National Audit Office

Ministry of Defence 2025-26

September 2026

OVERVIEW

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Summary

C&AG introduction

In 2025, we set out our new five-year strategy. In delivering our statutory responsibilities, we aim to maximise our contribution to two outcomes – more productive and resilient public services and better financial management and reporting in government.

Our overviews summarise the key information and insights from our examinations of departments and from their annual report and accounts, and explore departments' progress against these crucial outcomes, highlighting positive examples and opportunities to improve.

If you would like more information about our work, or to arrange a briefing with me or one of my teams, please contact our Parliamentary Relations team at parliament@nao.org.uk.

Objectives	
Purpose	The Ministry of Defence (MoD) exists to protect the UK by ensuring its security and safeguarding its national interests and prosperity.
Strategic Defence Review (SDR) 2025	The SDR set out the government's intended direction for Defence centred on 'warfighting readiness', NATO, resilience, innovation and growth ('warfighting readiness' refers to the armed forces' ability to deploy, fight and sustain armed conflict at scale). The MoD is now implementing these ambitions through the Defence Investment Plan.
Defence Investment Plan (DIP)	The DIP is a summary of the major investment choices the government has made for Defence for the next four years, with the aim of transforming the armed forces, strengthening the UK Defence industrial base and enhancing the UK and NATO's response to the threat from Russia.
Financial management and reporting	
Running costs (2025-26)	Running costs were £59.2 billion, up from £52.8 billion in 2024-25.
Comptroller and Auditor General's (C&AG's) audit opinion	The MoD published its Annual Report and Accounts 2025-26 before Parliament's summer recess, and the C&AG's audit opinions were unqualified.
Spending Review settlement	Including the additional funding provided in the DIP, spending is projected to increase by 18% in real terms between 2025-26 and 2029-30.
Major projects	
Government Major Projects Portfolio (GMPP)	In March 2026, of the 20 MoD projects that remained in the GMPP following the National Infrastructure and Service Transformation Authority's (NISTA's) April 2026 reforms, eight were rated 'red', 10 'amber' and two were exempt from public reporting.
Productivity	
Defence Reform	The Defence Reform programme moved from organisational design to live operation on 1 April 2026.
Efficiency savings target	The MoD plans to make £10.7 billion of efficiency savings between 2026-27 and 2029-30.
Resilience	
Internal controls	The Government Internal Audit Agency (GIAA) concluded that the effectiveness of the MoD's governance framework, risk management and controls during 2025-26 was 'limited'.
Principal risks	The MoD added 'warfighting' as a new principal risk in 2025-26.

Purpose and vision

Strategic Defence Review

The MoD exists to protect the UK by ensuring its security and safeguarding its national interests and prosperity. In 2025, the government published the *Strategic Defence Review* (SDR), which signalled a significant change in the government's approach to deterrence and defence. The SDR recognised that the UK was entering a new era of threat and challenge and set out five ambitions to transform the way in which Defence operates.

- **'NATO First'**: Stepping up on European security by leading in NATO, with strengthened nuclear, new technology and updated conventional capabilities.
- **Move to warfighting readiness**: Establishing a more lethal 'integrated force' equipped for the future and strengthened homeland defence to sustain armed conflict at scale.
- **Engine for growth**: Driving jobs and prosperity through a new partnership with industry, radical procurement reforms and backing UK businesses.
- **UK innovation driven by lessons from Ukraine**: Harnessing drones, data and digital warfare to make the UK's armed forces stronger and safer.
- **Whole-of-society approach**: Widening participation in national resilience and renewing the nation's contract with those who serve.

In February 2025, the government committed to spending 2.6% of GDP on the defence of the UK by 2027 and 3% in the next Parliament.

Defence Industrial Strategy

The 2025 *Defence Industrial Strategy* (DIS) set out the government's vision for the UK to become a defence industrial leader by 2035. Its objective is to ensure that the UK has a defence industry that is capable of implementing the ambitions in the SDR.

To deliver this vision, the DIS identified six priority outcomes.

- **Making defence an 'engine for growth'**: Investing in key sectors and regions, boosting skills and attracting private investment through strategic partnerships.
- **Backing UK-based businesses**: Directing spending to UK suppliers to enhance the competitiveness of the UK defence market.
- **UK at the leading edge of defence innovation**: Increasing the pace and scale of innovation.
- **A resilient UK industrial base**: Enhancing UK deterrence and defence through resilient supply chains and improved industry productivity.
- **Procurement and acquisition systems are transformed**: Cutting waste and improving efficiency.
- **Forge new and enduring partnerships**: Improving partnerships with industry and international collaboration.

In June 2026, the government set out in a Procurement Policy Note how it planned to use the UK's purchasing power more effectively to protect national security. This included appointing the MoD as the sector lead department for shipbuilding.

Defence Investment Plan

The MoD has developed a *Defence Investment Plan* (DIP), which it intends will deliver the vision set out in the SDR. The DIP replaces the old-style Defence Equipment Plan and covers the full scope of the Defence programme, including people, operations, equipment and infrastructure.

The DIP covers a 10-year period but focuses in detail on the MoD's spending priorities for the next four years, to 2029-30.

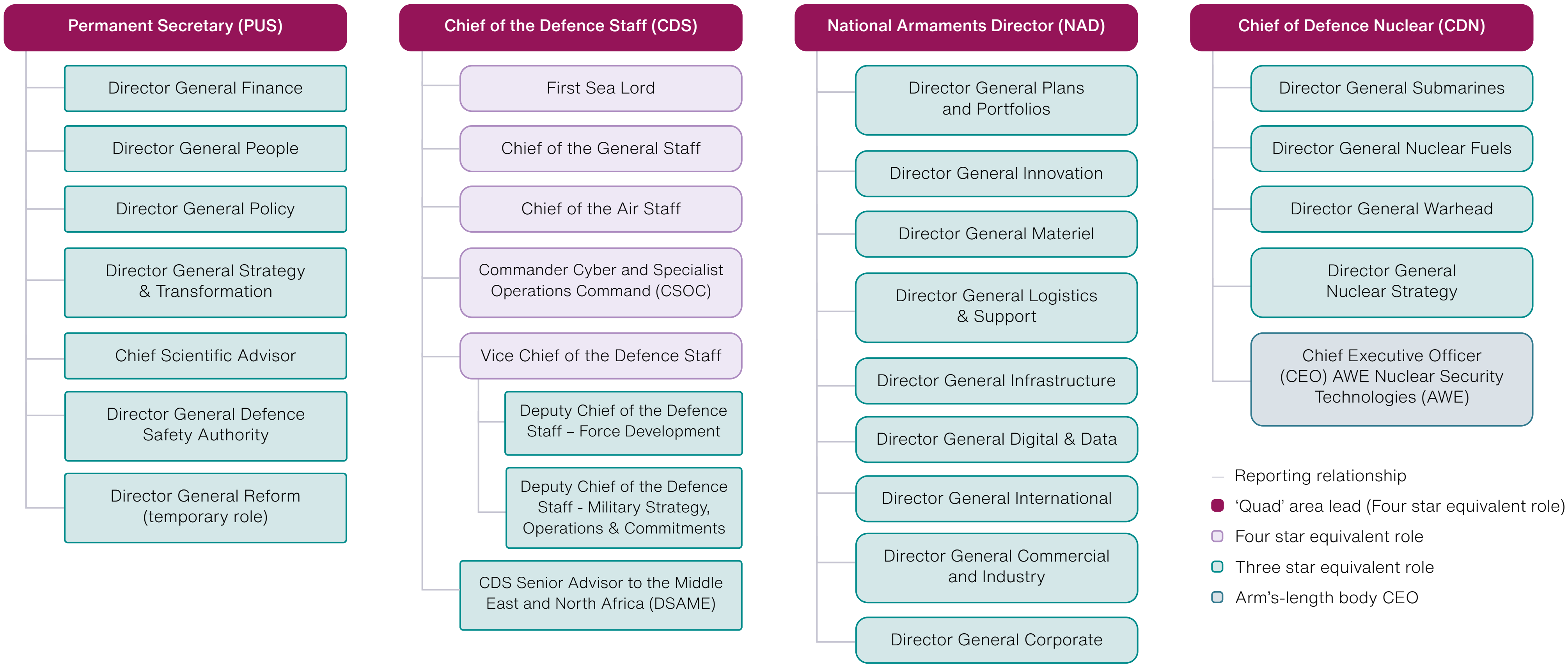
The MoD published the DIP in June 2026, a year after the publication of the SDR. The MoD originally intended to publish the DIP in autumn 2025.

The DIP reiterated the government's commitment to increasing defence spending to 3.5% of GDP by 2035.

How the MoD is structured

Figure 1
Ministry of Defence (MoD) top-level structure, as at July 2026

The MoD is organised under four core areas



Note

1 Star levels indicate seniority.

Source: National Audit Office analysis of an organisational chart provided by the Ministry of Defence

The Defence Investment Plan (DIP)

In June 2026, the MoD published the *Defence Investment Plan*, which outlines how it plans to implement the vision set out in the *Strategic Defence Review* (SDR) in June 2025.

The DIP aims to:

- transform the armed forces by investing in its people and future technology;
- strengthen the UK defence industrial base; and
- strengthen the UK and NATO's deterrence and response to the threat from Russia.

The MoD's major investments

Alongside the publication of the DIP, the government announced an additional **£15 billion** 'spending power' for Defence between 2026-27 and 2029-30.

This increase comprises £11.6 billion of additional cash funding; £2.4 billion of costs that HM Treasury will now meet; and the MoD saving and reprioritising £1 billion.

This is in addition to the funding already provided by the 2025 Spending Review over the same period. This means the MoD has **total funding** of around **£298 billion**.

The DIP summarises the major investments the MoD intends to make with this funding, including:

- **£78.5 billion** for **people and veterans**;
- **£63.6 billion** on the **Defence Nuclear Enterprise** (excluding workforce);
- **£27.8 billion** for **Air**;
- **£22.7 billion** on **infrastructure and the estate**;
- **£19.2 billion** for **Land**;
- **£18 billion** on **Maritime**; and
- **£11.1 billion** for **weapons and munitions**.

People and veterans

The DIP states that the MoD's 'warfighting edge' comes from its people in a 'One Defence' approach involving regulars, reserves, civil servants, industry specialists and veterans. The MoD anticipates spending £78.5 billion over the next four years on a number of initiatives, including those to increase recruitment and retention, and to improve the life of its personnel, families and veterans.

Defence Nuclear Enterprise (DNE)

The amount the MoD spends on the DNE, which provides the UK's continuous at sea nuclear deterrent, will continue to increase. The DIP estimates that, by 2029-30, the MoD could spend 25% of its total budget on the DNE. The MoD plans to spend £47 billion over the next four years on submarines, including their maintenance and infrastructure, to sustain the nuclear deterrent.

In June 2026, the government announced plans to work with Parliament to seek to establish a new parliamentary committee to scrutinise DNE expenditure and programmes.

Air

The DIP highlights the growing role of mass-produced unmanned aerial vehicles (drones) alongside a continuing need for crewed aircraft. In response, the MoD aims to create the 'Next Generation Royal Air Force', which will combine crewed and uncrewed aircraft, and be armed with the right mix of mass-produced and sophisticated weapons. This includes £8.6 billion over the next four years to develop a new, sixth-generation combat aircraft by partnering with Japan and Italy.

Financial management

In recent years, we have reported that the MoD's spending plans were either unaffordable or overly optimistic. The MoD views the DIP as an opportunity to reset its financial management. It plans to do this by:

- simplifying financial accountability as part of its Defence Reform programme;
- not working on new capabilities until it can demonstrate that the capability is affordable and deliverable;
- holding back contingency funding of around £5 billion for inflation and cost over-runs; and
- creating a £500 million modernisation fund to invest upfront to unlock efficiencies and cost savings in the future.

The MoD plans to provide annual progress updates to Parliament, beginning in July 2027.

Where the MoD spends its money

In 2025-26, the MoD's budget for its core, predictable activities (known as its Departmental Expenditure Limit) was £62.2 billion, of which it used £62 billion (see page 10 on Defence spending and the Spending Review). These figures differ from the MoD's running costs (shown below) because they exclude accounting adjustments, such as depreciation and impairments, but include capital expenditure, such as on new military equipment.

The MoD's *Annual Report and Accounts 2025-26* show it spent **£59.2 billion** on its running costs (operating expenditure), up from £52.8 billion in 2024-25. This included staff costs, maintaining military equipment, and management of the Defence estate. It also includes the depreciation (reduction in value of an asset due to wear and tear) and impairment (reduction in value of an asset due to an event) of military equipment and property.

Key areas of spending in 2025-26

Staff costs were **£18.9 billion** (2024-25: £17.7 billion), including £14.2 billion (75%) for military personnel.

Depreciation, amortisation, impairment, write-offs and disposals reduced the value of assets by **£9.6 billion** (2024-25: £9.8 billion). Write-offs occur when the MoD removes part or all of an asset's value from its accounts because it no longer expects to receive or recover the economic benefits.

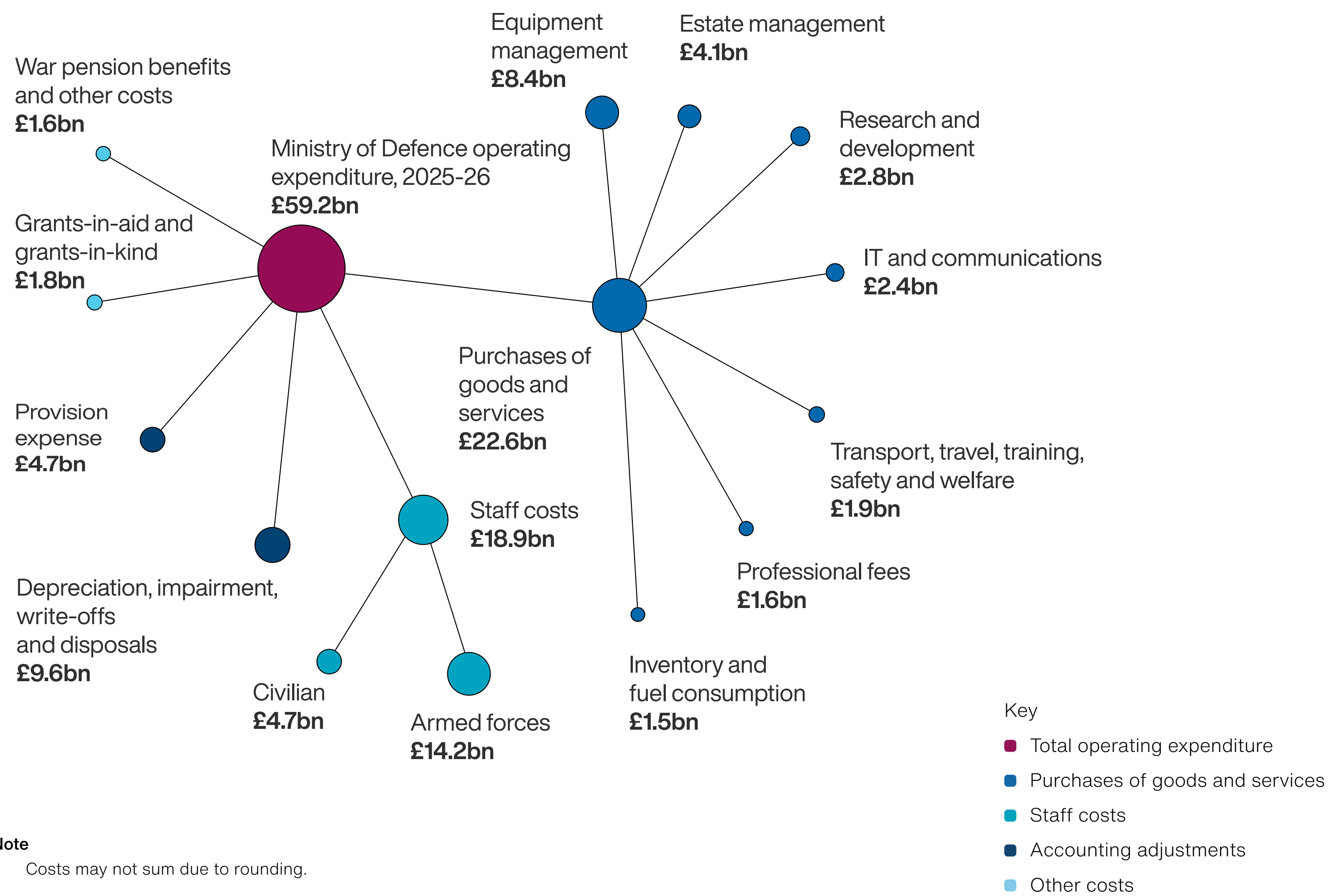
Equipment management costs were **£8.4 billion** (2024-25: £8.4 billion) and included expenditure to keep military equipment functioning.

Estate management costs were **£4.1 billion** (2024-25: £4 billion).

Figure 2

The Ministry of Defence's (MoD's) running costs, 2025-26

Purchases of goods and services and staff costs form most of the MoD's running costs



Note

1 Costs may not sum due to rounding.

Source: National Audit Office analysis of Ministry of Defence *Annual Report and Accounts 2025-26*

Assets and liabilities

The MoD holds significant assets and liabilities.

Assets

At 31 March 2026, the MoD held **assets** worth **£216.4 billion**, including the following.

- **Property, plant and equipment (PPE)**, with a value of **£161.6 billion**, including land, buildings and military equipment. Of this, £51.6 billion related to assets under construction.
- **Intangible assets** worth **£38.7 billion**, such as development costs for equipment platforms and transport. Of this, £20.8 billion related to assets under development.
- **Inventories**, with a value of **£5.6 billion**. These include raw materials and consumables such as ammunition and fuel.

Liabilities

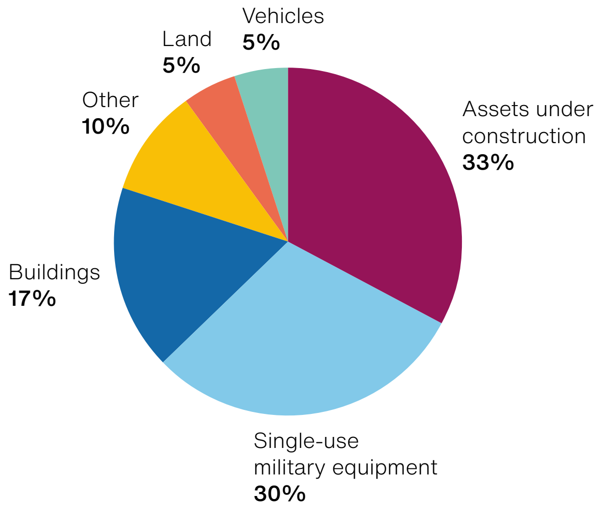
At 31 March 2026, the MoD had **liabilities** (obligations or amounts owed by the MoD) worth **£42.3 billion**, including the following.

- **Payables**, with a value of **£21.9 billion**, of which £17.3 billion were due within one year, including amounts payable to suppliers and obligations under lease arrangements.
- **Provisions**, with a value of **£19.7 billion**, an increase of £3 billion since 2024-25. A provision is a present obligation to settle probable future payments, where the timing or amount remains uncertain. Of the £19.7 billion, the highest value categories of provisions were:
  - £12.0 billion for nuclear decommissioning; and
  - £7.5 billion for legal provisions; these included amounts payable under guarantees, litigation, and contractual arrangements.

Figure 3

The Ministry of Defence's (MoD's) assets on 31 March 2026

The largest share of the MoD's assets were assets under construction and single-use military equipment



Notes

1 On 31 March 2026, the MoD reported having assets worth £216.4 billion.

2 Single-use military equipment is equipment that is only suitable for military purposes.

3 Assets under construction are capital items that are being developed but are not yet complete.

4 The majority of 'Other' is comprised of receivables, inventory and right-of-use assets: assets the MoD has the right to use in exchange for lease payments.

Source: National Audit Office analysis of Ministry of Defence *Annual Report and Accounts 2025-26*

As the MoD's funding increases through the *Defence Investment Plan* (DIP), it is more important than ever that it continues to focus on the fundamentals of good financial management.

2025-26

The Comptroller and Auditor General's (C&AG's) audit opinions

The MoD published its *Annual Report and Accounts 2025-26* (ARA) before Parliament's summer recess, and the C&AG's audit opinions were unqualified. This means the financial statements give a true and fair view and were properly prepared, the MoD did not exceed its Parliamentary control totals, and it applied its income and expenditure to the purposes intended by Parliament.

This is an improvement compared with 2024-25, when the MoD published its ARA in November 2025 and the C&AG qualified both of his audit opinions. We also identified two significant control weaknesses which were reported as key audit matters in our 2025-26 Extended Auditor's Report. Key audit matters are the most significant and high-risk issues considered by our audit of the financial statements.

Key audit matters

The MoD's oversight of arm's-length bodies' (ALBs') assets under construction (AUC)

The C&AG's true and fair audit opinion on the *Annual Report and Accounts 2024-25* was qualified due to a limitation of scope in respect of the audit of £6.1 billion of AUC balances managed by one of its ALBs, AWE Nuclear Security Technologies (AWE).

In 2025-26, the MoD carried out a detailed review of the AUC managed by AWE against MoD records. As a result, the MoD restated the value of the assets under construction to be £2.1 billion lower and recognised a £408 million loss.

As part of our 2025-26 audit, we reviewed controls and tested a sample of AUC projects. We also challenged management's impairment assumptions and reviewed losses and project additions to ensure the financial reporting was complete, accurate and consistent. We did not identify any material misstatements.

Completeness of provisions and contingent liabilities

During 2024-25, we identified the need for the MoD to make material adjustments to the completeness of its provisions for the Afghan resettlement scheme and personal injury legal claims. This resulted in the MoD recognising £2.6 billion of prior-period expenditure (2023-24) and the C&AG qualifying his regularity opinion.

As a result of our audit in 2025-26, the MoD reclassified a contingent liability as a provision, making a material adjustment to the value of provisions included in the financial statements. However, we did not identify any unadjusted material misstatements in the completeness of provisions and contingent liabilities recognised and disclosed in the financial statements.

The MoD's response to the C&AG's findings

The MoD states that it has strengthened its controls over AUC, including asset recognition, data quality and reconciliations. The MoD also reported that it has updated its provisions guidance to include stronger central review and challenge over the completeness and quality of supporting evidence.

The Defence Audit and Risk Assurance Committee continues to emphasise reinforcing the control environment, improving balance sheet oversight, and developing clearer and more consistent governance arrangements to support a stronger overall assurance framework.

While the 2025-26 ARA was unqualified, there are still weaknesses in these areas for the MoD to address.

National Audit Office insight: comparison across government

In 2024-25, among more than 400 public sector organisations whose ARAs the National Audit Office audited, the MoD was one of three organisations which received qualifications on both audit opinions.

Due to the size and nature of the MoD's activities, it routinely reports a high value and volume of losses and special payments.

In 2024-25, across 17 departmental groups, the MoD accounted for £1.9 billion (29%) of reported losses and £111 million (38%) of special payments. In 2025-26, the MoD reported £1.2 billion of losses and £169 million of special payments.

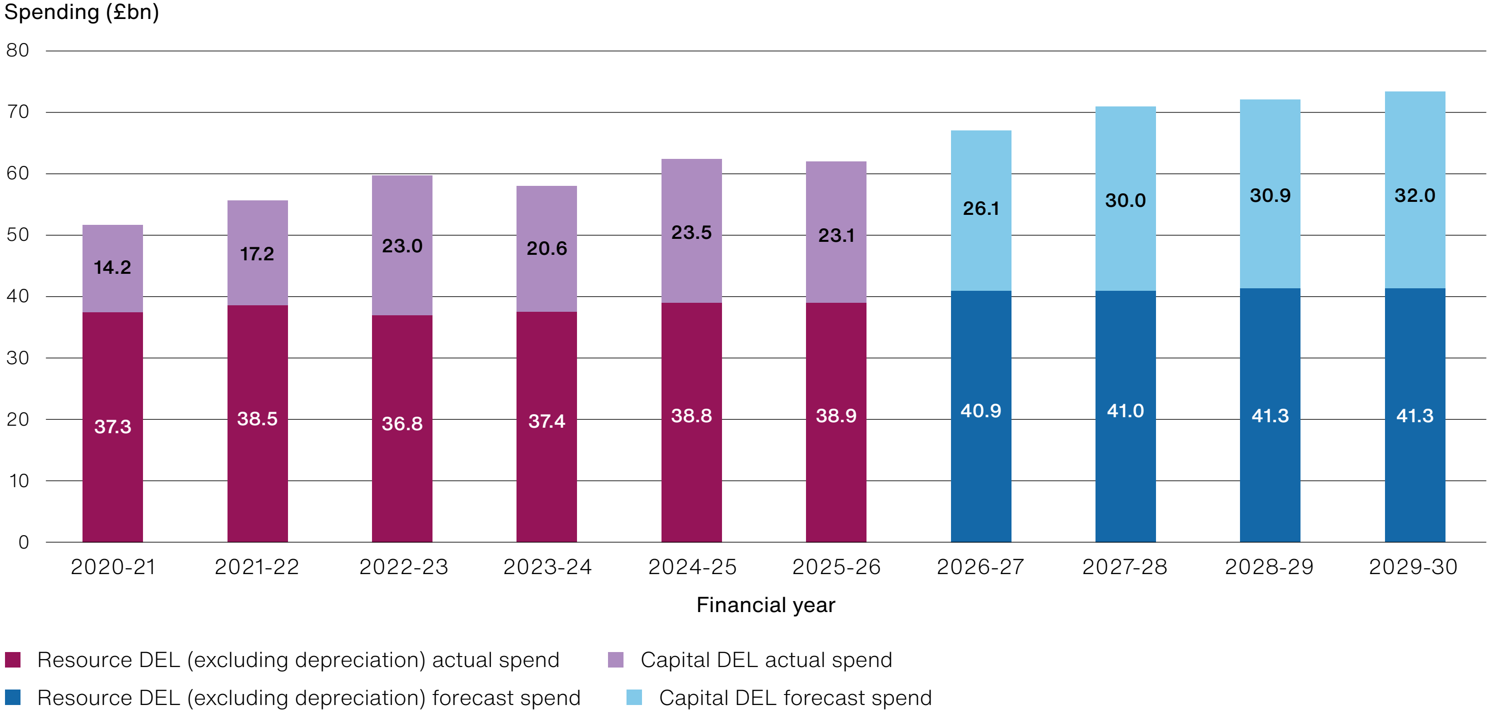
Between 2020-21 and 2025-26, the MoD's total Departmental Expenditure Limits (DEL) spending increased by 20% (from £51.5 billion to £62 billion), when adjusted for inflation (real terms). Capital spending rose by 63% (from £14.2 billion to £23.1 billion), while day-to-day spending remained broadly stable, increasing by 4% (from £37.3 billion to £38.9 billion).

- Most of the overall increase reflects an £8.8 billion (62%) rise in capital expenditure in real terms between 2020-21 and 2022-23.
- Day-to-day spending grew by an average of 1% per year in real terms to 2025-26. The main components are military and civilian personnel costs and equipment running costs.
- The average number of full-time equivalent MoD employees has remained broadly stable over the period. In 2025-26, armed forces personnel increased by 423, while civilian personnel decreased by 471.
- Total DEL spending is projected to increase by 18% (from £62 billion to £73.3 billion) over the remainder of the 2025 Spending Review period to 2029-30. This growth is partly due to the additional funding announced in the June 2026 Defence Investment Plan.
- Capital spending is expected to account for 44% of total DEL by 2029-30, up from 28% in 2020-21.

Figure 4

Ministry of Defence (MoD) Departmental Expenditure Limits (DEL) outturn from 2020-21 to 2025-26 and projected spending from 2026-27 to 2029-30

The MoD's annual spend is projected to have increased by 42% between 2020-21 and 2029-30



Notes

1 Numbers represent MoD Departmental Expenditure Limits voted by Parliament. HM Treasury sets the MoD annual budgets for capital (spending on assets such as equipment, known as the Capital Departmental Expenditure Limit) and resource (spending on day-to-day expenses, known as the Resource Departmental Expenditure Limit).

2 The resource spending figures do not include non-cash transactions such as depreciation, for which the MoD receives a separate ring-fenced limit from HM Treasury.

3 Figures for 2020-21 to 2025-26 reflect actual DEL outturn, and figures from 2026-27 to 2029-30 are projected spend. The figures between 2026-27 to 2029-30 include the additional funding set out in the *Defence Investment Plan* (DIP) in June 2026.

4 All figures are shown in real terms in 2025-26 prices using GDP index data released on 30 June 2026 to inflate figures between 2020-21 and 2024-25, and to deflate figures between 2026-27 to 2029-30.

Source: National Audit Office analysis of Ministry of Defence *Annual Report and Accounts 2025-26* and the *Defence Investment Plan*

Armed Forces Pension Scheme (AFPS)

The Armed Forces Pension Scheme (AFPS) is a defined benefit pension for members of the armed forces. The government has stated that it is one of the most generous pensions in the UK, reflecting the demands of military service.

The AFPS is 'unfunded', meaning there is no fund of assets invested from which pension benefits are paid. Members do not contribute; the MoD funds the scheme through employer contributions, which are used to meet the cost of pensions in payment. Since April 2025, the employer contribution rate has been 73.6% of pensionable pay, inclusive of 2.1% for the Armed Forces Compensation Scheme (AFCS).

The AFPS liability

On 31 March 2025, the present value of all future pension benefits owed to members was **£150.4 billion**.

In 2025-26, the scheme liability:

- decreased by **£12.9 billion** from **changes in actuarial assumptions**;
- decreased by **£6.1 billion** for **benefits paid out**;
- increased by **£9.9 billion** because of **interest** and **pension benefits earned** by members; and
- increased by **£2.6 billion** from an **actuarial experience loss** (when real-world events differ from assumptions).

Overall, the **scheme liability** decreased by £6.5 billion to **£143.9 billion** by 31 March 2026.

The Government Actuary's Department (GAD) undertakes a full actuarial valuation every four years. GAD is due to complete its next valuation, with an effective date of 31 March 2024, during 2026-27.

The AFCS

The AFCS provides compensation for injury, illness or death caused by service in the armed forces.

It recognises a provision for injuries that have occurred, including cases where a claim has not yet been made.

At 31 March 2026, the liability was estimated to be £2.5 billion (2024-25: £2.5 billion).

Financial management and audit

The MoD manages and operates the AFPS and AFCS, collectively referred to as 'the Scheme'. It presents a separate Annual Report and Accounts for the Scheme, which is audited by the National Audit Office.

In his 2024-25 report to the House of Commons, the Comptroller and Auditor General (C&AG) highlighted the Scheme's non-compliance with the Pension Schemes Act 1993 (the Act) in relation to early leavers. Early leavers are individuals with more than three months', but less than two years', qualifying service.

Since 2006, the Act has required occupational pension schemes to notify early leavers of their entitlement to either a refund of their contributions or the option to transfer their pension benefit to another pension scheme. In 2024-25, following a member complaint, the MoD identified that the Scheme had never met its obligation to notify members of their right to transfer or receive a contribution refund, where applicable.

As a result, the Scheme recognised a provision of £41.5 million. In 2025-26, the Scheme recognised a further £3.5 million (£45 million in total). This represents its best estimate of the cost of paying transfer values on behalf of affected individuals who subsequently choose to transfer.

In 2025-26, the C&AG noted his disappointment that the Scheme had not yet ensured that early leavers are notified of their right to transfer, and that the Scheme had not started contacting previously affected individuals.

In 2025-26, the C&AG's opinions on the financial statements and their regularity were unqualified. This means that in all material respects the financial statements were true and fair and properly prepared, the Scheme did not exceed its voted Parliamentary control totals, and its income and expenditure was applied to the purposes intended by Parliament.

We are undertaking a value-for-money audit of unfunded public service pension schemes, including the AFPS, for publication in winter 2026. We are examining their affordability, how they compare, and the extent to which they support recruitment and retention.

Background

In January 2026, we published our report *The Ministry of Defence's management of its losses from fraud and other economic crime*. Like all parts of government, the MoD is vulnerable to fraud, bribery, corruption and other economic crime. The MoD faces particular challenges in safeguarding public expenditure because of its high expenditure, complex procurement and supply chains, and a workforce split between the civil service and armed forces.

To tackle these challenges, it has both a counter-fraud team, Fraud Defence, and several Defence police bodies with responsibilities that include responding to fraud and economic crime.

Our report provided transparency over how the MoD is set up to tackle fraud, its understanding of its fraud risks, how it investigates fraud, the outcomes it achieves, and where it could improve.

Key findings

We found that the MoD has an opportunity to save money through better coordination and management of its counter-fraud and economic crime activity. It is still improving its understanding of its fraud risk, but it is highly likely that the amount it investigates, recovers and prevents is considerably less than the loss it incurs.

The MoD also reports a much lower financial return than other departments that invest a similar amount in counter-fraud activity. Departments are expected to target a saving of £3 for every £1 they spend on counter-fraud. In 2024-25, the MoD reported that it saved £6.4 million by preventing or recovering fraud – a return of £1.34 for every £1 it spent. This is despite having stronger enforcement powers with its own in-house police services.

Using this resource more effectively will require the MoD to reform the way it goes about tackling fraud and other economic crime, which would enable it to achieve real savings that could be used to enhance its defence capability.

How the MoD can strengthen its response

We made seven recommendations designed to help the MoD with its plans to continue improving how it manages fraud and economic crime, including that it:

- set a Defence-wide objective to bring down its overall level of estimated financial loss due to fraud and economic crime, helping to protect Defence capability; and
- empower a senior official to bring together the different parts of the MoD to reduce its losses and to represent the MoD as the single victim of fraud and economic crime.

We also identified eight areas where the MoD needs to strengthen its response if it is to achieve better results, including the following.

- **Focus on prevention**: The MoD has significantly increased its number of fraud risk assessments in recent years. But these are not completed across the whole of Defence, are of varying quality, and are not used consistently to identify how fraud gets past controls and to prevent future fraud.
- **Data analytics**: The MoD has attempted several data analytics projects in recent years to help it flag risky transactions and identify areas where preventative controls would be useful. However, it has reported internally that some business areas lacked the capacity to investigate transactions flagged as suspicious.
- **Intelligence-based prioritisation**: The MoD's many fraud risk assessments have not been translated into a comprehensive, 'ground-up' estimate of its fraud loss that could inform where it should prioritise its counter-fraud resources.

The MoD has taken steps to address some of these issues. For example, it plans to add an organisation-level shared objective to its next counter-fraud strategy and is focusing on intelligence and analytics, including exploring the use of artificial intelligence.

In its June 2026 Defence Investment Plan, the MoD set itself a target to prevent or recover £250 million from fraud and error between 2026-27 and 2029-30.

Background

The MoD has a very broad portfolio of projects, running some of the largest in government. Over the years, many of these have successfully delivered effective military capability, but the MoD has also regularly experienced difficulties delivering many of its projects to the required performance, cost and schedule.

The Government Major Projects Portfolio (GMPP) provides oversight of the government's most complex and strategically important projects. This oversight is delivered by the National Infrastructure and Service Transformation Authority (NISTA), which provides independent scrutiny, advice, and monitors delivery progress.

In March 2026, the MoD had 44 projects in the GMPP.

Changes to the GMPP

In April 2026, NISTA reduced the GMPP from 213 projects to 81, focusing central support and scrutiny on the government's highest-priority and highest-risk programmes.

What this means for the MoD

As a result of these changes, the number of MoD projects in the GMPP reduced from 44 to 20. The MoD accounts for around 25% of the GMPP, up from 21% in March 2026.

Within the MoD, the largest reductions were in the air and cross-service enabler portfolios, each of which now has one GMPP project.

Although projects removed from the GMPP will no longer be subject to NISTA's scrutiny, the MoD remains responsible for their successful delivery. The MoD will therefore need to rely more heavily on its own assurance arrangements for these projects.

The government intends that limiting central assurance to the highest-risk projects will strengthen departmental accountability and decision-making, and support faster delivery.

As a result, the MoD's own delivery capacity, capability, and portfolio management arrangements become even more important to achieving successful project outcomes.

Figure 5

How the National Infrastructure and Service Transformation Authority (NISTA) assesses its confidence in project delivery

NISTA assesses project delivery confidence using a red, amber, green (RAG) rating system

Green

Successful delivery of the project on time, budget and quality appears highly likely, and there are no major outstanding issues that at this stage appear to threaten delivery.

Amber

Successful delivery appears feasible but significant issues already exist, requiring management attention. These appear resolvable at this stage and, if addressed promptly, should not present a cost/schedule overrun.

Red

Successful delivery of the project appears unachievable. There are major issues with project definition, schedule, budget, quality and/or benefits delivery, which at this stage do not appear to be manageable or resolvable. The project may need re-scoping and/or its overall viability reassessed.

Exempt

Data can be exempt in exceptional circumstances and in accordance with Freedom of Information requirements. Some of the MoD's projects are exempt for national security reasons.

Source: National Audit Office analysis of National Infrastructure and Service Transformation Authority reporting

Major projects *Continued*

Performance of MoD programmes that retained GMPP status

In March 2026, of the 20 MoD projects that remained in the GMPP following NISTA's April 2026 reforms, eight were rated 'red', 10 'amber' and two were exempt from public reporting.

Mega projects

In June 2025, the government announced a new category of major projects known as 'mega projects'. These are projects that have transformational impacts on the economy, society or national security, involve multiple government departments and agencies, take more than 10 years to deliver, and have whole-life costs exceeding £10 billion.

The MoD's Dreadnought nuclear submarine project is a mega project, and this should mean that it will benefit from bespoke governance and assurance arrangements, an incremental approach to funding, and the flexibility to pay more to attract and retain expertise.

National Audit Office insight: major projects

Our 2023 report *Resetting major programmes* found that, when programmes are reset, it is often due to the product or output failing, missed milestones, contractor relations or independent reviews. Resets can be positive when issues are identified early, stakeholders agree on the way forward, and the necessary skills and processes are in place.

Our 2024 report *Delivering value from government investment in major projects* found that those undertaking major projects should:

- start with the difference they want to make;
- consider the needs of those who will use, operate or benefit from the project; and
- regularly review how the project is contributing to their strategic objectives.

Figure 6

Delivery confidence assessments for Government Major Project Portfolio (GMPP) Defence projects, 2017-18 to 2025-26

In March 2026, most Ministry of Defence major projects were rated 'amber' or 'red'

Project name	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Air									
Future Combat Air System				Amber-red	Amber	Red	Red	Red	Red
Army									
Armour Main Battle Tank	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Red
Armoured Cavalry 2025 (Ajax)	Amber	Amber	Amber	Red	Red	Amber	Amber	Amber	Red
Collective Training Transformation				Amber	Amber	Amber	Red	Amber	Amber
Ground Based Air Defence					Amber	Amber	Amber	Amber	Amber
Land Environment Tactical Communication and Information Systems	Amber-red	Amber-red	Amber	Amber	Amber	Amber	Amber	Red	Amber
Land Intelligence, Surveillance, Target Acquisition and Reconnaissance					Amber	Amber	Amber	Red	Amber
Mechanised Infantry Programme	Amber	Amber	Amber	Amber-green	Green	Amber	Amber	Amber	Amber
Cross Service Enablers									
Skynet 6	Amber-red	Amber-red	Amber-red	Amber-red	Amber	Amber	Amber	Red	Red
Missiles									
Future Cruise Anti Ship Weapon					Red	Amber	Amber	Amber	Amber
Navy									
Future Air Dominance System									Red
Multi Role Strike Ship							Amber	Amber	Red
Type 26 Global Combat Ship Programme	Amber-green	Amber-green	Amber	Amber	Amber	Amber	Amber	Amber	Amber
Type 31	Exempt	Exempt	Amber	Amber	Amber	Amber	Amber	Red	Red
Nuclear									
Clyde Infrastructure		Amber-green	Amber	Amber	Red	Exempt	Amber	Amber	Amber
Core Production Capability	Red	Amber	Amber	Amber	Red	Red	Red	Red	Amber
Dreadnought	Amber-red	Amber	Amber	Amber	Amber	Amber	Amber	Exempt	Exempt
Future Materials Campus							Amber	Exempt	Exempt
Submersible Ship Nuclear AUKUS						Amber	Amber	Amber	Amber
Submarine Waterfront Infrastructure Future					Amber	Amber	Amber	Red	Red

Green Amber-green Amber Amber-red Red Exempt

Notes

1 Ratings are given by the Senior Responsible Owner, or National Infrastructure and Service Transformation Authority (NISTA). NISTA rates those projects that it actively supports, or those that had an independent NISTA assurance review in the six months prior.

2 In April 2026, NISTA reduced the size of the GMPP from 213 projects to 81. As a result, the number of Ministry of Defence projects in the GMPP reduced from 44 to 20.

3 From June 2021, NISTA stopped using the 'amber-green' (successful delivery appears probable) and 'amber-red' (successful delivery of the project is in doubt) ratings.

Source: National Audit Office analysis of National Infrastructure and Service Transformation Authority annual reports and Government Major Projects Portfolio data

The MoD's productivity challenges

Pressures on public finances make it essential for the MoD to get the most value from every pound spent. It faces several challenges, including:

- the affordability of its spending plans;
- reforming how Defence is organised and operates, to speed up decision-making and focus on outcomes;
- improving the efficiency of equipment procurement; and
- delivering value for money in its major projects.

The Strategic Defence Review (SDR) and Defence Investment Plan (DIP) also highlight ways the MoD could improve productivity, including:

- making better use of and empowering its civilian workforce;
- investing in British industry to boost skills, innovation and productivity; and
- adopting innovative technologies.

Progress

Affordability of spending plans

In previous reports, we found that the MoD's spending plans were unaffordable, with the 2023–2033 Equipment Plan exceeding its budget by £16.9 billion.

In 2024, the MoD stopped publishing the Equipment Plan, concluding that it was no longer an effective accountability tool. It provided a snapshot of a long-term plan based on volatile assumptions and did not reflect uncertainty in spending plans, which depended on the 2025 SDR and Spending Review.

The MoD has instead developed the DIP, intended to be affordable, aligned with the SDR, and to cover the full Defence programme over a 10-year period. However, its publication was delayed from autumn 2025 until June 2026.

The Defence Committee and the Public Accounts Committee have reported that this delay may have harmed productivity. The DIP is intended to signal to industry the MoD's planned spending and priorities. However, continued uncertainty, including over some procurement processes, has led some small businesses to exit the defence sector, resulted in the loss of specialist skills, increased costs for critical components, and potentially affected investment in the UK defence industry.

National Audit Office insight: productivity

In May 2026, we highlighted recurring findings from our work that help in *Delivering more productive public services*. These included the following.

- **Making better use of existing assets**, ensuring these are managed strategically and modernising where required.
- **Investing in staff** capability, tackling underperformance and supporting continuous improvement.
- **Allocating resources effectively**, especially where services, processes or outcomes cut across multiple organisations.
- **Explicitly and transparently managing trade-offs** between short-term pressures and long-term value.
- **Improving processes and applying digital technology, including artificial intelligence**. This can release capacity over time but requires clear objectives, strong governance and metrics to measure progress, and reliable data.
- **Stopping or changing low-value activity**, or activity that is no longer delivering the intended outcome, including reducing losses from fraud and error.

Productivity *Continued*

Defence Reform

In October 2024, the Secretary of State for Defence launched the Defence Reform programme to change how Defence operates. The MoD's aim is to "shift an organisation which too often has been obsessed with process to one focused on outcomes – in which information flows quickly, individual accountabilities are clear, and results are demanded".

Central to reform is a move to operating as a single Defence enterprise, reducing fragmentation and enabling collective decision-making. To support this, the MoD established four leadership areas in April 2025.

- Department of State.
- Military Strategic Headquarters.
- National Armaments Director Group.
- Defence Nuclear Enterprise.

The MoD reports that the Defence Reform programme moved from organisational design to live operation on 1 April 2026.

The MoD plans to continue embedding and refining its operating model as it learns from experience. Its current priorities include:

- embedding behavioural change to ensure reforms are adopted and sustained; and
- accelerating digitalisation to enable better and more agile decision-making.

During 2025-26, the MoD's finance function also began developing a new operating model. For 2026-27, its aim is to operate as a more unified function, improving agility, insight and readiness. Planned changes include bringing together subject-matter experts and streamlining processes.

Procuring equipment more efficiently

At 31 March 2026, the MoD reported it had:

- established a new portfolio-driven approach to procurement;
- introduced a segmented, risk-based model; and
- begun a substantial programme of work to improve procurement performance and efficiency.

The MoD intends these changes to reduce bureaucracy and to simplify and speed up procurement, with the aim of delivering capability to service personnel more quickly. In June 2025, the Public Accounts Committee reported that, while the MoD's plans are ambitious, it will take several years for the new approach to reduce average procurement times.

In July 2026, the government's independent Industrial Strategy Advisory Council published its report *Unlocking the potential of disruptive businesses to boost growth in the UK*. It found that Defence procurement remains risk-averse and concentrated on the same suppliers: eight of the 10 companies that received the most money in 2024-25 were also in the top 10 a decade earlier.

However, the report also highlighted successes, such as Commercial X, the MoD's project to procure digital and innovative technologies faster.

Delivering value for money in major projects

We show the latest performance of the MoD's major projects on page 15.

Our future work

We plan to publish work on the affordability of the MoD's spending plans and its progress on Defence Reform.

Spending Review 2025 efficiency savings targets

As part of the Spending Review 2025, HM Treasury published departmental efficiency targets in June 2025, with delivery beginning in April 2026. The MoD will report on its progress in its Annual Report and Accounts 2026-27.

The MoD aimed to deliver £905 million (2.3%) of net efficiency savings per year by 2028-29, measured against its 2025-26 day-to-day budget. This was the second-highest target by value across departments, although most departments are targeting efficiency improvements of at least 3%.

In its June 2026 Defence Investment Plan (DIP), the MoD set out a new commitment to make a total of £10.7 billion of efficiency savings between 2026-27 and 2029-30. This target is on a different basis to that published in June 2025, and so cannot be compared directly.

The MoD's planned efficiencies

Service Family Accommodation (SFA)

The MoD expects efficiency gains from optimising its assets through better management of its estate and accommodation. The MoD estimates its repurchase of more than 36,000 SFA will save £334 million a year in rent and lease costs by 2028-29. It also said that its forthcoming Defence Housing Strategy would set out plans to improve living conditions and deliver estate and energy efficiencies.

The MoD published the Defence Housing Strategy in November 2025. Its plans include:

- better matching supply and demand, including potentially selling 5,000 poorly located homes;
- using surplus land to build infrastructure and more than 100,000 new military and civilian homes;
- replacing its inefficient and reactive approach of waiting until something stops working before repairing it; and
- improving energy efficiency, including using low-carbon technologies.

The MoD estimates that, had it not repurchased the SFA estate, it would have cost £25 billion to achieve the ambitions of the strategy. It estimates that it can now deliver those ambitions for around £9.2 billion, for example through more efficient use of the estate.

In June 2026, we reported that successful delivery of the Defence Housing Strategy will require further spending and investment, careful planning, improved performance, and experience and skills that the MoD does not currently have.

Category management and acquisition reform

By 2028-29, the MoD plans to deliver £315 million a year in efficiency savings by reforming how it buys and manages goods, services and equipment. Savings are expected from reducing duplication and bureaucracy and adopting a more tailored, risk-based approach.

Workforce and resourcing

The MoD plans to reduce civil service workforce costs by at least 10% by 2030 and align its workforce to the DIP's priorities. It also aims to automate 20% of its human resources, finance and commercial functions by July 2028.

In the DIP, the MoD said it intended to publish a workforce plan in autumn 2026, which would set out the planned size and structure of its workforce and the use of artificial intelligence (AI) and technology to automate processes and improve efficiency.

National Audit Office insight: workforce planning

Our *Government workforce planning – lessons learned* report (July 2026) highlights the need for departments to plan for changing workforce requirements, including those arising from AI and digital technologies.

Our updated *Government workforce planning – audit framework* (July 2026) provides practical guidance for departments.

Our *Government exits and redundancies* guide (September 2025) highlights the importance of maintaining organisational capability to deliver, retaining high performers and skilled staff, and ensuring that staff reductions and cost savings are sustainable.

Risk and resilience

Risk management

Effective risk management is essential if the MoD is to achieve its objectives and in order to secure long-term value for money. Effective risk management should be an integral part of planning and decision-making and requires strong leadership and culture, scrutiny arrangements that encourage informed decision-making, and an understanding of the level of risk that the organisation can accept.

The UK faces a range of evolving security risks and geopolitical challenges. The MoD must balance short-term operational demands with long-term preparedness, making difficult trade-offs within its finite resources and capacity to manage risk effectively, including deciding where it is prepared to accept risk.

National Audit Office insight: managing risks in government

In our good practice guide *Overcoming challenges to managing risks in government*, we highlighted the ongoing work of the government's Risk Centre of Excellence (CoE) to bring together, support and professionalise government's risk management community. The MoD has used the CoE to build its professionalism and upskill its people, identifying common problems and sharing best practice.

The MoD's approach to risk management

In 2025-26, the MoD reported that its risk framework enables risks to be identified and managed at all levels of the organisation. The MoD assesses that its approach aligns with government risk-management principles. This means that risk management is essential to its decision-making and the delivery of Defence objectives. The MoD categorises its risks as principal risks, which are overseen by the Defence Board, and strategic risks, which are managed across Defence's four major operating areas.

Effectiveness of the MoD's risk management

The MoD's risk management is supported by an assurance framework that evaluates the effectiveness of key controls and mitigations.

The Government Internal Audit Agency (GIAA) concluded that the effectiveness of the MoD's governance framework, risk management and controls during 2025-26 was 'limited'. The GIAA noted that the MoD made significant changes to its governance during 2025-26 as part of Defence Reform, several of which were still ongoing, and that controls were well defined but inconsistently implemented and assured.

The MoD is implementing an Assurance Improvement Plan to strengthen its approach, including by building a more coherent, integrated view of assurance and control effectiveness across Defence.

The MoD's principal risks

In its Annual Report and Accounts 2025-26, the MoD reported that its principal risks include those affecting:

- its ability to 'warfight', a new principal risk in 2025-26;
- the capacity and skills of its workforce;
- transforming 'the Force' through science, innovation and technology;
- its ability to keep people safe and secure;
- increasing its cyber and wider resilience;
- creating an alliance with industry and resilience in the supply chain;
- building and maintaining robust and effective relationships with its partners; and
- adapting to the impacts of climate change.

National risks

The MoD is the lead government department responsible for coordinating planning, response and recovery for some of the most serious risks facing the UK. These include:

- non-malicious release of dangerous substances from the MoD's estate, assets, or nuclear installations; and
- malicious disruption of space-based services.

Resilience and the MoD

Building resilience is critical to the MoD's ability to protect the nation and safeguard the UK's security, interests and prosperity. It enables the MoD to anticipate, withstand, adapt to and recover from disruption, whether caused by military attack, hostile state activity, cyber incidents, supply chain failures or other shocks.

The UK is operating in an increasingly uncertain and contested environment. Alongside conventional military threats, adversaries are increasingly using activities below the threshold of armed conflict to achieve strategic advantage. These can include espionage, sabotage, cyber-attacks, disinformation and interference with critical infrastructure.

Rapid technological change, greater dependence on digital systems and increased global interconnectivity have created new vulnerabilities and increased the pace at which risks can emerge and evolve.

In response, the Strategic Defence Review (SDR) identified that the MoD should adopt a whole-of-society approach, working with government departments, industry and others to identify and address shared risks and vulnerabilities. This recognises that many of the threats facing the UK cannot be managed by Defence alone and require coordinated action.

The MoD is also seeking to strengthen its own resilience, including by:

- strengthening industrial and supply chain resilience;
- increasing strategic stockpiles;
- improving cyber resilience; and
- expanding reserve forces.

National Audit Office insight: the UK's resilience to severe space weather

In March 2026, our report *The UK's resilience to severe space weather* found that the Met Office had built the UK's forecasting capability and that departments had begun exercising response plans. However, responsibilities and government's risk appetite remained unclear.

For example, there was ambiguity about how the government expected the MoD, and other lead departments with responsibility for managing the risk, to coordinate their efforts.

Supply chain resilience

In April 2026, the MoD conducted a major wargame with industry partners to assess the resilience of its supply chains under wartime conditions, building on an earlier exercise that stress-tested ammunition and defence equipment availability. The findings will inform policy and legislative development, including work to strengthen defence readiness outlined in the SDR and the Defence Industrial Strategy.

Climate resilience

In its Annual Report and Accounts 2025-26, the MoD highlighted a range of climate-related risks and opportunities. These included the potential for extreme heat to disrupt its training activities, and opportunities for new energy technologies to enhance its resilience.

Climate change is increasing the frequency and severity of extreme weather impacting the Defence estate and operations. For example, tornado conditions in Cyprus in 2024 damaged a hangar beyond repair, and flooding in Bedfordshire displaced 27 service families from their accommodation.

The changing climate is also influencing MoD strategy. For example, the SDR emphasised the need to prepare for ice-free Arctic summers by 2040, increasing activity and competition in the region.

During 2025-26 the Climate and Environment Governance Board brought together senior leaders from across the MoD to ensure that climate change risks are managed and that opportunities are integrated into Defence objectives.

In January 2026, the government published a national security assessment, which assessed with high confidence that global ecosystem degradation and collapse threaten UK national security and prosperity.

The MoD's repurchase of the service family accommodation (SFA) estate

Background

In 1996, the MoD sold around 55,000 properties to Annington Homes for £1.7 billion and then leased them back. At the time, the MoD said the deal would enable it to secure funds for upgrade work and improve accommodation through greater private sector involvement.

In 2018 we reported that, as a result of the 1996 deal, the MoD had:

- missed out on billions of pounds in rising property values;
- committed to rental payments of hundreds of millions of pounds each year (£230 million in 2024); and
- failed to maintain and manage the estate effectively, meaning that families did not see the expected improvements.

In December 2024, the MoD announced it was repurchasing more than 36,000 SFA properties for approximately £6 billion. It said the deal would save the taxpayer billions in future rental costs and allow it to undertake large-scale redevelopment of the estate.

Our June 2026 report *The repurchase of the service family accommodation estate* examined whether the MoD's repurchase of SFA in 2024 was good value for money, and its plans to improve its future provision of SFA.

Our findings

We found the following.

- The repurchase prevented further losses in value amounting to billions of pounds. We estimated that, by the time it repurchased the estate in 2024, the MoD was £14.5-billion worse off than if it had held onto the SFA estate in 1996.
- The MoD made the repurchase feasible and more affordable by:
  - securing a good outcome from the 2021 rent review process; and
  - winning the legal right to enfranchise these properties in 2023 – enfranchisement is a statutory process by which a qualifying tenant can acquire the freehold of the relevant property.
- The MoD repurchased the SFA estate for approximately £6 billion, which was a good outcome from the negotiations and reflected a thorough process. This was within the negotiating range agreed with HM Treasury, and over £4 billion lower than Annington's £10.1 billion valuation of the estate with vacant possession.
- In 2024, the House of Commons Defence Committee reported that two-thirds of the SFA estate was "essentially no longer fit for purpose". The inadequate condition of the SFA estate reflects a lack of investment and poor management by the MoD. The MoD has always retained responsibility for maintaining the estate but has carried out only essential maintenance to the minimum safe and legal standard.
- The MoD now has the opportunity to renew and restore its housing estate. As part of its 2025 Defence Housing Strategy, the MoD plans to modernise around nine in 10 (around 43,000) homes by 2035. However, the scale and nature of the challenge to deliver the Defence Housing Strategy is huge, and the MoD does not currently have the capabilities it needs to deliver it. The MoD's preferred approach is to create a new non-departmental public body, the Defence Housing Service, to bring in commercial expertise and attract private finance.

Our recommendations

We recommended that the MoD quickly build on the opportunity it has to improve the quality of SFA and realise the expected savings and wider benefits.

We also recommended that the MoD reflect on the lessons learned from the sale and repurchase, and share these across government.

From a risk and resilience perspective, we would highlight one lesson as the importance of understanding and explicitly acknowledging trade-offs when making strategic decisions. In this case, the MoD's decision to sell its SFA estate created long-term risks that outweighed the short-term benefits.

About the NAO

The National Audit Office (NAO) is the UK's independent public spending watchdog and is responsible for scrutinising public spending for Parliament. We audit the financial accounts of all departments, executive agencies, arm's-length bodies, some companies and charities, and other public bodies. We also examine and report on the value for money of how public money has been spent.

The NAO is independent of government and the civil service. The NAO's wide remit and unique access rights enable us to investigate whether taxpayers' money is being spent in line with Parliament's intention and to respond to concerns where value for money may be at risk.

We support all Members of Parliament to hold government to account, and we use our insights to help those who manage and govern public bodies to improve public services.

We produce reports:

- on the annual accounts of government departments and their agencies;
- on the economy, efficiency and effectiveness with which government has spent public money; and
- to establish the facts where there are concerns about public spending issues.

We do not question government policy objectives. We look at how government has spent money delivering those policies and if that money has been used in the best way to achieve the intended outcome.

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About this report

This report has been produced to provide an overview of the NAO's examination of the spending and performance of the Ministry of Defence (MoD).

It is intended to support the Defence Committee and members across the House in their examination of MoD.

This report updates our previous report, An Overview of the Ministry of Defence 2024-25 published on 16 December 2025.

How we have prepared this report

The information in this report draws on the findings and recommendations from our financial audit and value-for-money work, including the annual report and accounts of the MoD and its partner organisations. In some cases, to provide the most up-to-date information, we have drawn on information from publicly available documents. We have cited these sources throughout the guide to enable readers to seek further information if required.

Where analysis has been taken directly from our value-for-money or other reports, details of our audit approach can be found in the Appendix of each report, including any evaluative criteria and the evidence base used. Other analysis in the guide has been directly drawn from publicly available data and includes the relevant source as well as any appropriate notes to help the reader understand our analysis.