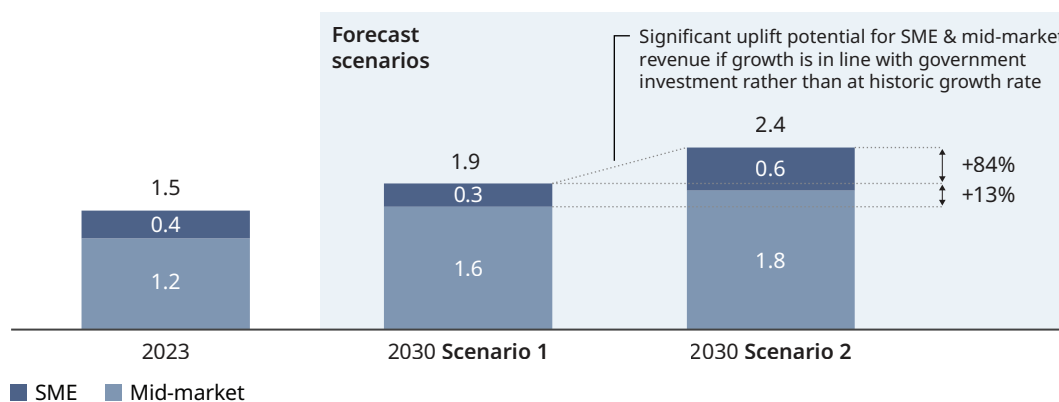
2015-2023, weighted to 100, based on a basket of 48 companies (SME: 27, mid-market: 21)



The potential rewards for achieving closer alignment are material. As illustrated in Exhibit 19, if SMEs and mid-markets were able to grow in line with the trajectory of UK defence R&D and equipment spending (Scenario 2), rather than remaining at their historical rates (Scenario 1), the growth potential by 2030 could be transformative. Specifically, the 48-company sample forecasts growth uplifts of approximately 84% for SMEs and 13% for mid-markets over the period.

**Exhibit 19: Revenue of defence sector by SME, mid-markets under different scenarios<sup>97</sup>**

2023, 2030F, £ billion, for a basket of 48 companies (SME: 27, mid-market: 21)



<sup>96</sup> MOD, Defence R&D + Equipment expenditure | ADS, Sector output to MOD | Orbis, Defence company revenue

<sup>97</sup> MOD, Defence R&D + Equipment expenditure | Orbis, Defence company revenue


Realising this scenario will depend on implementing recommendations such as launching the MOD SME Support Centre that provides streamlined access to services and stakeholders (see recommendation 4.2.1) and implementing SDR recommendations for a new segmented approach to procurement in a way that streamlines contracting practices for SMEs and mid-markets (see recommendation 1.1.3).

Through the combination of all the Taskforce recommendations, there is accelerated growth potential for industry primes — which represent the largest segment of the £36 billion defence industry — as well as for SMEs and mid-markets.

In order for the recommendations in this report to deliver results, measurement is critical. Alongside investing in creating stronger data for the sector, agreeing a set of key metrics and success measures beyond those outlined in each chapter above will provide a broader indication of positive future direction of travel. Exhibit 20 outlines a long list of metrics that, while not exhaustive, can be used as a starting point for future work. This could be a key priority of the DIJC.

#### Exhibit 20: Longlist of potential metrics

	Metrics	Target Outcome 1	Target Outcome 2	Target Outcome 3	Target Outcome 4
KEY AREA	Export revenue as a proportion of total global defence investment				
KEY AREA	Defence company revenue growth relative to MOD R&D and equipment expenditure				
1	Increased efficiency and effectiveness of government spending (e.g. increased defence multiplier)				
2	An increase in the Return on Investment (RoI) in defence-related companies				
3	Increased volume of trusted private capital flows into defence sector as a proportion of the country's GDP				
4	Increased growth and size of defence companies operating in critical sectors				
5	Scale up finance raised by defence businesses				
6	Foreign direct investment (FDI) in the defence sector				
7	R&D spending growth compared to overall defence spending (incl. share going to non-pure defence firms)				
8	Private defence R&D investment				
9	No. of research and innovation outputs (e.g. publications, patents, spinouts) on defence				
10	No. of and size of dual-use tech suppliers in UK				
11	MOD spend with military tech companies as a proportion of total defence spending				
12	Proportion of MOD expenditure spent within the UK				

Low relevancy  High relevancy

## APPENDIX A. OVERVIEW OF TASKFORCE MEMBERS

**Exhibit 21: Taskforce members**

#	Organisation	Name	Role
1	ADS Group	Aimie Stone	Chief Economist
2	Airbus Defence and Space	Kata Escott	UK Managing Director & Head of Country
3	ARX Robotics	Marc Wietfeld	CEO & Co-Founder
4	Babcock International	David Lockwood	CEO
5	BAE Systems	Charles Woodburn	Group CEO
6	Barclays	Matt Hammerstein	CEO UK Corporate Bank
7	Beaufort	Dom Cartwright	CEO
8	Bridgepoint Group	Raoul Hughes	CEO
9	Confederation of British Industry	Rain Newton-Smith	CEO
10	Helsing	Ned Baker	UK Managing Director
11	HSBC	Ian Stuart	CEO of HSBC UK Bank plc
12	IQ Capital	Kerry Baldwin	Managing Partner & Co-Founder
13	JFD Global	Rob Hales	Managing Director of James Fisher Defence
14	Lloyds Banking Group	Charlie Nunn	Executive Director & Group CEO
15	M&G plc	Andrea Rossi	Group CEO
16	NatWest Group	Paul Thwaite	Group CEO
17	Oliver Wyman	Lisa Quest	Managing Partner UK & Ireland
18	PA Consulting	Peter Lovell	Global Head of Defence & Security
19	Phoenix Group	Andy Briggs	Group CEO
20	Rheinmetall VSI	Rebecca Richards	Deputy CEO Rheinmetall UK
21	TEKEVER	Ricardo Mendes	CEO & Co-Founder
22	Ten Eleven	Dave Palmer	General Partner

## APPENDIX B. OVERVIEW OF KEY ONGOING CHANGE INITIATIVES

Noting that the Taskforce is operating within a broader context of public reviews, consideration has been given to how wider initiatives inform the work of this Taskforce:




### Exhibit 22: Ongoing change initiatives (non-exhaustive)

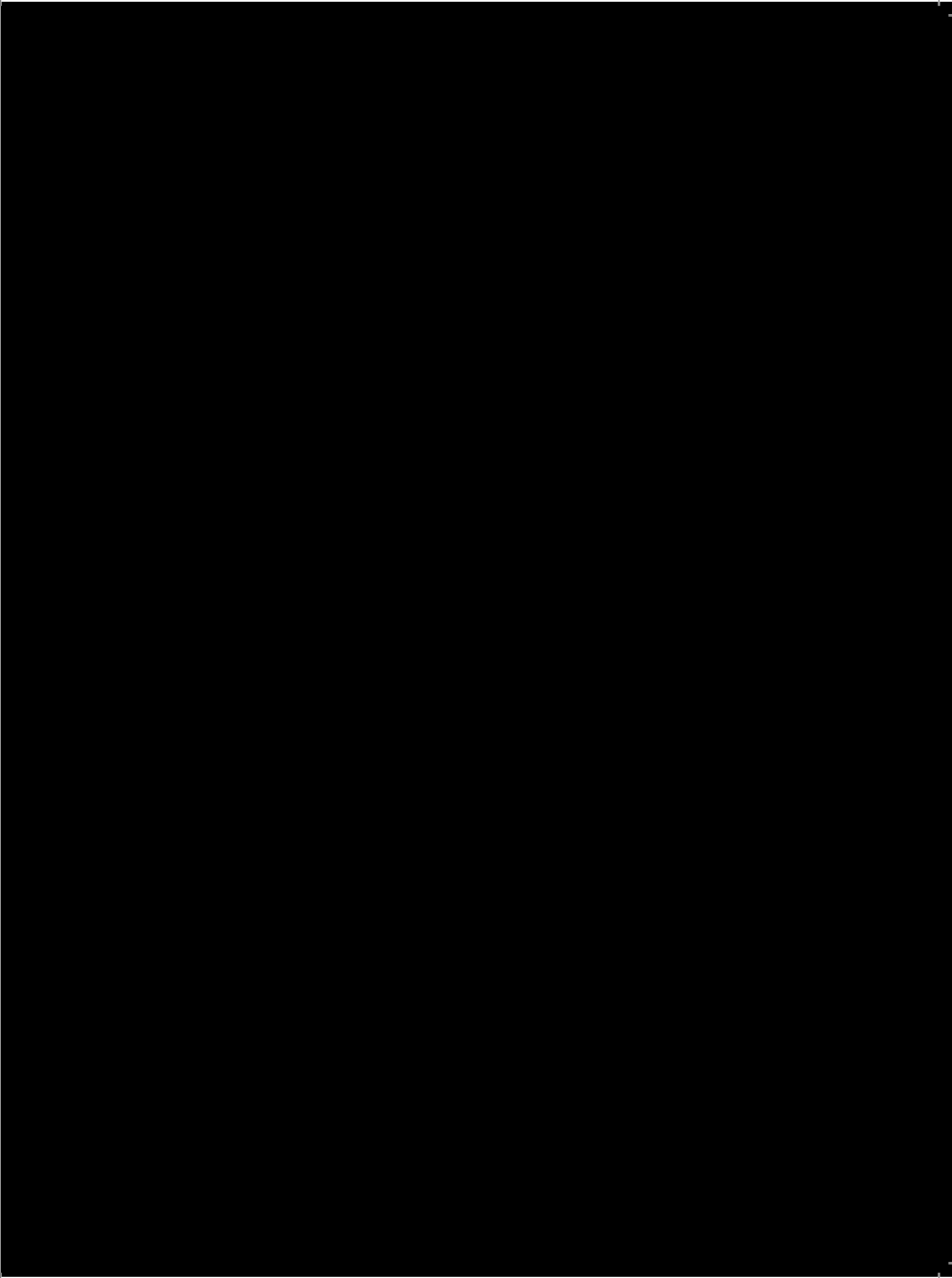
Initiative	Summary	Members	Deadline	Dovetail into our work
Spending Review (SR)	<ul style="list-style-type: none"> <li>HM Treasury led process to set departmental budgets for future years</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>	Published 11th June 2025	<ul style="list-style-type: none"> <li>Future budgets across departments and public organisations</li> </ul>
Strategic Defence Review	<ul style="list-style-type: none"> <li>The Labour government commissioned a strategic defence review (SDR) shortly after taking office in July 2024</li> <li>The review will “consider the threats Britain faces, the capabilities needed to meet them, the state of UK armed forces and the resources available</li> <li>The Equipment Plan will also be updated following completion of the SDR</li> </ul>	<ul style="list-style-type: none"> <li>Lead: Lord Robertson</li> <li>External reviewers</li> <li>Dr Fiona Hill</li> <li>General Sir Richard Barons</li> </ul>	Published 2nd June 2025	<ul style="list-style-type: none"> <li>Provides strategic context for recommendations including contracting reforms and new defence bodies</li> </ul>
Defence Industrial Strategy	<ul style="list-style-type: none"> <li>Defence as one of HMGs Industrial Strategy’s eight growth driving sectors which to use the strategic power of the state to “support and shape” the UK economy</li> </ul>	<ul style="list-style-type: none"> <li>Defence Secretary</li> <li>MinDPI</li> <li>The NAD</li> </ul>	Publication forthcoming	<ul style="list-style-type: none"> <li>Contextual insights on the intersection of industry with defence and related metrics/ quantification of economic growth and productivity</li> </ul>
Defence Reform (DR)	<ul style="list-style-type: none"> <li>Defence Reform is delivering the implementation of the restructure of MOD under four pillars: Permanent Secretary (PUS) Chief of Defence Staff (CDS), NAD, Chief of Defence Nuclear (CDN)</li> <li>A key focus is centralising financial accountabilities</li> </ul>	<ul style="list-style-type: none"> <li>Secretary of State for Defence</li> <li>Senior Responsible Owner</li> <li>Director</li> </ul>	The government has not committed to an exact date. When first announced, the MOD indicated that it would come after the 2025 SDR	<ul style="list-style-type: none"> <li>Contextual requirements to set the scope of what needs to be financed including consideration of what spend is already committed</li> </ul>

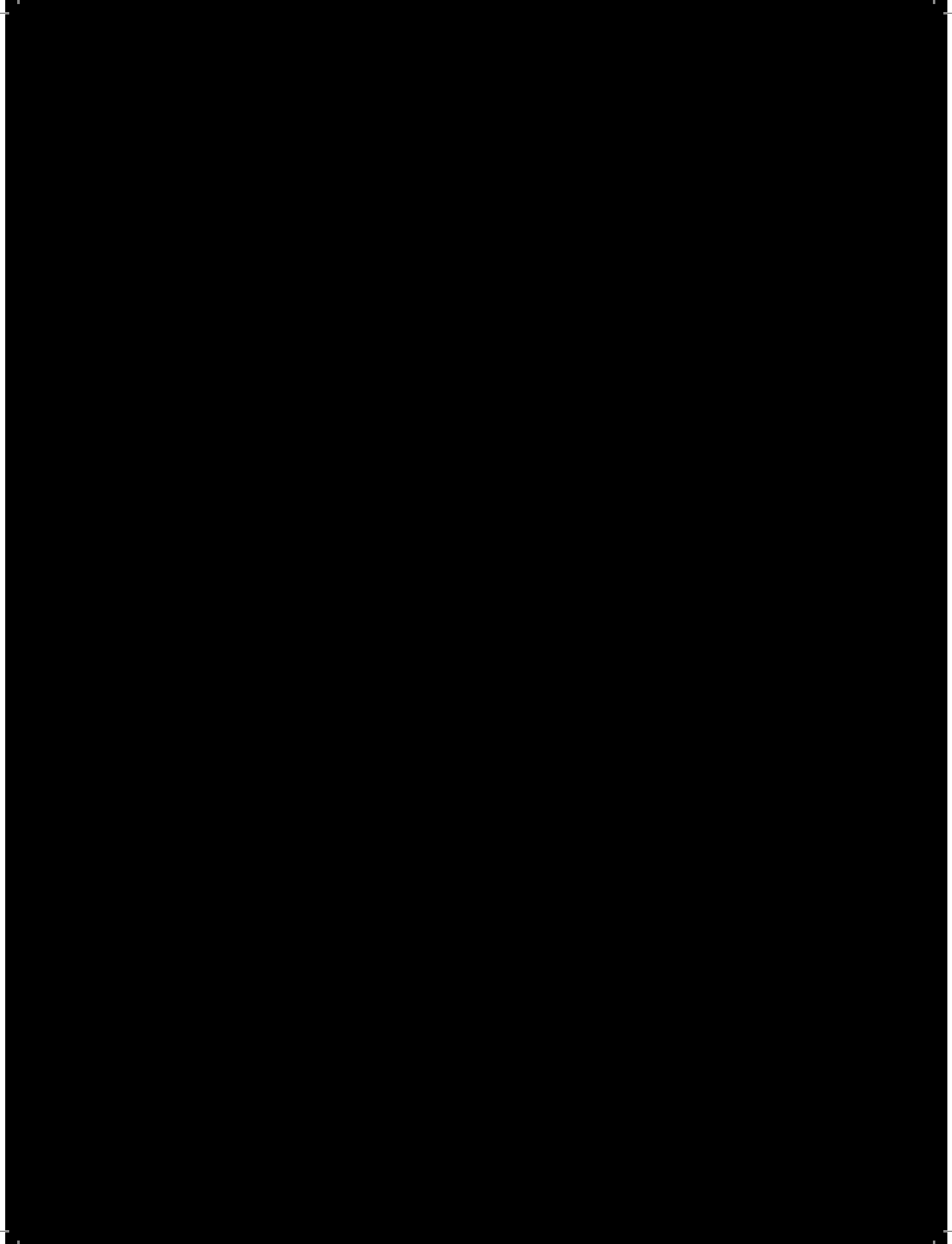
Initiative	Summary	Members	Deadline	Dovetail into our work
Acquisition Reform and Capability Portfolios	<ul style="list-style-type: none"> <li>• New model focused on increased exports, industrial engagement, spiral development and a broader Portfolio approach</li> <li>• Leverage the opportunities offered by the introduction of service-agnostic capability portfolios and a segmented approach to procurement, as set out in the SDR, to give a clearer signal to industry and drive greater pace and agility in acquisition</li> </ul>	<ul style="list-style-type: none"> <li>• Minister of Defence Procurement and Industry</li> <li>• National Armaments Director group</li> </ul>	Ongoing	<ul style="list-style-type: none"> <li>• Inputs to the way MOD sets demand and engages Industry</li> </ul>
Defence Supply Chain Capability Programme (DSCCP)	<ul style="list-style-type: none"> <li>• Internal change programme to develop capability to help MOD manage, develop and engage its Supply Chain more effectively. Including new approaches to design the required supply chain, manage SME suppliers and how best to make necessary market interventions</li> </ul>	<ul style="list-style-type: none"> <li>• Mil Cap, DG Commercial, Chief of Defence Logistics and Support</li> </ul>	Ongoing	<ul style="list-style-type: none"> <li>• Analysis and ideation of market interventions undertaken</li> <li>• SME spend models developed</li> <li>• Development of on-going DIJC forum to continue taskforce delivery</li> </ul>
Defence Capability Hierarchy (DCH) and Strategic Decision Support (SDS)	<ul style="list-style-type: none"> <li>• Making better use of data to inform decisions, set strategic priorities and exploit data e.g. R&amp;D data</li> <li>• Utilising a Capability Hierarchy to better understand the capability demands, shape military requirements and different approaches available to delivery effects</li> </ul>	<ul style="list-style-type: none"> <li>• DG Strategy, Mil Cap</li> </ul>	Ongoing	<ul style="list-style-type: none"> <li>• Being used to help implement the SDR recommendations and is a basis for communicating/ planning demand against defence Capabilities</li> <li>• Opportunities for Industry to integrate data sets which aid Demand setting</li> </ul>
Commercial Pathways	<ul style="list-style-type: none"> <li>• Streamlining MOD around a number of commercial pathways with enhanced guidance, tools, approaches adapted into MOD processes to aid across Sovereign, traditional and digital approaches</li> <li>• Supports the implementation of the new Procurement legislation</li> </ul>	<ul style="list-style-type: none"> <li>• DG Commercial</li> </ul>	Ongoing	<ul style="list-style-type: none"> <li>• Input for existing commercial challenges and utilise insights and understanding of updated MOD Policy</li> <li>• Home for HMG policy lever exploitation</li> </ul>
<b>Several additional programmes are ongoing, including in Commands</b>				

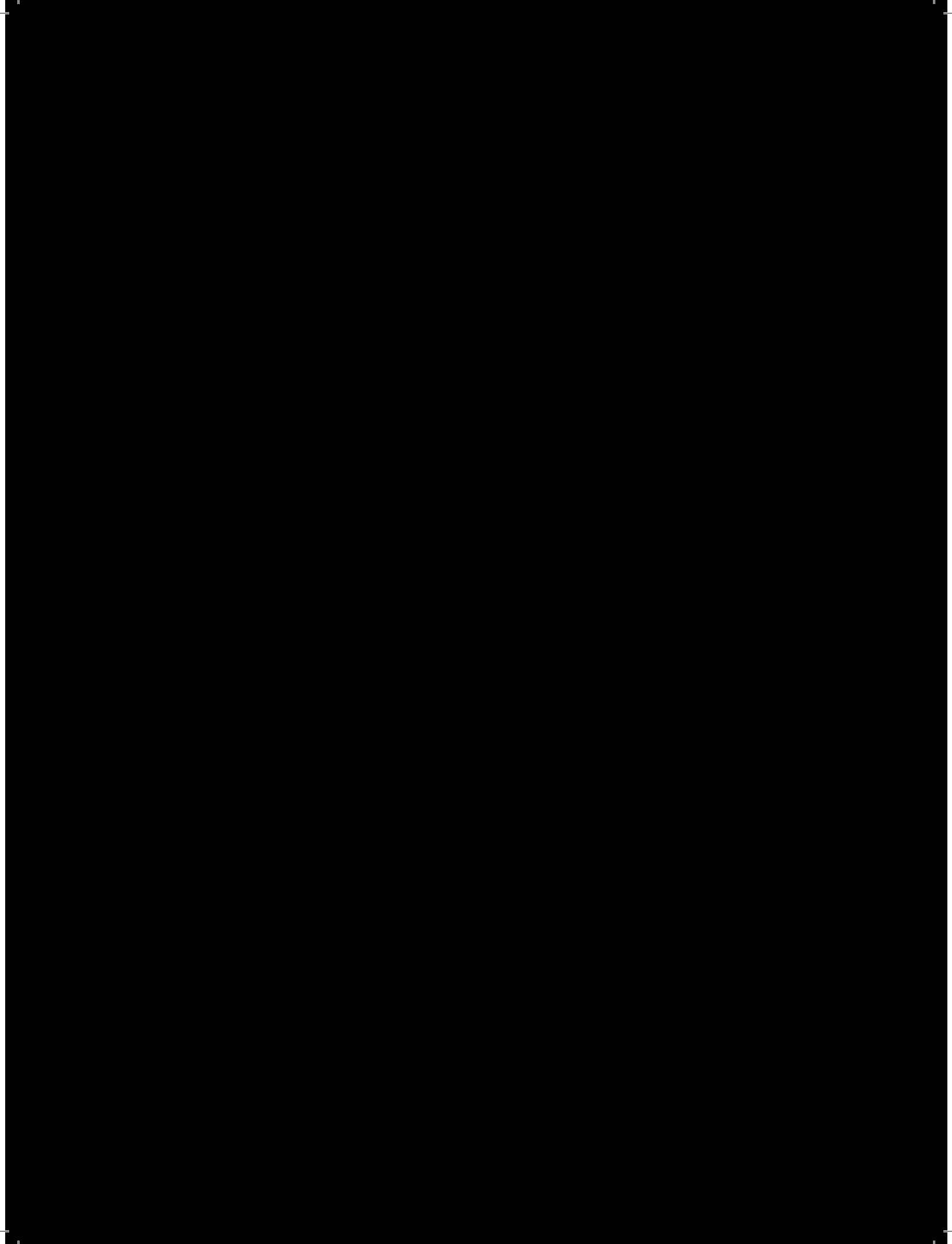
# APPENDIX C. DESIGN PRINCIPLES

Exhibit 23: Design principles

	<b>Additive</b>	<ul style="list-style-type: none"><li>• Primarily focus on attracting and developing accelerated capital flows into the defense industry to drive growth across the UK</li><li>• This Taskforce will not make any comment on Ministry of Defense operational requirements or how industry best meets these</li></ul>
	<b>Aligned</b>	<ul style="list-style-type: none"><li>• Engage other entities conducting key review activity (e.g. Strategic Defense Review, Industrial Strategy) to provide helpful input</li><li>• Socialise analysis and recommendations with broader reference panels to capture perspectives from the wider economy</li></ul>
	<b>Implementable</b>	<ul style="list-style-type: none"><li>• Focus on recommendations which are implementable, including where HM Treasury has strong influence to deliver</li><li>• Provide recommendations that can be delivered both over the short term and longer term</li></ul>







## REPORT QUALIFICATIONS

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This report has been prepared by Oliver Wyman and the Confederation of British Industry (the “Authors”), with input from secretariat partners Trade Association ADS and PA Consulting, and the wider Defence & Economic Growth Taskforce.

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