National Audit Office

REPORT

Affordability of the Defence Investment Plan

Ministry of Defence

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National Audit Office

Affordability of the Defence Investment Plan

Ministry of Defence

Report by the Comptroller and Auditor General

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Gareth Davies
Comptroller and Auditor General
National Audit Office

19 November 2026

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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.

Part One

Background

1.1 In this part we briefly discuss:

- the relationship between the Strategic Defence Review (SDR) and the Defence Investment Plan (DIP);
- the defence budget that underpins the DIP; and
- the Ministry of Defence's (MoD's) new operating model following Defence Reform.

Relationship between the SDR and DIP

1.2 The government launched an independently led SDR in July 2024 to determine the roles, capabilities and reforms required by UK defence to meet current and future challenges, threats and opportunities. The MoD published the SDR on 2 June 2025.[1] This set out a vision that by 2035 UK defence would be a "leading tech-enabled defence power, with an Integrated Force that deters, fights and wins through constant innovation at wartime pace".

1.3 The MoD developed the DIP as the principal mechanism for converting the SDR into a coherent, affordable and deliverable departmental programme. The MoD had three main objectives for the DIP.

- To deliver the policy commitments set out in the SDR.
- To provide a multi-year approach to budgeting using the new Defence Reform structures.
- To take a transparent approach to defence spending decisions, both within government and through reporting to Parliament.

The MoD published the DIP on 30 June 2026.

1 Ministry of Defence, *Strategic Defence Review: Making Britain Safer: secure at home, strong abroad*, June 2025.

1.4 The DIP has superseded the Equipment Plan, which the MoD published annually and which set out its 10-year spending plans for equipment procurement and support projects.[2] The MoD last published Equipment Plan data in December 2023, which showed that its 10-year forecast spending on buying and supporting equipment to 2032-33 was £16.9 billion more than the forecast budget. Overall, the defence budget shortfall over that period was £42.5 billion.[3]

Defence budget

1.5 From June 2025 to June 2026, the MoD assumed that its total budget for the first four years covered by the DIP (2026-27 to 2029-30) would be £286.0 billion. This was based on its spending review settlement and an indicative budget for day-to-day spending in 2029-30, which HM Treasury agreed was a suitable planning assumption.[4] As part of the DIP settlement, in June 2026 the MoD's budgets were increased by £11.6 billion to £297.7 billion (**Figure 1**).

Figure 1
The Ministry of Defence's (MoD's) budgets from 2026-27 to 2029-30

In June 2026 HM Treasury increased the MoD's budgets covering the four-year period from 2026-27 to 2029-30 by £11.6 billion, taking them to £297.7 billion

	Day-to-day spending (£bn)	Capital spending (£bn)	Total spending (£bn)
MoD budget assumptions used during the Defence Investment Plan process[1]	165.5	120.5	**286.0**
June 2026 increase to these budgets	7.2	4.4	**11.6**
Total budget at the point the Defence Investment Plan was finalised	**172.7**	**125.0**	**297.7**

Notes

1 The 2025 Spending Review confirmed the MoD's annual budgets for capital spending, such as buildings and equipment, for four years to 2029-30, and day-to-day spending for three years to 2028-29. The MoD agreed with HM Treasury an indicative budget for 2029-30 day-to-day spending based on a GDP forecast.

2 The totals for the Capital spending and the Total spending columns do not sum because of rounding.

Source: National Audit Office analysis of Ministry of Defence data

2 The first Equipment Plan was published in January 2013, covering the 10 years from 1 April 2012 to 31 March 2022. The MoD last published its assessment of the Equipment Plan's affordability in 2023, which covered the 10 years from 1 April 2023 to 31 March 2033.

3 Comptroller and Auditor General, *The Equipment Plan 2023–2033*, Session 2023-24, HC 315, National Audit Office, December 2023.

4 The 2025 Spending Review set capital budgets for the years until 2029-30 and budgets for day-to-day spending until 2028-29. The MoD agreed with HM Treasury an indicative budget for 2029-30 day-to-day spending based on a GDP forecast. The forecast used until June 2026 implied that the budgets would total £286.3 billion over the four years to 2029-30. A June 2026 revision to forecast GDP reduced the indicative 2029-30 budget, making the four-year total £286.0 billion. For simplicity, here and throughout the report, we have used the £286.0 billion figure as if the June 2026 GDP forecast had been used throughout the process.

1.6 The DIP settlement also provided the MoD with a further £3.4 billion 'spending power' by removing burdens on it. This was made up of:

- HM Treasury agreeing that it would fund security guarantees in the event of a ceasefire between Russia and Ukraine, meaning the MoD did not need to set aside £2 billion for this purpose (as it had previously committed to do);
- HM Treasury setting the MoD a further efficiency target of £400 million – however if this target is not achieved, HM Treasury would provide the MoD with additional funding;
- HM Treasury agreeing that the MoD did not need to ring-fence £0.6 billion to cover the UK's potential future international treaty obligations; and
- a further asset sales target of £400 million, which HM Treasury believed the MoD would be able to achieve – the MoD has not identified which assets it will sell to meet this target.

With the £11.6 billion budget increases, the total additional funding provided in June 2026 came to £15 billion.

1.7 The DIP settlement means that the MoD expects total defence spending to be equivalent to 2.6% of GDP in 2026-27, before rising to 2.7% for the rest of the spending review period.[5] The government has committed to increasing defence spending to 3% of GDP in the next Parliament and to 3.5% by 2035, and it has said that it will set out funding and plans for this at the next spending review.[6]

Defence Reform[7]

1.8 The SDR and DIP were developed against the background of the Defence Reform programme. In July 2024, the MoD launched Defence Reform to review and reset its operating model. The MoD's intention was that Defence Reform would establish robust and streamlined governance, clearer accountabilities, and faster decision-making processes across the whole departmental group, including the Armed Forces. The MoD recognises that its successful delivery of the SDR and DIP depends on how well it implements the reorganisation of its operating model.

5 According to NATO's estimate of qualifying defence spending for 2026, the United Kingdom spent 2.56% of GDP on defence, compared with a NATO average of 2.86%. The United Kingdom ranked 14th out of 31 NATO nations for defence spending as a percentage of GDP.
6 The total defence budget includes the whole of the MoD's budget, and defence-related spending by other government departments.
7 The National Audit Office is planning to publish a report on Defence Reform in 2027.

1.9 Under the Defence Reform programme, from 1 April 2025, the MoD was reorganised into four areas, each led by a senior official. They report to the Secretary of State and are collectively known as 'the Quad':[8]

- The Department of State, led by the Permanent Secretary, who is the MoD's principal accounting officer.
- The Armed Forces, led by the Chief of the Defence Staff through the Military Strategic Headquarters.
- The National Armaments Director Group, led by the National Armaments Director, brings together several previously separate organisations which deliver and support defence equipment and infrastructure.
- The Defence Nuclear Enterprise, led by the Chief of Defence Nuclear, maintains, renews and sustains the UK's nuclear deterrent.

8 For further details of how the MoD is structured following Defence Reform, see National Audit Office, *Ministry of Defence 2025-26: Overview,* September 2026.

Part Two

The Defence Investment Plan process

2.1 The Ministry of Defence (MoD) originally intended to publish the Defence Investment Plan (DIP) in "autumn 2025". The DIP was finally published on 30 June 2026 – a delay of more than six months. In this part we examine the DIP process between the Strategic Defence Review (SDR), published on 2 June 2025, and the publication of the DIP, including:

- how the MoD worked with the Cabinet Office and HM Treasury to produce the final DIP;
- the MoD's original plan for developing the DIP, and how this differed from the process that it ultimately followed;
- the impact on the process of the MoD's re-calculation of its costs for the four years from 2026-27 to 2029-30 being significantly more than its budget; and
- how the MoD sought to reduce its forecast costs to a level that enabled it to publish the DIP.

The MoD's original plan for developing the DIP

2.2 The MoD intended to minimise uncertainty as it developed the DIP by making investment choices sequentially, rather than through a single set of negotiations at the end of the process. The MoD agreed the delivery process with HM Treasury and the Cabinet Office. The MoD worked closely with both departments throughout the process, including having an embedded staff member from HM Treasury in its DIP team for part of the time. Senior officials at both HM Treasury and the Cabinet Office told us that the process had benefitted from this closer working relationship.

2.3 At the core of the MoD's planned approach were three formal meetings of the Defence Oversight Board (DOB).[9] The DOB was designed to provide cross-government alignment on the MoD's detailed plans to implement the SDR by agreeing the approach, assumptions and choices in developing the DIP. The DOB's designated chair was the Prime Minister, and its other core members were the Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster (the deputy chair), the Secretary of State for Defence and the Chief Secretary to the Treasury. In practice, the Prime Minister and Chancellor of the Exchequer only attended one DOB following the publication of the SDR, in December 2025. The DOB was supported by a cross-government senior officials' group, which met a few days before the ministerial DOB.

2.4 The MoD initially planned to develop the DIP through three phases, with the DOB ratifying key decisions at the end of each phase.

- **Phase 1,** due to finish in mid-July 2025: The MoD planned that this would determine the framework by which it would prioritise and sequence its investment choices to deliver the SDR, the policy and financial assumptions underpinning the DIP, and the 'common to all' spending areas that would arise in any scenario.
- **Phase 2,** due to finish in late-September 2025: The MoD planned to determine productivity and efficiency plans, and how much it would invest in non-military capability priorities, including reducing the civil service workforce and investing in military accommodation.
- **Phase 3,** due to finish late-October 2025: The MoD planned to determine its military capability priorities, finalising how it would balance investment priorities across all its activities and establishing how the MoD would track its progress in delivering the plan.

2.5 The MoD initially aimed to produce its preferred version of the DIP by September 2025, although it anticipated that it might take a further six to eight weeks to get the cross-government agreement before it could publish the DIP document. However, the first DOB meeting in July 2025 decided that, because the DIP's planning assumptions could need to be updated following the autumn Budget, the DIP should not be published before the Budget. On 3 September 2025, the government announced that the Budget would be on 26 November, and from then on the MoD's working assumption was that it would publish the DIP in the week commencing 15 December 2025, shortly before Parliament's Christmas recess.

9 Following the announcement of the increase in defence spending to 2.5% of GDP by 2027, the government established the DOB in April 2025 to provide ministers with a decision-making body to oversee capability investments, assure efficient procurement and delivery, and streamline decision making. The DOB has had two successive priorities.
   - Initially, to agree key decisions regarding the development of the SDR and its alignment with the spending review process.
   - On conclusion of the SDR and spending review processes in June 2025, the DOB's objective switched to overseeing the implementation of the SDR and spending review decisions.

Establishing the baseline costs – June to November 2025

2.6 The MoD's approach to developing the DIP rested on assumptions that:

- there was a sufficiently stable financial baseline at the outset;
- a meaningful category of spend could credibly be treated as fixed across all scenarios;
- efficiency assumptions embedded in the SDR would broadly hold; and
- bottom-up area work would be available in time to sustain the intended timetable.

2.7 In the event, these assumptions did not hold up because the MoD established early in the process that forecast costs were significantly higher than it had anticipated. As a result, the process required more time and more ministerial meetings than initially planned to resolve the funding pressure (**Figure 2**). The National Audit Office has previously found that cross-government spending allocation processes need to be based on "a realistic assessment of what can be delivered, by when, at what overall cost and [considering] risk or uncertainty" in order to maximise value for money.[10] The MoD did not have an assessment of this kind available to support the SDR and spending review processes.

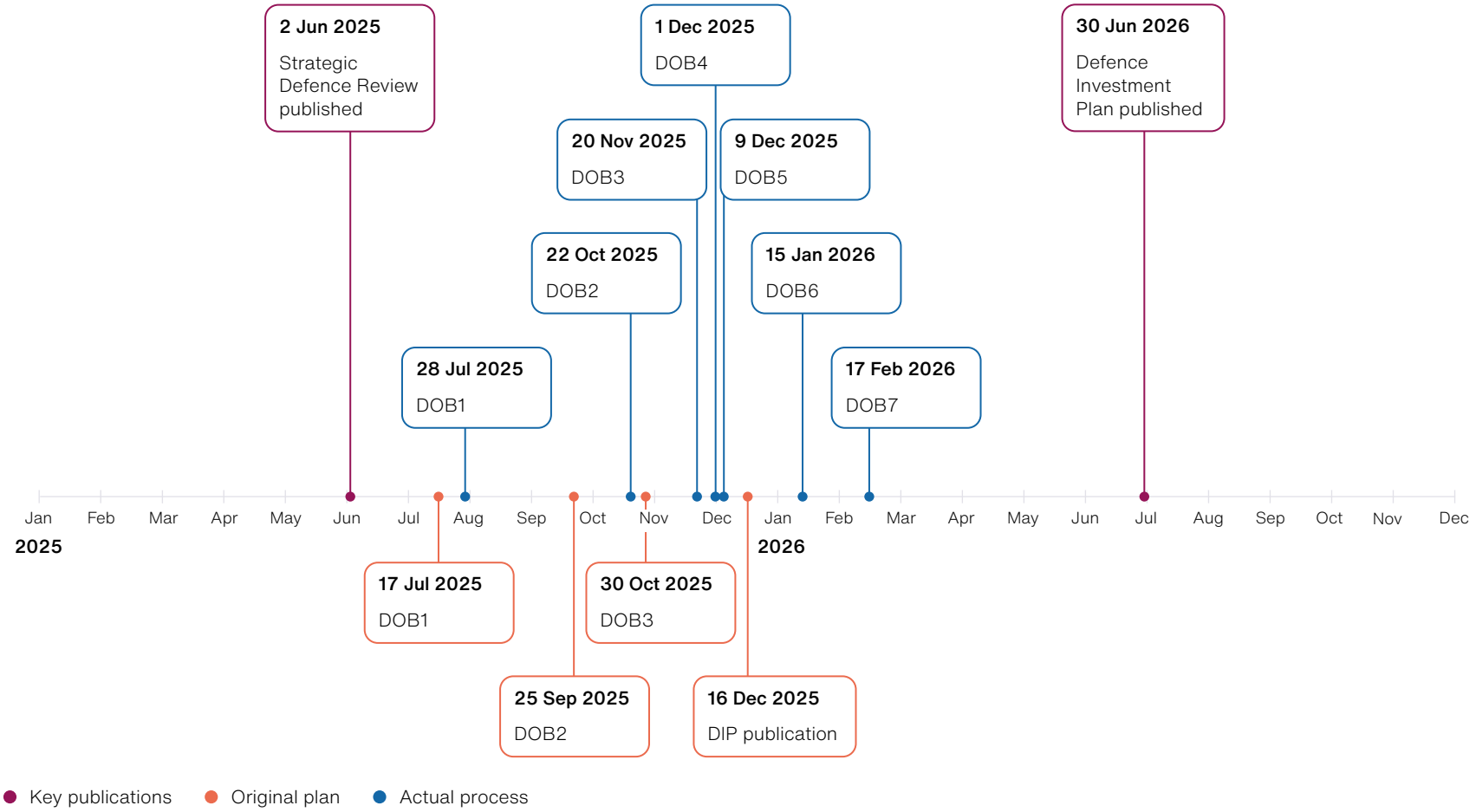
2.8 The House of Commons Committee of Public Accounts (PAC) and Defence Select Committee have both identified flaws in how affordability was assessed during previous defence reviews, and the adverse consequences for the MoD which resulted. In 2017, the PAC found: "The Ministry of Defence committed itself to new equipment purchases arising from the 2015 Strategic Defence and Security Review [SDSR] before it had established how these would be paid for".[11] The Defence Select Committee noted that the 2010 SDSR had needed to be updated the following year for affordability reasons. It then concluded that "frequently conducting supplementary reviews outside of the quinquennial schedule established during the 2010 SDSR risks undermining the credibility of the UK's security and defence policy and creates undue uncertainty for UK defence planners".[12] The MoD did not apply the relevant lessons from this experience: it announced new spending and accepted all the 2025 SDR's recommendations based on high-level modelled costs, rather than detailed costs derived from a 'zero-based review', while the DIP was published almost two years after the SDR was initiated.

10 Comptroller and Auditor General, *Lessons Learned: a planning and spending framework that enables long-term value for money*, Session 2024-25, HC 234, National Audit Office, October 2024.
11 Committee of Public Accounts, *The Defence Equipment Plan*, Fifty-sixth report of Session 2016-17, HC 957, April 2017.
12 House of Commons Defence Committee, *In search of Strategy – the 2020 Integrated Review*, First report of session 2019-21, HC 165, August 2020.

Figure 2

Defence Investment Plan (DIP) timeline, June 2025 to June 2026

The government held more ministerial Defence Oversight Board (DOB) meetings to agree the DIP than it intended because the forecast costs of the DIP were significantly higher than the Ministry of Defence (MoD) had anticipated



Notes

1 The government established the DOB in April 2025 to provide ministers with a decision-making body to oversee capability investments, assure efficient procurement and delivery, and streamline decision making. Its membership included ministers from the MoD, HM Treasury and the Cabinet Office.

2 The timeline shows the date of ministerial DOB meetings. In most cases, ministerial meetings were preceded by meetings between officials approximately one week earlier.

3 The first DOB meeting, on 28 July 2025, was a meeting of officials and no ministerial meeting was held.

Source: National Audit Office analysis of Ministry of Defence data

2.9 In June 2025, the MoD commissioned each of the four areas to carry out the 'zero-based review' – a line-by-line reassessment of approximately 20,000 different activities the areas were carrying out. Legacy efficiency assumptions were removed unless they were supported by credible delivery plans. The areas were required to provide new 10-year financial forecasts with a justification for each material line of spending and were not allowed to simply roll forward existing spending assumptions. Their plans to implement the SDR needed to be supported by plans showing how they would reduce their workforce and deliver efficiencies. Each area was due to provide initial data by 25 July 2025, and final submissions at the end of September 2025, although there were some gaps in the data they supplied.

2.10 The SDR's forecast total 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. The areas' initial returns, however, suggested that costs could be much higher, although the MoD was still carrying out checks during this period to ensure that the data was suitably robust. From August to October 2025, the MoD analysed the areas' data, commissioned further information and held a series of sessions with each area to examine and challenge their forecasts. The MoD identified that the main drivers of the increase were a combination of new requirements and inflationary pressures, including the following.

- Nuclear cost forecasts and some inflation-linked contracts had increased by more than forecast.
- The MoD's need to hold contingency and to fund provisions for Ukraine security guarantees in the event of a ceasefire, as well as the costs of potential future international treaty obligations.
- Both military and civilian personnel received higher pay awards in 2025-26 than the MoD had budgeted for.

2.11 In October and November 2025, the MoD worked with HM Treasury and the Cabinet Office to establish a mutually agreed baseline to present to the DOB meetings held in these months. At these meetings, the DOB agreed:

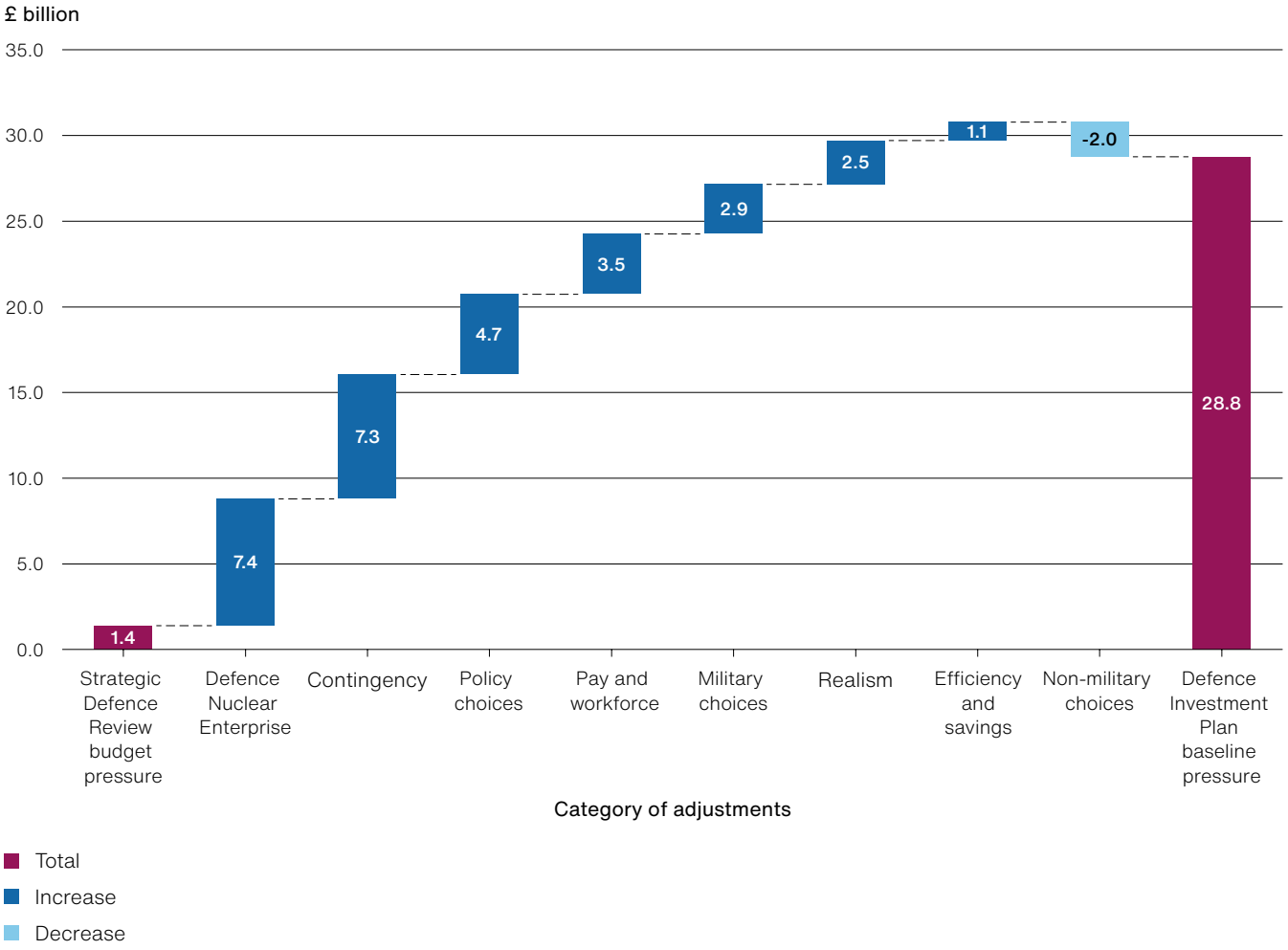
- a £10.6 billion package of efficiency and reform measures which it regarded as being reasonable and credible for a department with a budget the size of the MoD's;[13]
- that it should have two additional meetings before discussing the MoD's cost forecasts with the Prime Minister and Chancellor of the Exchequer; and
- that for the remainder of the DIP process, the MoD should use a cost baseline of £314.9 billion, £28.8 billion more than the 2025 Spending Review budget (**Figure 3**).

13 We examine the efficiency and reform measures in Part Three of this report.

Figure 3

Medium-term cost pressures identified by the Ministry of Defence (MoD) from June to November 2025

The MoD's baseline cost forecast for the four years from 2026-27 to 2029-30 was £28.8 billion higher than the budgets set by the 2025 Spending Review



Notes

1 'Policy choices' include decisions about whether the MoD or HM Treasury would be responsible for funding potential Ukraine security guarantees and future international treaty obligations, and the cost of the Defence Industrial Strategy.

2 'Non-military choices' relate to decisions regarding investment in the MoD's infrastructure, including service accommodation.

3 The Defence Nuclear Enterprise data includes a £6.1 billion adjustment for realism.

4 The 2025 Spending Review set the MoD budgets totalling £286.0 billion for the four years to 2029-30.

5 The MoD estimated that the cost of fulfilling the ambitions of the Strategic Defence Review (SDR) to 2029-30, based on the assumptions used in the review, would cost £287.4 billion, £1.4 billion more than its budget.

6 From June to November 2025, the MoD revised its forecast costs, including the cost of additional policy commitments, resulting in the cost pressure increasing from £1.4 billion to £28.8 billion.

Source: National Audit Office analysis of Ministry of Defence financial planning data

Developing the 'candidate' DIP – December 2025 to February 2026

2.12 Following the third DOB, the MoD's focus shifted to preparing to make strategic choices, including:

- challenging the agreed baseline to identify further credible savings and offsets;
- translating those savings into a coherent and defensible package tested by future DOB meetings; and
- constructing a set of options, culminating in a 'candidate' DIP and alternative variants suitable for ministers to consider.

2.13 The fourth DOB, in early December 2025, focused on establishing where the baseline contained policy choices that the MoD could reassess. This included the scale, timing and scope of commitments assumed in the baseline. The MoD sought to:

- demonstrate that it was challenging the baseline;
- identify further savings and reprioritisation measures in addition to the earlier efficiency package; and
- ensure that any measures were logical and had designated owners responsible for delivering them.

2.14 Following the fourth DOB, the MoD worked to identify savings measures to narrow the gap between what it wanted to achieve and what it could afford. The MoD required officials to identify not only the financial impact, but also the operational, workforce and strategic consequences of proposals. As a result, the MoD identified that some areas could generate savings only by accepting capability gaps or readiness reductions, whereas others could offer near-term savings but at the cost of undermining longer-term reform and recovery.

2.15 At the fifth DOB, on 9 December 2025, the MoD briefed the then Prime Minister on the status of the DIP, the scale of the challenge and the emerging options to make it affordable by:

- setting out the DIP baseline costs of £314.9 billion for the four years to 2029-30 agreed at an earlier DOB (see paragraph 2.11) – its objective was to ensure that the Prime Minister had a clear and accurate understanding of its commitments before further choices were made; and
- introducing the strategic choices that the MoD had identified to improve the position – it presented these as the types of decisions it could take, the areas in which ambition could be scaled, delayed or reprioritised, and the risks associated with each route.

2.16 Following the fifth DOB, the MoD, working collaboratively with HM Treasury and the Cabinet Office, undertook a series of detailed reviews of areas of spending, including defence nuclear, the Global Combat Air Programme (GCAP), the military workforce and choices around non-military investments, such as housing and the pace of reductions in the civil service. By the sixth DOB, on 15 January 2026, the MoD had identified additional savings proposals which the DOB reviewed to assess their credibility and deliverability. Those the DOB considered robust enough were then used to develop the 'candidate' DIP.

2.17 In mid-February 2026, the final DOB meeting considered the 'candidate' DIP, which set out the MoD's preferred approach. The forecast cost of this plan was £304.4 billion for the four years to 2029-30, which was £18.3 billion more than the 2025 Spending Review budget (**Figure 4** overleaf). The forecast included cost reductions arising from changes in investment decisions by areas across the MoD and changed workforce assumptions. 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 strategic prioritisation 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.

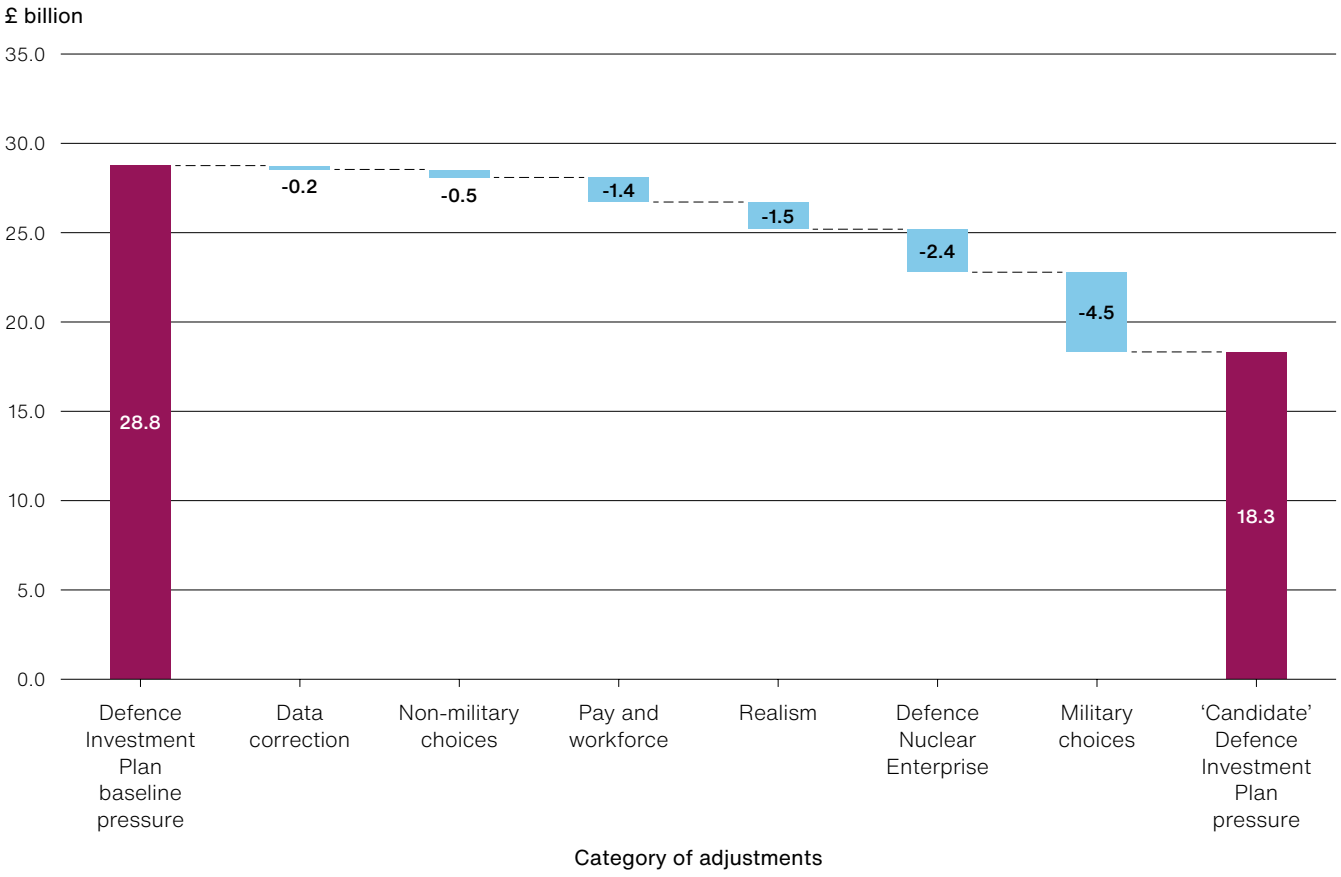
Publication of the DIP – February to June 2026

2.18 Following the final DOB, the MoD considered that it had constructed a technically coherent 'candidate' DIP, but that it could not resolve the plan's £18.3 billion cost pressure through internal reprioritisation alone. Senior government officials agreed that the affordability gap could not be closed without direct intervention by the then Prime Minister and Chancellor of the Exchequer. The MoD, therefore, stopped refining the 'candidate' DIP and instead used it to demonstrate the problem of achieving the government's defence ambition set against the funding available. This problem formed the basis of senior-level conversations between the MoD and the centre of government from February to June 2026, supported by a very small number of officials. HM Treasury told us that, at this stage, conversations between it and the Prime Minister's Office focused on affordability, and offsetting savings that would be required across the whole of government to fund any increase in defence spending.

Figure 4

Reductions in the Ministry of Defence's (MoD's) forecast of its medium-term budget shortfall from November 2025 to February 2026

In February 2026, the MoD's cost forecast for the four years from 2026-27 to 2029-30 still exceeded its budgets by £18.3 billion



Notes

1 'Non-military choices' include decisions regarding investment in defence infrastructure, including service accommodation, and other decisions relating to the MoD's non-force spending.

2 The 2025 Spending Review set the MoD a budget of £286.0 billion for the four years to 2029-30.

3 By November 2025, the MoD had identified that its forecast costs were £28.8 billion more than its budget.

4 Between December 2025 and February 2026, the MoD, working with HM Treasury and the Cabinet Office, identified various adjustments which reduced the cost pressure to £18.3 billion more than its budget.

Source: National Audit Office analysis of Ministry of Defence financial planning data

2.19 Work on the DIP initially slowed before picking up again in the second half of April 2026, with a key driver being the government's aim of publishing it before the NATO summit, scheduled to start on 7 July. However, the DIP could not be finalised until the government had agreed the final funding package. On 7 June 2026, the MoD received a funding settlement proposal from the Prime Minister's Office and HM Treasury which comprised £10.1 billion extra cash over the four years to 2029-30, and other measures that would increase the MoD's spending power by a further £3.4 billion (see paragraph 1.6). This proposed settlement required the then Secretary of State for Defence to finalise several remaining choices. The MoD warned that achieving a broad balance in 2026-27 had necessitated significant deferrals, which created pressure in later years up to 2029-30 that it would struggle to solve. The then Secretary of State resigned on 11 June because he regarded this proposal as inadequate.

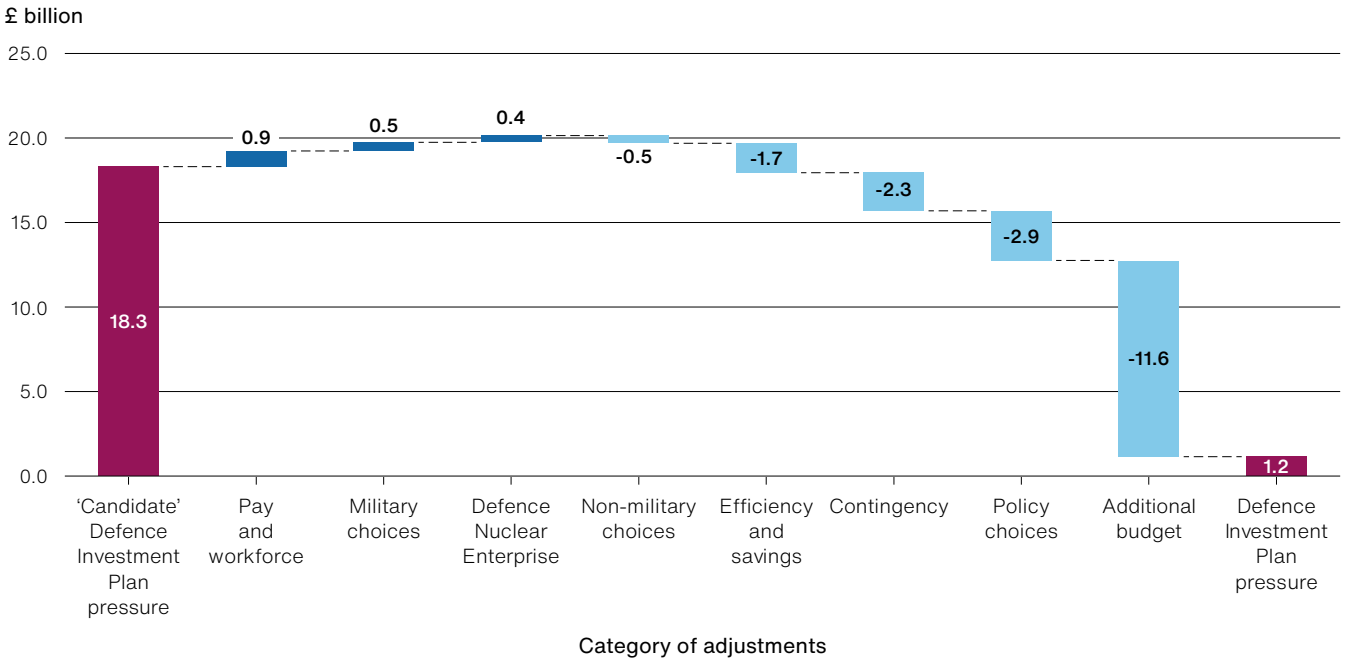
2.20 Following the appointment of a new Secretary of State, the MoD recommenced negotiations with HM Treasury and the final funding package was agreed. This resulted in the extra cash for the four years to 2029-30 being increased by £11.6 billion, £1.5 billion more than the previous offer. The Accounting Officer advised the Secretary of State that the DIP was 'broadly affordable'. However, the Accounting Officer noted that several risks remained, including achieving stretching efficiency targets, fuel and foreign exchange rate price changes, the outcome of several legal compensation cases, the accuracy of the pay assumptions used, the possibility that programme costs would be higher than estimated, and deferrals creating extra costs in future years. The forecast cost in the DIP was £298.8 billion, £1.2 billion more than the revised budget for 2026-27 to 2029-30 (**Figure 5** overleaf). The government decided to reduce other departments' capital budgets by 1%, with the Department for Energy Security & Net Zero and the Department for Transport required to make further cuts to programmes they were planning to carry out. The government announced in the October 2026 Budget that it would fund the remaining £4.7 billion by further reducing departmental capital budgets by 1% from 2027-28 to 2029-30, and by using unallocated contingency in HM Treasury's capital reserve.[14] We have previously warned that across-the-board cuts which are not based on clear priorities can lead to inefficiency, confusion or waste, and undermine key initiatives.[15]

14 HM Treasury, *Budget 2026: Breathing space for today, fresh hope for the future*, HC 726, October 2026.
15 Comptroller and Auditor General, *Lessons Learned: a planning and spending framework that enables long-term value for money,* Session 2024-25, HC 234, National Audit Office, October 2024.

Figure 5

Further reductions in the Ministry of Defence's (MoD) medium-term budget shortfall from February to June 2026

The February cost pressure of £18.3 billion was largely resolved by the government's decision to increase the MoD's budgets by £11.6 billion in June 2026



Notes

1 'Policy choices' include decisions about whether the MoD or HM Treasury would be responsible for funding potential Ukraine security guarantees and future international treaty obligations.

2 'Non-military choices' include decisions relating to service accommodation, funding for the Chief Scientific Adviser and cadets.

3 The efficiency and savings data do not include reductions to the cost of individual programmes (such as decisions to defer or cancel them).

4 The 2025 Spending Review set the MoD a budget of £286.0 billion for the four years to 2029-30.

5 By February 2026, the MoD had identified that its forecast costs of the DIP were £18.3 billion more than its budget.

6 In June 2026, the DIP settlement resulted in the MoD's forecast costs being £1.2 billion more than its revised budget of £297.7 billion.

7 The sum of the adjustments does not equal the movement between the two totals because of rounding.

Source: National Audit Office analysis of Ministry of Defence financial planning data

Impact of the delay to the DIP

2.21 While the senior-level conversations were taking place, the MoD undertook three DIP-related strands of work.

- The National Armaments Director Group led deliverability and affordability analysis of the 'candidate' DIP from a procurement and delivery perspective. This work was aimed at understanding how deliverable the 'candidate' DIP was. It identified four key risks – realism, mobilisation, cost maturity and capacity – that the MoD needed to manage to deliver the DIP (**Figure 6**).
- The MoD began work on setting budgets for the four areas based on the 2025 Spending Review budget, which was less than that agreed in the DIP. These budgets were set outside the DIP framework because the MoD still needed to plan for the 2026-27 financial year even though the DIP was unresolved.
- Because the DIP had slipped beyond the start of the 2026-27 financial year, the MoD commissioned analysis to understand what elements of the 'candidate' DIP could be delayed or cancelled. This work assumed that current budgets would continue and focused on reducing cost pressures in newly set budgets.

Figure 6
National Armaments Director Group (NADG) assessment of delivery risks for the Defence Investment Plan (DIP), June 2026

NADG has identified four key risks that the Ministry of Defence (MoD) must manage to deliver the DIP

Risk	Description of the risk
Realism	The MoD reduces cost forecasts to reflect the fact that some projects will be delivered slower than expected and that it will therefore not spend as much as planned during the period covered by the DIP. The MoD estimates that a balanced programme would include a realism adjustment of about 8% to 10% of project costs. However, there is a greater risk of delay in the DIP because of uncertainty over how suppliers will react to it. The DIP, therefore, assumes that about 20% of project costs will not be spent as planned, deferring activity into later years.
Mobilisation	The MoD aims to mobilise the DIP at pace. This requires it to set the right conditions – sufficient stability, early-year investment, and flexibility – to engage with industry, maximise private finance and implement investment and disinvestment decisions. However, the MoD was unable to engage with industry during the DIP process, so industry needs time to assess and adjust to it.
Cost maturity	There is some uncertainty in the DIP's cost and scheduling assumptions. This requires engagement with industry to establish a more accurate view of costs, technical maturity and likely schedule implications. The resequencing of work has the risk of deferring more work into the next Parliament. The effect of this is not yet fully understood or appreciated, and it is likely to impact some sectors more than others.
Capacity	NADG has a staff shortfall of about 18%, and forecasts that it must close the shortfall to within 10% to manage the situation. The ability to recruit or buy in external assistance (such as consultancy) has continued to tighten, with the impact compounded by delayed investment in productivity improvements, such as digital tooling, which offsets reduced staffing.

Source: National Audit Office analysis of National Armaments Director Group deliverability assessments

2.22 The delay to the DIP meant that the MoD had to take some notable decisions before the DIP process concluded, which introduced additional constraints in the process.

- On 2 March 2026, the MoD announced a contract with Leonardo to provide the Armed Forces with 23 new medium-lift helicopters built at its Yeovil factory. The MoD expects to spend £680 million on this capability over the four years to 2029-30.
- The MoD approved further investment in GCAP shortly before the DIP was finalised. This paved the way for the MoD to include £8.6 billion in the DIP over the four years to 2029-30, and to award on 3 July 2026 a £4.6 billion contract (funded jointly with Japan and Italy) to advance the next stage of the aircraft's design by establishing its key requirements and rigorous testing.

Part Three

The Defence Investment Plan product

3.1 The Ministry of Defence (MoD) published the Defence Investment Plan (DIP) in June 2026, with a final budget of £297.7 billion over the four years to 2029-30. At the time of publication, the MoD estimated that the cost of the DIP was £298.8 billion, which is £1.2 billion more than the final budget. In this part we examine the DIP itself, including the:

- scope of the DIP;
- efficiencies, assumptions and saving measures underpinning its affordability;
- deliverability of the DIP;
- remaining risks; and
- implementation of the DIP.

Scope of the DIP report

3.2 The DIP represents a new approach to planning and budgeting within the MoD, in support of creating an 'integrated force'. Unlike previous planning frameworks, it reports spending by capability domain rather than by Top Level Budget, reflecting the department's move towards an integrated force model under Defence Reform. The MoD developed the DIP using 'zero-based review' returns from the four areas established through Defence Reform: the Department of State, Armed Forces, National Armaments Director Group (NADG) and Defence Nuclear Enterprise. It then took decisions to reduce the affordability pressure that emerged.

3.3 The published DIP provides a broader scope than the Equipment Plans it replaced. Equipment Plans focused on the MoD's investment in equipment procurement and support projects. The MoD's forecast of the Equipment Plan 2023-2033's costs accounted for 52% (£305.5 billion) of the total defence budget for the 10-year period. By contrast, the DIP was designed to convert the Strategic Defence Review (SDR) from policy intent into an affordable and deliverable programme across the whole department. It therefore takes a broader view, setting out how the MoD intends to allocate its whole budget across equipment, people, infrastructure, technology and other capabilities.[16]

3.4 Unlike the Equipment Plans, however, the published DIP did not provide detailed analysis of spending over the 10-year period up to 2035-36. The MoD's early planning assumed that the publication would cover a 10-year period but particularly focus on the first four years from 2026-27 to 2029-30. This approach was presented to the first Defence Oversight Board (DOB) meeting in July 2025, although the MoD was aware that it might be criticised for reducing transparency compared with the coverage of the Equipment Plan. Both the Prime Minister's Office and HM Treasury supported this approach, in part because it did not require the DIP to set out the trajectory of the MoD's budget beyond 2030.

3.5 The MoD has conducted less detailed planning for the last six years of the plan from 2030-31 to 2035-36, and forecasting over the full 10-year period is incomplete. This is due to the MoD's intention to build in the capacity to respond flexibly to changing priorities during the period. However, it was also because of the difficulty of resolving the affordability challenges and the MoD's uncertainty over the trajectory of defence spending in these years. The MoD reported that the less detailed plans covering the final six years of the DIP should provide flexibility to adapt spending on programmes and adopt innovative capabilities as technology advances. However, the published DIP's focus on a four-year period could make it more difficult to understand the long-term impact of short-term savings decisions, to identify cost growth or to assess how future spend will be delivered or prioritised.

16 The MoD sets out details of how it will spend £261.8 billion of its budget across capability domains from 2026-27 to 2029-30 in the published DIP document. The published document does not include details of some categories, for example, some of the domains' day-to-day spending, efficiency assumptions excluding workforce, and realism adjustments.

Efficiencies and saving measures

3.6 The MoD had a reasonable process to develop efficiency savings with key decisions being taken at the second DOB in October 2025. The DIP document committed the MoD to deliver a total efficiency commitment of £10.7 billion over the next four years. It reported that the efficiency commitments will be delivered through reform and service redesign, workforce, infrastructure, digital, and acquisition savings. The MoD presented a £10.6 billion package of efficiencies at the second DOB, which was developed from the delivery plans returned by the four areas, although the MoD was still determining how to split these savings between its day-to-day and capital budgets. The MoD regarded the original efficiencies as being stretching but manageable. The efficiency package at the second DOB included the following.

- Removal of £1.9 billion of legacy efficiency targets to enable a better basis of deliverability.
- £4.4 billion of efficiencies over four years up to 2029-30, which went further than the commitments the MoD made in the 2025 Spending Review. This included an existing efficiencies pipeline, savings from Annington Homes,[17] and targets to reduce spending on external assistance (such as consultants). The MoD was confident in its ability to deliver these plans.
- £6.1 billion of efficiencies over four years to 2029-30 to meet targets set by the SDR commitments. This included a 10% reduction in civil service workforce costs across all areas, a further 2% stretch target against all areas' day-to-day spending, and further NADG capital efficiencies. In September 2025, the MoD had plans to deliver 38% of these SDR commitments.
- £1.5 billion of investment over four years to 2029-30 to enable delivery of efficiencies. We have previously recommended that government consider all potential long term efficiency gains, including those that require upfront investment.[18]

17 Comptroller and Auditor General, *The repurchase of the service family accommodation estate*, Session 2026-27, HC 29, National Audit Office, June 2026

18 Comptroller and Auditor General, *Efficiency in government*, Session 2021-22, HC 303, National Audit Office, July 2021.

3.7 In some previous years, the MoD has set additional efficiency targets shortly before finalising its spending plans in order to make them appear affordable – even if the efficiency assumptions were not realistic. It deliberately sought to avoid doing that during the DIP process; the decisions made at the second DOB about what could be achieved through finding efficiencies were not revisited or significantly changed. The only additional efficiency target included subsequently was proposed by Military Strategic Headquarters (MSHQ), who believed that the Army would be able to achieve further efficiencies of £240 million over the first four years. The MoD did make some adjustments to these efficiencies later in the process to better reflect delivery plans. For example, the MoD revised its assumption about how much of the NADG efficiencies would come from capital and day-to-day spending. The MoD also adjusted the investment in efficiencies to account for realism and delays as it was going through the DIP process.

3.8 The affordability of the DIP relies on the MoD achieving its planning and efficiency assumptions. In the published DIP, the MoD reported that it had highly developed plans for achieving £2.4 billion (22%) of total efficiency commitment reported in the DIP. This meant that the MoD needed to identify £8.4 billion in savings, including £0.8 billion savings against the day-to-day spending budget this financial year. The plan also assumed annual pay increases for military personnel and civil servants which were lower than the average of pay awards over the last 10 years, meaning that any sustained divergence from this assumption could compound affordability pressures over the period. The DIP included adjustments for increased costs because both the 2025-26 and 2026-27 pay awards were higher than the MoD had originally budgeted for. Additionally, the DIP forecast assessments are based on a single point estimate in time and most programme cost estimates were modelled on a 'P50' basis.[19] There is a risk that costs may exceed those assumed in the plan, given the history of cost growth across defence programmes and longstanding concerns about optimism in cost estimating.

3.9 There is a risk that the efficiency measures could incentivise behaviours that help achieve targets without delivering underlying efficiencies. When it published the DIP, the MoD was still unclear whether all areas had agreed to deliver their share of the day-to-day spending stretch target. In addition, it identified that there was emerging evidence that the civil service reduction targets were leading MSHQ to replace some civil servants with military personnel, even though civil servants are cheaper to employ. This behaviour also conflicts with the MoD's published aspiration to move more military personnel from administrative roles (such as Human Resources) to front-line roles.

19 Costing a programme at 'P50' confidence means that the MoD has assessed that the programme is as likely to cost less than the estimated cost as it is to cost more than the estimated cost.

3.10 The MoD has established good accountability arrangements for efficiency and savings measures. The MoD created a Reform and Efficiencies Board to track departmental reporting of savings and efficiencies. The Board has representation from the four areas who are responsible for reporting and delivering efficiencies. In June 2026, the Accounting Officer told the Secretary of State that the efficiency target was stretching and would need close monitoring to ensure delivery.

3.11 The MoD introduced new financial management arrangements as part of its Defence Reform programme, which included separating its spending into three budgets entitled 'invest', 'readiness' and 'operate'. The 'readiness' budget comprises both workforce costs and the non-workforce expenditure required to maintain military readiness and undertake activity. Non-workforce spending accounts for around half of the Armed Forces' 'readiness' budget and includes equipment support, infrastructure repairs, and military training.

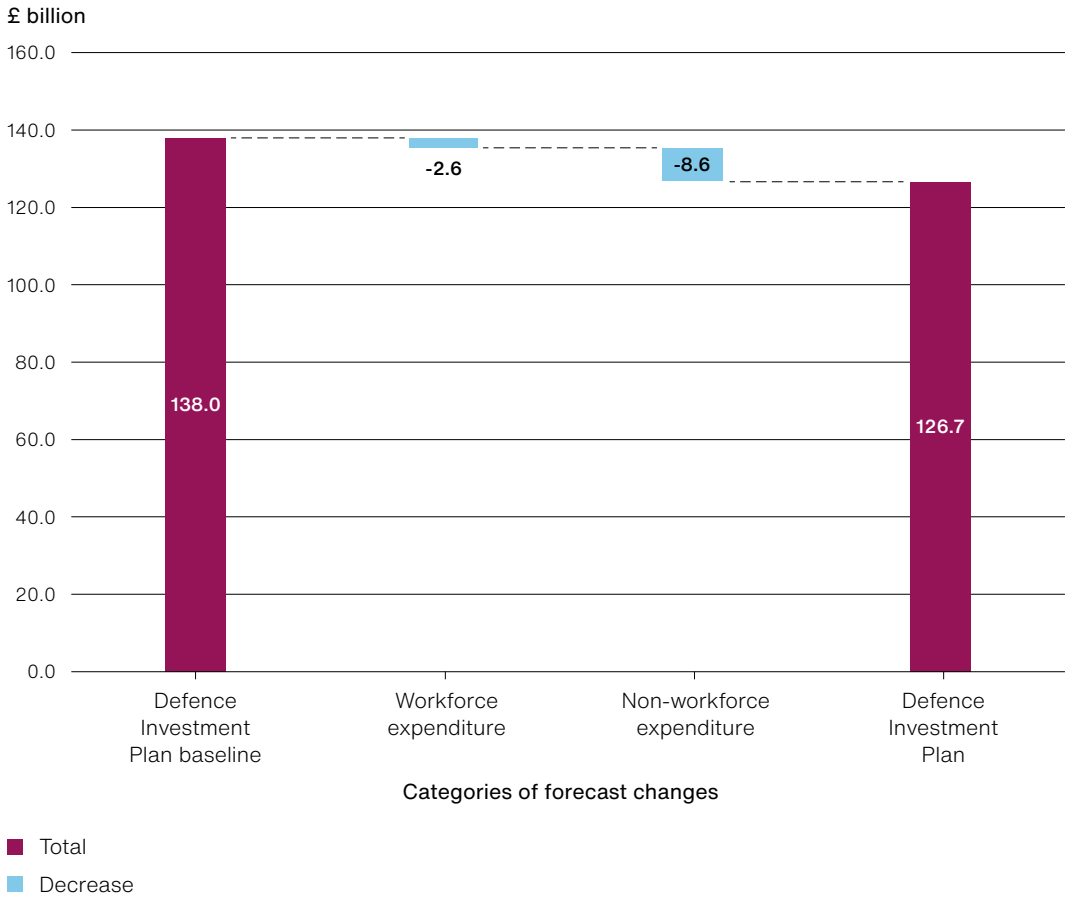
3.12 The Armed Forces' initial proposals to achieve the SDR's vision included spending £11.3 billion more on 'readiness' than in the final DIP, including £8.6 billion more on training personnel and other military activity (**Figure 7** overleaf). However, the MoD significantly reduced expenditure on military personnel, training and activity over the four years from 2026-27 to 2029-30, compared with the Armed Forces' initial projections to achieve the SDR's vision. This followed similar in-year savings decisions in 2025-26. The budget for military activity will now only increase in line with an economy-wide measure of inflation during the DIP's first four years. Since the costs of military activity – particularly fuel and the cost of maintaining equipment – are rising faster than the rate of inflation used, carrying out even this level of activity will impose additional cost pressures which are not reflected in the MoD's plans. The MoD acknowledged that many of the saving measures were accepted with the recognition that these decisions would create capability gaps or readiness reductions.

3.13 The MoD also slowed down its programmes to improve accommodation and will now spend £3.1 billion less than planned during the first four years of the DIP. This includes reducing spending on the Defence Estates Optimisation Portfolio (which delivers some new and refurbished accommodation, as well as other infrastructure) by £1.1 billion, although the MoD told us that this was in part driven by a need to reassess the military's future requirements. This may have adverse effects on recruitment and retention efforts, and these capital deferrals will also increase the pressure on its maintenance budget. The SDR committed the MoD to spending £7 billion on renewing military housing and accommodation "in this Parliament", including a £1.5 billion increase in spending on Service Family Accommodation. However, the published DIP confirmed that the MoD would spend £0.8 billion less than originally planned during this Parliament. Consequently, the MoD delayed the purchase of 2,400 new homes for service families and the replacement of 7,000 bedspaces for unaccompanied service personnel in buildings which do not meet its standards. Additionally, the MoD has a target to release surplus land to developers to allow construction of 100,000 homes. However, the MoD delayed spending that would free up land for 43,000 homes until the post-2030 period.

Figure 7

The Armed Forces' 'readiness' budget reductions, September 2025 to June 2026

The Armed Forces will spend £11.3 billion less from 2026-27 to 2029-30 on military 'readiness' compared to their September 2025 projections



Notes

1 The Armed Forces is one of the four 'areas' which collectively make up the Ministry of Defence (MoD). The others are the Department of State, the National Armaments Director Group and the Defence Nuclear Enterprise.

2 Internally, the MoD has divided its spending into three categories, 'invest', 'readiness' and 'operate'. The 'readiness' category includes day-to-day spending such as the cost of maintaining equipment and infrastructure, and the cost of training to ensure the Armed Forces are ready to deliver the outputs required of them. The workforce element of the 'readiness' budget includes civilians working for the Armed Forces as well as military personnel.

3 Component parts do not sum to totals because of rounding.

Source: National Audit Office analysis of Ministry of Defence financial planning data

Delivering the SDR

3.14 The MoD only has "limited assurance" that it will be able to carry out all the activity envisaged by the DIP. The DIP and the SDR both emphasise the growing threat the UK is facing and the importance of being able to deter aggression. The DIP noted that NATO "is now warning that Russia could be ready to use military force against [NATO] by the end of this decade". For this reason, the DIP emphasises the importance of starting to improve the Armed Forces' warfighting readiness before 2030. During the DIP process, NADG made adjustments totalling £12.5 billion to its four-year cost forecasts so they reflected its overall assessment of what it and industry would be able to deliver. However shortly before the DIP process concluded, NADG warned that it was already operating unsustainably due to the imbalance between programme scope and delivery capacity. NADG identified that it had an 18% shortfall against the forecast capacity needed, and that it had to close this gap to 10% to manage the capacity risk. Planned reductions to its workforce would make this problem significantly worse. NADG warned that it would either need to spend more on contractors in the short term or stop work on several important ongoing programmes (in addition to those already paused or cancelled by the DIP).

3.15 NADG identified several key areas with significant technological, industrial, and management challenges that will have delivery implications. NADG assessed that these areas will require careful phasing and sequencing, in partnership with industry, and are likely to require multiple planning iterations before they can be brought into a deliverable and coherent programme. The challenges identified include the following.

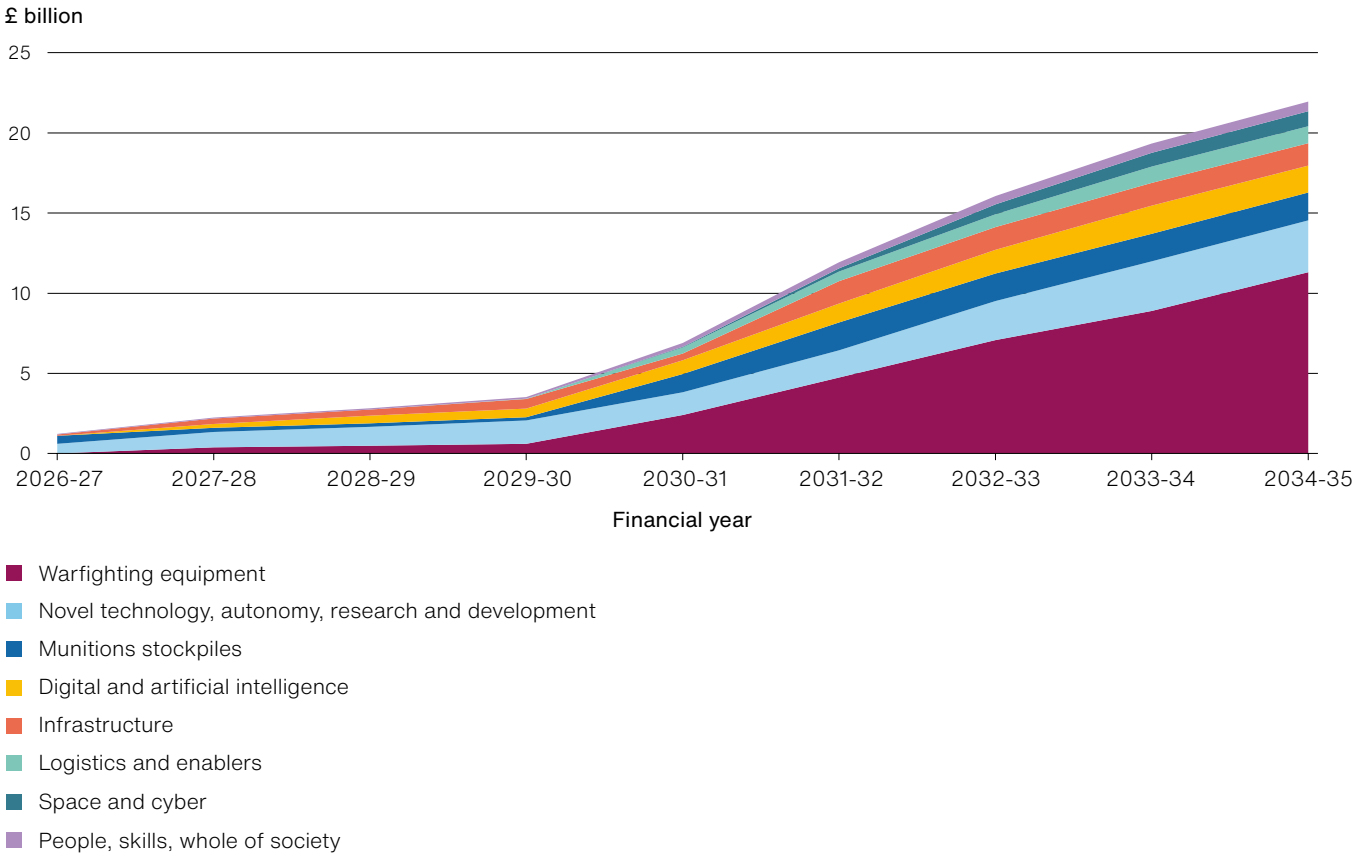
- Munitions: The MoD is currently producing a Key Munitions Plan, which will include a review of how many munitions it needs to hold. NADG has identified that its own processes are rigid, limiting how much it is able to do concurrently.
- Integrating uncrewed ships and aircraft with their crewed counterparts: This will mean NADG and the industry need to work in a different way and require changes to regulatory regimes.
- Research and development (R&D): The MoD is not currently ensuring new technologies are developed into usable capabilities quickly enough. NADG intends to take a 'system-level' view with better prioritisation, aligning R&D spending with capability priorities.
- Housing: The MoD has established a new Defence Housing Service with a different operating model to the MoD's previous approach, bringing many more activities in-house. It needs to establish this operating model to achieve the envisaged cost savings.

3.16 The MoD has also relied on an extensive use of deferrals or resequencing of activity, rather than cancellations, to make the DIP affordable over the next four years. This pushes spending into the last six years of the DIP. There is a significant risk that deferral of spending and realism adjustments will create a 'bow wave' of pressure after 2030 – placing NADG's delivery capacity and the MoD's budget under greater strain. The MoD anticipates particularly high budget pressure in 2030-31 as spending on SDR priorities increases. For example, in July 2025 it estimated that implementing the specific commitments contained in the SDR would cost £86.0 billion during the nine years from 2026-27 to 2034-35. Of this, the MoD forecast that it would spend £9.8 billion (11%) in the four years to 2029-30, and the remaining £76.2 billion from 2030-31 onwards (**Figure 8**).

Figure 8

The Ministry of Defence's (MoD's) July 2025 assessment of the cost of the additional commitments it made in the Strategic Defence Review (SDR)

The majority of planned expenditure on the additional SDR commitments will take place after 2029-30



Note

1 The data show the MoD's forecast of the cost of the specific commitments it made in the SDR. This was presented to the first Defence Oversight Board in July 2025. The MoD subsequently identified that its total costs would be much higher than it had previously thought and took decisions to reduce spending – including some of the SDR commitments. We have used the initial July 2025 estimate because the MoD has conducted less detailed planning for the years after 2029-30. The MoD's July 2025 cost estimates cover the first nine years of the 10-year period covered by the Defence Investment Plan.

Source: National Audit Office analysis of Ministry of Defence financial planning data

3.17 The DIP assumes that about 20% of project costs will not be spent as planned: pushing some activity into later years increases the risk of a 'bow wave' of pressure in the next Parliament. 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 – and could discourage the defence industry from investing in the capacity needed to meet the MoD's requirements. The longer-term DIP plans will require NADG to spend significantly more money after 2030, as new programmes get underway. NADG is aware that it will need to make sure its workforce is suitably sized and skilled before this spending increase; if NADG is not prepared, projects will start more slowly, and military capabilities would be likely to enter service later than planned.

3.18 At the NATO summit in June 2025, the then Prime Minister committed to spend 5% of GDP on national security with a target date of 2035, split between 3.5% on core defence and 1.5% on resilience and security. The DIP reiterated the government's commitment to reach 3.5% by 2035. However, the MoD had not agreed with HM Treasury a path for achieving this. For the DIP process, the MoD agreed with HM Treasury a planning assumption that NATO defence qualifying budget would rise to 3% of GDP in a flat line from 2029-30 to 2034-35 and then rise to 3.5% in 2035-36 (**Figure 9** overleaf). That assumption, however, had not been government policy while it developed the DIP.[20]

3.19 The trajectory of planned expenditure is important, because the MoD and industry need sufficient certainty and time to prepare to deliver the programme. For example, NADG needs detailed delivery plans in time to prepare its workforce, which in some cases will mean recruiting people with different skills. The MoD would also provide industry with a clearer indication of the timing and scale of future demand. Without this clarity, there is a risk that the MoD and its suppliers will not have the capacity and capabilities in place when expenditure is expected to increase.

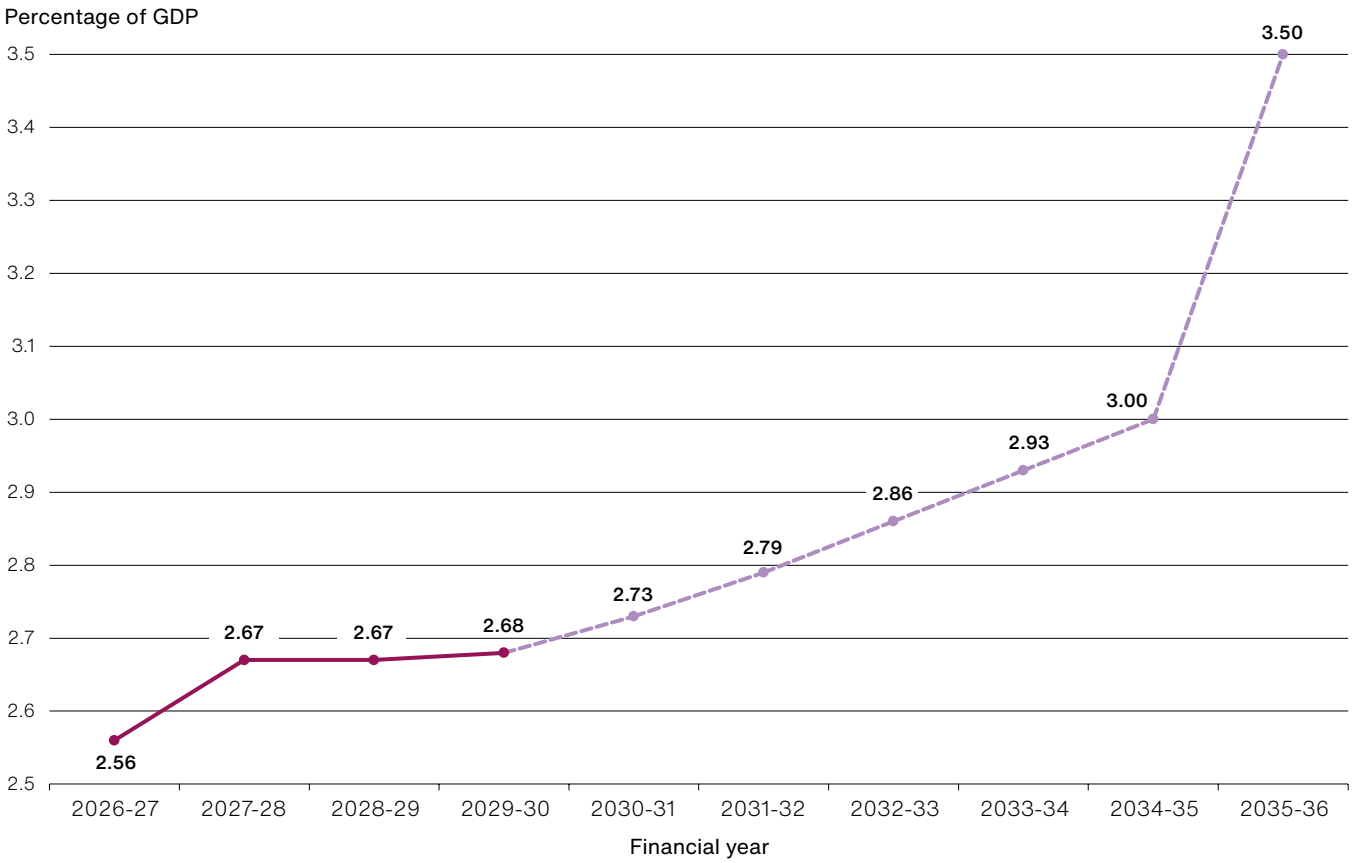
3.20 The MoD's working assumption is that the full increase in the proportion of GDP spent on 'core defence' will be applied to its capital budget. Its budget for day-to-day spending will rise in line with GDP (as will 'qualifying defence spending', which is spent by other departments). The MoD estimated that its budget over the DIP's full 10-year period from 2026-27 to 2035-36 would be £909.5 billion (**Figure 10** on page 39). The MoD's budget over the spending review period up to 2029-30 is £297.7 billion, with an estimated £611.9 billion covering the final six years up to 2035-36. 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 (with the capital budget increasing by 43%). However, an excessively steep increase in the final year 2035-36 would be difficult to deliver. The MoD recognised that its plans would be unlikely to be affordable in a scenario where its spending gradually increased to 3% of GDP by 2035-36.

20 In the October 2026 Budget, HM Treasury announced that it would set out how the government will meet its NATO commitment of spending 3.5% of GDP on defence by 2035 as part of the 2027 Spending Review. It also announced a target of spending 3% of GDP on defence in 2030.

Figure 9

The government's assumptions about the proportion of GDP that will be spent on 'core defence' from 2026-27 to 2035-36

For the Defence Investment Plan, the Ministry of Defence (MoD) agreed with HM Treasury it would use a planning assumption that the UK's total defence spending will rise to 3% of GDP in a flat line from 2029-30 to 2034-35 and then rise to 3.5% in 2035-36



- Spending review period (2026-27 to 2029-30)
- Beyond the spending review period (2029-30 to 2035-36)

Notes

1 These figures show the MoD's planning assumption during the DIP process about the total UK government spending which will meet the NATO definition of defence spending. NATO's definition of defence spending includes some expenditure by other government departments – such as the security and intelligence agencies. The MoD has assumed that it will spend 86% of the UK's 'core defence spending' over the period between 2026-27 and 2035-36.

2 At the NATO summit in June 2025, the then Prime Minister committed to spend 3.5% of GDP on 'core defence' by 2035 (and a further 1.5% on broader security related investments). The government also committed to spending 3% of GDP on defence "in the next Parliament".

3 The MoD calculated the figures for the years from 2026-27 to 2029-30 by dividing its forecast of qualifying spending by the forecast of GDP produced by the Office for Budget Responsibility in March 2026.

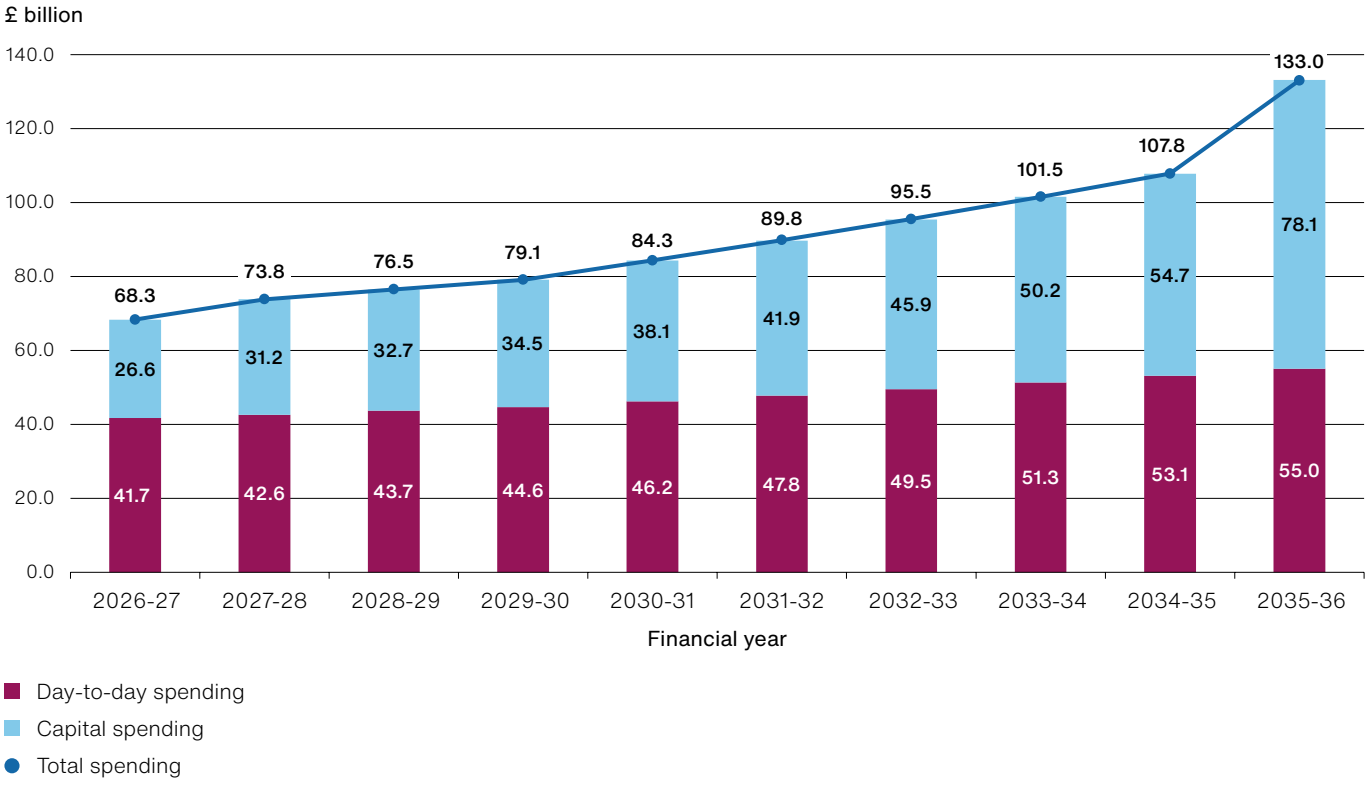
4 The MoD planned its estimated budget with the assumption that the NATO defence qualifying budget will rise to 3% in a flat line from 2029-30 (the last year of the DIP settlement) to 2034-35, and then rise to 3.5% in 2035-36 to meet the NATO commitment in the last year of the 10-year DIP period. The MoD used this GDP assumption in agreement with HM Treasury to create the DIP. However, this planning assumption was not government policy.

Source: National Audit Office analysis of the Ministry of Defence's data

Figure 10

The Ministry of Defence's (MoD's) estimated budget from 2026-27 to 2035-36

For the Defence Investment Plan (DIP), the MoD assumed that its capital budget would increase by much more than its budget for day-to-day spending



Notes

1 The MoD estimated that its budget from 2026-27 to 2034-35 would be £909.5 billion with £297.7 billion (33%) covering the first four years and £611.9 billion (67%) covering the final six years.

2 The MoD planned its estimated budget with the assumption that the NATO defence qualifying budget will rise to 3% of GDP in a flat line from 2029-30 (the last year of the DIP settlement) and then rise to 3.5% in 2035-36 to meet the NATO commitment in the last year of the 10-year DIP period. The MoD used this GDP assumption in agreement with HM Treasury to create the DIP. However, the planning assumption was not government policy.

3 The NATO defence qualifying budget includes both the MoD's budget and 'qualifying non-core defence spend'. The MoD has assumed that 'qualifying non-core defence spend' beyond the DIP settlement will rise in line with GDP and that the MoD budget will be the difference.

4 The MoD assumed that the budget for day-to-day spending would rise in line with nominal GDP growth, with the remainder of the uplift to spending 3.5% of GDP on defence impacting the capital budget.

5 Component parts do not sum to totals because of rounding.

Source: National Audit Office analysis of Ministry of Defence data

3.21 There is also some unavoidable uncertainty about what the MoD will need to do over this period. The geopolitical situation is harder to forecast, and it is unclear how rapidly some technologies will mature, with implications for when the MoD will be able to adopt them at scale. One example is whether the transition to the new 'Hybrid Navy' model will require a life extension for the Type 45 destroyers.

Remaining risks

3.22 The MoD's overall conclusion is that, for the four years to 2029-30, the DIP is broadly affordable, but significant risks remain. When it published the DIP, the MoD was already aware that costs could increase during its next budget planning round. In June 2026, it estimated that day-to-day costs in 2026-27 could be around £1 billion higher and capital spending around £400 million more than it had assumed during the DIP process, in part due to the Middle East conflict. This cost growth may also affect 2027-28 and later years. The MoD also recognised that the protracted nature of the DIP process meant that some of its cost forecasts, made earlier in the process, needed updating. The MoD told us that it is now forecasting a much smaller overspend in 2026-27.

3.23 The MoD has also recognised that its cost forecasts are incomplete in the DIP's later years and could also be incomplete in the first four years. In particular, because of uncertainty about the trajectory of defence spending after 2030, the MoD undertook less detailed planning for the final six years of the DIP, so there are likely to be more costs omitted in the period after April 2030.

3.24 The MoD intends to mitigate cost growth by strengthening its system for approving project proposals. Internal guidance on implementing the DIP, issued in July 2026, states that some investment decisions would be sequenced by priority and work could only be started when funding for the whole project was available. This was to address a culture within the MoD whereby it approved business cases with a view that affordability would be resolved later.[21]

21 We have previously reported that the MoD had included part-funded programmes even though the overall Equipment Plan was unaffordable (Comptroller and Auditor General, *The Equipment Plan 2023–2033,* Session 2023-24, HC 315, National Audit Office, December 2023). The House of Commons Defence Select Committee has criticised the MoD's cultural willingness to commit to spending that exceeded its future budget and expecting to receive the necessary uplift in due course (House of Commons Defence Committee, *It is broke – and it's time to fix it: The UK's defence procurement system*, Ninth Report of Session 2022-23, HC 1099, July 2023).

3.25 The DIP process resulted in fewer cancellations of programmes than the MoD had initially envisaged, reflecting the continuing need for most of its existing equipment programmes. As a result, it concluded that the least damaging way to create headroom for new investment was to reduce costs elsewhere through a combination of deferring investments, limiting some projects to the lowest possible spend, and requiring some project teams to identify how they could reduce spending in order to meet top-down reduction to their previous budgets (which the MoD calls a 'management challenge'). Such approaches risk driving costs into future years and might result in them being higher overall. For example, plans to defer several Defence Estate Optimisation Portfolio projects into the next Parliament are forecast to save £1.1 billion in the first four years of the DIP, but cost £0.2 billion more over the full 10-year period.

3.26 The MoD had a reasonable approach to identifying efficiency and savings measures early in the DIP process (see paragraph 3.6). However, in the final stages of the process, in June 2026, the MoD included a series of measures to reduce cost by £3.3 billion up to 2029-30, which were not supported by finalised delivery plans.

- To address the remaining capital affordability pressure in 2026-27 and 2027-28, the MoD directed the areas to identify further capital savings, and NADG agreed to defer £1.4 billion of capital spending from these years. The MoD told us that: it had assessed that this figure was realistic based on analysis it had undertaken at the time; and although it did not have a definitive set of measures to achieve these savings, its planning had since matured.
- Similarly, the MoD set a challenge to find £0.9 billion savings in day-to-day spending by 2029-30. The MoD told us that this was based on assumptions, even though it knows reducing such spending is particularly difficult, and that it has already suppressed the budget for military activity.
- Other targets introduced at the end of the process included an asset sales target of £0.4 billion and reprofiling £0.6 billion of spending on project portfolios until after 2029-30.

The MoD has recognised that, when it previously needed to resolve affordability challenges, it made over-optimistic assumptions about its ability to reduce costs.

3.27 HM Treasury generally expects departments to manage new pressures within their existing budgets. To do this, it usually requires departments to identify around 5% of their budgets which is held as contingency or which they could reprioritise to fund unforeseen pressures. The MoD has set aside contingency equivalent to 1.2% of its budget in 2026-27, 2% of its budget in 2027-28, and 5% from 2030-31. It also agreed with HM Treasury that it would require the four areas to identify lower-priority spending in case it needs to make further savings to remain within its overall budgets. Over the four-year period to 2029-30, the MoD has a contingency of £3.3 billion against its day-to-day budget and £1.6 billion against its capital budget. In total, this is more than the overall £1.2 billion cost pressure in the DIP. However, the MoD has forecast that there was capital budget cost pressure of £0.3 billion in 2026-27 and £0.5 billion in 2027-28, whereas it had set aside no capital contingency in the first year, and £0.3 billion in the second.

3.28 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 legal compensation claims associated with personal injury, such as noise-induced hearing loss, and compensation and relocation costs associated with Afghanistan Resettlement schemes.

Implementing the DIP

3.29 In July 2026, the MoD issued guidance for implementing the DIP decisions as part of its latest strategic planning cycle. Overall, the guidance indicates that the DIP has established the MoD's strategic direction and investment decisions. However, significant work remains to validate assumptions, develop deliverable programmes, assess affordability, and embed those decisions within the MoD's long-term planning and governance processes.

3.30 The MoD does not intend that this implementation process revisits DIP decisions, but that it translates those decisions into detailed programmes, budgets and delivery plans that areas can implement. The guidance is focused on affordability and deliverability: areas must produce updated 10-year financial forecasts, identify projects that could be deprioritised if required, and ensure forecasts exclude undeliverable activity. In particular, the guidance emphasises the need to examine workforce assumptions, programme affordability, and the delivery risks associated with implementing DIP decisions.

3.31 To support robust planning and governance, the guidance introduces clearer forecasting, costing and reporting requirements. Areas must distinguish between approved activity, pipeline activity and proposed changes to scope, explain variances from the DIP, comply with updated forecasting guidance, and reflect departmental priorities such as efficiency targets, workforce planning, digital expenditure transparency, and investment in novel technologies. The planning cycle will be overseen through existing governance structures and will be used in final budget settlements and preparations for the next spending review, which the government has said will be in 2027.

Appendix One

Our audit approach

Our scope

1 When the Ministry of Defence (MoD) published the Strategic Defence Review (SDR) in June 2025, it announced that it would publish a new Defence Investment Plan (DIP) in autumn 2025 "to deliver the SDR's vision". The MoD said that the DIP would supersede the old-style annual Defence Equipment Plan, which it had published between 2013 and 2023. The MoD published the DIP on 30 June 2026.

2 In this report, we examine the work undertaken by the MoD and other parts of government to develop the DIP. The report covers:

- the context in which the MoD created the DIP, including the interaction between the SDR process, the Defence Reform initiative 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).

3 Our report does not examine 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.

Our evidence base

4 Our findings are based on our review and analysis of evidence that we collected between July 2025 and September 2026. We drew on a range of evidence sources including interviews, document review and quantitative analysis.

Interviews

5 We interviewed a wide range of MoD officials from across the MoD's four areas: the Armed Forces, the Defence Nuclear Enterprise, the National Armaments Director Group, and the Department of State. The interviewees were selected because of their job roles and relevance to the audit. This included staff who:

- were responsible for coordinating the DIP process;
- conducted the overall financial analysis within the MoD's strategic finance function;

- considered efficiencies and savings options;
- produced estimates for infrastructure and people expenditure as well as the core equipment programme; and
- brought together the financial positions and capability options within each of the MoD's areas.

6 We also interviewed staff from HM Treasury and the Cabinet Office who had been involved in producing the DIP.

7 We used these interviews to develop our understanding of the process the MoD and the government had used to run the DIP process, put together the financial information underpinning it and then implement the DIP.

Document review

8 We reviewed a range of published and unpublished documents provided by the MoD in response to our audit questions. These included documents covering:

- the MoD's annual budgeting process;
- the work of the MoD's various Audit and Risk Assurance Committees;
- DIP implementation instructions; and
- the work of the Defence Oversight Board (DOB), which provided cross-government oversight of the MoD's development of the DIP.

Quantitative analysis

9 We undertook quantitative analysis of the MoD's data, focusing on:

- the iterations of the DIP estimates that the MoD produced over the course of the period from autumn 2025 to the summer of 2026, including the adjustments that it made;
- the final budget and forecast cost estimates underpinning the published DIP; and
- financial analysis provided to the DOB.

10 Most of these data were not published and were therefore taken from the MoD's systems for the purpose of this report. As with the DIP itself, our analysis focused on the data for the four years from 2026-27 to 2029-30 which are covered by the 2025 Spending Review period.

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