National Audit Office

REPORT

Affordability of the Defence Investment Plan

Ministry of Defence

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Key facts

£297.7bn

the revised defence budget for the four years from 2026-27 to 2029-30

£11.6bn

increase to the defence budget over the four years from 2026-27 to 2029-30 announced alongside publication of the Defence Investment Plan (DIP) in June 2026

One year

the length of time between the Ministry of Defence (MoD) publishing the Strategic Defence Review (SDR) on 2 June 2025 and the DIP on 30 June 2026

The MoD realised in late 2025 that its forecast costs were higher than it had assumed at the time of the SDR. This meant that its budget of £286.0 billion for the four years to 2029-30 would have forced it to make significant cuts to military capabilities compared with the SDR's ambition

£1.4 billion gap	in June 2025, when the SDR was published, the MoD estimated that its spending plans would cost £287.4 billion over the four years to 2029-30
£28.8 billion gap	by November 2025, the MoD, HM Treasury and the Cabinet Office accepted that the baseline cost of the MoD's existing programme (including the SDR and other commitments) was £314.9 billion
£18.3 billion gap	in February 2026, the MoD presented a 'candidate' DIP with HM Treasury and the Cabinet Office which would cost £304.4 billion and senior government officials concluded that decisions to further close the gap could only be taken by the Prime Minister and Chancellor of the Exchequer
£1.2 billion gap	remaining gap between the forecast cost of the MoD's spending plans and the revised budget of £297.7 billion agreed in June 2026

The MoD may need to make further decisions to reduce spending if financial risks materialise

£10.7 billion	the MoD's efficiency savings targets in the DIP for the four years to 2029-30, of which £2.4 billion have mature delivery plans
£3.3 billion	savings measures agreed late in the DIP process which the MoD has not decided how to deliver (including deliberate delays to some capital spending and further day-to-day cost savings)
No more than 2%	contingency agreed with HM Treasury that the MoD will have in any year prior to 2029-30. HM Treasury has instructed the MoD to identify lower priority spending it could pause or cancel if necessary

Summary

1 Following the 2024 general election, the government launched two initiatives to examine its priorities for defence and set out how the Ministry of Defence (MoD) could effectively achieve its planned outcomes.

- First, it began the Defence Reform programme to reorganise the MoD's operating model and address structural and cultural issues. This resulted in the MoD introducing a new structure in April 2025.
- Second, it commissioned an independently led Strategic Defence Review (SDR). The reviewers set out to determine the roles, capabilities and reforms required by UK defence to meet current and future challenges, threats and opportunities while being broadly affordable within forecast budgets. The MoD published the SDR on 2 June 2025.

2 On 30 June 2026, the MoD published its Defence Investment Plan (DIP), a year after the SDR. The MoD aimed to produce a deliverable and affordable plan to realise the vision set out in the SDR. The DIP covered the 10-year period 2026-27 to 2035-36. It provided detailed plans for the four years to 2029-30 covered by the 2025 Spending Review. The DIP was developed with the assumption that the defence budget would increase to 2.7% of GDP in 2027-28, and to 3% in the next Parliament.

Focus of our report

3 This report examines the work undertaken by the MoD and other parts of the government to create the DIP. It covers:

- the context in which the MoD created the DIP, including the interaction between the SDR process, Defence Reform and its budget and financial planning assumptions (Part One);
- the process the MoD and wider government used to create the DIP (Part Two); and
- the assumptions and plans within the DIP and the next steps necessary to implement it (Part Three).

4 Appendix One outlines our approach and methodology. Our report does not attempt to question the policy or capability choices the MoD made during the DIP or SDR processes or provide a view of what the United Kingdom's overall level of defence expenditure should be.

Key findings

Developing the Defence Investment Plan

5 The DIP was delayed because the assumptions underpinning the planned timetable did not hold, as the forecast costs of existing defence commitments were higher than anticipated. The government established a Defence Oversight Board (DOB) to provide high-level cross-government alignment on the MoD's detailed plans to develop the DIP. It initially planned three DOB meetings in autumn 2025 to agree the strategic decisions needed to produce the DIP. This timetable assumed that the DIP's development was starting from a broadly stable, affordable and deliverable position and that the MoD would be able to rapidly produce new, rigorous bottom-up cost forecasts for all existing defence commitments by the end of September. However, the MoD established early in the process that forecast costs were significantly higher than anticipated. As a result, the process required more time and more ministerial meetings than initially planned to resolve the funding pressure (paragraphs 2.3 to 2.7, 2.9 and Figure 2).

6 The initial bottom-up cost forecasts were significantly higher than the MoD's budget for the same period to 2029-30 and the estimates used for the SDR. The SDR's forecast costs for 2026-27 to 2029-30 were £287.4 billion, compared with a budget agreed in the 2025 Spending Review of £286.0 billion. By September 2025 it was clear that the bottom-up cost forecasts – which the MoD was in the process of reviewing to ensure the information was of suitable quality – would be significantly higher. The increase was driven both by the cost of new requirements and by higher forecast costs of some existing projects and activities. They included higher pay awards for both military and civilian personnel in 2025-26 than budgeted for, increased nuclear costs, and the index linked price increases in some contracts being more than forecast. From August to October, the MoD analysed the bottom-up cost forecasts, commissioned further information and held a series of sessions to examine and challenge the forecasts (paragraph 2.10).

7 The MoD's early attempts to resolve the cost pressure were only partially successful. From October to November 2025, the MoD worked with HM Treasury and the Cabinet Office to establish the baseline cost of the MoD's existing programme and commitments. The DOB agreed a £10.6 billion package of efficiency and reform measures which it regarded as being reasonable and credible. It also agreed that the baseline cost was £314.9 billion, £28.8 billion more than the 2025 Spending Review budget. The baseline costs were presented to the Prime Minister at a DOB in December 2025, along with strategic choices that the MoD had identified to improve the position (paragraphs 2.11 to 2.15).

8 **In February 2026, the MoD developed a proposed, or 'candidate', DIP which would have cost £18.3 billion more than the budget.** During December 2025 and January 2026, the MoD undertook a series of detailed reviews of spending areas including defence nuclear, the Global Combat Air Programme, the military workforce and choices around non-military investments, such as housing and the pace of reductions in the civil service. A DOB in January reviewed these additional savings proposals: those judged robust enough were used to develop the 'candidate' DIP, which the final DOB considered in February. Alongside the 'candidate' DIP, the MoD also presented a plan that was affordable within the 2025 Spending Review budget and three variants of the DIP which illustrated different choices and their implications. The DOB was unable to agree any of the proposals and noted that the alternatives to the 'candidate' DIP would have significant financial, political and military consequences (paragraphs 2.16 and 2.17).

9 **Senior cross-government agreement was needed to resolve the DIP's funding gap, which was achieved after four months in June 2026.** Senior government officials agreed that the affordability gap could not be closed without intervention by the Prime Minister and Chancellor of the Exchequer. Senior-level conversations between the MoD and the centre of government occurred from February to June 2026, supported by a very small number of officials. Work on the DIP initially slowed; it picked up again in the second half of April 2026 in part because the government wanted to publish it before the July NATO summit. However, a funding package proposed by the Prime Minister's Office and HM Treasury in early June was rejected by the Secretary of State for Defence, who resigned four days later. Negotiations following the appointment of a new Secretary of State resulted in an improved cash offer of £11.6 billion, together with other measures worth £3.4 billion, leading to the DIP's publication on 30 June. The forecast cost of the final DIP was still £1.2 billion more than the revised budget (paragraphs 2.18 to 2.20).

10 **At official level, there was better cross-government working in developing the DIP than in the MoD's previous planning exercises.** Throughout the DIP process, the MoD worked closely with both HM Treasury and the Cabinet Office. Officials from all three departments collaborated to identify an agreed position at all key points in the process, including establishing the baseline costs and developing the 'candidate' DIP. This was assisted by the MoD's DIP team having an embedded staff member from HM Treasury for part of the time (paragraphs 2.2, 2.11, 2.16 and 2.18).

11 The delay in completing and publishing the DIP has had consequences for the MoD. The MoD had to set internal budgets for 2026-27 based on the 2025 Spending Review budget, which was less than that ultimately agreed in the DIP. Furthermore, because the DIP slipped beyond the start of the 2026-27 financial year, the MoD commissioned analysis to identify which parts of the DIP could be delayed or cancelled. The MoD had to make some spending decisions – notably about the New Medium Helicopter and Global Combat Air Programme – before the DIP process concluded, which introduced additional constraints in the process. And because the MoD was unable to engage with industry during the DIP process, there was uncertainty about cost and scheduling assumptions, and about industry's ability to mobilise to respond to the DIP as quickly as the MoD wanted (paragraphs 2.21 and 2.22, and Figure 6).

The Defence Investment Plan product

12 The published DIP has a broader scope than the Equipment Plans it replaced but only covers the first four years in detail. The published DIP differs from the Equipment Plans which it supersedes in several ways. The Equipment Plan reports only contained information about equipment procurement and support projects, whereas the DIP sets out the MoD's plans for its entire 'integrated force' by also including information on infrastructure projects and the defence workforce. The DIP's structure closely follows that of the SDR, and it reports spending by capability 'domains', rather than by Top Level Budgets. Although the DIP, like the Equipment Plans, covers a 10-year period, it focuses on the four years to 2029-30. This should enable the MoD to respond flexibly to changing priorities over the period. However, as forecasts for later years are less robust this could make it more difficult to understand the long-term implications of short-term savings decisions or to identify cost growth (paragraphs 3.2 to 3.5).

13 During most of the DIP process, the MoD made more realistic assumptions about its ability to reduce costs through efficiencies than it had done in previous planning exercises. The DIP sets out the MoD's intention to achieve £10.7 billion efficiency savings over the four years to 2029-30. In the published DIP, the MoD reported that it had highly developed plans for achieving £2.4 billion of total efficiency commitment reported in the DIP. This meant that the MoD needed to identify £8.4 billion of savings, including £0.8 billion of savings against the day-to-day spending budget this financial year. A DOB meeting in October 2025 ratified these targets, although it was informed that the MoD was still determining how to split them between its budgets for day-to-day and capital spending. The MoD made provision for the upfront costs of implementing major efficiency measures, in line with good practice (paragraphs 3.6 to 3.8).

14 The MoD decided that it would significantly reduce expenditure on military training and improving accommodation for service personnel and their families compared with its initial forecasts. The Armed Forces initially proposed to achieve the SDR's vision by spending much more on training personnel and other military activity. However, this intention was reversed during the DIP relatively early in the planning process. The MoD acknowledged that many of the saving measures were accepted with the recognition that these decisions would create capability gaps or readiness reductions. The MoD has also slowed down its programme to replace poor-quality accommodation and will now spend £3.1 billion less than planned on this during the first four years of the DIP (including spending on the Defence Estate Optimisation Portfolio). These capital deferrals will increase the pressure on its maintenance budget (paragraphs 3.12 and 3.13).

15 The MoD only has 'limited assurance' that it has the capacity to carry out all the activity envisaged by the DIP. Because of the growing threat the UK is facing and the importance of being able to deter aggression, the DIP emphasised the importance of starting to improve the Armed Forces' warfighting readiness before 2030. However, shortly before the DIP process concluded, the National Armaments Director Group (NADG) warned that it was already operating unsustainably, and that planned reductions to its workforce would make this problem significantly worse. Additionally, NADG highlighted a serious risk that deferral of spending into future years – either deliberately, or because of unaddressed capacity constraints – will create a 'bow wave' of undelivered projects extending beyond 2030. This would increase the pressure on the MoD and industry's delivery capacity at a time when capital spending is already expected to be well above current levels (paragraphs 3.14 to 3.17).

16 The MoD does not have a detailed plan for the six years from 2030-31, during which it aims to achieve the SDR's ambitions, in part because it is uncertain about its future funding trajectory. The government has committed to NATO that it will spend 3.5% of GDP on defence by 2035, but the MoD does not know how and when its budget will increase. This trajectory is important, as the MoD needs to ensure that it and industry are prepared. During the DIP process, the MoD anticipated that it would have greater spending power from 2030-31 onwards to deliver the SDR's ambitions. While the MoD's budget is £297.7 billion up to 2029-30, it assumed it would be £611.9 billion over the final six years of the DIP. This forecast assumed that its budget would increase by an average of 5.9% each year between 2026-27 and 2034-35 before increasing by 23% in 2035-36, the DIP's final year. There is also some unavoidable uncertainty about what the MoD will need to do over this period: for example, whether the transition to the new 'Hybrid Navy' model approach will require a life extension for the Type 45 destroyers. The MoD recognised that – if spending were to only increase to 3% of GDP by 2035-36 – its plans would probably be unaffordable (paragraphs 3.5 and 3.16 to 3.21).

17 The MoD considers that for the four years to 2029-30 the DIP is broadly affordable, but it anticipates that some costs will increase. Some of the MoD's cost forecasts are out of date, and others are incomplete. In June 2026, the MoD estimated that day-to-day costs in 2026-27 could be around £1 billion higher and capital spending around £400 million more than assumed in the DIP, partly because of the Middle East conflict. These increases might affect later years too. The MoD told us that it is now forecasting a much smaller overspend in 2026-27. The MoD intends to mitigate cost growth by strengthening the system whereby spending on project proposals is only approved when it has judged that the whole project is affordable (paragraphs 3.22 and 3.24).

18 The MoD agreed to implement additional savings measures late in the DIP process but did not have mature plans to deliver these. The MoD has recognised that when it previously needed to resolve affordability challenges, it made over-optimistic assumptions about its ability to reduce costs. In June 2026, at the end of the DIP process, the MoD introduced several new savings measures totalling £3.3 billion which did not have detailed delivery plans. These included NADG needing to defer £1.4 billion of capital spending in 2026-27 and 2027-28, and the department finding £0.9 billion day-to-day cost savings by 2029-30. The MoD did have outline plans for some of these measures and told us it had subsequently developed them further (paragraph 3.26).

19 The MoD's contingency may be insufficient to manage all the risks that might occur. HM Treasury usually requires departments to identify around 5% of their budgets which is held as contingency or which they could reprioritise to fund unforeseen pressures. It has agreed that the MoD would hold less than 2% in contingency up to 2029-30 and identify lower-priority spending in case the MoD needed to make further savings. The MoD, however, has forecast cost pressure in the first two years of the plan: in particular, the capital pressure is more than its capital contingency in these years. The MoD also has some large potential obligations that could materialise during the period the DIP covers, which it would need to fund from its contingency. These include potential legal claims associated with personal injury, and compensation and relocation costs associated with Afghanistan Resettlement schemes (paragraphs 3.27 and 3.28).

20 The MoD still has significant work to do to implement the DIP's decisions. Guidance issued by the MoD for implementing the DIP indicates that while the DIP has established the MoD's strategic direction and investment decisions, significant work remains to validate assumptions, develop deliverable programmes, assess affordability and embed those decisions within its long-term planning and governance processes. The areas must produce updated 10-year financial forecasts, identify projects that could be deprioritised if required, and ensure forecasts exclude undeliverable activity. To support robust planning and governance, the guidance introduces clearer forecasting, costing and reporting requirements (paragraphs 3.29 to 3.31).

Conclusion

21 The MoD has designed the DIP in a way which provides a foundation for delivery of the SDR and its wider corporate expenditure. The DIP's scope is deliberately broad, and it sets out the MoD's overall spending plans for the entire 'integrated force' – not just spending on the Armed Forces' equipment. During the year that it took to finalise, the DIP process drove improvements in cost estimating and in some of its efficiency plans. It also delivered a more transparent process within government and more of the flexibility for future spending choices that the MoD says it needs. However, the process took considerably longer than planned because the government as a whole found it difficult to reconcile the emerging cost pressures with the available budget. And the DIP has not yet resolved how the MoD will deal with emerging future cost pressures.

22 Looking forward, the MoD has much to do to ensure the DIP proves its worth over time. This will involve continuing to improve the accuracy of cost data for all projects and programme areas; delivering planned efficiencies; and taking clear decisions to manage current and future cost pressures over the initial four-year period of the plan. It will also involve dealing with the inevitable uncertainty arising from external factors such as inflation, supply chain volatility and the changing nature of warfare.

Recommendations

Below we have set out three clear recommendations which are vital for the MoD to achieve its objectives and manage its resources as effectively as possible.

23 **Maintaining accurate cost data:** The DIP process highlighted the importance of establishing accurate cost data through robust forecasting. However, because of the range and complexity of the MoD's activities, including the need to respond to changing technologies and geopolitical circumstances, it faces challenges when forecasting costs.

a To ensure that the MoD has accurate information on which to plan and that future spending review negotiations with HM Treasury are based on realistic data, the MoD should ensure that it uses its annual Strategic Planning Cycle to review and update its cost data so that they remain timely, accurate and realistic.

24 **Monitoring the delivery of the DIP:** The affordability of the DIP relies on numerous assumptions, such as the MoD's ability to deliver workforce savings and efficiencies in full.

b The MoD needs an effective monitoring and control system to provide regular updates on progress, and enable timely remedial action as required.

c This monitoring activity is also essential for the MoD to demonstrate how successful it has been in delivering the DIP, and it should set out the results of this work in its annual updates to Parliament, the first of which is due in July 2027.