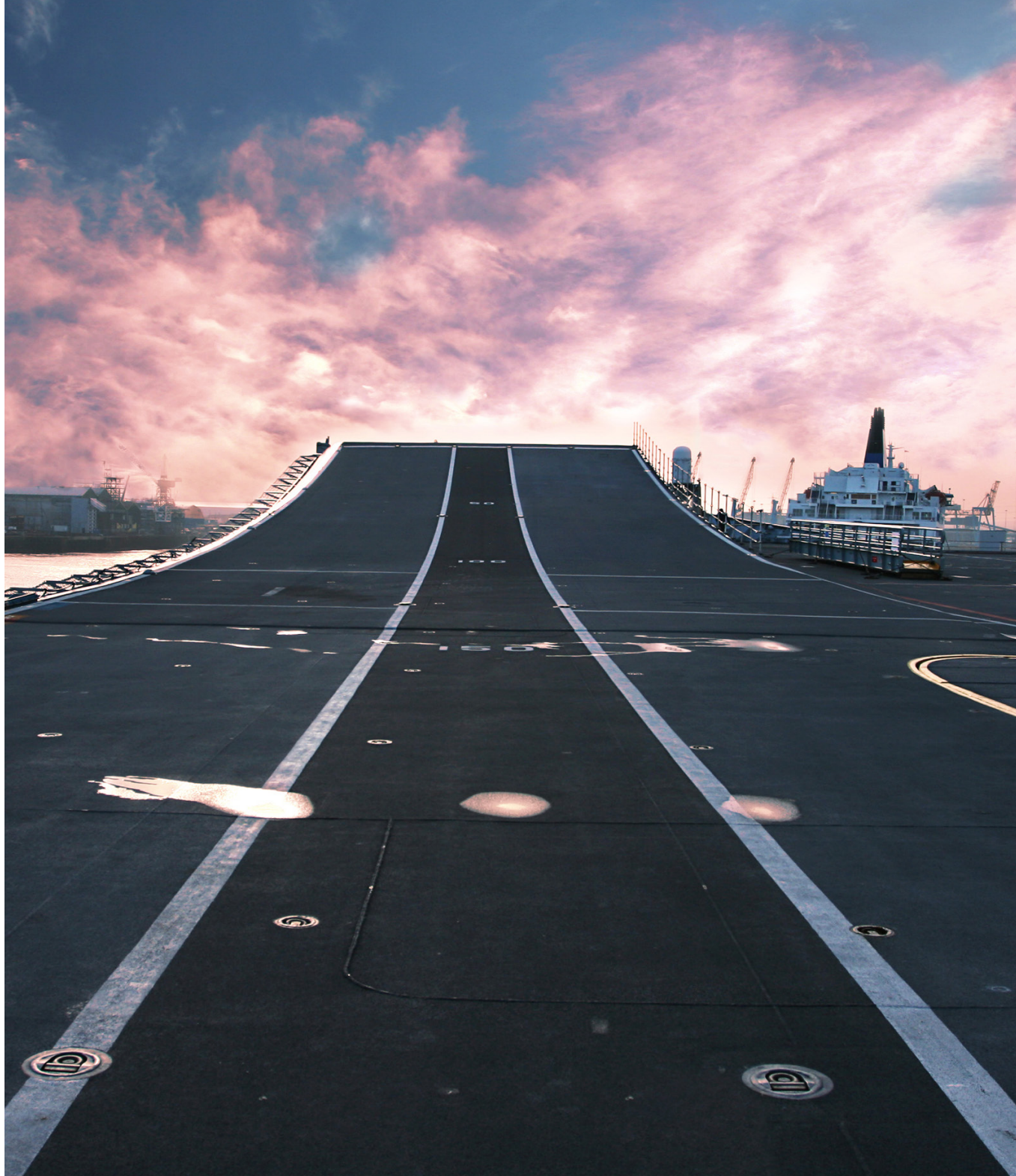


The UK's £298bn Defence Investment Plan

Navigating the legal and commercial
landscape in a new era of UK
defence spending.





What is the Defence Investment Plan?

The UK's long-awaited Defence Investment Plan ("DIP") has been announced by Prime Minister Sir Keir Starmer. According to the announcement, the Government will invest £298 billion in defence across the next four years, including £15 billion of new spending in addition to the funding announced in the 2025 Spending Review.

Overall, defence funding will increase to almost £80 billion a year by 2029 – the Government says that UK defence spending will therefore increase to 2.7% of GDP. The DIP explains how the plans set out in last year's Strategic Defence Review will be funded. Whilst the majority of the funding is expected to come directly from Government, the announcement also includes a £50 billion defence export facility established by UK Export Finance was also announced to support British defence firms to win contracts globally.



Key funding allocations

Unsurprisingly, the UK's nuclear deterrent is the single biggest area of spend. This reflects both the cost and complexity of delivering nuclear programmes and the central importance of the allied nuclear programme to the trilateral AUKUS partnership between Australia, the UK and the US. For UK contractors and investors, the announcement of £26bn over the next decade to deliver significant upgrades at key UK naval bases will be of particular interest. It is unclear how these works will be delivered, although some investors will doubtless be keen to see a return to PFI-style projects.

Arguably the most notable feature of the DIP is the focus on defence technology, with funds set aside for drone transformation (including £65m for "inexpensive expendable autonomous systems", such as uncrewed ground vehicles), defence from drones and other forms of attack by air, and a range of digital programmes, including AI initiatives. Similarly, there is a strong focus on using the new funding to transform the Navy into a "Hybrid Navy", using a combination of traditionally manned Naval vessels and autonomous vessels and aircraft. This is indicative of the rapidly changing face of warfare, which has become more high-tech and is evolving through innovation cycles measured in weeks rather than months or years. Warfare is moving swiftly towards the use of unmanned vehicles and equipment, with inexpensive systems now being capable of destroying high value targets and causing significant disruption. In turn, anti-drone defence systems must also evolve rapidly – it is therefore unsurprising that technology is a central feature of the DIP.

Alongside the announcement, the Ministry of Defence has also announced that the £5bn will be used to fund the Uncrewed Systems Centre (Europe's largest drone testing facility), which opened earlier this month in Swindon. It will also fund a new Uncrewed Systems Taskforce to "rapidly develop and field new autonomous capabilities with industry". These developments underline the importance of investment in rapidly evolving technology, which will have benefits for the defence and aerospace industries alike.

Allocation

Programme

Over £63 billion over four years	Nuclear deterrent (Dreadnought, SSN-AUKUS, warhead)
Over £5 billion over four years	Drone transformation
More than £8 billion over four years	Global Combat Air Programme (GCAP)
£11 billion	Munitions and weapons stockpiles
£26 billion over the next decade	Project Royal Oak (naval base upgrade)
Nearly £2 billion	Digital Targeting Web
£790 million over four years	Homeland air, drone and missile defence
£900 million (including a £500 million Transformation Fund)	Procurement efficiency and transformation
£100 million	Rapid AI Delivery Taskforce (RAID)
£115 million	AI biosecurity
£50 billion	A new defence export facility established by UK Export Finance.
Nearly 60,000	Extra direct and indirect UK industry jobs created by the DIP by 2030.



Considerations for Contractors, Investors and Lenders

The DIP represents one of the most significant pipeline confirmations for prime contractors in a generation. The move to a 10-year planning horizon is designed to give industry the demand signal and long-term certainty needed to invest in capacity, skills and supply chains. However, the commercial and regulatory landscape is shifting in important ways. Recent amendments to the Single Source Contract Regulations, which look set to be reformed further, alongside new procurement rules introduced under the Procurement Act 2023, the restructuring of the National Armaments Director group and the CMA's involvement in reviewing defence contracting will all be key considerations for contractors and investors alike.

The scale of capital expenditure required, whether for conventional energetics facilities or for highly automated, robotics-intensive manufacturing facilities, means that revenue certainty is critical. Clients should seek to model a range of pricing scenarios, including those which can account for the shift towards shorter production cycles, rapid prototyping and iterative integration of novel technologies that modern warfighting increasingly demands, rather than relying solely on indicative demand or procurement signals where significant capital is being committed.

Given the centrality of drones, AI and other rapidly developing technologies to the DIP, intellectual property will be one of the most significant areas of focus in the coming years. It will be important for industry participants to understand how IP can be exploited to commercial advantage whilst ensuring that the IP remain properly protected and navigating the complex security, export control and confidentiality requirements which are likely to affect contracting structures. In terms of IP provisions in MoD contracts, Crown use and ownership of IP will be an area of significant commercial and legal interest as defence-related innovation, investment, financing and M&A transactions continue to come to the fore.

Similarly, the multi-layered and rapidly evolving landscape of AI regulation will be a key consideration for clients in the sector that are investing or deploying AI and autonomous technologies. At the domestic level, the UK has not yet enacted sector-specific AI legislation, instead relying on voluntary frameworks, sector-specific guidance and existing regulations

(e.g., the UK GDPR and DPA 2018 in relation to the processing of personal data, including the distinct regimes for law enforcement and intelligence services processing, where applicable). The MoD has published its own AI principles, but the contractual and liability frameworks for AI-enabled systems in operational contexts remain nascent. Key unanswered questions include: how liability is allocated when an AI-assisted targeting or logistics decision causes harm; what verification and validation obligations attach to AI models supplied to MoD; and how AI explainability requirements interact with operational security constraints. Clients operating in European markets or supplying into multinational programs will also need to consider the EU regulation in this space, including the requirements for conformity assessment, transparency and data governance in the EU AI Act (in force since 2024, though with most obligations applying from August this year) and additional data sovereignty and cloud service provision obligations if the proposed EU Cloud and Development Act is adopted in its current form.

Alongside AI regulation, cybersecurity, hostile state activity and “grey zone” risk is pervasive in the sector. Both NCSC and GCHQ assess the defence sector as high-priority targets for hostile state activity, including sabotage, interference with communications systems and data theft. Engagement in the sector can present a step-change in risk profile, with operations being targeted as vectors to reach primes or MoD systems, even if the main business is not classified. Clients operating in the sector should assess their exposure to cyber risk, as many would in any even soon be required to do for connected products under the EU Cyber Resilience Act, and expect to have stringent security requirements imposed or flowed down, including alignment with Cyber Essentials Plus and NCSC Cyber Assessment Framework.

All of the above will be of particular concern to suppliers looking to secure a part of the £2 billion Digital Targeting Web outlined in the plan, one of the most significant technology investments and in-essence a major C4ISR (Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance) IT outsourcing program. Other key concerns will include contracting to address specific data architectures and handling requirements for data classified up to SECRET

(or above), addressing the consequences of data breach or loss in the operational context, setting expectations for continuity, including in degraded and contested circumstances, and, explicitly, interoperability requirements and allocation of liability for system integration failures in what we can only assume will be a substantially multi-operator environment.

The increasing importance of international partnerships, including AUKUS and the more recent naval defence partnership between the UK and Norway, will also bring export control compliance into sharp focus. This may prove to be particularly true for defence-adjacent companies whose products come to be seen as “dual-use” items with both civilian and military uses. As with all key government programmes, subsidy control, FDI and public procurement rules will also be of great importance for M&A transactions and beyond. In the UK, restrictions imposed on the defence sector by the National Security and Investment Act will require careful scrutiny from the outset of any transaction.

Where the new munitions facilities, energetics factories and naval bases are concerned, planning law, environmental permits, explosive storage and transport regulations, and long-term take-or-pay supply arrangements with the MoD will be the central focus.

The DIP's emphasis on sovereign capabilities creates opportunities for adjacent plays in logistics, warehousing, component manufacturing and specialist real estate (including powered land for secure data centres). With a new prime minister famous for his “Manchesterism” expected in a matter of weeks, accelerated devolution can be expected with defence cluster development forming a key part of Mayoral Strategic Authorities' Local- and Defence-Growth Plans. Engaging with Combined Authorities early will be key, as will taking care to balance the potential for devolved economic priorities that may not always align with the MoD's procurement or strategic interests.

The integrated battlespace concept at the heart of the DIP, connecting sensors, weapons and commanders across domains, depends critically on space and near-space communications infrastructure, including satellites and high-altitude pseudo-satellite drones. This will create significant opportunities for clients in secure communications,

satellite services and stratospheric platform development but the complex regulatory framework is often underestimated. Domestic licensing, liability and insurance obligations sit alongside national and international radio spectrum frequency rules with further international treaty law governing state responsibility that date back to the cold war. Clients should consider the full regulatory stack in relation to space and near-space capabilities and contracts with the MoD should specifically address the as-yet unsettled application of international law to commercial space operations.

When taken alongside other significant defence programmes, such as the European Defence Fund, the DIP represents an exciting opportunity for lenders and investors to stretch their appetites for investment in a rapidly growing sector that has become increasingly accepted by banks and ECAs from an ESG perspective and is giving rise to a range of cross-border M&A activity. The increasing availability of export finance, including the £50 billion UKEF defence export facility announced, is creating significant structured financing and guarantee opportunities for lenders, both in terms of supporting export credit-backed deals and in advising borrowers on accessing UKEF/ECA support.

Although the debate continues as to whether the additional £15bn pledged by the Government is sufficient, many investors and industry participants will see the publication of the DIP as a sign of confidence in the sector and its investability.

As the landscape for UK and European defence spending undergoes its most significant transformation in a generation, our team brings the rare combination of deep government-side and industry-side experience, multi-jurisdictional reach across all major NATO and partner jurisdictions, and genuinely integrated multi-practice capability spanning M&A, capital markets, procurement, competition, export controls, IP, finance and national security.



Supporting the sector and our clients

- > **BAE Systems:** advising on (i) its issue of £400m bonds to be admitted to the Official List of the UK Listing Authority and to trade on the regulated market of the London Stock Exchange plc., (ii) the disposal of its remaining 10% stake in Saab AB, (iii) its Eurosystems JV with Finmeccanica in numerous jurisdictions, (iv) the long-term partnering agreement with the Ministry of Defence to reduce the costs and rationalise the UK munitions sector, and (v) the recapitalisation of a joint venture in the area of case telescoped weapons and ammunition.
- > **Praesidiad and Carlyle:** advising on the sale of the Praesidiad Group to Alcentra Limited and Cheyne European Strategic Value Credit RAIF. The project included investment control procedures in Belgium, Germany, Slovakia, the UK, the Czech Republic and the United States.
- > **Serco:** advising on (i) the disposal of the majority of its operations in Germany, (ii) the sale of its nuclear consultancy business to AMEC and (iii) the UK Ministry of Defence's Future Provision of Marine Services (FPMS).
- > **Ministry of Defence:** advising on (i) its £4.2bn acquisition of a further five Type 26 Frigates from BAE Systems Surface Ships Ltd . (ii) on the competitive tender for, and construction of, the UK's new Type 31 class of naval warship.
- > **MASS munitions Long-Term Partnering Agreement:** advising BAE Systems on the long-term partnering agreement with the Ministry of Defence to reduce the costs and rationalise the UK munitions sector.
- > **An US company in the technology sector:** advising on the acquisition of 100% of a UK defence contractor. Due to the activities of the target business in the area of dual-use goods and suppliers to various European arms companies and armies it included notification requirements in Germany, the UK, France and Italy.
- > **Viasat, Inc:** advising on the UK merger control aspects of its US\$7.3bn acquisition of Inmarsat. After an in-depth Phase 2 inquiry, the CMA granted unconditional clearance for the transaction.
- > **British multinational arms, security, and aerospace company:** advising on its appeal to the EU General Court, seeking annulment of the European Commission's decision of April 2019 which concluded that the group financing exemption provided under the UK's controlled foreign company (CFC) rules partly contravened EU State aid rules.
- > **British multinational arms, security, and aerospace company:** providing strategic advice in respect of their US\$5.6bn acquisition of Ball Aerospace.
- > **Tinicum L.P. and Blackstone Inc.:** advising on their £1.275bn recommended offer for Senior plc.#



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