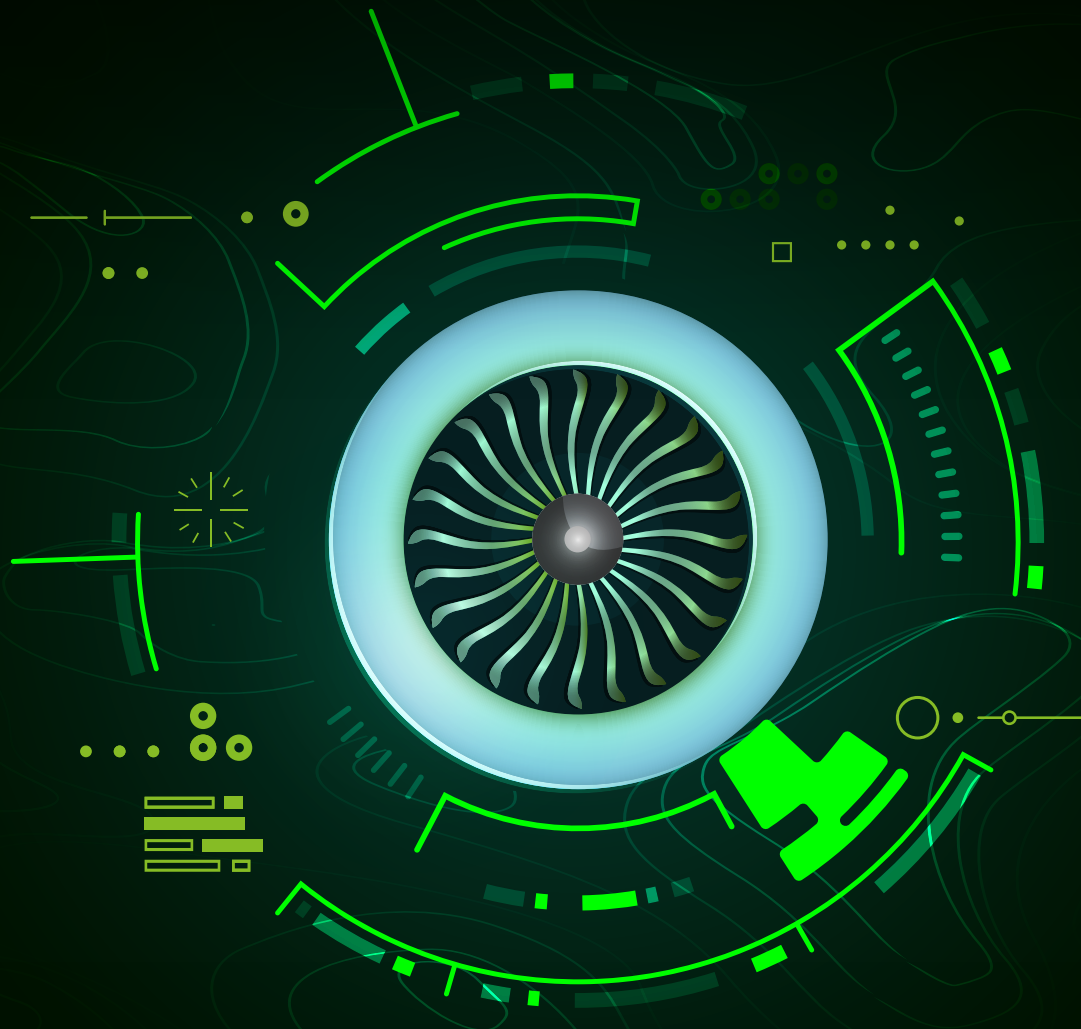


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Together makes progress



Addressing the defence skills gap through collaboration in regional industries

Supporting national security and providing local economic opportunities

June 2026

Contents

Introduction	03
Executive summary	04
1. Building sovereign defence capabilities in response to global threats	05
2. Building skills to realise national security and economic benefits	08
3. Addressing skills shortages - from national to local initiatives	11
4. Illustrating the local economic benefits from supporting skills	15
5. Key strategic priorities	19
Technical annex	21
Endnotes	23

Introduction

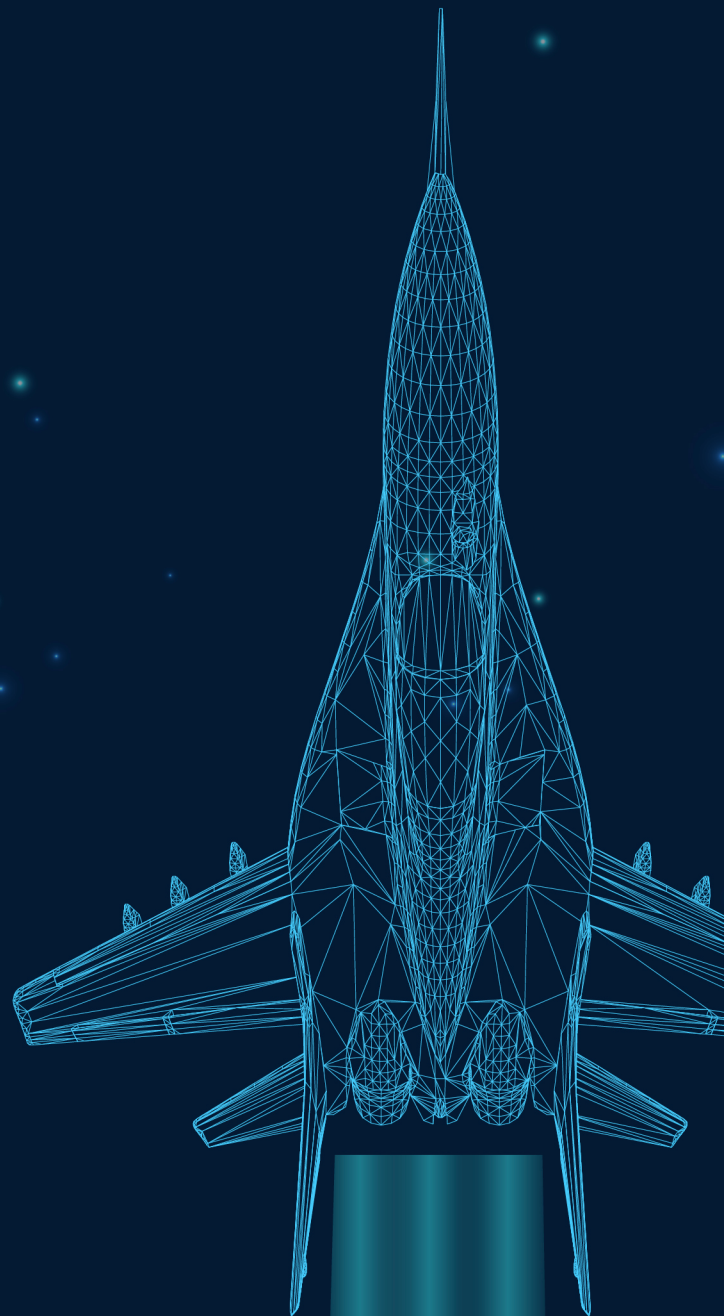
The UK Government is investing more in defence readiness and defence industrial capabilities, in response to global volatility and multiple threats to national security. The UK's Defence Industrial Strategy (DIS) highlights that this can deliver more than just defence outcomes, aiming to leverage defence expenditure as an "Engine for Growth" for the economy.¹

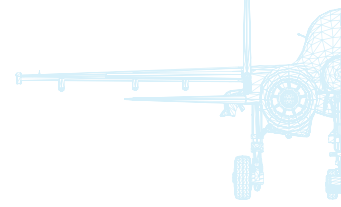
To meet the UK's defence needs and realise the economic opportunity, an adaptable and skilled workforce is essential. This report examines the case for strategic, collaborative action on skills to underpin the defence industrial base. It proposes targeted actions to deliver both enhanced defence capabilities and broader economic benefits, and sets out the roles and shared responsibilities of central government, industry, academia and local authorities.

The report draws on engagement with UK Government officials, along with large 'prime' defence contractors, other industry stakeholders, academia and skills organisations.

The report covers the following:

1. Some of the steps the UK is taking to strengthen sovereign defence capabilities in response to global threats, and the economic opportunities that this could provide.
2. Why skills are critical for realising national security and economic benefits, and the current skills challenges facing the UK defence industry.
3. What initiatives exist in defence and beyond that could provide inspiration for wider-scale action, and the potential local economic benefits that could be realised from supporting defence skills.
4. How delivering defence objectives and economic benefits requires whole-of-society collaboration, at national, regional and local levels.





Executive summary

The Strategic Defence Review (SDR) sets out the UK government’s response to intensified global power competition around the world, committing to improving warfighting readiness and building sovereign defence capabilities. This requires a substantial increase in defence spending over the next decade. The Defence Industrial Strategy positions this investment as an “Engine for Growth”; bolstering productive sectors, supporting innovation, providing a platform for exports, and contributing to economic activity.^{2,3}

Skilled labour is vital to realising these aims, but without action, critical skills gaps could undermine military and economic objectives. Skills England identifies current shortages in key defence skills such as engineering and technology, where demand is expected to rise. The defence industrial workforce also faces demographic challenges, as it is predominantly male (79%) and ageing.⁴ Coordination and information challenges between government, academia, training and education providers, and industry, mean challenges in the market will persist.

Addressing shortages would deliver regional economic benefits by supporting high-value jobs and expenditure in the “everyday” economy. In a scenario representing national, regional and local action, Deloitte finds that successful skills interventions in the current aerospace sector in the South West could generate an additional £890m in local gross value added over 10 years, supporting around 2,300 jobs in the Bristol area in the aerospace sector and beyond. It could also generate wider socioeconomic value across the UK, by unlocking local bottlenecks, through expenditure in wider national supply chains, and through knowledge spillovers that support national productivity. Similar benefits could accrue from action across the UK’s other 11 “high growth potential frontier” defence clusters, and the economic potential would be enhanced by the government’s planned growth in spending.¹

Addressing skills shortages requires “whole-of-society” collaboration at national, regional and local levels.

There are already initiatives providing a ‘blueprint’ for effective interventions that can be scaled in the sector. Nationally, a regularly updated defence skills plan, aligned to the upcoming Defence Investment Plan (DIP), would provide clearer demand signals to industry. Regionally, coordinated initiatives can align decisionmakers around infrastructure, training, education, and workforce planning. This could be supported through placed-based business cases considering these enablers. Locally, specialised skills academies embedded in defence clusters can offer tailored training and direct sector access for new entrants.

Defence organisations also need to recognise and harness the potential of the workforce ecosystem, with deeper collaboration and agility across public and private sectors on skills and workforce.²² This means integrated thinking about service personnel, reservists, civil servants, contractors and industry. A “whole force” approach creates agility and flexibility, attracts and retains more diverse talent and enlarges the talent pool aligned to the national defence mission.

The case for overcoming defence skills challenges is clear. Improved collaboration at the national, regional and local level and a whole-of-society approach can support adaptability and coordination in the skills ecosystem. This will enable the development of sovereign defence capabilities that foster national security, whilst providing an engine for growth in regional defence industries that support national economic productivity.



1. Building sovereign defence capabilities in response to global threats

Plans to increase defence spending

Global power and resource competition are driving increased security threats around the world, resulting in a widespread refocus on war readiness.^{5,6} In response, the UK Government has pledged substantial investment through directives to transform the armed forces, replenish inventories, and support the resilience of the defence industrial base.⁷

The 2025 June NATO summit saw a historic agreement among member states, including the UK, to increase national security spending to 5% of GDP (up from 2.3% in 2024). This includes an agreed 3.5% to resource core defence requirements by 2035.

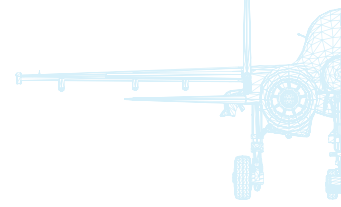
The value of defence

The primary purpose of defence spending is to safeguard national security and peace. This supports a stable economic environment and conditions for economic prosperity and growth. National security is further underpinned by a strong industrial base, which supports peace through deterrence, by enhancing the credibility of a nation to sustain potential warfighting.^{8,12,11}

The value of defence in numbers

- Defence expenditure by MOD is estimated to support 463,000 UK jobs (direct and indirect jobs, MOD estimates, 2023/24) and defence sector jobs offer a wage on average 12% higher than the UK average (ADS, 2023), a significant economic footprint in the UK.
- Studies suggest that a 10% increase in government-funded military R&D can stimulate over a 4% rise in private-sector R&D (Enrico Moretti et al). Defence-driven R&D has been instrumental in pioneering numerous transformative technologies, from radar to the internet, which have subsequently found dual-use in civilian life.
- In 2024, UK defence exports were worth £13,200 million, a nominal increase of around 10.4% compared with the previous year (MOD, March 2026). Advanced aerospace accounted for over half of the value of these exports.





Alongside these strategic defence imperatives, there are secondary economic benefits from defence spending and a defence industrial base:

- **Economic contribution:** The UK's defence sector is a significant contributor to the UK economy, fostering highly skilled employment and associated spending by employees in the wider economy, as well as spending by firms through their supply chains.
- **Innovation and productivity:** Investment within defence industries, especially when associated with cutting-edge R&D, can support the development of advanced technological skills, productivity, and innovation. This includes the development of 'dual use' technology with

defence and civil applications that provide economic spillovers beyond their immediate military applications. The industry's exports are substantive and also associated with productivity benefits.^{9,10,11,12}

- **Place-based impacts:** Defence sectors often operate in industrial clusters - a geographical concentration of interconnected companies, specialised suppliers, and service providers. These clusters catalyse productivity including through knowledge transfer. The DIS highlights how the defence industry is 'clustered' across the UK (see Figure 1),¹ which means increased defence demand can be harnessed to drive local regeneration and benefits.



Figure 1 high growth potential defence clusters across the UK (from the Defence Industrial Strategy)¹



The role of skills in enabling regional defence industries

Skilled labour is fundamental in enabling domestic supply chains to function, and achieving national resilience in support of deterrence.¹³ Matching skills to demand also enhances productivity and efficiency, leading to innovation and higher quality outputs and reduced costs.¹⁴ However, without the right skills in place, the full benefit of defence investment will not be realised. The following section outlines the current skills challenges in the UK defence sector in more detail, before exploring ways to address them.



2. Building skills to realise national security and economic benefits

The defence labour market

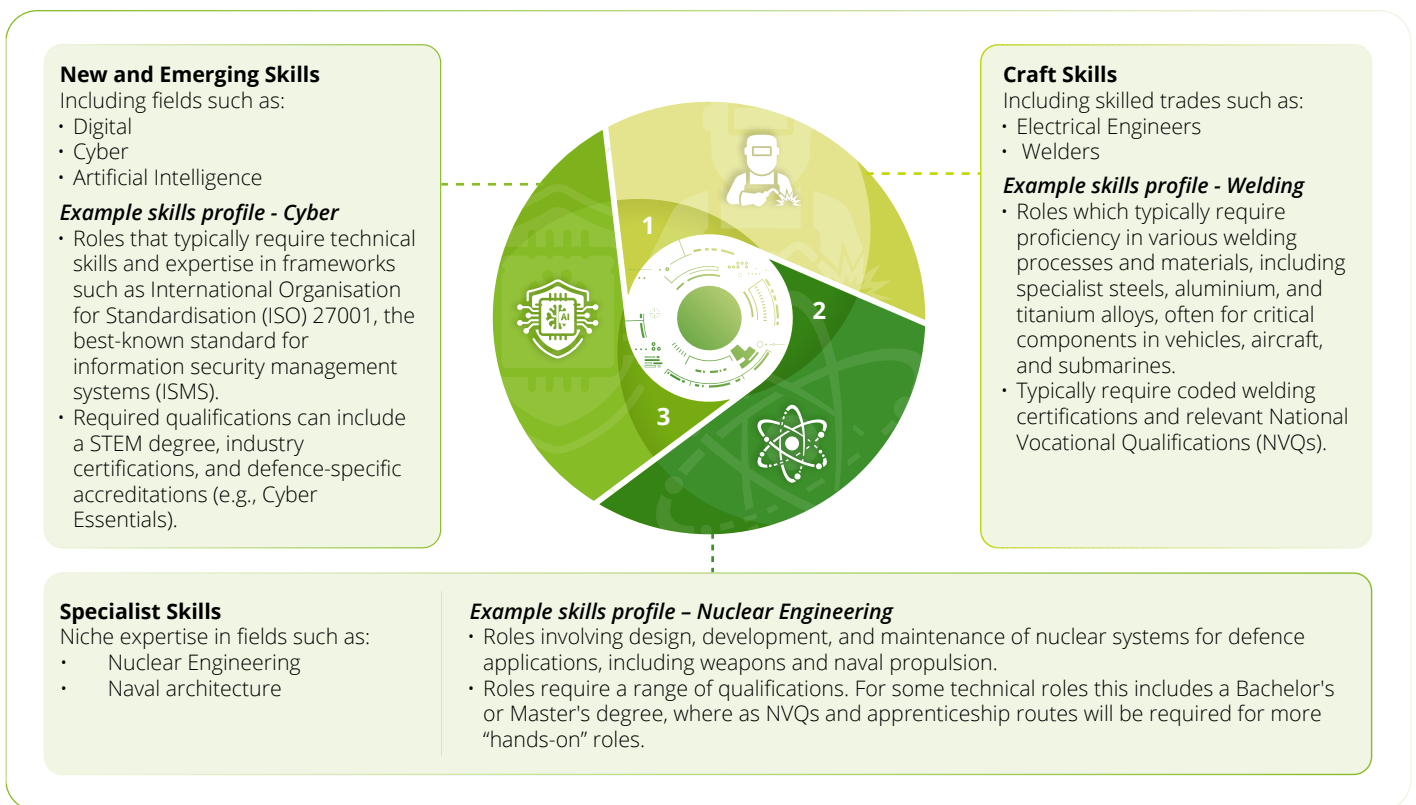
The UK defence labour force spans military personnel, civil servants, and a diverse industrial base. It includes a wide range of skills, from engineering, manufacturing, systems integration, data science, project management, and logistics. Sub-sectors cover aerospace, maritime, land, space, and digital capabilities. Employment in industry is distributed across large prime contractors, small and medium-sized enterprises, and specialist suppliers within complex supply chains. This workforce supports research, design, production,

maintenance, and operational delivery, contributing to national security, technological innovation, and high-value economic activity across the UK.

The skills in demand

The industry faces a shortage of skilled workers, especially of craft, specialist and new and emerging skills. Skills England highlights challenges in science, technology, engineering, and mathematics (STEM), as shown in Figure 2. These skills are needed in the defence industry and are associated with high-value jobs and productivity spillovers.

Figure 2 Skills England - Defence sector skills gaps ^{4,15,16,17,18}



Responding to growth and change

The UK Government's ambition signals a profound shift in the development of sovereign defence capabilities, with an emphasis on cutting-edge technologies being developed at home. As a result, there is increasing demand for new, highly specialised skills, particularly in areas such as Artificial Intelligence (AI) and Cyber security. This rapid technological evolution, coupled with projections indicating additional demand for up to 50,000 defence jobs by 2034/35, presents a whole new challenge for workforce development and talent acquisition within the defence industrial base.¹⁹ If these challenges can be overcome there is a substantive opportunity for defence and the wider economy.



Attracting the right talent

The challenge of skill shortages in defence can be summarised in the following four ways:

- 1. Competition for scarce talent:** There is a narrow pipeline of essential capabilities developed in the education system, as set out by Skills England. This is compounded because highly skilled or trained individuals with capabilities needed in defence, whether Further Educational (FE) leavers or university graduates, may choose to work in alternative sectors. Defence primes (large and prime contractors in the defence industry) have told Deloitte that that competition for talent is intensifying. They noted that graduates can perceive that industries such as finance and technology offer more opportunity, including for progression, whilst employees within defence firms do not necessarily share this perception.
- 2. Demographics and reputation:** The sector is predominantly male (79%) and perceived less favourably by women, which could limit its ability to meet skills demand.²⁰ Further, it has a relatively older workforce that could pose longer-term problems, when these skilled individuals look to retire.⁴

“Respondents rate defence 6 out of 10 when asked how attractive a career it is, rising to nearly 7 out of 10 for working age men – but there’s a significant gender gap, closer to 5 out of 10 for working age women” – Montfort

Broadening the search for talent

One defence prime told us that they are increasingly interested in “softer skills”, such as problem solving and a willingness to learn, when looking to fill roles. One example given was of an individual hired from the beauty and care sector with no previous defence experience, who became a project manager at a defence prime.

- 3. Skills mismatch:** Deloitte heard that large firms with considerable brand appeal can attract a sufficient volume of applicants for roles, however these applicants can lack the specific skills needed within defence roles.²¹ With the pace of change in AI, quantum computing and autonomous systems, the definition of an ideal candidate is constantly changing. This also affects upskilling and retraining routes, with academic consultees telling us that finding someone to “teach the teacher” can often be a challenge. Deloitte also heard from one defence prime that project managers, project planners, schedulers and cost controllers are in strong demand due to the scale and complexity of defence programmes, but recruitment is difficult. This is because these roles require experience in highly regulated, multi-billion-pound infrastructure environments.
- 4. The added challenge for smaller firms:** Small and Medium-sized Enterprises (SMEs) are crucial to defence supply chains, providing agility and diversification. Their size and structures can result in quicker decision-making that allows them to prototype, test, and adapt innovations faster than larger organisations. However, our consultees noted their views that:
 - A. SMEs can be constrained by a lack of resource or by the brand recognition needed to reach into the labour market and attract the top talent.
 - B. The sector faces challenges with the costs of funding apprenticeships, and these are particularly material for SMEs. The core allowance for levy funding has not increased since its introduction in 2017. Education providers have stated that, in addition to levy costs, employers often pay students’ full programme costs.²¹





Why the market does not always 'work'

The sector can often provide a competitive offer to attract top talent, but structural issues can still lead to a failure of the market to provide a sufficient supply of workers to meet demand through a price signal alone. Through our research and engagement, we identify three key root-cause issues:

Figure 3 - Defence labour market failures



- **Imperfect Information:** In addition to competition for talent with other industries, defence firms often contend with potential candidates' limited awareness of the sector. We found that, amongst employers, the key challenge is to make top potential entrants aware of the wide array of opportunities and career paths that are available.²¹

- **Coordination failures:**

- **Training and roles mismatch** - Defence industries can offer highly specialised roles. However, without private entities engaging education and training providers, the specific needs of employers are not provided.
- **Lengthy procurement processes** - Government procurement processes can be long, and large suppliers must often invest in bid processes and wait to get the demand signal that means they need to hire the necessary capacity. This creates a misalignment between government funding cycles and industry needs, making it difficult for employers to provide clear signals to the labour market about future demand.
- **Wider enablers** - Growth in employment within local defence clusters (for example, by firms in response to demand signals from MOD) requires adequate infrastructure and housing to enable the attraction and retention of talent. While investment in these areas is a shared responsibility of local and central government, there are challenges in coordinating action.

- **Positive externalities:** Local action, often funded and agreed at a local level may not fully consider the wider national benefits (or "externalities"), leading to underinvestment from a whole-of-society perspective.

The following section sets out initiatives that if scaled or adopted could help overcome these market issues and support the defence and economic aims of the UK.



3. Addressing skills shortages - from national to local initiatives

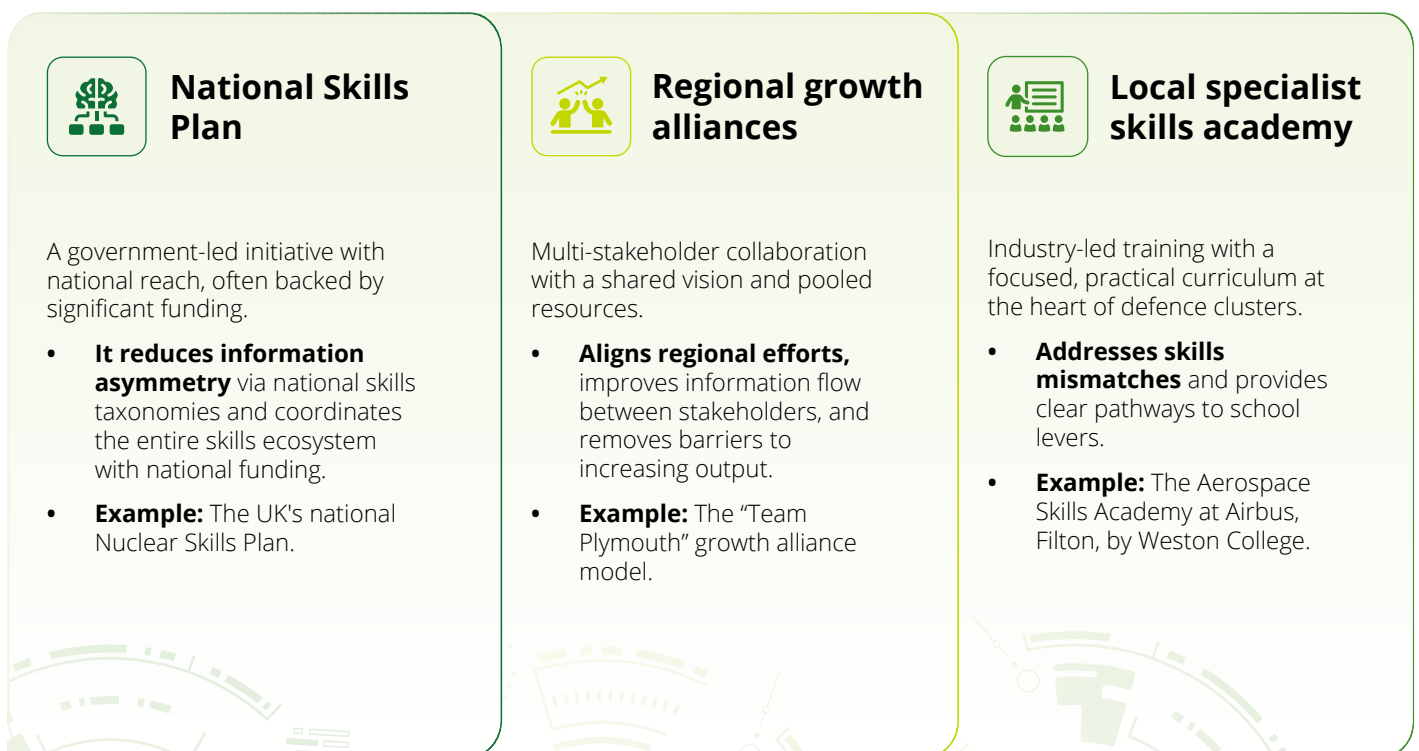
Drawing inspiration from existing initiatives

Through research and stakeholder engagement we have identified potential skills-based solutions that could be scaled up and built upon around the UK to support the realisation of defence objectives and the economic opportunity.

Deloitte conducted interviews across seven entities, including defence primes, technology centres, academia, and national government. The interviews were held with subject matter experts with an understanding of their business' skills requirements and gaps. This includes skills directors, department heads, workforce transformation leads, and social impact skills leads. The interviews were centred around topics such as labour market conditions, skills gaps, challenges, and initiatives the entities are involved in.

Deloitte heard positive examples of initiatives aiming to address skills shortages at a national level, which, coupled with regional and local initiatives, could be adopted across the UK's twelve high growth potential defence clusters.¹

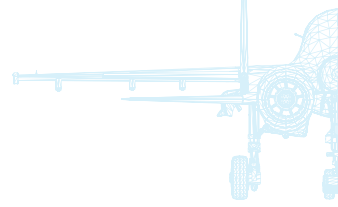
Figure 4 - Skills initiative examples - from national to local



National skills initiatives

National initiatives provide an overarching strategic framework with greater funding and scale. They aim to tackle market failures through the development and adoption of standardised skills taxonomies and analysis of supply and demand through a single framework, to provide clear, consistent definitions of required competencies, guiding both individuals and employers. Furthermore, they resolve coordination failures by fostering collaboration between government, industry, and educational providers to support training relevance.²²

An exemplar is the UK Nuclear Skills Plan (NSP), led by a collaborative effort involving government, industry, and education providers to employ 40,000 additional skilled workers in the nuclear sector by 2030. This includes both civil and defence roles, in public and private sectors.²³



The Defence workforce ecosystem

The workforce ecosystem spans a wider labour market of service personnel, reservists, civil servants, contractors, and industry. While traditionally these 'talent pools' have been managed separately, a "whole force" approach is emerging. This aims to address skills gaps by supporting greater flexibility of movement between these workforce categories and therefore retaining and enhancing skills within the wider ecosystem.

An optimised workforce ecosystem, supported by collaboration across a range of public and private sector stakeholders, would facilitate "Zig Zag" careers where individuals move from military to industry roles, with the potential to return. It would also include investment in joint skills development initiatives such as apprenticeships and education programmes to build shared capabilities and recognise common civilian qualifications.

The benefits of increased collaboration, flexibility and agility across the defence workforce ecosystem would include:

- **Readiness and resilience:** Clearer alignment on how public and private sectors can work together in support of the national endeavour, and what levers can be pulled to respond to increasing threats
- **Attracting and retaining talent:** Young people making career choices, and older people making career changes, would be attracted to the flexibility and opportunity of the wider defence sector (public and private)
- **Efficiency and effectiveness:** People transitioning from one part of the defence workforce ecosystem to another bring important transferable skills, clearances and situational awareness, reducing 'ramp up' time and enabling lateral moves

For this potential to be realised, several barriers need to be addressed, such as building trust, simplifying end-to-end processes, establishing clear accountability, and resolving legal and commercial issues. This 'optimised' workforce ecosystem would be enabled by shared skills taxonomies, defined career pathways, and sustainable plans covering pay, pensions, and health and safety. Other enablers include secure sharing of skills supply and demand data as well as coordination for effective workforce planning.



Regional growth alliances

Figure 5 - Team Plymouth skills partnership (Deloitte interpretation)

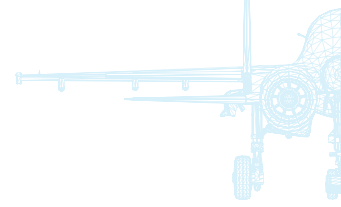


Skills partnerships at a regional level, exemplified by the “Team Plymouth” initiative, are examples of “whole-of-society” approaches to coordinating training provision with local administration and industry needs.²⁴ The “Team Plymouth” strategic partnership is a collaboration involving the defence industry, academia, and local and national government, aimed at leveraging significant investment in Plymouth’s defence sector to drive economic growth and innovation across the city and wider region.²⁶

These partnerships bring the MOD, education providers, defence firms, and local authorities together to consider the specific issues in each defence cluster, and what actions would work in each. This includes considering the wider enablers outside skills that support the industry such as local planning for infrastructure and housing to consider how that can support industries, including defence.²⁵

“In our region, we cannot employ additional workers unless more houses, schools and hospitals are built to support the sector. If we want to leverage defence investment to unlock growth, it requires a whole society approach”.
Defence prime

Recently, HM Treasury introduced the concept of “place-based business cases” as part of its updated guidance for appraising the value of government projects. These could play a key role in helping policy makers ensure funding supports defence sector clusters, whether that is through transport to address labour immobility, or education and skills to strengthen links between industry and training providers.



Local and specialised skills academies

Specialised skills academies are being set up to create stronger industry partnerships, developing curricula aligned with employer needs. They plan to offer targeted, hands-on training and practical experience, often through apprenticeships. For instance, Weston College's Aerospace Skills Academy, developed at Airbus' Filton site, is aiming to provide industry-led education and real-world exposure to equip future engineers and technicians for aerospace, defence, and advanced manufacturing roles.²⁶

This close collaboration can ensure that training providers can more easily bring industry experts into the classroom, minimising the impact of constantly changing skills requirements driven by technological changes. This approach could address issues of having a talent pipeline that is misaligned with the latest needs of the industry, by supporting faster entry of talent into the sector workforce - predominantly for the local population.

The following section lays out the potential local economic benefits that could be realised from supporting defence skills through initiatives such as those laid out in this section.



4. Illustrating the local economic benefits from supporting skills

What happens if initiatives address skills shortages and gaps in a prominent defence cluster?

Building on the analysis of the defence talent pipeline presented in previous sections, this part of the report introduces new analysis. It illustrates the potential economic benefits of overcoming skills challenges, through a scenario representing success in a set of initiatives in line with those previously outlined. The objective is to highlight how action and collaboration to address skills in one region can significantly raise employment outcomes and generate measurable economic gains.

Deloitte research estimates there could be over 1,000 vacancies a year in South West Aerospace firms – addressing these could provide direct and wider benefits.

For this analysis, we focused on the South West aerospace cluster as a test case. This cluster is a major hub for the UK's aerospace industry, employing approximately 18,000 people.²⁷ The core methodology, which captures incremental earnings, recruitment cost reductions, productivity gains, and increased R&D returns, is transferable across other regions. It demonstrates the potential scale and types of benefits that coordinated, multi-channel skills initiatives could deliver in regional industries.

Summary of approach

Our methodology draws on evidence regarding the impacts of wage uplifts and productivity gains from labour market interventions. It utilises open-source data on vacancies and wider research on skills gaps and the economy, and an approach consistent with HM Treasury's 'Green Book' appraisal guidance. The study assesses the potential effects of workforce interventions across three distinct pathways:

- **New entrants / early-career participants:** Students beginning their professional journey.
- **Upskilling participants:** Existing employees receiving additional training while remaining in their current role or organisation.
- **Reskilling participants:** Individuals transitioning from other occupations, returning from unemployment, or inactive participation in the labour market, into targeted occupations.

Direct benefits considered include incremental earnings for new entrants, upskilled, and reskilled workers, alongside recruitment-cost savings and firm-level output gains. These were then processed through a regional input-output framework to capture indirect and induced effects. These effects encompass the economic activities generated within the supply chain as businesses purchase goods and services from other businesses, and the subsequent economic value generated by household spending.

This was considered alongside wider potential societal impacts from enhanced private and social returns to research and development. This comprehensive approach allowed us to determine net incremental impacts for a local area, translating employee- and firm-level gains into broader economic outcomes, including additional Gross Value Added (GVA, analogous to GDP) and job impacts. Further detailed methodological information is available in the Annex.

Results

Our modelling estimates that addressing the identified skills shortages could generate approximately £890 million of additional Gross Value Added (GVA), support 2,289 Full-Time Equivalent (FTE, which is one year of full employment for an individual) jobs, and unlock £45 million in private and social returns to R&D for the Bristol area over the next 10 years. These results are detailed in Figure 6.

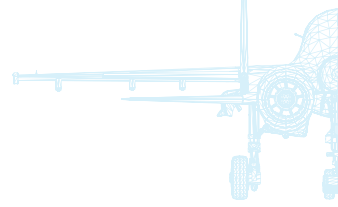
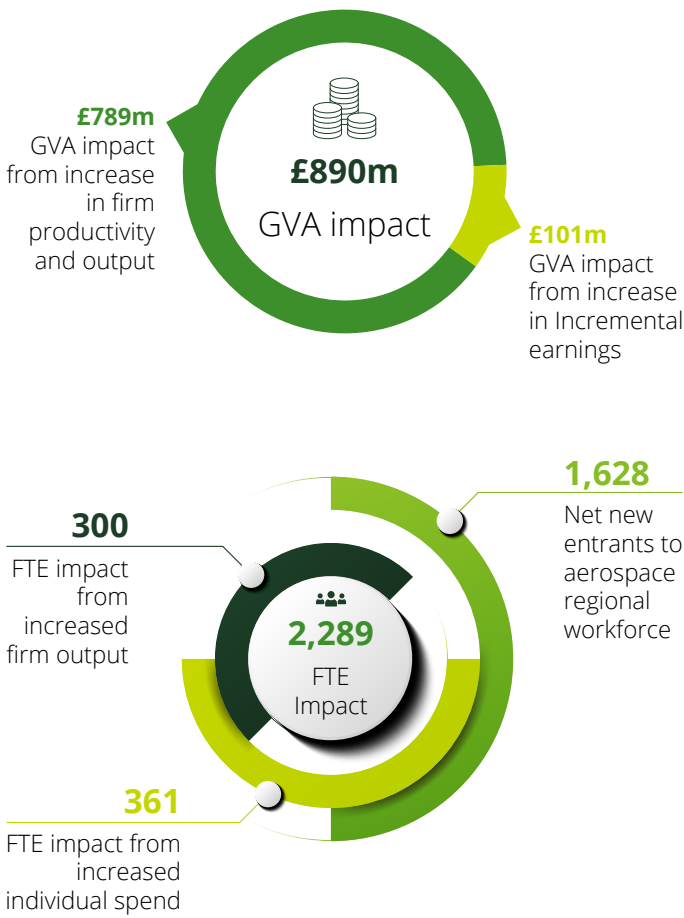


Figure 6 - Socioeconomic impacts of skills intervention to regional economy (10 year)



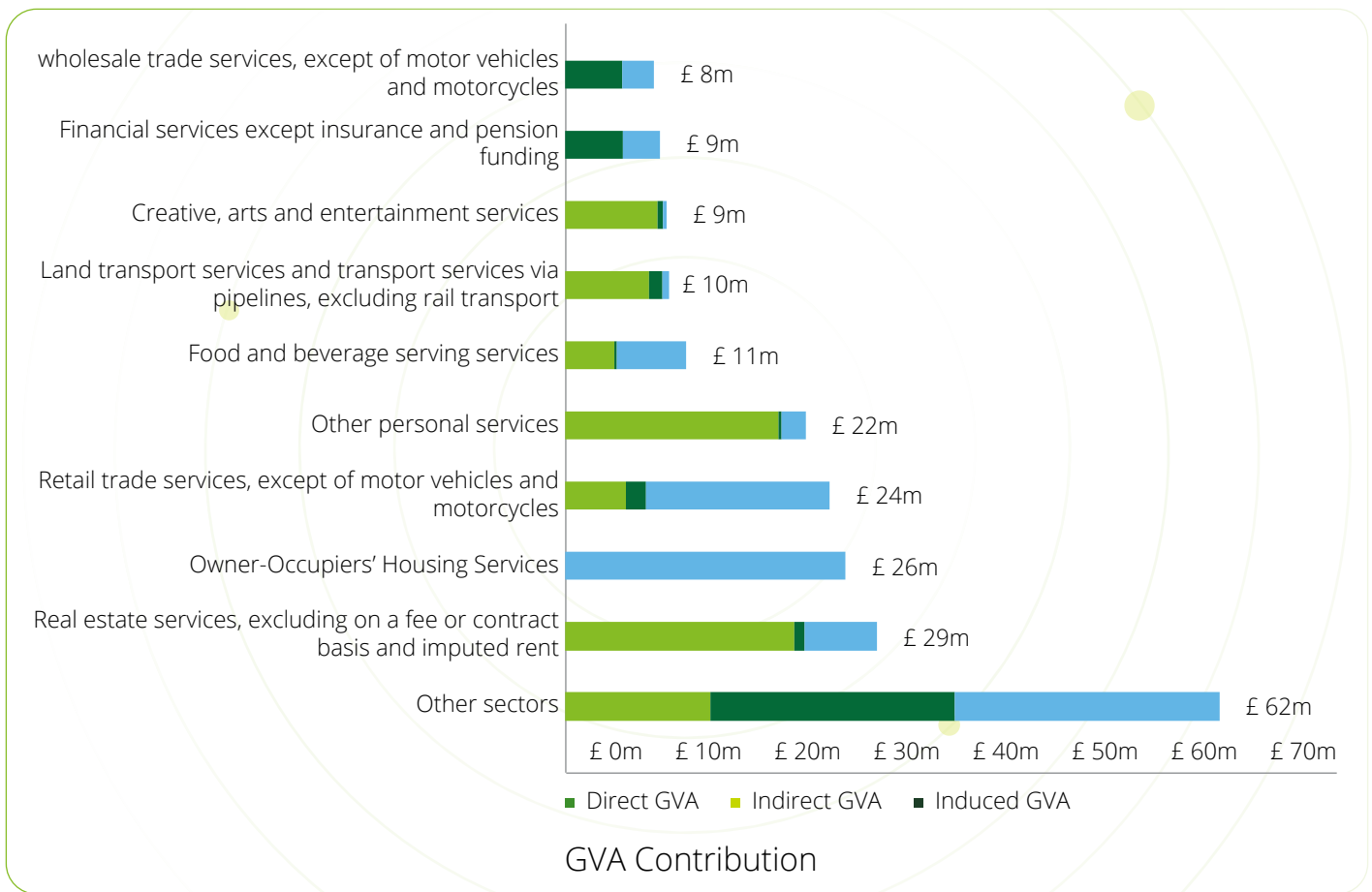
The coordinated skills intervention is projected to generate a total GVA impact of £890 million over 10 years (present value). Of this, £680 million stems directly from the aerospace sector, with the remaining £209 million spread across a range of service industries, as illustrated in Figure 7.

- **Direct impact:** The economic activity accruing directly within the businesses where the spend or intervention occurs, excluding deadweight and displacement.
- **Indirect impact:** The economic activity that occurs within the supply chain of the directly affected businesses.
- **Induced impact:** The broader economic activity that results from the spending of income earned from both direct and indirect activities.

The largest sector-specific contributions to the wider economy include real-estate services (£29 million), owner-occupiers' housing (£26 million), retail trade services (£24 million), other personal services (£22 million), and food-and-beverage serving services (£11 million). This distribution highlights that while core aerospace activity dominates the overall impact, significant economic value is also generated across the wider 'everyday' economy.



Figure 7 - The “everyday” economy benefit - GVA contribution by sector and type over 10 years (Net Present Value)



Key analytical considerations

While these results might appear relatively modest compared to the scale of planned national defence investment discussed earlier in the report, there are two key considerations for understanding their true scale.

First, this analysis primarily captures the current, rather than future, "size of the prize." With an expected growth in demand in the coming years, current skills shortages are expected to intensify, thereby increasing the potential economic gains from addressing them. As the UK plans to significantly increase its defence capability, failing to address these skills shortages risks substantial value creation and jobs leaking outside the UK, representing a significant missed opportunity for domestic growth and resilience.

Second, this analysis represents only a targeted test case within a single industry and region. When scaled across multiple sectors and regions facing similar challenges, the wider benefits to the UK economy could be substantial. The interlinked nature of skills and supply chains means that while defence production might occur in one region, activities and their associated economic benefits are distributed across the country. While this report uses a regional input-output framework to capture local impacts, the true value unlocked extends far beyond the immediate cluster.



5. Key strategic priorities

There are clear economic opportunities to be realised from supporting defence skills, alongside achieving national strategic defence aims. To realise the opportunities, there is a clear need for collaboration across the skills ecosystem, to help skills supply to meet demand, and adapt more quickly in response to the long-term uncertainty facing the defence sector.

Improved collaboration and information sharing is needed within and across national and local government, and between the public sector, education providers, academic institutions, industry bodies, and suppliers - both defence primes and SMEs. Support tailored to each defence industrial cluster across the UK, through integrated national, regional and local action, could unlock significant economic benefits.

National strategic priorities

These strategic priorities involve policy, funding, and overarching frameworks that provide direction and support for local and regional efforts, often led by central government and the MOD and wider national bodies.

- **Implement a National Skills Plan for the defence sector:** This could be like the Nuclear Skills Plan, uniting government, industry, and education. Such plans could provide strategic oversight and resolve information asymmetry, including through standardised skills taxonomies. This would ideally include regular skills audits and demand forecasting to identify skill gaps and emerging needs, informing targeted educational and training programmes. This could also follow the upcoming Defence Investment Plan (DIP), which is yet to be published. It could provide clear demand signals, supporting the industry's ability to plan and invest in workforce development.²⁸
- **"Whole force" workforce ecosystem:** Investment in a cohesive ecosystem should be considered, integrating serving personnel, reservists, civil servants, contractors, and the defence industrial workforce. This may require national policy to address collaboration barriers, foster dialogue, develop shared skills taxonomies, invest in joint programmes, and implement secure data sharing. Defence firms could also consider how they encourage "Zig Zag" careers across the ecosystem, to attract and retain a wider labour talent pool. Success would deliver benefits to organisations, individuals and the wider defence system through enhanced interoperability, transparency, agility and flexibility.²²

Regional strategic priorities

These strategic priorities address coordination and collaboration across multiple local entities within a defined geographical area, often involving local government and regional economic bodies.

- **Foster regional growth alliances:** Based on the "Team Plymouth" model, this would bring together education, defence firms, local authorities and the MOD. These alliances could coordinate training, align industry pathways, and address infrastructure and housing to attract and retain talent.
- **Bring SMEs into regional growth alliances:** This would be to develop regional strategies to support vital defence supply chain SMEs in talent competition. This could encompass shared talent pools, regional training access, and HR and brand recognition support.
- **Leverage "place-based" business cases:** These could be used to align infrastructure planning with the investment needed to support the defence industry and its associated social and economic value. Central government could work with regional and devolved administrations to consider how to support defence industry through this new type of 'portfolio' business case.

Local strategic priorities

These strategic priorities focus on initiatives that can be implemented at the community or individual institutional level, including direct engagement from local businesses, local government and educational providers.

- **Establish and expand specialised technical academies across regional defence clusters with strong local defence industry partnerships:** Skills gaps are variable across regions, and curricula needs to align with local employer needs, especially in STEM, AI, and Cyber Security. Industry should work closely with skills providers on this, and support in offering work placements integrated with educational programmes. This could include FE skills covering high-tempo manufacturing and craft skills, through to degree level disciplines.
- **For the largest potential benefit, the academy model may be effectively combined with outreach programmes:** Firms could work with skills providers to support outreach to potential candidates, ideally targeted at areas with high levels of deprivation, to raise awareness of defence career opportunities and work to attract a diverse talent pool.

In summary, the case for action to support defence skills is clear – to enhance sovereign defence capabilities, whilst delivering substantial economic benefits. Through targeted national, regional and local coordination, the UK can support national security and realise the wider economic opportunity from defence.

Technical annex

Analytical approach

The economic impacts of overcoming skills challenges have been quantified across four distinct dimensions: (1) employees and workforce participants, capturing incremental earnings and consumption effects; (2) firms and the aerospace industry, reflecting recruitment efficiencies, productivity gains, and private returns to R&D; (3) society at large, measuring social returns from increased R&D activity; and (4) the regional economy, where both demand-side (consumption effects)

and supply-side (firm-level output and innovation) effects are modelled through an input-output framework. Each dimension is evaluated on a net incremental basis against a baseline scenario, seeking to report benefits as the additional value generated by the interventions in the scenario. The results presented in this study are attributable to the regional economy, South West of England cluster.

Benefits to employees / workforce participants



The scenario represents measurable income gains for two target groups:

- **New entrants:** Incremental earnings are captured by estimating the net increase in defence aerospace sector hires beyond the baseline, accounting for existing employment levels and course completion rates.
- **Existing workers:** Wage premiums are derived from the additional upskilling and reskilling net of any training that would have occurred without the intervention and of normal wage progression trends.

These income gains are converted into consumption impacts by mapping earnings to relevant expenditure categories.

Benefits to firms / aerospace industry



A more skilled and better aligned workforce generates both cost savings and productivity gains by:

- Helping firms to cut hiring costs and reduce dependence on external recruiters.
- Supporting an increase in worker productivity.
- Facilitating the conditions for enhanced R&D activity.

Collectively, these cost savings, productivity enhancements, and increased innovation capacity generate higher output and innovation benefits.

Benefits to society



Beyond direct firm and employee effects, the intervention creates spill over value in the form of social returns to R&D – knowledge diffusion across supply chains, and cross sector technology transfer from enhanced R&D activity

Benefits to the region



An input output model, with Gloucestershire, Wiltshire and Bristol/Bath area specific multipliers, was used to quantify benefits to employees and benefits to firms in the aerospace industry:

- **Demand side:** Higher household earnings boost local consumption, generating additional GVA.
- **Supply side:** Enhanced workforce skills raise firm productivity and R&D activity, expanding firm level output.





Key assumptions

The modelling provides a structured and evidence-based estimate of the potential benefits associated with defence skills initiatives. However there are some ambiguities in defence industry, skills, and economic data that have required the adoption of assumptions and simplifications in the analysis:

- The analysis draws on literature-based benchmarks and proxy indicators for a range of assumptions such as wage uplifts, productivity improvements, increased R&D activity and labour market responsiveness, which may not precisely capture regional specificities or defence-sector nuances.
- The analysis builds on the current skills gap in the sector and does not fully account for how future demand may evolve or diverge from present projections.
- The analysis does not fully capture wider system interactions, such as supply chain constraints, institutional capacity, or feedback effects between skills, innovation, and investment.
- The long-term ecosystem impacts and interactions with other sectors are inherently difficult to quantify and should be interpreted as indicative rather than predictive, with results best understood as directional estimates to inform decision-making.

Overall, Deloitte analysis provides an evidence-based estimate of the potential economic benefits from addressing skills gaps and shortages in defence. While acknowledging the inherent complexities and necessary assumptions in such modelling, the findings offer estimates that could prove useful for making the case for a range of skills initiatives within the South West cluster and beyond.



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