



Intelligence and Security
Committee
Annual Report 2005–2006

Chairman:
The Rt. Hon. Paul Murphy, MP

Intelligence Services Act 1994
Chapter 13



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Presented to Parliament by the Prime Minister
by Command of Her Majesty
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From: The Chairman, The Rt. Hon. Paul Murphy, MP

**INTELLIGENCE AND SECURITY
COMMITTEE**

70 Whitehall
London SW1A 2AS

ISC 158/2006

20 June 2006

Rt. Hon. Tony Blair, MP
Prime Minister
10 Downing Street
London SW1A 2AA

Dear Tony,

I enclose the Intelligence and Security Committee's Annual Report for 2005–2006. We have already produced the Report on the 7 July bombings this year.

In producing the Annual Report, we have examined the three intelligence and security Agencies' expenditure, administration and policies, as well as a number of other Agency-related matters, and we also report to you on the wider intelligence community.

*Yours ever,
Paul*

PAUL MURPHY

THE INTELLIGENCE AND SECURITY COMMITTEE

The Rt. Hon. Paul Murphy, MP (Chair)

The Rt. Hon. Michael Ancram QC, MP
(from 26 January 2006)

The Rt. Hon. Alan Beith, MP

The Rt. Hon. George Howarth, MP

Mr Richard Ottaway, MP

Ms Dari Taylor, MP

The Rt. Hon. James Arbuthnot, MP
(until 25 January 2006)

Mr Ben Chapman, MP

The Rt. Hon. Michael Mates, MP

Baroness Ramsay of Cartvale

The Intelligence and Security Committee (ISC) was established by the Intelligence Services Act 1994 to examine the policy, administration and expenditure of the Security Service, Secret Intelligence Service (SIS) and Government Communications Headquarters (GCHQ). The Committee has developed its oversight remit, with the Government's agreement, to include examination of the work of the Joint Intelligence Committee (JIC) and the Intelligence and Security Secretariat, which includes the Assessments Staff in the Cabinet Office. The Committee also takes evidence from the Defence Intelligence Staff (DIS), part of the Ministry of Defence (MOD), which assists the Committee in respect of work within the Committee's remit.

The Prime Minister, in consultation with the leaders of the two main opposition parties, appoints the ISC members. The Committee reports directly to the Prime Minister, and through him to Parliament, by the publication of the Committee's reports.

The members are notified under the Official Secrets Act 1989 and, as such, operate within 'the ring of secrecy'. The Committee sees significant amounts of classified material in carrying out its duties and it takes evidence from Cabinet Ministers and senior officials – all of which is used to formulate its reports.

The Committee is required by the Intelligence Services Act to produce an Annual Report on the discharge of its functions, which the Prime Minister is required to lay before Parliament. The Committee can produce other reports on specific topics. When laying a Report before Parliament, the Prime Minister, in consultation with the Committee, excludes any parts of the Report (indicated by the *** in the text) that would be prejudicial to the continuing discharge of the functions of the three intelligence and security Agencies. To date, no material has been excluded without the Committee's consent.

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LIST OF ABBREVIATIONS

BBCM	BBC Monitoring
CBRN	Chemical, Biological, Radiological and Nuclear (weapons)
CDI	Chief of Defence Intelligence
CESG	Communications Electronics Security Group
CNI	Critical National Infrastructure
CONTEST	UK Counter-Terrorism Strategy
CSI	Ministerial Committee on the Intelligence Services
CTG	Counter-Terrorism Group
DIS	Defence Intelligence Staff
EYF	End-year Flexibility
FCO	Foreign and Commonwealth Office
GCHQ	Government Communications Headquarters
HUMINT	Human (sourced) Intelligence
IA	Information Assurance
ICT	International Counter-Terrorism
ISC	Intelligence and Security Committee
IT	Information Technology
JARIC	Joint Air Reconnaissance Intelligence Centre
JIC	Joint Intelligence Committee
JTAC	Joint Terrorism Analysis Centre
MOD	Ministry of Defence
NAO	National Audit Office
NIO	Northern Ireland Office
NISCC	National Infrastructure Security Co-ordination Centre

NSAC	National Security Advice Centre
OGC	Office of Government Commerce
OSC	Open Source Center (USA)
PBR	Pre-Budget Report
PCSPS	Principal Civil Service Pension Scheme
PHIA	Professional Head of Intelligence Analysis
PSNI	Police Service of Northern Ireland
PSX	Cabinet Committee on Public Services and Public Expenditure
SCS	Senior Civil Service
SIA	Single Intelligence Account
SIC	Security and Intelligence Co-ordinator
SIGINT	Signals (sourced) Intelligence
SIGMod	SIGINT Modernisation Programme
SIS	Secret Intelligence Service
SitCen	Joint EU Situation Centre
SOCA	Serious Organised Crime Agency
SR2004	Spending Review 2004
SR2007	Spending Review 2007
WMD	Weapons of Mass Destruction

INTRODUCTION

1. The period since the Committee's appointment in July 2005 has been one of considerable pressure for the security and intelligence Agencies. The attacks in London in July 2005 shocked the country. Resources have rightly been diverted to investigate the bombings, to review systems, and to learn lessons for the future. Priorities have changed as a result, with subsequent impact on resource allocation. The diversion of resources has, of necessity, overshadowed much of the Agencies' other work, but it is to their credit that they have continued work on a number of fronts in what have been difficult times.

2. This is the Committee's first Annual Report since its appointment on 12 July 2005. We have taken evidence from the whole of the UK intelligence community, with a focus on our statutory role of examining the expenditure, administration and policy of the three intelligence and security Agencies. In addition to this work, we have completed a special report on the London terrorist attacks on 7 July 2005.¹ That was published on 11 May 2006, and occupied the greater part of the year, therefore reducing the time available to look at other areas.

3. The Committee has nevertheless taken evidence on and examined the following topics:

- the expenditure, administration and policy of the Security Service, Secret Intelligence Service (SIS) and Government Communications Headquarters (GCHQ);
- the role of the Security and Intelligence Co-ordinator (SIC);
- the Assessments Staff;
- the Defence Intelligence Staff (DIS);
- the implementation of the Butler Review's recommendations; and
- the SCOPE programme.

4. In the course of our work we have taken evidence from the Foreign, Home and Defence Secretaries, as well as the Cabinet Secretary, the SIC, the heads of the Agencies, the Chief of Defence Intelligence (CDI) and other senior officials. A full list of witnesses is given at Annex A.

5. Within the UK, we visited the three Agency headquarters, SIS training and technical facilities, DIS, the SCOPE Service Operations Centre, and a Security Service regional station. We also visited UK intelligence personnel based in the USA

¹ Cm 6785.

and in Australia. Additionally, the Committee discussed oversight matters with ministers, parliamentarians and senior officials from the USA, Australia, Thailand, Sweden, France, Spain, Poland, Canada and Singapore.

THE THREAT

6. The UK faces a range of threats to its security:
 - There is a serious and sustained threat from international terrorism to the UK and its interests overseas, the most significant being from Al Qaida and associated networks.
 - Dissident groups remain active in Northern Ireland and continue to pose a threat, both to Northern Ireland and to the UK mainland.
 - There is increasing international tension over Iran's nuclear programme and backing of groups such as the Lebanese Hezbollah. There is a possibility of an increased threat to UK interests from Iranian state-sponsored terrorism should the diplomatic situation deteriorate.
 - The proliferation of weapons of mass destruction (WMD) is another potential danger to the UK's security.
 - The threat from espionage remains, despite the collapse of the Soviet Union in the early 1990s. Several countries are actively seeking British information and material to advance their own military, technological, political and economic programmes.

THE INTELLIGENCE COMMUNITY

The Security and Intelligence Co-ordinator

7. There have been a number of changes to the SIC and Joint Intelligence Committee (JIC) Chairman posts over the past year. Sir David Omand retired as SIC in April 2005 and was replaced by Bill Jeffrey from the Home Office. William Ehrman moved on from his post as JIC Chairman in August 2005 to take up a new posting as HM Ambassador to China. In September 2005, the Cabinet Secretary wrote to inform us that Bill Jeffrey was to succeed Sir Kevin Tebbit as Permanent Secretary at the Ministry of Defence and that Sir Richard Mottram was to take up the post of SIC and assume, in addition, the role of Chairman of the JIC.

8. We took evidence on the rationale for the amalgamation of these two posts. The Cabinet Secretary told us that the decision was influenced by a recommendation in

Lord Butler's *Review of Intelligence on Weapons of Mass Destruction* which said that the JIC Chairman should be:

*“someone with experience of dealing with Ministers in a very senior role, and who is demonstrably beyond influence, and thus probably in his last post”.*²

The Cabinet Secretary argued that combining the JIC Chairman post with that of SIC would add weight and authority to the JIC post and establish the JIC Chairman as senior among colleagues at the JIC table, including the heads of the Agencies.

9. The Committee has some concerns about the change: first, that combined with the responsibilities of the SIC post, the JIC Chairman role, which was a full-time post, may receive insufficient attention; and second, that the responsibilities and interests of the SIC may clash with those of the JIC Chairman. We believe this arises from the SIC's responsibility to represent the views and interests of the intelligence community to the Prime Minister and the JIC Chairman's responsibility to provide independent, unbiased advice to the Prime Minister. We are concerned that the JIC Chairman's impartiality may conflict with his interests as co-ordinator of the intelligence community.

10. The Cabinet Secretary argued that he could appoint a person of sufficient intellectual rigour and strength of character such that potential conflicts would not arise:

*“An individual can internalise [such] conflicts and should be able to sort [them] out. That is why you need someone who is very strong and able to deliver very clear messages.”*³

He felt that, rather than being constrained by the need to fulfil specific requirements relating to experience, as described in the Butler Review, the most important thing was to get the best person for the job. He added that there was an issue about the level of support that the new combined post would require, but that there were clear advantages to the amalgamation. He said he had an open mind about the new post and intended to review in due course whether joining the two functions had been successful. Regarding the role of the Cabinet Secretary in intelligence matters, he said that the separation of the posts of Cabinet Secretary and Security and Intelligence Co-ordinator continued to be appropriate. With the demands arising from terrorism in a post 9/11 world, he felt it would not be possible to do both jobs. Nonetheless, he expressed his intention to be more involved in intelligence issues than his predecessor. We welcome this intention.

² HC 898, paragraph 597.

³ Oral evidence – Sir Gus O'Donnell, 1 November 2005.

11. We asked Sir Richard Mottram, the new SIC/JIC Chairman, for his views on the amalgamation. He said there was a substantial degree of overlap between the two posts, so it was not a matter of combining two separate portfolios but two overlapping sets of work. In the past, both the Chairman of the JIC and the SIC attended JIC meetings, both would receive delegations from foreign governments, and both would maintain a dialogue with the Agency heads about threats.

12. We believe that the value the JIC Chairman provides as an independent arbiter of intelligence analysis has decreased as a result of the merger, and we do not consider that the amalgamation is consistent with the core message of the Butler Review, which stressed the need to strengthen opportunity for challenge and dissent at all levels across the intelligence community. We will monitor how the merged Security and Intelligence Co-ordinator and JIC Chairman post develops.

The Joint Intelligence Committee and Assessments Staff

13. The central intelligence machinery has undergone significant changes over the past year. There has been considerable change and growth within the Assessments Staff as a result of the Butler Review's recommendations. These developments will be covered in more detail in paragraphs 72 to 80.

14. We took evidence from the new JIC Chairman, Sir Richard Mottram, on some of the issues arising from the *Annual Review by the JIC Chairman: 2004–2005*, and on the new statement of the UK's *Requirements and Priorities for Secret Intelligence 2006–2009*, which was endorsed by Ministers in January 2006.⁴ This statement sets out the UK's requirements for secret intelligence in the areas of national security, defence, foreign policy, economic well-being and the prevention of serious crime. It is a tasking document for the Agencies – particularly GCHQ and SIS, whose primary function is intelligence collection. It is also now intended as guidance on the JIC's priorities for others involved in the analysis and assessment of intelligence, such as the Defence Intelligence Staff (DIS).

15. The Committee has also taken evidence from senior figures within the intelligence and security community on the threats and challenges of the future. We were told that, while there will be a continuing need to generate high-quality intelligence to aid operations and assessments on international terrorism, it is also likely that there will be an increase in strategic priorities relating to international political and military issues. In terms of intelligence methodology, advances in communications technology will bring both new challenges and new opportunities.

⁴ ***

The value of open source information has also been recognised by the community, and work is under way to enhance the use of open source material alongside other sources – for example, through the Open Source Joint Working Group (a cross-community group of open source specialists that includes representatives from the Agencies) and *** in the Security Service.⁵ These challenges are set against the background of extra resources made available to the Agencies (paragraphs 31 and 32).

16. In its 2004–2005 Annual Report, the Committee noted that the *Annual Review by the JIC Chairman: 2003–2004* had not been circulated to Ministers until many months after its completion.⁶ We recommended that, in future, Ministers should see the Annual Review within two months of its completion to enable it to be taken into account before the following year’s intelligence requirements and priorities are set. In its response, the Government said it would ensure that the Annual Review would be sent to Ministers in sufficient time in the future.⁷ **We are pleased to note that this year the *Annual Review by the JIC Chairman: 2004–2005* was circulated to Ministers within two months of its completion.**

The Defence Intelligence Staff

17. The Committee received briefings and took evidence from DIS, covering its intelligence collection and analysis activities. The Chief of Defence Intelligence (CDI), Air Marshal Stuart Peach, is responsible within the Ministry of Defence (MOD) for intelligence policy, collection and analysis – although not all the intelligence elements within the Armed Forces are under his command. This is because some military intelligence formations are under the operational command of deployed commanders, and other military personnel are controlled directly by GCHQ under long-standing agreements. DIS carries out its work based on requirements and priorities issued by the Chief of Defence Staff and the Permanent Under-Secretary of MOD. Its primary customers are within MOD, and for that reason DIS priorities differ slightly from those of the Agencies.

18. In its 2004–2005 Annual Report, the Committee noted that DIS was beginning to expand its human intelligence (HUMINT) collection capability and its handling of imagery data through the introduction of new technology.⁸ Since then, the development of the Defence HUMINT Unit has set a standard for this work that we have been told is highly regarded by partner nations. Provision of imagery product

⁵ ‘Open source’ information is information that is openly available and, unlike intelligence, does not have to be obtained covertly. We comment further on the work to develop open source information channels in paragraphs 90 to 96.

⁶ Cm 6510.

⁷ Cm 6515.

⁸ Cm 6510.

continues to be a unique way in which DIS contributes to the work of the Agencies, and the new technology noted last year is now fully operational, enabling quicker transfer of imagery-based product to customers.

19. We also took evidence from DIS on its relationship with the Agencies and how this has improved since the Butler Review.⁹ DIS has an ‘all-source’ collection and analysis capability which is not limited to conventional methods of signals intelligence (SIGINT) or HUMINT. Because of this, it can offer expertise on a wide range of subjects, including the industrial military capabilities of certain states, their capacity for rapid expansion, and their links to other nations’ industrial capabilities. This intelligence is very useful to the work of the Agencies because it often fills significant gaps in their coverage of a particular region. Increasing the Agencies’ knowledge through different intelligence-gathering methods is a key benefit of interchange between them and DIS, and, for this reason, we were told by CDI that:

“It is something we would regard as a core strength for us... our expertise is... highly regarded.”¹⁰

20. The Butler Review highlighted the importance of analysis in the end-to-end intelligence cycle. In response to this, DIS appointed a senior civil servant to act as the Professional Head of Defence Intelligence Analysis in DIS, and established the Centre for Analytical Training (now the Edmunds Training Development Wing) to develop key analytical and specialist skills within the organisation. The Centre, which is part of the Defence College of Intelligence, runs programmes for entry-level analysts, plans courses for intelligence managers, and offers refresher courses for those who have not previously undergone formal training. DIS has also developed its language capability over the last year. The Defence School of Languages has been enhanced to improve linguists’ capability to meet operational requirements in such theatres as Afghanistan and Iraq. DIS is also working in partnership with GCHQ to share understanding of difficult dialects in such locations. We understand DIS will continue to implement these and other changes as part of its response to the Butler Review and the Professional Skills for Government agenda over the next year.

21. The Butler Review also recommended that there should be provision of proper channels for expression of dissent within DIS through an extension of the remit of the Agencies’ Staff Counsellor. As DIS is part of MOD, the Personnel Director and the Director General Civilian Personnel in the department will now act as counsellors for DIS staff who wish to voice concerns or dissenting views. These arrangements, which are analogous to those of the Agencies, were accepted by the Butler Implementation Group and communicated to all DIS staff in March 2005.

⁹ HC 898.

¹⁰ Oral evidence – Air Marshal Stuart Peach, 4 May 2006.

We are pleased that there is now an opportunity for dissent and challenge built into the DIS framework.

22. DIS is undergoing a major modernisation programme to strengthen its ability to address key operational challenges. The programme comprises a series of IT upgrades, including the implementation of SCOPE (paragraphs 82 to 89), and the improvement of DIS's imagery capability. The programme will also improve DIS accommodation arrangements and includes a proposal for the redevelopment of the Joint Air Reconnaissance Intelligence Centre (JARIC). A Modernisation Director has been appointed to oversee this work. **The Committee will monitor the impact of these changes.**

The Ministerial Committee on the Intelligence Services

23. The Committee remarked last year that the Ministerial Committee on the Intelligence Services (CSI) had met only once in the last ten years.¹¹ In response to this, Ministers have assured the Committee that they continue to take an active interest in intelligence and the intelligence community, but such interest is often expressed in other fora, including at Cabinet meetings. The Committee understands that where Ministers examine specific issues such as Iraq or Afghanistan through other committees, there are always senior intelligence officials present, and that this safeguard is supported by a constant flow of assessed intelligence to the Prime Minister, the Foreign Secretary and others so that Ministers are kept informed of current intelligence and understand how it adds value. The Government has said that, for these reasons, CSI has not met since the last Annual Report, but that it continues to exist as a Cabinet Committee and will meet as the need arises.

The Commissioners

24. Lord Brown of Eaton-under-Heywood, the Intelligence Services Commissioner, and Sir Swinton Thomas, the Interception of Communications Commissioner, both stepped down from their posts this year. We would like to record our thanks to them for their help in terms of the information they have provided to the Committee and the discussions we have had with them. We welcome the appointment of the new Commissioners, Sir Paul Kennedy and Sir Peter Gibson. We look forward to working with them.

25. The Committee noted that there was a significant delay in appointing the new Commissioners. This delay looked likely to jeopardise a sensible handover, and the Committee wrote to the Lord Chancellor expressing its concern at the situation. We noted the Lord Chancellor's explanation for the delays and that the appointments were made shortly thereafter.

¹¹ Cm 6510.

The Wilson Doctrine

26. In 1966 the then Prime Minister, Harold Wilson, gave instructions that there was to be no interception of telephones belonging to Members of Parliament, and that if there were a development which required a change of this policy he would, at such a moment as was compatible with the security of the country, make a statement about it in the House of Commons. This approach, known as the Wilson Doctrine, has been maintained under successive administrations.

27. In December 2005, the Prime Minister informed Parliament that he had received advice from the Interception of Communications Commissioner on the implications for the Wilson Doctrine in light of the regulatory framework established under the Regulation of Investigatory Powers Act 2000. Taking into account the new laws governing interception, and the changed circumstances since 1966, the Commissioner advised the Prime Minister that the Wilson Doctrine should not be sustained. He later restated this position to us during an informal discussion on the matter.

28. At the end of March 2006, the Prime Minister made the following statement to the House of Commons:

*“I have considered Sir Swinton’s advice very seriously, together with concerns expressed in this House in response to my Written Ministerial Statement of 15 December. I have decided that the Wilson Doctrine should be maintained.”*¹²

THE AGENCIES

The Single Intelligence Account

29. In its 2004–2005 Annual Report, the Committee noted that in previous years, when the Agencies did not spend their full allocation, they rolled the surplus funding over as end-year flexibility.¹³ To manage this underspend, a block adjustment of £*** has been made to reflect an assumption that it will be possible to identify £*** in each of the years 2004/05 to 2007/08 that can be reallocated within the Single Intelligence Account (SIA). This has allowed the bids presented by the Agencies to the Cabinet Committee on Public Services and Public Expenditure (PSX) to be funded. In 2004/05 there has been little unplanned underspending and HM Treasury has agreed to review funding in 2006.¹⁴

¹² *Written Ministerial Statement, 30 March 2006, Hansard Column 96WS.*

¹³ *Cm 6510.*

30. The funding for the Agencies is given below:

£ million	Actual 2003/04	Actual 2004/05	Predicted 2005/06	Plans 2006/07	Plans 2007/08
SIA total					
Resource	1,060.4	1,126.6	1,266.0 ¹⁵	1,336.0	1,381.8
Capital	509.9	150.8	231.8	232.4	238.0
SIA level adjustment					
Resource				*** ¹⁶	***
Capital				***	***
GCHQ					
Resource	***	***	***	***	***
Capital	*** ¹⁷	***	***	***	***
SIS					
Resource	***	***	***	***	***
Capital	***	*** ¹⁸	***	***	***
Security Service					
Resource	***	***	***	*** ¹⁹	***
Capital	***	***	*** ²⁰	***	***

Additional Funding

31. In the 2005 Pre-Budget Report, the Chancellor of the Exchequer announced that he had made an additional £85 million available over three years to support the expansion of the Agencies.²¹ The funding (made available to the Agencies through the SIA) will allow earlier delivery of key elements of the expansion that was initiated in the 2004 Spending Review. In February 2006, the Security and Intelligence Co-ordinator allocated £*** of the claim to the Security Service, £*** to SIS, and £*** to GCHQ. **The significant additional funding made available since 9/11 has generally been accepted as essential for building capacity across the intelligence community to counter threats from international terrorism and to provide an enhanced standard of coverage and assurance. Given that this represents an**

¹⁴ To meet spending plans set out in SR2004, £65 million of underspend was planned in 2005/06 to be carried forward as end-year flexibility (EYF).

¹⁵ Funding for 2005/06, 2006/07 and 2007/08 includes the Pre-Budget Report (PBR) settlement. Funding for 2006/07 and 2007/08 also includes the National Infrastructure Security Co-ordination Centre (NISCC) and ***.

¹⁶ SIA adjustments include central funding for SCOPE, Information Assurance (IA), and a block adjustment to allow for the use of EYF.

¹⁷ The high figure in 2003/04 reflects the capital spend on new accommodation.

¹⁸ The increase in SIS capital requirement for 2004/05 was for new building equipment.

¹⁹ Security Service Resource for 2006/07 and 2007/08 includes the NISCC funding.

²⁰ Growth in expenditure represents the acceleration of the Service's expansion programme.

²¹ Cm 6701.

unprecedented level of new funding for the Agencies, it is important, in the Committee's view, that mechanisms are in place and functioning to ensure that the money is well spent, appropriately controlled and monitored, and serves as a driver for increased efficiency. We have looked provisionally at this in the current year and will return to it in 2006/07.

32. The Government also extended the availability of the £50 million funding pool for counter-terrorism beyond 2005/06. We understand that the Government will consider how these extra funds can best be used over the next year, but it is likely that most of this money will be allocated to counter-terrorism work outside the intelligence and security Agencies.

The Security Service

33. The Security Service Resource Account for 2004/05 was agreed by the Comptroller and Auditor General in July 2005. As was the case last year, there were no reservations. The Security Service has had a challenging year operationally, which has been dominated by its response to the London bombings in July 2005. Funding for the Service has continued to increase, and staff numbers are expected to rise about 50% over the next three years. In addition to expansion, the Service is continuing the process of regionalisation by opening additional stations outside London.

34. The increase in funding for the Security Service was supplemented by the additional allocation to the SIA in December 2005, which we refer to in paragraph 31. Of this, the Security Service received the largest share, which will enable earlier delivery of planned capacity-building and provide the Service with new IT tools to process large amounts of information to support investigations. The Committee has seen a demonstration of this new software.

35. International Counter-Terrorism (ICT) continues to increase as a proportion of the Service's overall allocation of effort. ICT rose from about a third of total effort in 2002/03 to 42% in 2003/04. In 2004/05, at 52%, it comprised over half of the Service's activity. This excluded Irish counter-terrorism, which accounted for 20% of operational resource in 2004/05. Protective security and counter-intelligence work accounted for 13% and 7% respectively. The responsibility for supporting law-enforcement agencies in investigating serious crime (which accounted for about 2% of resource in 2004/05) was transferred to the Serious Organised Crime Agency (SOCA) in April 2006, releasing further resources for ICT work.²²

²² At year end 2005/06 the relevant percentages were 53% on ICT, 14% on protective security (largely related to ICT work), 17% on Irish counter-terrorism and 7% on counter-intelligence.

36. The Committee commented last year on the Service's expansion programme.²³ Since July 2005, initially through further reprioritisation and then through extra resources being made available, the Service has put more resources into meeting the challenge of ICT and has expanded more quickly than previously thought possible. This growth carries a series of risks that the Service will need to manage over the next few years, including the need to maintain standards in operational capability and service to customers in spite of the increased proportion of new and inexperienced staff. **The Committee welcomes this expansion programme, but recognises that it is ambitious and believes that the risks involved will need to be very carefully managed.**

37. As a result of this expansion, the Service estimates that it is likely to exhaust the available capacity in Thames House by October 2006. They have identified a building to provide additional accommodation. ***.

38. The Committee also noted in its 2004–2005 Annual Report that the Service was due to take on responsibility for national security in Northern Ireland.²⁴ For this purpose, and in parallel with the regional expansion programme, the Service continued to develop its Northern Ireland headquarters building during 2004/05. The new headquarters in Belfast, to which the Northern Ireland Office (NIO) has contributed £***, will be constructed at a total cost of about £***. The NIO has also met programme running costs for the next two years (2005/06 and 2006/07) of £*** and £*** respectively. Funding beyond 2007/08 has not yet been identified and the matter is still being negotiated between the NIO, MOD and other interested parties. **The Committee is concerned that further delay in identifying funding may have an impact on the Service's ability to plan ahead, and we recommend that negotiations be concluded quickly.**

39. The regionalisation programme has accelerated following the July bombings, which illustrated the importance of developing locally-based coverage. The Service has established several regional stations in the UK (and has plans to add to these) and is still on track to establish the Northern Operations Centre ***, as noted by the Committee last year.^{25, 26} By then, the Service expects around ***% of staff to be based in the regions. The initial cost of the programme is expected to be around £***. In the short term, corporate services such as human resources, accounting and legal advice will continue to be carried out from London, but the Service is considering the efficiency and business continuity benefits of relocating these and other functions in the longer term.

²³ Cm 6510.

²⁴ Cm 6510.

²⁵ ***.

²⁶ Cm 6510.

40. A vital part of the regionalisation programme will be the Service's ability to work closely with local bodies, particularly the Regional Intelligence Cells within the police. In our visit to one of the Service's regional stations, we saw examples of how the Service was working with the police to share information and best practice on investigative and intelligence-gathering methods, and to co-ordinate rapid responses to threats. **The Committee welcomes the move towards regionalisation and, in particular, the closer partnership with the police.**

41. With expansion and regionalisation, there may be a risk to the corporate ethos that has evolved within the Service since its foundation. The Director General has told us that she has not, as yet, seen any evidence of a decline in established cultural standards as a result of growth and regionalisation. Over the coming year, however, a senior manager will work with staff to formalise the existing corporate ethos in order to help preserve aspects of the working culture that the Service wants to retain.

42. In 2005, the Service established an in-house Training Academy. The Academy is a major change in the Service's training and development approach because it provides a structured curriculum, more assessed courses, and increased mandatory training for key staff. The Academy will form partnerships with external training providers (both commercial and within government), and with academics and academic institutions.

43. The Service has allocated responsibility for oversight of several infrastructure programmes currently in development to a senior officer. He will also focus on future projects and expansion plans, and the dissemination of good strategic project planning and management across the organisation. A Centre of Excellence in project management has been created to address concerns noted by the previous Committee and the Director General at the lack of project management expertise. In line with Office of Government Commerce (OGC) guidelines, the Centre is run by programme management professionals seconded from industry and government. Their role is to support the Service's staff in key project management posts, monitor the progress of current projects, and assess results. The Centre will also offer project and programme management training. The Service has augmented this work by establishing a management information programme which provides senior managers with information on progress across all projects.

44. In its 2004–2005 Annual Report, the Committee gave an account of the Service's work to renew its IT infrastructure.²⁷ The upgrade was due to be completed in 2004 at a cost of around £***. In 2004/05, the original requirement for an electronic document and records management system was judged to be too ambitious and not deliverable within the budget and timescale agreed with

²⁷ Cm 6510.

HM Treasury. The Service has now redefined the project to focus only on upgrading the core desktop and messaging system. This simplified project, which has been agreed with HM Treasury, is due for delivery in summer 2006 with a total cost expected to be around £***. **The Committee considers the redirection of this work a sensible step, although in future the scope of any major project should be more clearly thought through at the outset.**

45. Protective security work remains a key part of the Security Service's remit, and is carried out by the National Security Advice Centre (NSAC) and the National Infrastructure Security Co-ordination Centre (NISCC). NSAC advises government and organisations that support the UK's Critical National Infrastructure (CNI) on physical and personnel security. NISCC delivers advice on electronic and information security. The Communications Electronics Security Group (CESG), the arm of GCHQ that deals with Information Assurance, also provides external advice. The Security Service is reviewing current arrangements on the provision of protective security advice to government and CNI customers.

The Secret Intelligence Service

46. The SIS Resource Account for 2004/05 was agreed by the Comptroller and Auditor General in July 2005. As with the previous year, there were no reservations. The increase in capital expenditure for 2004/05 to equip additional accommodation is expected to return to normal levels for 2005/06. The additional funding for SIS allocated from the SIA will be spent on enhancing front-line counter-terrorism operations overseas and developing the capacity of liaison services in CONTEST Priority 1 countries. These developments will provide SIS, working in co-operation with its liaison partners, with a greater degree of operational access into countries of interest. We have been told that this access and influence will be a key part of SIS's worldwide counter-terrorism strategy and will strengthen long-term relations with liaison services and the security of SIS staff overseas.

47. SIS is currently running a number of infrastructure projects to upgrade IT systems and other assets. The most significant, in cash terms, will be rebuilding part of its main training facility. The details for the project have yet to be fully defined but it is notionally expected to cost around £*** over *** years.

48. In line with the other Agencies, counter-terrorism dominates SIS's allocation of resources, consuming about ***% of total effort in 2004/05. WMD proliferation is the second largest priority with about **%, followed by counter-narcotics which accounts for **%. These proportions are broadly in keeping with last year's figures.

49. In early 2005, SIS made some organisational changes to the overall governance of the Service. These included, *inter alia*, alterations to the management of

intelligence reporting and requirements within the Service which were in direct response to the recommendations of the Butler Review.²⁸ 2005/06 is the first full year under these new governance arrangements. In the same period, SIS has started to implement a policy of requiring senior managers to obtain relevant professional skills, and holders of key posts within corporate services will be expected to attain professional qualifications. The Service considers these structural and training changes essential to improve operational focus, to enable more efficient management of resources, and to meet the challenge of planned growth. We comment further on changes SIS has made in response to the Butler Review in paragraphs 74 and 75.

50. Over the last year, SIS has developed a management information system to aid decision-making at the strategic level. The system consists of performance indicators and provides a summary of performance across operational and resource management functions, such as recruitment targets or asset allocation. It provides key information to the Board of Directors, helping them to highlight current areas of concern, and gives indications of future performance, thereby improving forward-planning capability at board level. **In its 2004–2005 Annual Report, the Committee noted the National Audit Office’s (NAO’s) conclusions that the high-level financial management information provided to the SIS Board had been inadequate. We are pleased that there have been improvements in this area, although we are concerned that SIS was slow to introduce the changes. We will continue to review their effectiveness.**

51. SIS is planning further restructuring to meet a long-standing management objective to review the institutional structure which has its basis in the post-war organisation of the Service. Building on the professionalisation of corporate services, SIS’s management is also moving to replace the existing branch structure with cadres better aligned with the areas of the Service’s work.

52. The cadres will be divided into operational activity, corporate services, and scientific and technical. Progression will place greater emphasis on the specific qualifications and skills required for each cadre. There will continue to be a ‘faststream’, but it will no longer be synonymous with the old intelligence branch. The new operational cadre will incorporate operational roles currently based in the executive branch. The changes are intended to make the Service as professional, adaptable and effective as possible, and to allow greater flexibility and opportunity for progression through the organisation.

53. The last year has seen significant changes in the way SIS recruits staff into all areas of the organisation. The launch of the Service’s website marked a departure from the disguised recruitment of previous years. In its first few months, the website has significantly increased the number of applications to join the Service. These

²⁸ HC 898.

changes were complemented in May 2006 by the launch of overt advertising in the national media via an external recruitment agency. SIS expects the website and the recruitment strategy to evolve further over the next year, enabling the Service to cope with the unprecedented levels of interest it is now experiencing and to meet its recruitment targets. **The Committee will examine whether the changes improve the efficiency and effectiveness of the recruitment process.**

The Government Communications Headquarters

54. For the third year running, the GCHQ Resource Account for 2004/05 was not qualified by the NAO and was agreed by the Comptroller and Auditor General in September 2005. The NAO has told us that the integrity of the Account has improved markedly over the last three years, and that GCHQ is now firmly in control of its finances. The residual problems with the Fixed Asset Register have been resolved and steady progress has been made to develop an effective corporate governance structure. Efficiency savings have generated about £*** of resource, which has been reallocated to support front-line operations.

55. GCHQ is the largest of the three Agencies, with around 5,000 staff and a budget of around £***. In 2004/05, the organisation underspent by £*** with an eventual outturn of £***. The CESG arm of the organisation operates on a repayment basis, generating income to cover its costs, which totalled about £*** last year. GCHQ received £*** of the additional SIA funding in December to expand its counter-terrorism analysis capacity and associated accommodation costs.

56. GCHQ's allocation of effort across operational areas reflects an increasing emphasis on ICT coverage over the past two years, which is planned to continue through 2006/07. These increases have been offset by slight reductions across several other areas, although effort against weapons proliferation and serious crime ***. GCHQ will continue to have a role in the provision of intelligence relating to serious crime to SOCA (see paragraph 109). Effort in support of military operations continues to be of importance to GCHQ, as does intelligence on the security of energy supplies.

57. GCHQ has been running two major IT projects to upgrade its SIGINT capability and improve overall infrastructure. Together, the SIGINT Modernisation project and the IT Infrastructure programme represent the work needed to keep GCHQ ahead in the SIGINT business. The capital cost of these two programmes will be £*** over the period 2005/06 to 2007/08. Both projects were subsumed under the broader SIGMod initiative in April 2006, and will be managed as part of this continuing technology and business improvement programme.

58. The SIGINT modernisation aspects of the programme will substantially improve the way GCHQ collects, analyses, presents and disseminates intelligence. Building capacity to respond to *** will be a major part of this work and, ***, there will be a need to ensure that new interception techniques are regulated by a proper legal framework. The IT infrastructure aspects of the programme will upgrade GCHQ's business-critical hardware and software, its links into field installations and its networks to customers and partners, and will enhance GCHQ's *** capability. The programme will also contribute to the roll-out of SCOPE's network infrastructure across the intelligence community.

59. Notwithstanding the capital expenditure, it is expected that the upgrade will significantly drive down overall running costs in future years. The Committee will monitor the benefits that this should bring.

60. In 2004/05, GCHQ developed a new pay and reward system for non-Senior Civil Service (SCS) staff which better suited present requirements. The staff union accepted the new system, which includes shorter pay ranges and greater use of non-consolidated payments to recognise and reward performance. The changes will be phased in over a three-year period.

61. GCHQ also conducted a review of recruitment and retention which resulted in a resetting of recruitment and retention payments to counter long-term unsustainable growth in the pay bill. As a result, some staff found themselves on 'mark time' pay, where they receive no increases in consolidated pay until base pay rates catch up with current levels through inflation. For some staff, mark time pay will be applied for only a short time, but others, particularly those formerly on pay ranges considerably above the base rate, could receive no increases for many years.

62. These changes were not accepted by the staff union, and the matter entered arbitration proceedings in December 2005. In March 2006, the arbitrator ruled that management had acted within employment terms and conditions. He also ruled, however, that GCHQ had not consulted sufficiently. At the time of writing this report, matters are at conciliation stage, but if an agreement cannot be brokered then the dispute will go back to arbitration for further consideration.

63. GCHQ management has accepted that the issue has been an unhelpful backdrop to the work to develop specialist career structures. It has also affected the morale of staff and, in a few instances, some minor operational work has been disrupted by staff losses.^{29, 30} **The Committee is concerned by these developments, and by the potential this issue has to disrupt work further. We will continue to look at this area.**

²⁹ Oral evidence – GCHQ, 28 March 2006.

³⁰ It should be noted that, as with the other two Agencies, GCHQ's overall resignation rate remains low compared with other government departments.

64. GCHQ is developing a new workforce strategy to identify and plan for future requirements. The strategy will examine the grading structure and skills requirements up to 2011, and will review the overall grade profile of the workforce.

65. GCHQ has now occupied its new building near Cheltenham for over two years, but some residual accommodation issues remain. The original plans for the new site specified occupancy of around 4,000 members of staff. Since then, the significant increase in headcount in response to 9/11 and the July bombings means there are now over 5,200 individuals working from Cheltenham. In autumn 2005, the Board considered possible ways forward and we have been briefed on the options considered. **We will look very carefully at this in the coming year.**

Pensions

66. GCHQ staff are members of the Principal Civil Service Pension Scheme (PCSPS). The other two Agencies operate in-house pension schemes equivalent to the PCSPS, and changes to the mainstream arrangements usually result in policy adjustment to these schemes. Accordingly, an increase in the standard retirement age for public sector workers would have implications for the Security Service and SIS. Both Agencies currently have mechanisms in place to allow some staff to stay on past the standard retirement age on a voluntary basis. Such individuals are often a valuable source of knowledge and experience which can benefit specific operations or the organisations as a whole. In both cases, there are categories of staff for which maintaining operational capability past a certain age would be difficult.

67. SIS is reviewing its pensions arrangements in response to imminent age discrimination legislation and concerns that the present scheme may no longer offer the most appropriate benefits for staff.

Nationality Rules

68. In its 2004–2005 Annual Report, the Committee expressed concern at the process by which the Agencies, if they seek to employ someone who does not meet the usual nationality requirements, have to seek a waiver from the nationality rules from the relevant Secretary of State.³¹ This would apply only in cases where the relevant Agency had been able to satisfy itself about the candidate's reliability, despite their not having been in the country for ten years prior to the date of application. The waiver would be sought from the Foreign Secretary, in the case of SIS and GCHQ, and from the Home Secretary in the case of the Security Service.

69. It was not clear to us why the final decision to employ the applicant had to be made by a Minister rather than by the head of an Agency. We suggested that the

³¹ Cm 6510.

current process of applying to a Secretary of State for a nationality waiver be reviewed. We have since learned that it would not be possible for the heads of the Agencies to assume such powers without a change in the law. We were told, however, that the Home Secretary had already delegated authority for such waivers to a senior official, and that more recently the Foreign Secretary has implemented similar delegations.³² The Committee is content that these new arrangements represent a practical way forward on this issue.

Joint Working

70. In its 2004–2005 Annual Report, the Committee recommended that the SIC should consider opportunities for more joint working between the Agencies in areas such as vetting, linguistic training and corporate services.³³ We have been told that in preparation for the 2007 Spending Review (SR2007), the intelligence community is carrying out a series of studies on the potential for joint working between the Agencies in relation to corporate services and other areas.

71. We accept that there are limits to the potential for joint working. On languages, the Agencies have independent training programmes because they have different requirements for these skills. On recruitment, while SIS and the Security Service outsource the initial recruitment process to the same consultancy, their requirements are different enough for it to be more efficient to run the later stages independently. Finally, although there is a common system of vetting across the three Agencies, each Agency still applies this system according to its own requirements. There are no plans for a single, consolidated vetting agency. We believe there may still be benefits to be found through joint working and we intend to examine this issue further.

IMPLEMENTATION OF THE BUTLER REVIEW

72. In February 2004, a review led by Lord Butler of Brockwell investigated intelligence coverage of certain WMD programmes and the global trade in WMD.³⁴ The Review also gave an account of the intelligence on Iraqi WMD up to March 2003, and examined inconsistencies between that intelligence and what was discovered by the Iraq Survey Group after the conflict. The Review, published in July 2004, made a series of recommendations to the Prime Minister on the gathering, evaluation and use of intelligence. The Review asked the Committee to follow up on some of the recommendations it made.

³² *The Home Secretary delegated authority in 2002 and the Foreign Secretary did the same in 2005.*

³³ *Cm 6510.*

³⁴ *HC 898.*

73. Since then, the Agencies and other departments have been working to adapt their policies and methods to meet these recommendations. In the course of our work we have taken evidence from the Agencies and others on the progress made.

74. Two of the recommendations applied directly to the work of SIS. First, the Review stated that the validation of human intelligence sources and their reporting should be properly resourced and organised. We have been told that SIS has created a new post with responsibility for the overall quality of intelligence and the process by which it is produced: a senior officer in SIS, who reports to an SIS director. In addition, there has been an increase in the number and seniority of staff who support this function by evaluating intelligence reporting. SIS now classifies sources of intelligence by using standardised descriptions with which customers are familiar. SIS regularly reviews the way sources are appraised, and has strengthened monitoring mechanisms to ensure that the system is widely recognised and used across the intelligence community. An evaluation of all major intelligence-producing sources was completed in March 2005 and some sources were discontinued.

75. Second, the Review recommended that SIS should find a way to share highly classified material with DIS and others who need to see it. SIS has confirmed that mechanisms have been put in place to ensure that all highly classified material is seen by at least one senior DIS officer, who can then advise on further distribution. This ensures that a properly qualified analyst sees all relevant information. CDI confirmed that this procedure was working well:

“I am content that [the relationship] is now working. We have an arrangement with SIS, and I have regular meetings with C, and those that need to know and need to see [highly classified material] are seeing it.”³⁵

We welcome the changes that have been made by SIS.

76. The intelligence community as a whole has made progress in response to the other recommendations from the Review. The Cabinet Office, with contributions from the Agencies, has produced a confidential guide for readers of intelligence which describes its nature, collection and use. This enables specialist and lay readers of intelligence, including Ministers, to understand better the information before them in a source-based context. **We welcome this step to establish a clear understanding of intelligence across government. We recommend that there should be a requirement for newly appointed Ministers and officials in key posts to familiarise themselves with this document as part of their induction.**

77. In our Report into the July bombings in London, published in May 2006, we recommended that an assessment of the level of visibility of threats must be more

³⁵ Oral evidence – Air Marshal Stuart Peach, 4 May 2006.

systematically included in the JIC ‘Assessments Base’ box and in Joint Terrorism Analysis Centre (JTAC) papers.³⁶ This was to avoid the over-simplification of the UK threat picture and the potential for giving inappropriate reassurance about threats. We have been told that ‘Assessment Base’ boxes have been included on JIC papers to explain the limitations of intelligence to the reader. Where appropriate, the Security Service, DIS and JTAC have also included similar boxes in their intelligence assessments.³⁷

78. The Professional Head of Intelligence Analysis (PHIA) has now been in place for over nine months and is leading work on training analysts to improve their evidence-based judgements and analytical methods. The PHIA leads on the open source work which we have noted in paragraph 15, and is examining the analytical capability of the intelligence community.

79. The Committee has also been told that the analyst capability in the Assessments Staff itself has expanded over the last year to about 35 staff based in the Cabinet Office. A new team has been appointed to provide an internal challenge function for JIC assessments. The Chief of the Assessments Staff now has an additional role of advisory oversight of the programmes of strategic intelligence assessments across government, including security, defence and foreign affairs. Assessments Staff now review previous judgements on a particular issue when drafting all JIC papers. **We are pleased that the Assessments Staff has been expanded, and that an internal review and challenge team has been appointed.**

80. Since the Butler Review, the opportunity has existed for written dissent or divergence from the judgements of a JIC assessment to be placed on the face of the document, which is subsequently taken into account when the JIC meets. Those working in the Assessments Staff also now have access to the Agencies’ Staff Counsellor, to whom they can go to voice concerns or express dissenting views. **We welcome these changes, which we hope will have a positive impact on decision-making at the highest level of the intelligence community. We are, however, still concerned that, in seeking consensus on all decisions and judgements, the JIC could be missing or failing to give sufficient priority to key points or vital arguments on a particular issue. We acknowledge that striking the right tone and balance in JIC assessments is extremely difficult, but we recommend that the SIC should continue to work on developing and refining this process further.**

³⁶ Cm 6785.

³⁷ JTAC attaches ‘Assessment Base’ boxes only to papers that are based on multi-source intelligence. In single source reports, the evaluation of the source is normally evident in the body text.

REVIEW OF THE THREAT SYSTEM

81. In the *Government Response to the Intelligence and Security Committee's Report into the London Terrorist Attacks on 7 July 2005*, we were told that:

“The points made by the Committee are among those that have been considered in a Cabinet Office-led review of the system of threat levels and alert states, which was finalised after the Committee submitted their Report to the Prime Minister. The review recommends a simplification of the system, reducing the number of threat levels and alert states. It also recommends that the Joint Terrorism Analysis Centre (JTAC) and the central security authorities in Government departments streamline and better co-ordinate the threat level and alert state systems by adopting common terminology, introducing uniform systems of ranking and signalling increases in the threat level and the alert states.

The Government agrees that greater transparency about the threat level and alert state system itself, and a managed process for communicating it to the public, will enhance its effectiveness and increase public confidence and vigilance. The review recommends a public communication campaign to explain the system and improved co-ordination of public messages on the threat to ensure consistency. However, some of these may be based on sensitive intelligence sources, which may restrict the information which can be given publicly.”³⁸

While we welcome this news, we have not yet seen the review and cannot therefore comment on its recommendations at this stage.

SCOPE

82. SCOPE is a major IT programme designed to enable organisations across the intelligence community to improve fundamentally the way they work together, by transferring data electronically in a secure and timely manner. SCOPE has ten departmental and Agency partners who contribute to its costs and share oversight of its development.³⁹ The programme is directed and managed by the Cabinet Office, while support services will be provided from two locations outside London. Funding for SCOPE comes from the SIA (25%), the Cabinet Office (25%), and the partners (who share the remaining 50%). Initial set-up costs for the programme are about £*** of capital, with a further £*** resource allocated until 2008/09, after which the continuing costs of £***–£*** per annum (including amortisation of capital assets) will be carried by SCOPE's partners.

³⁸ Cm 6786, page 3.

³⁹ The partners are: the three intelligence and security Agencies, the Foreign and Commonwealth Office (FCO), the Ministry of Defence (MOD), the Serious Organised Crime Agency (SOCA), Her Majesty's Revenue and Customs (HMRC), the Department for Trade and Industry (DTI), the Home Office, and the Cabinet Office.

83. SCOPE has been several years in development and in previous reports this Committee has highlighted problems in terms of deadline slippage. In its 2004–2005 Annual Report the Committee stated that SCOPE: “*has yet to deliver any usable benefits to the UK intelligence community as a whole.*”⁴⁰ Since then we have seen evidence that some benefits have been achieved, although there is clearly still a long way to go.

84. We have taken further evidence on SCOPE this year. Roll-out of equipment to 12 locations (Phase I) is now planned for autumn 2006, with the aim of achieving full operational capability before the end of the year. This has slipped from its original date of April 2005. The delay was largely due to technical modifications needed to ensure the effective integration of SCOPE with the networks that GCHQ provides for the benefit of the community, and also due to supplier-related quality assurance problems.

85. We understand that these problems have now been fully resolved but, as a result, partners who were due to receive the system must continue to operate in a less efficient way for longer than they were expecting. The Programme Board, which is made up of SCOPE’s departmental partners, agreed that it was better to solve the technical problems before roll-out than have to address them afterwards. There was a separate, one-off capital cost of £*** arising from this delay. Despite the delay, the overall costs for SCOPE are still in line with the 2003 business case.

86. We visited the Service Operations Centre which was established, on time and within budget, in June 2005. Roll-out of Phase II is scheduled to begin in June 2007, from which point the remaining partners will be phased in. The SCOPE Programme Team has chosen a supplier to assist it in delivering Phase II.

87. We are concerned that there will be a point where the Programme Team will be implementing Phase I and Phase II simultaneously. This timetable carries risks, and it is not clear whether the SCOPE Team or partner departments will have enough people with the right technical skills to enable both phases to progress simultaneously.

88. In addition, with initial operating capability approaching, we are concerned at the lack of preparedness of partners to reap the benefits of the new system. The project marks the beginning of the end of hard copy intelligence distribution, and the Agencies must ensure that they have considered the cultural change issues surrounding the programme’s implementation.

89. As regards the wider audience for SCOPE, we have been told that Phase II will now deliver to 1,500 MOD users. This will allow full access to the capabilities of, and intelligence held on, the SCOPE system, and will therefore provide an ‘acceptable’

⁴⁰ Cm 6510, page 28.

level of integration for MOD. This is an improvement on original plans. Access to SCOPE is also required by some government installations overseas. This work, the ‘Overseas Project’, is being managed separately to the main roll-out, and the Programme Team is currently examining options for implementation from October 2007. The FCO, as the main beneficiary of the project, has provided £*** of capital, with a further £*** of resource funding from SCOPE. **We are concerned that the Overseas Project is still at such an embryonic stage. The Committee notes that funding is available to install SCOPE at up to *** overseas locations, but that additional funding must be found if the project is to meet the full FCO requirement of *** installations.**

BBC MONITORING

90. BBC Monitoring (BBCM) is administratively part of the BBC World Service and was established at the request of the Government in the run-up to the Second World War to monitor German and Italian public broadcasts. Today it translates broadcast, online and print media from around the world, providing a valuable contribution to the Government’s overall open source picture. Its primary customers and stakeholders are the FCO, MOD, Cabinet Office, the security and intelligence Agencies, and the BBC World Service.

91. BBCM operates in partnership with an equivalent organisation in the US, the Open Source Center (OSC) – previously the Foreign Broadcast Information Service (FBIS).⁴¹ The two organisations share monitoring across the globe and exchange their respective outputs to maximise coverage.

92. In its 2003–2004 Annual Report, the Committee highlighted the value of BBCM to government departments and to the Agencies, and expressed concern at the proposal by the FCO to reduce funding for BBCM by up to £4.5 million.⁴² Following representations by the Committee, the Prime Minister acknowledged the value and quality of BBCM’s service, and said that funding levels would be maintained pending a review of its governance and funding.

93. In July 2005, the Security and Intelligence Co-ordinator (SIC) wrote to the Committee to report the outcome of the Review of BBC Monitoring and related negotiations. The Review said:

“Open source material derived from overseas media is a rich resource, which can be mined at a low cost relative to the benefits it yields.”⁴³

⁴¹ FBIS was replaced by the OSC in November 2005.

⁴² Cm 6240.

⁴³ From Review of BBC Monitoring 2005, page 4.

BBCM's contribution to the partnership with the US was important: the Review judged that if there were a reduction of service on our part, the partnership would be damaged. It went on to add that:

“It is unlikely to be in the UK's interests if BBCM is no longer seen as a viable partner.”⁴⁴

94. The Review found that, with the exception of the FCO, the collective stakeholder requirement was for the existing geographic coverage and service level to be maintained, and the cost of providing that service was more or less fixed. The Review concluded that in order to meet UK requirements, and to safeguard the BBCM/FBIS relationship, average annual funding of £24.6 million for the next five years would be needed.

95. The Review recommended that the Cabinet Office assume responsibility as BBCM's sponsoring department, and that stakeholders should surrender their individual funding contributions to a centralised BBCM fund. HM Treasury agreed that this would be ring-fenced. A Stakeholder Board would also be established and would approve forward plans and funding bids, agree customer requirements, and review BBCM's performance against these requirements.⁴⁵

96. The SIC wrote to inform the Committee of the outcome of negotiations on the Review's recommendations. Although the FCO reduced its contribution from £7.1 million to £3.1 million, other stakeholders agreed to meet the shortfall. An average funding level of £23.8 million a year over the five-year period (from 2006/07 to 2010/11) is to be provided, and the new funding and governance regime was agreed, with the Cabinet Office taking on the lead role as recommended. **We are pleased that steps have been taken to safeguard the BBC Monitoring operation and that the FCO's reduction in funding was largely made up by other stakeholders. We welcome the fact that BBCM has been put on a sounder footing, with new levels of funding and a new governance regime. Our regular input to this debate has clearly been worthwhile, and we shall continue to monitor the arrangements for bringing this important service to government and the Agencies in a well-managed and cost-effective way.**

ECONOMIC WELL-BEING

97. In its 2004–2005 Annual Report, the Committee expressed concern that the requirements and priorities for intelligence collection in relation to safeguarding the economic well-being of the UK were unclear, and that there was no common

⁴⁴ From Review of BBC Monitoring 2005, page 58.

⁴⁵ BBCM's requirements and priorities align broadly with those of the JIC.

definition of what constituted ‘economic well-being’ across Whitehall.⁴⁶ We took evidence from the Foreign Secretary on this matter. He reported that, largely in response to the concerns of the Committee, the economic well-being requirements had been reviewed in detail as part of the annual exercise to update the JIC’s requirements and priorities, and a clearer definition of the UK’s requirements for intelligence in respect of economic well-being has been developed. We also raised the matter with Sir Richard Mottram, who told us that:

“The important point is to have a shared understanding [of economic well-being] between the policy people and the intelligence people. The way to do that is to detail what aspects the policy people are interested in... In relation to energy; you will have a set of requirements which you specify. In relation to financial services, you will have a set of interests that you specify... and then the intelligence people and the assessment people then focus on those things. To have a... definition of economic well-being I do not think adds much to the sum total in relation to this process.”⁴⁷

EUROPEAN CO-OPERATION

98. This year the Committee has explored the issue of co-operation between the three Agencies and their European partners, and the Agencies’ contributions to the EU Presidency and the G8 Summit in 2005.⁴⁸

99. The Agencies co-operate with European partners at both a bilateral and multilateral level. Co-operation on operational matters is primarily bilateral, to ensure that intelligence is shared where necessary and to protect operational sources and information-gathering techniques.

100. The Agencies are also involved in a number of multinational bodies such as the Counter-Terrorist Group (CTG), which comprises security and intelligence agencies from the European Union (EU) Member States, Norway and Switzerland, and ***

***.

101. In 2005, the UK chaired the CTG (the Security Service leads for the Agencies on the CTG) and progressed a number of measures, including hosting the first meeting of CTG lawyers to look at travel controls for Iraqi ‘Jihadis’. The Security Service also ran a new initiative to share best practice on protective security. All of the Agencies contributed to discussions which resulted in the formulation of the

⁴⁶ Cm 6510.

⁴⁷ Oral evidence – Sir Richard Mottram, 4 May 2006.

⁴⁸ The ‘Group of Eight’ nations – Canada, France, Germany, Italy, Japan, Russia, the UK, and the USA.

EU Counter-Terrorism Action Plan, which draws strongly on the UK's CONTEST model.

102. More generally, the Agencies also contribute to the EU's Joint Situation Centre (SitCen) – an all-source analysis centre within the Council Secretariat which provides assessments to inform EU policy-making. The UK (in particular the JIC and JTAC) is one of the biggest providers of information to SitCen papers. **We commend the lead taken by the Agencies in promoting better co-operation with the various European organisations. We will continue to monitor their work in the European context and, in particular, the effect that any EU policy and legislative initiatives may have on them.**

103. In support of the UK's chairmanship of the G8 group in 2005, we have been told that the Security Service and other Agencies contributed to getting 'radicalisation' onto the G8 agenda; piloted an agreed G8 paper on the links between crime and terrorism; launched processes to improve G8 co-operation on terrorist kidnapping and to share good practice on the use of financial information in tracking terrorist suspects; and organised and hosted a joint EU/G8 conference on Information Assurance.

RENDITION

104. The Committee is currently looking into the issue of rendition and will report in due course.

SERIOUS ORGANISED CRIME

105. In its 2004–2005 Annual Report, the Committee noted that the Agencies continued to undertake work to prevent and disrupt serious organised crime.⁴⁹ This year there have been significant developments in this area with the establishment of the Serious Organised Crime Agency (SOCA). We took evidence on the establishment of SOCA and its relationship with the Agencies.

106. SOCA became operational on 1 April 2006. It was formed by the amalgamation of the National Crime Squad (NCS), the National Criminal Intelligence Service (NCIS), officials from Her Majesty's Revenue and Customs (HMRC) dealing with drugs trafficking and associated criminal finance, and some officials in the UK Immigration Service dealing with organised immigration crime.

107. SOCA is an intelligence-led agency with law enforcement powers and a responsibility to reduce the damage caused to people and communities by serious

⁴⁹ Cm 6510.

organised crime.⁵⁰ It conducts operations against organised crime across the country and, working with international partners, across the globe. As organised crime is a devolved matter in Scotland, the Scottish Crime and Drugs Enforcement Agency has lead responsibility there. In the case of Northern Ireland, SOCA's work may be devolved to the Police Service of Northern Ireland (PSNI) and the Organised Crime Task Force.

108. SOCA will work with all three security and intelligence Agencies, although its establishment has had the most direct impact on the Security Service. The Security Service has supported law enforcement agencies since 1996 by providing operational, analytical and assessment work on serious crime targets. Most of this work had already been suspended before SOCA became operational, because of the need to divert resources to international terrorism: remaining residual work was suspended from April 2006. The Service will, however, continue to work with SOCA where there is scope for collaboration and where resources allow.

109. The principal way in which SOCA will relate to the Agencies is as a consumer of intelligence – GCHQ and SIS will generate intelligence on serious crime which will be used by SOCA to aid investigations. SOCA will also support the Agencies by sharing intelligence which could assist them in addressing their own organisations' priorities.

110. The Committee was told about the potential difficulties that could arise from the fact that SOCA will be competing with the Agencies for recruits.⁵¹ While the Agencies do not have difficulty attracting applications, the problem of recruiting staff with the necessary operational, analytical and assessment skills within allotted timescales is common to all the Agencies, and SOCA is likely to experience the same challenges.

111. We also took evidence from HMRC on its work with the Agencies. HMRC contributes to work on countering terrorist financing and is part of the group announced by the Chancellor of the Exchequer in February 2006 to work with industry and the banking sector on this issue. The main change in light of the establishment of SOCA will be the transfer of serious drug investigations and related criminal finance work from HMRC to SOCA. HMRC will continue to work with the Agencies to tackle the threat to the tax system from organised crime.

112. We shall continue to examine progress and assess the effectiveness of co-operation between SOCA, HMRC and the Agencies.

⁵⁰ Agency personnel seconded to SOCA can be designated as having such powers in accordance with the Serious Organised Crime and Police Act 2005, subject to its safeguards.

⁵¹ Oral evidence – Bill Hughes, 28 February 2006.

OTHER ISSUES

Official Secrets Act

113. The Home Office has bid for a legislative slot in the next session to amend the Official Secrets Act 1989. (At the time of publication it was still awaiting confirmation of its place in the timetable.) The Home Office has informed the Committee that, in its view, the proposed Bill should remove the common law defence of ‘duress of circumstance’ in order to address unauthorised disclosure by members, or former members, of the intelligence and security Agencies. The Bill should also put an element of the associated ‘authorisation to disclose’ procedure onto a statutory footing and increase penalties. This proposal has yet to receive policy clearance across Whitehall.

114. We have offered to comment on any draft legislation prior to its introduction – the Home Secretary has accepted our offer. The Committee has not yet seen any draft Bill nor been told who has been consulted in drawing up any new proposals.

Intercept of Communications

115. The Home Secretary told the Committee that he had commissioned a study into the impact of new technology on interception, including any evidential issues, and that the Committee would have early sight of its findings.⁵² At the time of writing, we understand that the report has been concluded, but we have not yet seen it.

⁵² Letter – Rt. Hon. Charles Clarke, MP, to Rt. Hon. Paul Murphy, MP, 14 November 2005.

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

A. The period since the Committee's appointment in July 2005 has been one of considerable pressure for the security and intelligence Agencies. The attacks in London in July 2005 shocked the country. Resources have rightly been diverted to investigate the bombings, to review systems, and to learn lessons for the future. Priorities have changed as a result, with subsequent impact on resource allocation. The diversion of resources has, of necessity, overshadowed much of the Agencies' other work, but it is to their credit that they have continued work on a number of fronts in what have been difficult times.

The Intelligence Community

B. We believe that the value the Joint Intelligence Committee (JIC) Chairman provides as an independent arbiter of intelligence analysis has decreased as a result of the merger of his role with that of the Security and Intelligence Co-ordinator (SIC), and we do not consider that the amalgamation is consistent with the core message of the Butler Review, which stressed the need to strengthen opportunity for challenge and dissent at all levels across the intelligence community. We will monitor how the merged post develops.

C. We are pleased to note that this year the *Annual Review by the JIC Chairman: 2004–2005* was circulated to Ministers within two months of its completion, as previously recommended by the Committee.

The Defence Intelligence Staff

D. The Butler Review recommended that there should be provision of proper channels for expression of dissent within the Defence Intelligence Staff (DIS) through an extension of the remit of the Agencies' Staff Counsellor. As DIS is part of the Ministry of Defence (MOD), the Personnel Director and the Director General Civilian Personnel in the department will now act as counsellors for DIS staff who wish to voice concerns or dissenting views. We are pleased that there is now an opportunity for dissent and challenge built into the DIS framework.

E. We have been briefed on the DIS modernisation programme: we will monitor the impact of these changes.

Additional Funding

F. The significant additional funding made available since 9/11 has generally been accepted as essential for building capacity across the intelligence community to

counter threats from international terrorism and to provide an enhanced standard of coverage and assurance. Given that this represents an unprecedented level of new funding for the Agencies, it is important, in the Committee's view, that mechanisms are in place and functioning to ensure that the money is well spent, appropriately controlled and monitored, and serves as a driver for increased efficiency. We have looked provisionally at this in the current year and will return to it in 2006/07.

The Security Service

G. The rapid expansion of the Service carries a series of risks which will need to be managed over the next few years, including the need to maintain standards in operational capability and service to customers in spite of the increased proportion of new and inexperienced staff. The Committee welcome this expansion programme, but recognises that it is ambitious and believes that the risks involved will need to be very carefully managed.

H. In respect of the Security Service's responsibility for national security in Northern Ireland, funding for the next two years is in place, but beyond 2007/08 further spending is still being negotiated between the Northern Ireland Office (NIO), MOD and other interested parties. We are concerned that further delay in identifying funding may have an impact on the Service's ability to plan ahead, and we recommend that negotiations be concluded quickly.

I. A vital part of the regionalisation programme will be the Service's ability to work closely with local bodies, particularly the Regional Intelligence Cells within the police. We welcome the move towards regionalisation and, in particular, the Service's closer partnership with the police.

J. In its 2004–2005 Annual Report, the Committee gave an account of the Service's work to review its IT infrastructure. The project, which has been simplified, is now due for delivery this summer. The Committee considers the redirection of this work a sensible step, although in future the scope of any major project should be more clearly thought through at the outset.

The Secret Intelligence Service

K. In its 2004–2005 Annual Report, the Committee noted the National Audit Office's (NAO's) conclusions that the high-level financial management information provided to the SIS Board had been inadequate. We are pleased that there have been improvements in this area, although we are concerned that SIS was slow to introduce the changes. We will continue to review their effectiveness.

L. The last year has seen significant changes in the way SIS recruits staff into all areas of the organisation. Next year, the Committee will examine whether the changes improve the efficiency and effectiveness of the recruitment process.

The Government Communications Headquarters

M. GCHQ's upgrade of its SIGINT capability and overall infrastructure will substantially improve the way the organisation collects, analyses, presents and disseminates intelligence. Notwithstanding the capital expenditure, it is expected that the upgrade will significantly drive down overall running costs in future years. The Committee will monitor the benefits that this should bring.

N. The dispute between management and the staff union in GCHQ over the recruitment and retention policy has affected the morale of staff and, in a few instances, some minor operational work has been disrupted by staff losses. The Committee is concerned by these developments, and by the potential this issue has to disrupt GCHQ's work further. We will continue to look at this area.

O. The GCHQ Board is currently discussing options to resolve outstanding accommodation issues. We will look very carefully at this in the coming year.

Implementation of the Butler Review

P. In response to a recommendation of the Butler Review, SIS has confirmed that mechanisms have been put in place to ensure that all highly classified material is seen by at least one senior DIS officer who can then advise on further distribution. We welcome this change.

Q. We welcome the step to establish a clear understanding of intelligence across government through distribution of the confidential guide for readers of intelligence. We recommend that there should be a requirement for newly appointed Ministers and officials in key posts to familiarise themselves with this document as part of their induction.

R. We are pleased that the Cabinet Office Assessments Staff has been expanded, and that an internal review and challenge team has been appointed.

S. Those working in the Assessments Staff now have access to the Agencies' Staff Counsellor, to whom they can go to voice concerns or express dissenting views. We believe this will have a positive impact on decision-making at the highest level of the intelligence community. We are, however, still concerned that, in seeking consensus on all decisions and judgements, the JIC could be missing or failing to give sufficient priority to key points or vital arguments on a particular issue. We acknowledge that

striking the right tone and balance in JIC assessments is extremely difficult, but we recommend that the SIC should continue to work on developing and refining this process further.

SCOPE

T. We are concerned that there will be a point where the Programme Team will be implementing Phase I and Phase II simultaneously. This timetable carries risks, and it is not clear whether the SCOPE Team or partner departments will have enough people with the right technical skills to enable both phases to progress simultaneously.

U. In addition, with initial operating capability approaching, we are concerned at the lack of preparedness of partners to reap the benefits of SCOPE. The project marks the beginning of the end of hard copy intelligence distribution and the Agencies must ensure that they have considered the cultural change issues surrounding the programme's implementation.

V. We are concerned that the Overseas Project is still at such an embryonic stage. The Committee notes that funding is available to install SCOPE at up to *** overseas locations, but that additional funding must be found if the project is to meet the full Foreign and Commonwealth Office (FCO) requirement of *** installations.

Other Areas

W. We are pleased that steps have been taken to safeguard BBC Monitoring (BBCM). We welcome the fact that BBCM has been put on a sounder footing, with new levels of funding and a new governance regime. Our regular input to this debate has clearly been worthwhile, and we shall continue to monitor the arrangements for bringing this important service to government and the Agencies in a well-managed and cost-effective way.

X. We commend the lead taken by the Agencies in promoting better co-operation with European organisations, and will continue to monitor their work in the European context and, in particular, the effect that any EU policy and legislative initiatives may have on them.

Y. We shall continue to examine progress and assess the effectiveness of co-operation between the Serious Organised Crime Agency (SOCA), Her Majesty's Revenue and Customs (HMRC) and the Agencies.

Annex A

THOSE WHO HAVE GIVEN ORAL EVIDENCE

Ministers

The Rt. Hon. Jack Straw, MP – Foreign Secretary

The Rt. Hon. Charles Clarke, MP – Home Secretary

The Rt. Hon. John Reid, MP – Defence Secretary

Officials

GOVERNMENT COMMUNICATIONS HEADQUARTERS

Sir David Pepper KCMG – Director, GCHQ

Other officials

SECRET INTELLIGENCE SERVICE

Mr John Scarlett CMG – Chief, SIS

Other officials

SECURITY SERVICE

Dame Eliza Manningham-Buller DCB – Director General, Security Service

Head of the Joint Terrorism Analysis Centre

Other officials

CABINET OFFICE

Sir Gus O'Donnell KCB – Cabinet Secretary

Sir Richard Mottram GCB – Security and Intelligence Co-ordinator and JIC
Chairman (from 14 November 2005)

Mr Bill Jeffrey – Security and Intelligence Co-ordinator (until 13 November 2005)

Mr Chris Wright – Director, Security and Intelligence

Mr Tim Dowse – Chief of the Assessments Staff

Dr Michael Taylor – SCOPE Programme Director

Other officials

FOREIGN AND COMMONWEALTH OFFICE

Mr David Richmond CMG – Director General (Defence and Intelligence)

Other officials

MINISTRY OF DEFENCE

Air Marshal Stuart Peach – Chief of Defence Intelligence (from 17 March 2006)

Lieutenant General Andrew Ridgway CB CBE – Chief of Defence Intelligence
(until 16 March 2006)

Mr Tony Pawson – Deputy Chief of Defence Intelligence

Other officials

SERIOUS ORGANISED CRIME AGENCY

Sir Stephen Lander – Chairman

Mr Bill Hughes – Director General

POLICE

Assistant Commissioner Andy Hayman QPM MA – Head of Specialist Operations,
Metropolitan Police Service

Deputy Chief Constable Bryan Bell – National Co-ordinator, Special Branch

Chief Constable Ken Jones – Chair of ACPO TAM/ACPO President Designate
(now ACPO President)

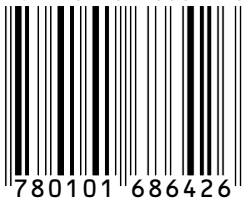
HER MAJESTY'S REVENUE AND CUSTOMS

Mr Mike Eland – Director General, Enforcement and Compliance

Mr Roy Clark – Director, Criminal Investigations

Mr Mike Norgrove – Director of Intelligence

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