

Insights

BEYOND THE BATTLEFIELD: PRIVATE EQUITY, PPPS, AND THE FUTURE OF UK DEFENCE INFRASTRUCTURE?

Mar 09, 2026

SUMMARY

BCLP is an international law firm with deep experience in defence and infrastructure investment, including international project financing and public-private partnership (PPP) transactions, committed to finding pragmatic and efficient solutions for our clients. In this article, we examine the opportunities for UK defence sector PPPs arising from the UK government’s Strategic Defence Review and what evolution in UK PPP models may be needed to promote effective private sector investment in UK defence infrastructure.

BACKGROUND

Capital and maintenance spending in defence infrastructure has frequently been delayed or cancelled in the recent past, largely as a result of budgetary pressure. However, we are now in a radically different macro environment for Europe and the UK. To the west, the USA under President Trump is a less predictable ally, requiring other NATO members to increase their defence spending; to the east (and north) lies an assertive and increasingly confrontational Russia.

The result has been a commitment in the UK to increase defence spending to 2.6% of GDP by 2027/2028, with a longer-term goal of 3.5% by 2035. This overall 2035 target is split into 3.5% for “core defence” and 1.5% for “resilience”—the latter referring to the capacity of a nation’s civilian systems, infrastructure, and society to withstand, adapt to, and recover from shocks, disruptions, or hybrid attacks (a “whole of society” approach rather than one limited to battlefield capabilities).

With a projected £28 billion defence funding deficit (largely driven by inflation and the costs of maintaining the UK’s nuclear deterrent), it appears that a significant portion of the projected defence and infrastructure spending will need to be met by private sector investment. That investment will encompass both weapons (“kinetic”) and wider defence infrastructure (“non-kinetic”). It is this wider defence infrastructure investment, and in particular any investment that

can potentially be undertaken through public-private partnerships (PPPs), that is the focus of this article.

THE STRATEGIC DEFENCE REVIEW 2025

Published in June 2025, the UK government's Strategic Defence Review (SDR) highlights the crucial role of the private sector—both in terms of innovation/expertise and financing—in the context of increased defence spending. The following quotes from the SDR are perhaps the most enlightening regarding potential private sector investment:

“Defence should build relationships with the investors behind the innovators. External expertise should be systematically accessed through a new Defence Investors’ Advisory Group whose membership includes venture capital and private equity investors, while private finance should be crowded in under new funding models.”

“Private-sector interest in the defence sector is growing but barriers to private investment remain. Defence must develop better relationships with, and understanding of, the financial services sector. New funding models should be explored to make defence innovators a more attractive proposition for private capital, reduce the cost of finance for defence companies, and increase the ability to pool capital with allies.”

A NEW PPP MODEL (OR MODELS) FOR DEFENCE INFRASTRUCTURE INVESTMENT?

One or more new PPP models must be developed to provide efficient and effective contractual structures to facilitate and "crowd in" private sector investment. These models and the accompanying private sector investment will, of course, need to provide value for money.

Previous UK PPP models (e.g., PFI and PF2) were arguably not sufficiently flexible (including from a variations perspective) to efficiently adapt to the rapidly evolving requirements of some defence investment sectors. However, certain assets—such as service personnel accommodation, which is a key short-term investment priority—are arguably much better suited to traditional availability-based UK PPP models. These models can be adapted, potentially using public sector co-investment principles from frameworks like the Mutual Investment Model (MIM)—though PF2 already featured co-investment principles. This would promote transparency, build collaboration, and evolve the structures to suit the agility required for new, innovation-led investments in the defence sector.

But it is not only a question of flexibility and agility. The public sector will need to agree to financing cost proposals that suit it and provide value for money. This is arguably in contrast to earlier UK PPP transactions (many of which are now in their handback stages), which critics claim were too expensive and a bad deal for the public sector. However, relying on newspaper headlines claiming

excessive costs for simple maintenance tasks is an unfair oversimplification of the issues—and potentially intellectually lazy. It is better to analyse why these earlier transactions were arguably too expensive; a key consideration must be their risk transfer profile.

Appreciating there are potential balance sheet considerations, project development risk is best borne (and priced) by the party most appropriate to manage it. Any new model needs to provide for appropriate risk transfer. An approach seeking to maximise risk transfer from the public to the private sector, with limited consideration of who is best placed to bear such risks, is susceptible to escalating costs. The private sector will simply price risks conservatively, building in contingencies for risks it cannot efficiently price or insure against.

Instead, it is perhaps better to look at more recent project finance models developed in the UK, such recent large RAB-based greenfield projects such as Tideway Tunnel and Sizewell C NPP where construction risk—including inflation and low-likelihood/high-impact "catastrophic" occurrences that cannot be fully insured against—is retained by or shared with the public sector. This promotes better pricing from the private sector. Construction contractors are increasingly unwilling to enter into overly simplistic fixed-price turnkey contracts on complicated, long-term projects, and more nuanced approaches to construction costs (and potential upside) are needed.

Another factor that may impact the pricing and efficiency of potential new PPP models is the pricing mechanism and how service levels/deductions are addressed in the operational stages. New models require clearly defined and effective service level requirements that incentivise proactive facilities management and permanent solutions. This contrasts with temporary fixes and adversarial approaches to contractual interpretation (such as the recent trend of the public sector appointing consultants to robustly audit transaction performance, leading to material alleged additional deductions and litigious scenarios on existing PPP models). New PPP models present an opportunity to establish clear, collaborative service levels and avoid the pitfalls of adverse publicity—particularly in emotive sectors like service personnel accommodation, where investment is urgently needed to address historically poor maintenance.

A RECAPITALISATION PLAN – IS THERE A PIPELINE ON THE HORIZON?

As many potential private sector investors will ask at an early stage: what is the pipeline of projects, and when will there be clarity?

Section 7.11 of the SDR looks to the future publication of a Recapitalisation Plan, originally expected in February 2026 but now generally anticipated later in 2026. A clear and robust pipeline of projects will be key to generating private sector interest. Investors will not stand up teams, and there will be a dearth of competitive tension, if there are few available projects and limited opportunities for success. A clear Recapitalisation Plan is vital. To quote the SDR: *"This plan should identify priorities and options for investment, opportunities for maximising the value of the*

estate, estimated costs, and provisional timelines for delivery.” Delivering a plan that meets these requirements will go a long way toward promoting private sector confidence.

THE SURGE OF PRIVATE EQUITY IN DEFENCE

Historically, many private equity (PE) firms and institutional investors have navigated the defence sector with caution. However, the geopolitical realities underpinning the SDR have fundamentally altered this risk calculus. Private equity is rapidly transitioning from viewing defence as a restricted sector to recognising it as a mainstream, high-yield necessity.

Recent market data underscores this shift: European defence M&A deal value reached \$2.3 billion in the first half of 2025 alone, marking a 35% year-on-year increase, while European defence stocks have consistently outperformed broader market indices. With analysts projecting that European defence spending could reach €1 trillion by 2030 to meet new NATO and SDR targets, traditional public funding is entirely insufficient. PE firms, armed with substantial dry powder, are uniquely positioned to provide the rapid, scalable capital required for this recapitalisation—provided the right commercial frameworks are in place.

NAVIGATING ESG: THE RISE OF DUAL-USE AND NON-KINETIC ASSETS

To state the obvious, the National Security and Investment Act 2021 will be a far more central consideration here than for many other types of infrastructure investment, likely precluding capital from certain state-linked actors. Otherwise, the profile of potential investors is heavily dictated by the specific sub-sector.

Large-scale investments identified in the SDR regarding traditional “kinetic” weapons manufacturing (such as the £6 billion allocated for munitions) will naturally attract defence-focused PE funds and large conglomerates based in NATO-aligned nations. In contrast, a vast pool of capital held by UK pension funds, insurance companies, and ESG-conscious institutional investors remains restricted from kinetic investments due to governance policies.

The “golden ticket” for unlocking this capital lies in **dual-use assets** and **non-kinetic infrastructure**. Dual-use technologies—such as secure 5G and satellite communications networks, advanced cybersecurity infrastructure, AI-driven analytics, and autonomous supply chain logistics—serve vital civilian functions while simultaneously bolstering national defence. Because these assets directly support the “resilience” mandate outlined in the SDR without crossing the kinetic threshold, they offer a compliant pathway for ESG-bound funds.

Similarly, non-kinetic infrastructure projects are highly suited to traditional, availability-based PPP models that provide the steady, long-term yields sought by institutional investors. Beyond the urgent need for modernised service personnel accommodation, this encompasses the

development of secure military data centres, sovereign logistics hubs, and advanced training facilities. Fundamentally, a well-negotiated UK PPP transaction in these non-kinetic spaces is a highly attractive opportunity. Examples of successful previous investments include: the Future Strategic Tanker Aircraft (FSTA) project—the largest PFI transaction in the UK—and UK Military Flight Training System (UKMFTS), and Project MoDEL (Ministry of Defence Estates London) – a rationalisation and consolidation programme undertaken by the MoD undertaken as a PPP to reduce the cost of the defence estate and release land in and around London for residential and mixed-use development (thereby bringing capital receipts to the MoD as well as reducing ongoing operational expenditure), each of which examples BCLP has advised on. Equipment and training PPPs for UK defence infrastructure may well help bridge the apparent defence funding gap, but it is perhaps collaboration in respect of estates with projects similar to Project MoDEL (in particular outside of London) which might bring early success – such projects could look to address both the lack of investment in service personnel accommodation whilst also making land available for development and potentially contribute to much needed increases in housebuilding across the UK.

NEXT STEPS AND CONCLUSION

There are significant opportunities for UK defence sector PPPs. Its success will likely depend both on the PPP models adopted and whether a robust pipeline of projects is made available in the near future. The public and private sectors can work together to deliver value for money, making PPPs in the UK defence infrastructure sector a “win-win” scenario for all parties. Building partnerships between private sector investors and the MoD will be key, and the SDR recognises this appropriately.

Collaboration, rather than conflict, will help build effective partnerships. Investing in UK defence infrastructure is not bellicose; it is prudent in building future resilience. In certain sub-sectors, PPP models can deliver much-needed defence infrastructure. If the forthcoming Recapitalisation Plan provides a robust pipeline, it may very well be “now” for private sector investment in UK defence infrastructure.

RELATED CAPABILITIES

- Infrastructure
- Finance
- Aerospace & Defense

MEET THE TEAM



Mark Richards

Partner and Regional Practice Group
Leader - Energy, Environment and
Infrastructure, London

mark.richards@bclplaw.com

[+44 \(0\) 20 3400 4603](tel:+442034004603)



Alexander Hadrill

Senior Associate, London

alexander.hadrill@bclplaw.com

[+44 \(0\) 20 3400 4740](tel:+442034004740)

This material is not comprehensive, is for informational purposes only, and is not legal advice. Your use or receipt of this material does not create an attorney-client relationship between us. If you require legal advice, you should consult an attorney regarding your particular circumstances. The choice of a lawyer is an important decision and should not be based solely upon advertisements. This material may be “Attorney Advertising” under the ethics and professional rules of certain jurisdictions. For advertising purposes, St. Louis, Missouri, is designated BCLP’s principal office and Kathrine Dixon (kathrine.dixon@bclplaw.com) as the responsible attorney.