Securing Scotland's Future: Defence Skills and Jobs – SME private roundtable

On 11 February 2026, the Committee held a private roundtable with representatives from five Scottish SMEs working in the defence sector, as part of its inquiry into Securing Scotland's Future¿ Defence Skills and Jobs.

This note summaries some of the main points discussed.

Skills

Many participants expressed concern about shortages in practical, manual and technical skills in the defence industry, particularly welding and other hands-on engineering roles. It was noted that while demand for these skills is rising, the available workforce is too small. The industry's historic 'feast-and-famine' of work, and a lack of investment in skills and apprenticeships in the 1990s, was suggested as the cause of a lost generation of workers. Participants said this can be illustrated in the composition of the current workforce, which has a large cohort of young workers and apprentices and an older demographic, but is missing the group in between.

Participants reported a substantial increase in demand for welders across both the civil and defence supply chains and stressed the importance of maintaining sovereign industrial capabilities in strategically important sectors. Concerns were raised about gaps in training provision, with some participants suggesting that prime contractors should be required to invest directly in skills development as part of MOD contracts. It was argued that, without a long-term and predictable government strategy, businesses are reluctant to invest at the scale required to address workforce shortages

In terms of competition from other sectors, it was noted that other sectors, such as renewable energy, are able to pay 'top dollar' salaries. As the energy sector requires many of the key, but transferable, skills required in the defence sector, such as welding, competing with these higher salaries was described as a challenge.

Participants noted that, while the supply of skilled graduates is strong, retaining talent remains a challenge. Scotland was described as producing high-quality graduates and a strong local skills base, but many leave the area after completing their studies. SMEs were said to face particular difficulties competing for talent, as larger employers elsewhere in the UK can often offer higher salaries and greater job security. Participants also highlighted cashflow pressures, noting that delays between agreeing contracts with the Ministry of Defence and receiving payment can exacerbate recruitment and retention challenges. Participants highlighted concerns about the lack of visible opportunities and predictable long-term career pathways in Scotland, which can contribute to graduate outflow.

Attractiveness of the sector

Participants emphasised how desirable it is to live in Scotland but noted that many workers commute or relocate elsewhere in the UK to access higher salaries. In the defence sector, this challenge can be more acute because much of the work must be carried out in person due to security requirements, limiting opportunities for remote working and increasing the likelihood that workers move away.

The role of stronger links between universities and the defence sector in supporting recruitment was also discussed. Participants noted that engineering students do not always consider defence as a career option and pointed to examples of universities engaging successfully with the sector. Internships were highlighted as a particularly effective route for SMEs, which often lack the resources to support long-term apprenticeships. University-funded summer internships were described as a relatively low-cost way to develop skills, build professional networks in the Scottish SME sector which may make them more likely to stay there after graduating, while also providing businesses with access to additional talent.

Experiences varied across companies. Some participants reported strong interest from students, including from across Europe, and suggested that closer links between the space and defence sectors could help broaden recruitment pathways. Opportunities to build connections through the reserves were also mentioned as a potential way to strengthen understanding and collaboration between the sectors.

Participants also commented on wider perceptions of the defence industry, saying that negative attitudes towards the sector can create challenges for recruitment and workforce development. Some suggested there remains a cultural tendency for people working in defence to be reluctant to speak openly about their role, which may undermine efforts to attract new entrants to the industry.

Institutional caution on defence

Several participants described experiences of institutions being reluctant to work with SMEs involved in the defence sector. One participant noted that financial auditors had advised removing references to defence-related work from company materials. Another described a recent experience of being "debanked", which they believed was linked to their company's connections to the defence industry despite being classified as a security business. Participants suggested that links to the defence sector, particularly weapons manufacturing, can be viewed as posing reputational risks for private organisations and may attract public opposition. In discussing possible solutions, one participant suggested that the UK Government could consider incentives for banks to work with defence companies, given the sector's contribution to national security.

Participants also raised concerns about the stance of the Scottish Government and arm's-length bodies such as Scottish Enterprise. It was argued that this had contributed to some prime contractors being viewed as "undesirable", with SMEs facing similar perceptions by association. One participant further explained that their company had declined projects related to the war effort in Ukraine because of concerns that this could jeopardise important funding from Scottish Enterprise. Participants generally agreed that these perceptions remain a significant challenge and expressed the view that Scotland can be a difficult environment in which to operate a defence business.

Frameworks and opportunities

Participants highlighted the complexity of joining procurement frameworks, each with its own compliance requirements. One participant noted that some frameworks carry high public liability insurance requirements, explaining that their company had spent around £25,000 solely to secure the level of insurance needed to participate. They described this as a significant speculative cost, with no guarantee of securing work in return.

Participants argued that, while procurement frameworks can provide valuable routes into the defence sector, they are not sufficient on their own to sustain SME growth. It was suggested that, despite increased political attention and announcements relating to defence investment, many SMEs have yet to see the benefits translate into business opportunities.

A number of participants highlighted the difficulty that small teams face in identifying, monitoring and responding to the large number of available frameworks and procurement opportunities. SMEs were described as being at a disadvantage due to limited internal capacity to track opportunities, engage with MOD stakeholders and manage often complex bidding and compliance requirements. Long procurement cycles and the costs associated with bidding for work were identified as particular challenges.

The participant also argued that framework structures can tend to favour larger prime contractors before opportunities reach smaller companies. Although some frameworks include commitments to direct a proportion of work towards SMEs, they suggested this does not necessarily ensure that specialist firms are matched with suitable niche requirements. More broadly, participants emphasised the cost and administrative burden of securing and maintaining the requirements needed to participate in multiple frameworks, and suggested that greater support for SMEs, particularly in meeting insurance obligations, would be welcome.

Some participants called for greater business support for SMEs navigating defence procurement, particularly in relation to insurance, compliance requirements and understanding available opportunities. Some suggested that a dedicated body or account-management function with expertise in SME needs, emerging technologies and defence procurement could help firms engage more effectively with the MOD and wider supply chain.

Addressing the slow pace of funding

Participants highlighted the difficulties SMEs face as a result of delays in receiving MOD funding. One participant described how their company had won a contract worth nearly £4 million, but it took two years for the money to reach the business. During that period, the start-up went bankrupt and was only saved by external investment at "the eleventh hour". By the time the funding arrived, the company's financial position had changed substantially, meaning that instead of being able to co-invest alongside MOD funding, it was focused on rebuilding its finances.

Participants argued that MOD funding should be provided earlier in the process to reduce the risk of promising companies failing while awaiting contract payments. It was suggested that where the MOD identifies a technology of interest, support should be provided directly through existing innovation programmes rather than requiring SMEs to secure external investment first. Others echoed concerns about the challenges of securing funding and stressed the importance of getting money into SMEs more quickly.

Participants also questioned whether the current approach to qualifying opportunities creates unnecessary costs within the system. It was suggested that, rather than directing funding primarily through prime contractors and multiple layers of subcontracting, greater value for money could be achieved by reducing barriers to direct SME participation. While participants did not advocate removing qualification requirements altogether, they argued that requirements should be proportionate and not prohibitively burdensome for smaller firms. Similar views were expressed regarding innovation funding, with participants suggesting that directing more investment towards SMEs could deliver stronger local economic benefits and greater returns, given their tendency to recruit locally.

It was also argued that government should be more willing to act as an early customer for innovative products, even where technologies are not yet fully mature. Participants suggested that the purchase of even a small number of units at an earlier stage of development could provide a strong signal of confidence, helping companies attract private investment and progress through testing and evaluation towards commercialisation. Several participants argued that this would require a greater willingness within government to accept risk, recognising that not every innovation will succeed but that lessons from unsuccessful projects can support wider innovation across the sector.

When questioned on the new Defence Office for Small Business Growth, participants said that the Scottish-based launch was a positive signal to the sector, and the intention to increase defence spending among SMEs was welcomed. However, it was noted that the office had only recently been established and that it was too early to assess its impact. Some participants also expressed uncertainty about the benefits it would ultimately deliver, noting that similar initiatives had been attempted previously. Participants nevertheless welcomed initiatives aimed at helping innovative firms access defence opportunities and accelerating procurement processes.

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