



Intelligence and Security
Committee
Annual Report 2004–2005

Chairman:

The Rt. Hon. Ann Taylor, MP

Intelligence Services Act 1994

Chapter 13



Intelligence and Security
Committee
Annual Report 2004–2005

Chairman:
The Rt. Hon. Ann Taylor, MP

Intelligence Services Act 1994
Chapter 13

Presented to Parliament by the Prime Minister
by Command of Her Majesty
APRIL 2005

© Crown Copyright 2005

The text in this document (excluding the Royal Arms and departmental logos) may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright and the title of the document specified.

Any enquiries relating to the copyright in this document should be addressed to The Licensing Division, HMSO, St Clements House, 2-16 Colegate, Norwich NR3 1BQ. Fax: 01603 723000 or e-mail: licensing@cabinet-office.x.gsi.gov.uk

From: The Chairman, The Rt. Hon. Ann Taylor, MP

**INTELLIGENCE AND SECURITY
COMMITTEE**

70 Whitehall
London SW1A 2AS

4 April 2005

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 2004-05, which the Committee has completed early this year to allow it to be published prior to any dissolution of Parliament. We have already produced the Report on *The Handling of Detainees by UK Intelligence Personnel in Afghanistan, Guantanamo Bay and Iraq* 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.

As this may well be our last Report, we would wish to record our thanks for the co-operation and openness with which Ministers, the Agencies and the intelligence community have supported our work and requests for evidence.

Yours sincerely,
Ann

ANN TAYLOR

THE INTELLIGENCE AND SECURITY COMMITTEE

The Rt. Hon. Ann Taylor, MP (Chairman)

The Rt. Hon. James Arbuthnot, MP

The Rt. Hon. Alan Howarth CBE, MP

The Rt. Hon. The Lord Archer of Sandwell, QC

The Rt. Hon. Michael Mates, MP

The Rt. Hon. Kevin Barron, MP

The Rt. Hon. Joyce Quin, MP

The Rt. Hon. Alan Beith, MP

The Rt. Hon. Gavin Strang, MP

i. The Intelligence and Security Committee (ISC) is established under the Intelligence Services Act 1994 to examine the expenditure, administration and policy of the United Kingdom's three intelligence and security Agencies: the Security Service, the Secret Intelligence Service (SIS) and the Government Communications Headquarters (GCHQ). The Committee also takes evidence from the Security and Intelligence Co-ordinator, the Chairman of the Joint Intelligence Committee (JIC) and the Defence Intelligence Staff (DIS), as well as from departments and other organisations that receive secret intelligence from the Agencies.

ii. The Prime Minister, in consultation with the leaders of the two main opposition parties, appoints the Committee from members of both Houses of Parliament. Nominations are put forward by the Government and opposition parties' whips, in a broadly similar way to the nomination of select committee members in the House of Commons.

iii. 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.

iv. The Committee is required by the Act to produce an Annual Report on the discharge of its functions, which the Prime Minister is required to lay before Parliament, and the Committee can and does 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.

CONTENTS

The Intelligence and Security Committee	Page iv
Glossary	Pages 2–3
Introduction	Pages 4–6
The Threat	Pages 4–5
Work Programme	Pages 5–6
The Intelligence Community	Pages 7–10
The Security and Intelligence Co-ordinator	Pages 7–8
The Defence Intelligence Staff	Page 9
The Joint Intelligence Committee and Assessments Staff	Pages 9–10
Expenditure and Resources	Pages 11–16
Single Intelligence Account	Pages 11–12
Security Service	Pages 12–14
SIS	Pages 14–15
GCHQ	Pages 15–16
BBC Monitoring	Page 16
Administration	Page 17
Pensions	Page 17
Non-executive Directors and Board Advisers	Page 17
Policy	Pages 18–21
Joint Working and the Efficiency Adviser	Pages 18–19
Vetting	Pages 19–21
<i>Nationality Rules</i>	Pages 20–21
Iraqi Weapons of Mass Destruction	Pages 22–24
Implementation of the Butler Review	Pages 25–26
SCOPE	Pages 27–28
Economic Well-being	Page 29
Serious and Organised Crime	Page 29
The Agencies’ Relationship with the Media	Pages 30–31
Legislation	Pages 32–33
Official Secrets Acts	Page 32
Intercept as Evidence	Pages 32–33
Conclusions and Recommendations	Pages 34–35
Annex A – Those Who Have Given Oral Evidence	Pages 37–38

GLOSSARY

BIG	Butler Implementation Group
BW	Biological Weapons
CDI	Chief of Defence Intelligence
CSI	Ministerial Committee on the Intelligence Services
CW	Chemical Weapons
DA	Defence Advisory [Committee]
DIS	Defence Intelligence Staff
FBIS	Foreign Broadcast Information Service (USA)
FCO	Foreign and Commonwealth Office
GCHQ	Government Communications Headquarters
HUMINT	Human [sourced] Intelligence
ISG	Iraq Survey Group
IT	Information Technology
JIC	Joint Intelligence Committee
JTAC	Joint Terrorism Analysis Centre
JWI	Joint Working Initiative
MoD	Ministry of Defence
NAO	National Audit Office
PCSPS	Principal Civil Service Pension Scheme
PJHQ	Permanent Joint Headquarters
PSIS	Permanent Secretaries' Committee on the Intelligence Services
PSX	Cabinet Committee on Public Services and Public Expenditure
SIA	Single Intelligence Account
SIS	Secret Intelligence Service

SO	Official Committee on Security
SOCA	Serious and Organised Crime Agency
SR2004	Spending Review 2004
UKIMN	UK Intelligence Messaging Network
UNSC	United Nations Security Council
UNMOVIC	United Nations Monitoring, Verification and Inspection Commission
WMD	Weapons of Mass Destruction

INTRODUCTION

1. The period between May 2004 and March 2005 has been eventful for the Agencies. They have collected intelligence on a wide range of targets to support efforts to counter terrorism, the proliferation of weapons of mass destruction and serious organised crime, as well as providing support to deployed military forces. Personnel from the Agencies have been deployed to and are currently operating in a number of hostile areas of the world, sometimes at great risk to themselves.

2. **Whilst this Report includes a number of criticisms and concerns relating to the UK Intelligence Community, we would not wish these points to overshadow the essential and excellent work that the Agencies have undertaken. As ever, much of this work will never be reported and therefore we wish to place on record our appreciation of the staff within the UK Intelligence Community. Without their work, the UK would not have been protected against terrorist attack.**

The Threat

3. In previous Annual Reports we have included a section on the threat to the UK as there was only limited information on this matter in the public domain. However, in the context of the recent debates in both Houses of Parliament on the Prevention of Terrorism legislation and control orders, more information has been made public. In addition to the information on the Security Service website,¹ the Home Office has produced a paper on the current threat and Ministers have made a number of speeches and statements on the matter.

4. We believe it is right that the public should be properly informed about the general threats to the UK, which are real and current. The threat from Irish-related terrorism has not vanished. The threat from international terrorism, essentially from Islamic extremist groups, is ever present and global in its nature and reach. Terrorist groups based overseas are capable of causing fatalities and casualties through their attacks on UK interests; since 10 September 2001 over a hundred UK nationals have died at the hand of Al Qaeda or associated networks. All of these murders occurred outside the UK.

5. It is impossible to quantify exactly the number of individuals within the UK associated with Islamic terrorism. The Security Service continues to work closely with the police and other agencies to identify and investigate UK nationals and residents who are willing to undertake terrorist activity. We have been told by the Director General that, in a significant proportion of the cases of suspected terrorism-related activity investigated by the Security Service, there is credible

¹ www.mi5.gov.uk

intelligence of involvement in such activity. The need to address the threat from these individuals is the primary reason why the Security Service is currently expanding significantly and the Agencies have been provided with additional funding.

Work Programme

6. Since our last Annual Report,² completed on 26 May 2004 and published on 28 June that year, we have continued to take evidence from the whole of the UK Intelligence Community, as well as performing 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 *Handling of Detainees by UK Intelligence Personnel in Afghanistan, Guantanamo Bay and Iraq*, which we had initiated in the previous year and was published on 10 March 2005. Completion of the special Report reduced the time available to complete this year's work, which has been further shortened by the expectation that there will be a general election in May 2005 and our wish to publish this Report before Parliament is dissolved.

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

- a. the Single Intelligence Account (SIA) and the expenditure, administration and policy of the Security Service, SIS and GCHQ;
- b. the role of the Security and Intelligence Co-ordinator;
- c. the Assessments Staff;
- d. the implementation of the Butler Review's recommendations;
- e. the SCOPE programme;
- f. legislation;
- g. the Agencies' relations with the media; and
- h. safeguarding the UK's economic well-being.

8. In the course of our work we have taken evidence from the Foreign, Home, Defence and Trade Secretaries, as well as the Cabinet Secretary, the Security and Intelligence Co-ordinator, the Heads of the Agencies, the Chief of Defence Intelligence and other senior officials and military officers. We also took evidence from members of the written and broadcast media. A full list of witnesses is at Annex A.

9. Within the UK, we visited the three Agency headquarters, the SIS training facility, RAF Menwith Hill, the GCHQ facility at Bude and the Defence Intelligence Staff. We also visited UK intelligence personnel based in the USA and ***. During the course of the year, a delegation attended the 2004 International Intelligence

² Cm 6240

Review Conference, which was hosted by the USA and held in the Washington DC area. The conference is held every two years (the UK hosted the 2002 event) and the 2004 conference was attended by representatives from the oversight bodies of the intelligence and security organisations in Australia, Canada, New Zealand, Nigeria, Poland, Slovakia, South Africa and the USA. The Committee also discussed oversight matters with Ministers, Parliamentarians and senior officials from Australia, Bulgaria, Canada, France, Germany, Indonesia, Italy, Japan, Jordan, Peru, the Philippines, Romania, Singapore, South Korea, Sweden and the USA.

THE INTELLIGENCE COMMUNITY

The Security and Intelligence Co-ordinator

10. The position of Security and Intelligence Co-ordinator was created in the summer of 2002. It was designed to allow the Cabinet Secretary to hand over his responsibility for the security and intelligence functions, and for the new task of developing resilience and crisis management capability within the Civil Service, to an experienced Permanent Secretary. When we were informed about the plan to create the position, we were concerned to ensure that the standing of security and intelligence matters, including the co-ordination of the Agencies and the proper management of their budgets, was not being diminished. In 2002, we discussed the planned apportionment of responsibility with the Cabinet Secretary, Sir Andrew Turnbull, and Sir David Omand, who had been appointed as the first Security and Intelligence Co-ordinator. They stressed that the main reason for the creation of the position was the need to have an individual in place who could devote significant time to security, intelligence and resilience matters in an evolving threat environment.

11. We revisited the rationale behind the creation of the Security and Intelligence Co-ordinator position with Sir Andrew Turnbull in September 2004, who said that:

“The Cabinet Secretary has a role of ensuring good conduct of government business so that proper decisions are taken and that proper advice gets to the Prime Minister. There are some areas of advice which are particularly mine: machinery of government, propriety and ethics, and so on. In the past, intelligence and security has also been one of those areas that the Cabinet Secretary has had some responsibility for. Now you could say this is slightly anomalous as I am not the direct source of advice on economy, foreign affairs, social affairs, so why is the Cabinet Secretary particularly the pinnacle of this advice chain going to the Prime Minister? I don’t think it is absolutely necessary... in other words, intelligence and security [advice should be] dealt with in the same way. My job is to make sure it is provided and there are the right structures.

“The decision we took, which I think we discussed the last time I was here, was that post-9/11 there was a major change. The whole demands of security had changed, in that we had gone away from a world where you kind of knew your enemy; in the Cold War or Republican terrorism, you knew kind of what they intended to do and the degree of violence they could inflict upon you. We are not in that world any more – we haven’t the faintest idea what are the limits. In the last week [the terrorist siege and massacre at the school in Beslan, Russia] there are no limits any more...it is a much more difficult world to cope with. So we had a growing requirement, but also three very high-class Agencies, a well-regarded co-ordination mechanism, but a gap around what the Americans call ‘homeland security’.”

12. We accept the case for the creation of the Security and Intelligence Co-ordinator position. We believe that Sir David Omand has performed the necessary leadership role within the intelligence community by achieving consensus and workable solutions to the challenges that he faced – such as the creation of the Joint Terrorist Analysis Centre (JTAC). He has also spent a considerable amount of his time developing and implementing the UK’s counter-terrorism strategy as well as developing the Government’s civil contingencies and resilience programmes and links with allies.

13. Sir David has decided to retire early in April this year. We have been informed that Mr Bill Jeffrey, currently Director General of the Immigration and Nationality Directorate in the Home Office, has been appointed to replace him in this Permanent Secretary position. He will have, in addition to his membership of the Joint Intelligence Committee (JIC), the following responsibilities:

- a. Principal Accounting Officer for the Single Intelligence Account;
- b. chairing the Permanent Secretaries’ Committee on the Intelligence Services (PSIS);
- c. chairing the central Official Committee to ensure delivery of CONTEST, the UK’s five-year counter-terrorism strategy;
- d. Deputy Chair of the Civil Contingencies Committee;
- e. co-chairing the US/UK Joint Contact Group on Homeland Security;
- f. chairing the Official Committee on Security (SO);
- g. oversight of the Civil Contingencies Secretariat; and
- h. oversight of the Intelligence and Security Secretariat, which includes the JIC Chairman and the Assessments Staff.

14. While it is not mentioned in this list of responsibilities, the Security and Intelligence Co-ordinator also provides support to the Ministerial Committee on the Intelligence Services (CSI), which is the only Cabinet Committee with an overview of the Agencies and the rest of the intelligence community. CSI, as we have previously noted,³ is chaired by the Prime Minister and has the Deputy Prime Minister, the Chancellor of the Exchequer and the Foreign, Home and Defence Secretaries as members. **CSI has not met again since it met in December 2003, which was the first time in over seven years. This is a disappointment to us because our view is that it should meet regularly to enable collective discussion by Ministers of intelligence priorities and developments. At present, Ministers discuss intelligence only in the context of crisis or single-issue meetings.**

³ Cm 6240

The Defence Intelligence Staff

15. The Committee received two detailed briefings from the DIS, which covered its collection and analysis activities. The Chief of Defence Intelligence (CDI), Lieutenant General Andrew Ridgway, is responsible within the Ministry of Defence (MoD) for intelligence policy, collection and analysis, even though not all the intelligence elements within the Armed Forces are under his command. This is because some military intelligence formations, when deployed, are commanded by the military force commander in that theatre as their own collection and analysis organisations. Other service personnel are controlled directly by GCHQ under long-standing agreements.

16. The DIS is beginning to increase its human intelligence (humint) collection capability, which will provide military force commanders with the ability to obtain humint within their areas of responsibility. This has involved recruiting and training more agent handlers from within the Armed Forces. Additionally, the DIS is improving its speed and method of handling imagery through the introduction of new technology, which will also aid the distribution of imagery-based products within the intelligence community. **We will monitor the progress of these and other DIS developments.**

The Joint Intelligence Committee and Assessments Staff

17. We took evidence from the JIC Chairman and the Chief of Assessments Staff on the work of the Assessments Staff, the process for setting the UK National Intelligence Requirements and the current set of Intelligence Requirements and Priorities.

18. In our last Annual Report,⁴ we recorded our intention to examine the structure, training and resources of the Assessments Staff, together with the internal systems and record keeping within the Intelligence and Security Secretariat in the Cabinet Office. While we have taken evidence on some of these matters, there have also been a number of developments resulting from the Government's work to implement the recommendations of the Butler Review, which include increasing the size and resources of the Assessments Staff. **We will comment on these changes and monitor their implementation.**

19. We note that the *Annual Review by the JIC Chairman: 2003–2004* was only recently sent to Ministers on CSI. This document, which covered the period September 2003 to July 2004, was designed to give an insight into the Agencies' performance in relation to the requirements that had been placed on them. It also

⁴ Cm 6240

identified the intelligence successes during the period and highlighted collection gaps and the requirements that the Agencies had been unable to fulfil. In order to obtain the full benefit of these reviews, we believe that they need to be considered by the JIC and Ministers before the next year's requirements and priorities are endorsed. Delaying the submission of this review to Ministers for over six months means that its timeliness and usefulness are diminished. **We recommend that in future Ministers should see the *Annual Review by the JIC Chairman* within two months of its completion, so as to enable it to be taken into account before the next year's Intelligence Requirements and Priorities are endorsed.**

EXPENDITURE AND RESOURCES

Single Intelligence Account

20. In the Spending Review 2004 (SR2004), the Government significantly increased the funding available to the Agencies in recognition of the priority it attaches to the fight against international terrorism. The bulk (73%) of the additional funds will fund the planned step increase in Security Service strength and represents a real terms average increase of 66% in the Security Service's baselines. 21% of the additional funds will be allocated to the SIS to provide additional counter-terrorism effort, in particular covert action against terrorist and proliferation targets. The remaining 6% will allow GCHQ to improve coverage of the terrorist target. The details of the funding are covered later in this section.

21. In previous years we have reported that the Agencies did not spend their full allocation and they have consequently rolled the funding over as end-year flexibility. 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 SIA. This has allowed the bids presented by the Agencies to PSX (the Cabinet Committee on Public Services and Public Expenditure) to be funded. There is a risk that these underspends may not occur, but the Chief Secretary to the Treasury has agreed to look again at the funding should the underlying assumption prove incorrect. In the current year, £*** has been drawn down from the end-year flexibility reserve for the Agencies.

22. The funding for the Agencies is given below:

£ million	Actual 2002–03	Actual 2003–04	Provisional 2004–05	Plans 2005–06	Plans 2006–07	Plans 2007–08
SIA total						
Resource	940.0	1,060.4	1,156.8	1,156.4	1,266.0	1,324.0
Capital	121.8	509.9	156.9	204.9	214.0	229.0
SIA level adjustment						
Resource					***	***
Capital					***	***
GCHQ						
Resource	***	***	***	***	***	***
Capital	***	***	***	***	***	***
SIS						
Resource	***	***	***	***	***	***
Capital	***	***	***	***	***	***
Security Service						
Resource	***	***	***	***	***	***
Capital	***	***	***	***	***	***

Notes:

- GCHQ took the value of the New Building onto its books in 2003–04.
- Prior to 2004–05, the Security Service and SIS Resource Account included the cost of pensions. These pensions are now included in the Principal Civil Service Pension Scheme (PCSPS) Account. This has resulted in the SIA resource budget being reduced by some £*** per year.
- SIA level adjustment includes central funding for Information Assurance and SCOPE work and the block adjustment to allow the use of end-year flexibility.
- The provisional figures for 2004–05 are based on spending and predictions at the end of December 2004.

Security Service

23. The Security Service's Resource Account 2003–04 was successfully agreed and signed off by the Comptroller and Auditor General in mid-July 2004 with no reservations. We note that the Security Service has started its expansion programme, which will increase its 2004 operational capability by 50% by March 2008. The Service is establishing a number of regional stations around Britain to work closely with police forces and it is also establishing a Northern Operating Centre outside London. Together with additional expansion in London, these investments in facilities will cost an estimated £*** over the next three years.

24. The Service is also part-way through the project to renew its IT infrastructure, which is now estimated to cost £***. This project has given rise to a number of problems over the past couple of years and the management team within the Security Service has been changed. We have been told that the project will now deliver less capability than previously planned and it will cost at least 50% more than originally estimated, but it will be operational earlier than originally projected.

25. We are concerned that the Security Service does not yet have sufficient project managers or expertise to manage all their IT and capital projects at the same time. We have raised these concerns with the Director General, who has assured us that she is conscious of the problems and is taking steps to address them. We will continue to monitor this.

26. In paragraph 37 of our last Annual Report,⁵ we expressed concern that the delay in making the formal announcement that the Security Service would be responsible for national security tasks in Northern Ireland was inhibiting essential planning work. The majority of this paragraph was redacted with our consent from the published Report. The formal announcement was eventually made in a Written Statement by the Secretary of State for Northern Ireland on 24 February 2005 and we now repeat in full our earlier comments and concerns:

“We have been told that the decision has been taken that the Security Service will conduct national security tasks in Northern Ireland, but it has not been announced. We are concerned that the Security Service may be faced with the need to deploy additional staff and equipment to Northern Ireland without being allocated additional funding to carry out the work. We believe that it is in the Security Service’s interest that the decision be announced formally as soon as possible to allow essential planning work to take place.”

27. The Security Service, the Police Service of Northern Ireland and the Army have had only limited discussions about the transfer of responsibility, and the public announcement has now allowed them to engage in more detailed planning. However, we remain concerned that the Security Service has yet to be allocated the necessary funds to undertake this transfer, which will be fully implemented in 2007. We recognise that, in the words of the Director General, the transfer of responsibility “will be challenging to implement at a time of more general expansion and change for the Service”. **We recommend that the funding for the Security Service’s national security work in Northern Ireland, which is currently forecast to be over £*** for 2005–06, be allocated as soon as possible.**

⁵ Cm 6240

28. During the past year, the Security Service devoted 67% of its Net Resource Requirement to counter-terrorism work, of which 23% was allocated to Irish-related terrorism and 44% to international terrorism. These allocations are due to change in 2005–06, when the total Net Resource Requirement is due to increase by 14% above the 2004–05 amount. The current plans involve the counter-terrorism allocation rising to 69% of the Net Resource Requirement, which is made up of 48% for international and 21% for Irish-related terrorism. The Irish-related allocation will increase further once the Security Service has been given the additional funding necessary to conduct the national security role in Northern Ireland.

29. In last year's Annual Report,⁶ we expressed concern about the reduction of effort allocated to counter-espionage work, and both the Director General and the Home Secretary acknowledged that the UK was "*carrying some risk here*". We were told that the planned 2004–05 allocation would be 10% of the Net Resource Allocation. In the event, because of a £*** underspend on counter-terrorism that reduced the Service's total Net Resource Requirement in 2004–05, the actual allocation to counter-espionage was 11%. However, we are concerned that current planning provides for a reduction in the allocation to counter-espionage from the previous year, down to 9% of the Net Resource Requirement, which, despite the increase in funding available to the Service, is actually a real terms reduction. **We repeat the concerns we expressed last year that, because of the necessary focus on counter-terrorism, significant risks are being taken in the area of counter-espionage.**

30. Spending on Protective Security has risen in 2004–05 from the planned 12% to 13% of the Net Resource Requirement (£*** increase) because of the need to counter the terrorism threat, and a similar percentage allocation is planned for 2005–06. However, because of the reallocation of over £*** to provide external assistance in 2004–05, the Net Resource Requirement allocated to counter-proliferation fell by just under a fifth to 2%, and the allocation to serious crime fell by just over two-fifths to 4%. It is planned that in 2005–06 the allocation will return to 3% and 6% of Net Resource Requirement respectively.

SIS

31. The National Audit Office's (NAO's) work on the SIS accounts this year confirmed that the Resource Account for 2003–04 represented a "*true and fair view of the state of affairs*" and that "*the expenditure and income have been applied to the purposes intended by Parliament*".⁷ However, the audit highlighted that the high-level financial management information provided to the SIS Board was inadequate in that there was a risk of budget information being incomplete or misleading. The NAO

⁶ Cm 6240

⁷ Secret Intelligence Service Resource Accounts 2003–2004, 27 July 2004

recommended a number of improvements to the SIS system. These included improving the profiling of expenditure together with detailed explanations of variations against budgets, allowing the in-year recording of accruals and providing in-year reporting of progress against control totals.

32. The SIS has recognised the need to improve the high-level financial management information provided to the SIS Board and work is in hand to implement the NAO recommendations. We welcome these steps. However, we consider that the lack of this management information may have contributed to the significant underspends that the SIS recorded in 2001–02, 2002–03 and 2003–04 and the overspend currently being forecast for 2004–05. **We will monitor the use of the high-level financial management information by the SIS Board and its impact on budgetary control.**

33. This year, the SIS has increased the allocation of operational effort to both counter-terrorism and Middle East/North Africa collection by ***% each. Work to counter the proliferation of weapons of mass destruction (WMD) remains the SIS's second highest priority after counter-terrorism, although the allocation of operational effort has returned to its previous level due to the winding down of work on Libya and Iraq. Other collection activities have remained roughly constant.

GCHQ

34. For the second year running, GCHQ's Resource Accounts were not qualified by the NAO. The effort GCHQ devoted for over five years to this basic form of good management – accounting for both resource and capital expenditure and for tracking fixed assets – has proved worthwhile. The recent employment of a financially qualified and experienced Principal Finance Officer with commercial experience should greatly improve the timeliness and manner with which GCHQ produces its accounts. The NAO has highlighted a few areas related to the Fixed Asset Register to which further improvement can be made. Work is in hand to introduce the appropriate systems.

35. GCHQ has used the main categories of the UK National Intelligence Requirement as the basis for presenting the allocation of effort in 2005–06. In order to reflect these new categories, certain analysis effort has been transferred to different categories and therefore it is difficult to compare this year's allocated effort with that of previous years.

36. In 2005–06, GCHQ plans to devote ***% of its effort to counter-terrorism and ***% to weapons (WMD and conventional) and their proliferation. Collection on *** and *** has been allocated ***% of effort, *** ***/, *** ***/, and *** has ***% of effort. The Rest of the World has ***% of effort, and serious crime, *** and

*** are being allocated ***%. Compared with the previous period, these allocations represent small increases on ***, ***, ***, and *** – with corresponding reductions to the effort allocated to *** and ***. Effort to support deployed military forces and counter-terrorism operations has also increased.

BBC Monitoring

37. In last year's Annual Report,⁸ we commented on the valuable service that BBC Monitoring provided to both government departments and to the Agencies, a view the Government endorsed in its response.⁹ BBC Monitoring, in partnership with its US counterpart, the Foreign Broadcast Information System (FBIS), produces open-source reporting from the media in over 150 countries, which involves 100 languages. We reported that the Foreign and Commonwealth Office (FCO) was reviewing its allocation of funding for BBC Monitoring, which would cause a significant reduction in BBC Monitoring's coverage. We raised our concerns with the Prime Minister and the Foreign Secretary and initiated a Westminster Hall debate on the matter. We were then told that the funding levels for BBC Monitoring would be maintained until 2005–06 so that a strategic review could be conducted which would seek to align customer requirements better with available resources and agree a new funding regime for the future.

38. This strategic review was conducted by Sir Quentin Thomas, who will shortly be submitting his report to the Security and Intelligence Co-ordinator. Negotiations with all of BBC Monitoring's stakeholders, including government departments, continue with a view to ensuring that BBC Monitoring's important capability will be maintained and that it will remain in a position to meet the key priorities of customers. This means that funding arrangements for future years and their impact on BBC Monitoring's capacity to meet customers' requirements have yet to be agreed. **We repeat our view that BBC Monitoring provides a valuable service and we will comment on the new funding arrangements and their impact on capacity once they are agreed by stakeholders.**

⁸ Cm 6240

⁹ Cm 6241

ADMINISTRATION

Pensions

39. While staff at GCHQ have been members of the Principal Civil Service Pension Scheme (PCSPS), the staff at the SIS and Security Service only had their pension schemes broadly aligned to the PCSPS in April 2004. We questioned the Agencies about the impact the proposed reforms to the PCSPS will have on their staff. The Heads of the Agencies responded that, while it was probably too early to comment as the various internal consultation exercises had not yet been completed, the changes could have an adverse effect on recruitment and retention. The additional issue for the SIS is that the normal retirement age has been *** for qualifying grades and any compulsory increase to the retirement age would create problems.

Non-executive Directors and Board Advisers

40. In our *Annual Report 2002–2003*,¹⁰ we reported that all three Agencies had appointed non-executive directors or board advisers and that these appointments were successfully supporting the boards, bringing to them the benefits of their outside experience. In 2005, the Chief of the SIS decided that the SIS's board adviser would become a full member of the Board. The Security Service intends to appoint two new non-executive directors to its Board when the term of service of the current non-executive board advisers ends.

¹⁰ Cm 5837

POLICY

41. This Committee has been following up a specific matter relating to the recruitment and running of an SIS agent, on which inquiries were initiated by the Committee in the previous Parliament. The matter concerns the advice Ministers were given by the SIS and, separately, the FCO on the conditions under which the agent could be recruited. To date, the Committee has been unable to see these key submissions and therefore we are unable to conclude our work on this matter, and we will return to it.

Joint Working and the Efficiency Adviser

42. In our *Annual Report 2002–2003*,¹¹ we commented on the Agencies' Joint Working Initiative (JWI) and the work of the Agencies' Efficiency Adviser, on which the Committee had previously reported. The JWI and the Efficiency Adviser were products of the 1998 review of the Single Intelligence Vote to ensure that the Agencies focused methodically on opportunities for Joint Working and to identify efficiencies. The initial work of the JWI established 14 tri-Agency Joint Working Groups under a Joint Working Steering Group, and a three-year Joint Working Service Delivery Agreement that ran from April 2001 was agreed with HM Treasury. This Agreement had six aims on operational co-operation, intelligence reporting, mutual awareness, information systems, business continuity and efficiency improvements. The last of these set the target of achieving efficiency improvements through Joint Working to a total value of £6 million over the three-year period.

43. The Joint Working Service Delivery Agreement concluded in March 2004 and we were told that it had met or exceeded five of its six aims but failed to achieve the intelligence reporting aim, which had been revised and fully integrated with the SCOPE programme. In terms of efficiency improvements, the Agencies made savings and gains of £9.2 million (on a combined expenditure over the three-year period of over £3,000 million). The Joint Working Steering Group has now adopted a Joint Working Delivery Plan to complement the three Agencies' Efficiency Delivery Plans required by HM Treasury. Progress is reported every six months to the Agencies' boards and to the Security and Intelligence Co-ordinator.

44. The JWI has generated some financial savings but these can only be described as very small. We believe that the JWI can make a greater contribution to efficiency, improved co-operation and effective collaboration. This view is shared by the then JIC Chairman, Mr John Scarlett, who stated in his *Annual Review by the JIC Chairman: 2003–2004* that:

¹¹ Cm 5837

“...recent operational developments, and above all the new techniques and skills required to combat international terrorism, have introduced a new meaning to ‘Joint Working’. These we must now exploit, and be seen to exploit, to the full.”

45. We recommend that the Security and Intelligence Co-ordinator examines Joint Working, within the context of the Agencies’ Efficiency Delivery Plans and counter-terrorism work, and that he identifies further areas for improvement.

46. The Efficiency Adviser has made some recommendations on the Agencies’ collaboration on IT and he has reviewed the SCOPE programme. One of these recommendations, which the Agencies have accepted, is that they should take a joint strategic look at what their IT requirements will be in 2008. He is currently looking at the capability of the Agencies’ major IT projects to deliver the actual improvements and work benefits by which their cost has been justified, as well as advising the Agencies on implementation of the reforms agreed as part of the SR2004 Efficiency Review. **We will consider the Efficiency Adviser’s future reports.**

Vetting

47. We have, on a number of occasions, questioned senior officials about the quality of security vetting – in particular the highest level of vetting, known as developed vetting. There are six organisations that carry out vetting investigations in the UK: the Security Service, the SIS, GCHQ, the Defence Vetting Agency, the FCO and the Office of Civil Nuclear Security. We had been told that the three intelligence and security Agencies conducted more thorough vetting of their staff and consequently would not accept the vetting clearance of the other organisations without making additional enquiries. We were therefore concerned that a two-tier developed vetting system was being created or effectively existed.

48. We wrote to the Security and Intelligence Co-ordinator with our concerns in November 2003. He responded to us in January 2004 and informed us that he had set up a comprehensive review of personnel security. This review team reported to the Official Committee on Security (SO) later that year with their findings, and in November 2004 the Co-ordinator outlined them to us as follows:

- a. The overarching policy towards personnel security continued to be appropriate, but a number of weaknesses in practice were identified.
- b. While the six vetting organisations complied with existing guidelines, variations were found in: the number and nature of enquiries made of character referees; the depth of information recorded in interview reports; and the amount of risk tolerated or accepted as manageable in a particular departmental context.

- c. The intelligence and security Agencies conducted more exhaustive investigation of their staff due to the particular risks that they faced, but that did not mean such an approach should be universally applied regardless of proper risk management judgements.
- d. The review recommended that a ‘baseline developed vetting’ standard that commanded confidence across the community be re-established.
- e. Greater central oversight of personnel security standards was needed, together with additional powers to ensure that the vetting authorities applied them.

49. The Official Committee endorsed the review’s recommendations and implementation programme. It formed a subcommittee to oversee the implementation programme, which it was estimated would take approximately 18 months. While the intelligence and security Agencies would continue to operate a ‘gold standard’ of developed vetting for their own needs, one of the early tasks for the subcommittee would be to propose and agree the new baseline standard of developed vetting.

50. We note that our concerns about the developed vetting standards have been investigated and that a programme is in place to establish a baseline standard of developed vetting that the whole community can accept. The work now being undertaken across the community to establish and maintain the standards of developed vetting is encouraging. We will monitor this work.

Nationality Rules

51. In last year’s Annual Report,¹² we reported that “*the effect of the additional nationality requirements on successful recruiting needs to be examined further*”. We were concerned that these nationality rules were not sufficiently flexible to allow individuals with key language skills, such as naturalised immigrants and the children of immigrants, to join the Agencies. We also noted that GCHQ had established a specialist office in which people who could not be granted the highest levels of security clearance would be able to work on appropriate material.

52. The Committee has examined the nationality rules used by the Agencies and other government departments, which form part of the vetting process. Candidates must be British citizens, with one parent either also a British citizen or with substantial ties with the UK. British nationality can have been acquired by any lawful means, whether by birth, descent, registration or naturalisation. The nationality rules also state that candidates must normally have been resident in the UK for 10 years prior to the date of application, although the Agencies told us that

¹² Cm 6240

they are willing to consider a five-year minimum wherever possible. If the Agencies wish to employ someone who does not meet the above criteria but the vetting team is satisfied with the candidate's reliability, they are, under current procedures, obliged to seek a waiver of the nationality requirements from the relevant Secretary of State.

53. Currently, 15% of the candidates for the SIS reaching the first recruitment stage (completing an application form) are from ethnic minorities, which is more than double the Agency's target of 7%. In 2004–05, 9% of new staff members were from ethnic minorities, although the SIS has not applied for a nationality waiver for 16 years. GCHQ also told us that it had not applied for any nationality waivers in the past year. In 2004–05, over 17% of the Security Service's applicants were from ethnic minorities, with 8% of the staff actually recruited from ethnic minorities. The Security Service applied for and obtained a nationality waiver during the same period.

54. The Foreign and Home Secretaries¹³ shared our concerns about the Agencies' ability to recruit members of ethnic minorities and those with key language skills. The Foreign Secretary is looking at language training in the UK as a general issue and we will monitor the situation.

55. The process of obtaining a nationality waiver seems to be unnecessary. It is not needed until after the Agency has already conducted a 'gold standard' developed vetting of the individual. We do not understand why the final decision to employ the individual has to be made by a Minister rather than by the Head of the Agency. **We recommend that the current process of requiring Agencies to apply to a Secretary of State for a nationality waiver be reviewed.**

¹³ Evidence from the Foreign Secretary, 13 January 2005, and evidence from the Home Secretary, 20 January 2005

IRAQI WEAPONS OF MASS DESTRUCTION

56. We have done a significant amount of work in the past few years reviewing the UK Intelligence Community's work to assess and counter the threat from WMD and their proliferation. As part of this work, we also identified the need to examine the Assessments Staff and the relationship between the component parts of the intelligence community.

57. In February 2004, the Prime Minister appointed Lord Butler of Brockwell to chair a committee of Privy Councillors to review the intelligence and assessments relating to WMD programmes within countries of concern, including Iraq, and how they are used within government. This body, known as the Butler Review, included two members of this Committee and it reported on 14 July 2004.¹⁴

58. The Prime Minister accepted all the recommendations of the Butler Review.¹⁵ The Review suggested that this Committee monitor the work on two key recommendations:

- a. that the Chief of the SIS should ensure that the effective scrutiny and validation of humint sources, and of their reporting, is properly resourced and organised; and
- b. that a review of the size of the Assessments Staff, and the consideration as to whether there should be a specialism of analysis with a career structure, be conducted.

59. As we had already announced that we were looking at the Assessments Staff in our *Annual Report 2003–2004*,¹⁶ which was published in June 2004, we agreed to undertake the additional monitoring work suggested by the Butler Review.

60. On 20 July 2004, in response to a question in the House of Lords, Baroness Symons of Vernham Dean confirmed that the SIS had formally withdrawn the line of Iraqi WMD-related intelligence, which had been reported by the Butler Review as having been withdrawn, in July 2003. This line of reporting had been important in the crafting of the September 2002 dossier as the Prime Minister, the Foreign Secretary and a small number of officials had been orally briefed on it by the SIS, but it had been withheld from WMD experts in the DIS. We do not believe that this was the appropriate way of handling the material.

61. Baroness Symons also stated that Sir Richard Dearlove had informed the Intelligence and Security Committee about this withdrawal at the time, when we

¹⁴ Review of Intelligence on Weapons of Mass Destruction, *HC 898*

¹⁵ 14 July 2004, *Hansard column 143*, and 20 July 2004, *Hansard column 195*

¹⁶ *Cm 6240*

were taking evidence for our *Iraqi Weapons of Mass Destruction – Intelligence and Assessments Report*.¹⁷ It then became apparent that, while we had been told in July 2003 that the SIS was withdrawing this line of reporting, the Foreign Secretary was not informed until September 2003, and this was solely because he had to authorise our access to this reporting. The Prime Minister was informed only when the Butler Review was published in July 2004.

62. We recommend that Ministers are informed forthwith of any withdrawal or amendment by the issuing Agency of an intelligence report upon which they have been briefed.

63. On 12 October 2004, the Foreign Secretary announced that a further two lines of SIS reporting on Iraqi WMD had been withdrawn.¹⁸ These lines were highlighted in the Butler Review as being “*open to doubt*” and “*seriously flawed*”. **We are concerned at the amount of intelligence on Iraqi WMD that has now had to be withdrawn by the SIS.**

64. In December 2004, the JIC reviewed their key judgements on the Iraq WMD capability and programmes – some of which had formed the basis of the September 2002 dossier – following the withdrawal of SIS intelligence and the Iraq Survey Group (ISG) reports. It noted that the examination of documents seized post-conflict was continuing and that some small-scale investigations might also be conducted, and came to the following judgements:

- a. Nuclear weapons – The 2002 JIC judgement that “*Iraq is pursuing a nuclear weapons programme. But it will not be able to indigenously produce a nuclear weapon while sanctions remain in place*” was wrong in that Iraq was not pursuing a nuclear weapons programme, but correct on Iraq’s nuclear ambitions and its inability to produce a nuclear weapon under sanctions.
- b. Ballistic weapons – In 2002, the JIC judged that “*Iraq retains up to 20 Al-Hussein ballistic missiles*”. This has not been substantiated. The 2002 JIC judgement that “*Iraq has begun development of medium-range ballistic missiles over 1,000 km*” has been partially substantiated: the ISG found that Iraq had authorised its scientists to develop missiles with ranges in excess of the 150 km UNSC [United Nations Security Council] limit (a number of which were destroyed under UNMOVIC [United Nations Monitoring, Verification and Inspection Commission] supervision before the war), and had designs for missiles with ranges up to 1,000 km.
- c. Chemical weapons (CW) – In 2002, the JIC judged that “*Iraq may retain some stocks of chemical agents...Iraq could produce significant quantities of*

¹⁷ Cm 5972

¹⁸ 12 October 2004, Hansard column 153

mustard within weeks, significant quantities of Sarin and VX within months, and in the case of VX may already have done so.” Although a capability to produce some agents probably existed, this judgement has not been substantiated. The ISG found that Saddam intended to resume a CW effort once sanctions were lifted.

- d. Biological weapons (BW) – In 2002, the JIC judged that *“Iraq currently has available, either from pre-Gulf War, or more recent production, a number of biological agents...Iraq could produce more of these biological agents within days.”* The ISG found that Iraq had dual-use facilities which could have allowed BW production to resume, but not within the timeframes judged by the JIC, and found no evidence that production had been activated. The ISG found that Saddam probably intended to resume a BW programme if and when the opportunity arose.
- e. Intentions and scenarios – In 2002, the JIC judged that *“Saddam...might use CBW...against coalition forces, neighbouring states and his own people. Israel could be his first target.”* Although reporting which informed this judgement was subsequently withdrawn, based on Iraq’s actions pre-1991 and during the first Gulf War this would have remained a reasonable judgement.

IMPLEMENTATION OF THE BUTLER REVIEW

65. On 15 November 2004, in a Written Ministerial Statement, the Foreign Secretary gave an update on the work undertaken since the Butler Review had been published four months earlier. He stated that:

“...A detailed programme of work is now under way to take forward work dealing with those conclusions.

“As part of this work, Sir David Omand, the Security and Intelligence Co-ordinator, has established a committee of senior officials that will meet regularly to oversee the various strands of work under way to implement the recommendations of the Butler Review.

“In addition, a dedicated Study Team led by a senior FCO official is considering Lord Butler’s specific recommendations relating to the role, size and shape of the central Assessments Staff and the wider analytical support the intelligence community receives. The Study Team will present its final report in the new year.

“The Intelligence and Security Committee is being kept informed of the progress of this work.”

66. The Security and Intelligence Co-ordinator established a senior committee under his chairmanship, known as the Butler Implementation Group (BIG). It identified four main areas, in each of which it tasked others to bring forward plans and implementation programmes:

- a. work in the SIS to improve source validation and evaluation and avoid unduly strict compartmentalisation of sensitive intelligence;
- b. DIS involvement in the intelligence community;
- c. review of the role, size and shape of the Assessments Staff; and
- d. examination of the need for an analyst specialism.

67. We took evidence from the Chief of the SIS in October 2004 on the work to improve source validation and evaluation. These matters had been identified by the Butler Review as a problem area because the ‘Requirements’ function, which was responsible for quality assurance, the Case Officers who ran the agents and the ‘Production’ function had all been brought together into a unified team. These independent functions had all become “*subjected to the operational imperative of the team leader to produce results*”.¹⁹ Moreover, more junior officers were being put into the ‘Requirement’ posts. The SIS had reviewed their procedures and found that,

¹⁹ Review of Intelligence on Weapons of Mass Destruction, HC 898

while the existing formal procedures for agent evaluation were adequate, they had not been applied across the board nor recorded systematically.

68. We were told that the SIS had now appointed a senior officer to be responsible for the accuracy (in terms of both validation and correct evaluation of the product) of intelligence reports issued by the SIS. In order to guarantee impartiality, this senior officer reports to two different members of the SIS Board, only one of whom is responsible for operations. Within each of the SIS operational areas, a Head of Reporting has been created who reports to both the head of the operational area and to the new senior officer. Within each operational area there are a number of unified teams who run agents and produce intelligence. The officers responsible within these teams for producing the intelligence reports now report to the Head of Reporting within the operational area and are therefore no longer managed by the operational team leaders. The new structure to support the new senior officer will account for ***% of the operational effort of the SIS.

69. Under the control of the Butler Implementation Group, the DIS, the Assessments Staff and the JIC have conducted a review of how best to implement the Butler recommendations and improve the work of these bodies. We were briefed on the plans and ideas that developed from this work by Sir David Omand, the JIC Chairman and leader of the Study Team. The plans and the associated implementation programme were agreed by Ministers in mid-March 2005 and the Government published a Command Paper²⁰ outlining them on 23 March 2005. **The proposals to implement the recommendations of the Butler Review and the corresponding changes have only just been agreed by the Government and are in the process of being fully implemented. These are important changes and we will comment in due course on their implementation and to what extent they are appropriate and effective.**

²⁰ Cm 6492

SCOPE

70. The Committee has continued to take evidence on SCOPE. This ambitious programme, which is aimed at fundamentally changing the way the UK Intelligence Community interacts through the introduction of a secure web-based information system, links the 10 main producers and consumers of intelligence. The SCOPE programme is the responsibility of Mr William Ehrman, the JIC Chairman, in his capacity as Head of the Intelligence and Security Secretariat in the Cabinet Office. In previous Annual Reports,²¹ the Committee has warned that the SCOPE programme needed to address a number of key considerations, such as security and funding, as a matter of some urgency.

71. During the course of the past year, there have been a number of significant developments. In early 2004, a new post, the Director Security and Intelligence, was created to support the JIC Chairman's oversight of the SCOPE programme. This is in addition to the SCOPE Director, Dr Michael Taylor, who actually runs the programme.

72. The programme has successfully demonstrated two pathfinder systems: one for handling the most sensitive material and the other a Limited Operational Capability system, which linked elements of GCHQ with the DIS. The contract for Phase 1 of SCOPE has now been awarded. It covers the linking of the Home Office, Department of Trade and Industry, HM Customs and Excise and the National Criminal Intelligence Service to the UKIMN (UK Intelligence Messaging Network) and the introduction of other capabilities. Phase 1 is now due to be completed by April 2006, several months later than the original schedule. Building work has started on the data storage and management system for the SCOPE system, which will be housed in new purpose-built secure premises.

73. Progress has also been made on Phase 2, with two potential suppliers selected for the next stage of contract development. The aim is to award a contract towards the end of this year. The Phase 2 programme, which will be introduced in three increments, will initially connect all the counter-terrorism specialists in all 10 customer Agencies and departments, including JTAC. There has been a significant amount of slippage to this final phase of SCOPE. The first terminals are now to be installed by the end of 2005 and the programme not completed until the end of 2007. In 2001, we were informed that SCOPE was scheduled to be in place by 2004, which means that SCOPE will be delivered over three years later than originally envisaged. Since 2001, SCOPE has been redefined and a significantly more robust programme, with better risk management, developed.

²¹ Cm 6240 and Cm 5837

74. Mr Ehrman has assured us that the SCOPE programme has sufficient funding in the period 2005–08 and he is confident that any future security-related problems will be managed by the programme staff and those responsible for accreditation of IT systems.

75. We were also briefed on how the SCOPE programme would be integrated with the customer Agencies' and departments' own IT systems. Currently, the MoD plans to link SCOPE with its UKINTELWEB (UK Intelligence Web) programme, which is an internal network for intelligence products. Unfortunately, UKINTELWEB is not due to enter service until the end of 2007 at the earliest and the security considerations relating to SCOPE have not been addressed. There are plans for SCOPE terminals to be provided to the MoD in the short term to allow intelligence material to be seen by elements of the MoD, such as policy makers, the DIS, the Permanent Joint Headquarters (PJHQ) and deployed forces.

76. We note that considerable progress has now been made on the SCOPE programme – although critical issues such as the award of the contract for Phase 2 have yet to be completed. SCOPE will be over three years late, but the delay has allowed a significantly more robust programme, with better risk management, to be developed. However, the Committee remains concerned that SCOPE has yet to deliver any usable benefits to the UK Intelligence Community as a whole.

ECONOMIC WELL-BEING

77. We took evidence from Ministers, departments and the Agencies on the Agencies' work to support and safeguard the UK's economic well-being. This is an important topic, with a large number of departments and government organisations having an interest in it. We note that there is not a common definition across Whitehall of what constitutes economic well-being and we believe that, because of the number of interested bodies, there is a clear need for more co-ordination on the setting of priorities and requirements. We also believe that greater effort could be spent in analysing the usefulness of the collected material. We raised these matters with the Foreign and Trade Secretaries, who agreed to look at them further. We await the results of this work and we will take further evidence in due course.

SERIOUS AND ORGANISED CRIME

78. The Agencies have continued to undertake work to prevent and disrupt serious and organised crime. Additionally, law enforcement agencies have also provided support (***) to the intelligence and security Agencies, particularly in the counter-terrorism context. We reported last year²² the Government's plan to establish the Serious and Organised Crime Agency (SOCA) and to build "*on the intelligence capability already available across law enforcement and security and intelligence Agencies*".²³ We noted that the Government planned to produce a new crime-related national intelligence requirement by June 2004.

79. We questioned the Home Secretary about developments in this area and about the Serious Organised Crime and Police legislation. We were told that the new national intelligence requirement was still not completed but it would be produced by summer 2005. The Home Secretary stated that the establishment of SOCA would not reduce the support provided by the law enforcement agencies to the intelligence and security Agencies. He also expected the intelligence community to continue to support the law enforcement agencies, including SOCA.

²² Cm 6240

²³ One Step Ahead – A 21st Century Strategy to Defeat Organised Crime, Cm 6167

THE AGENCIES' RELATIONSHIP WITH THE MEDIA

80. We have previously said that we would be taking evidence on the Agencies' relationship with the media. In our Report *Iraqi Weapons of Mass Destruction – Intelligence and Assessments*,²⁴ we described the formal relationship as follows:

“Press enquiries about the Security Service and SIS are handled by the Home Office and FCO press offices respectively. GCHQ has its own press officer, who is authorised to offer on-the-record statements about local community and organisational matters. Additionally, the Heads of the Agencies, and nominated senior staff members, are authorised to have contact with the media. The JIC and the DIS do not have a direct relationship with the media; contact is handled through the Cabinet Office and MoD press offices respectively.”

81. In our last Annual Report,²⁵ we stated that we would welcome the views of the media on the state of the relationship between them and the Agencies. We had a number of responses to this and we examined the links (official and otherwise) between the media and the Agencies. As part of this work, we took evidence from members of both broadcast and printed media outlets and from the Secretary to the Defence Advisory (DA) Committee.

82. The DA Committee, a voluntary body made up of media and official representatives, plays an important role in respect of intelligence and security-related stories. The DA Committee has no powers to prevent stories from being published, but it issues notices, agreed by all its members, that are designed to protect sensitive and classified information. The purpose of the notices is to highlight the type of information that needs to be protected. The Secretary of the DA Committee assists the media and officials to agree what details can be published. A number of our media witnesses were complimentary about the work of the Secretary and happy with the workings of the DA Committee.

83. Both GCHQ²⁶ and the Security Service²⁷ have websites that provide readers with a range of information. Both have vacancy and employment details. The Security Service, which exists to protect the national security of the UK, recognises the importance of public support for its work and it publishes on its website important information about the threat to the UK as well as protective security advice. It also publishes the effort it allocates to a number of tasks, together with information on budgets and staff numbers.

²⁴ Cm 5972

²⁵ Cm 6240

²⁶ www.gchq.gov.uk

²⁷ www.mi5.gov.uk

84. Currently, a number of media outlets have a journalist ‘accredited’ to the Security Service and/or the SIS; these journalists are able to contact the Services for guidance. In turn, they are briefed by the Security Service or the SIS about matters relevant to the Services. The agreement between the Agencies and journalists is that all these contacts are off-the-record and must not be quoted directly. An example of this contact was the briefing about post-Butler Review reforms within the SIS, which was given to some journalists by the SIS and led to various news reports on 12 January this year. Both the Security Service and the SIS told us that they deal only with journalists who have a reputation for discretion and professionalism.

85. Most of the witnesses from the media were content with the current mechanisms for contacting the Agencies. They commented that the Security Service was perhaps the easiest Agency to deal with, which they attributed to the Service’s public protection role and need to communicate with the public at large, and that the SIS was the most difficult. The current arrangements for removing sensitive information from media stories have their strengths and our witnesses from the media were broadly content with them.

86. Tension exists between the wish of the media to publish stories about the Agencies’ work and the Agencies’ need to protect their work, sources and methods. Traditionally, the Government and the Agencies have “*neither confirmed nor denied*” stories as they “*do not comment on intelligence matters*”. The media have published stories concerning the Agencies that they have been unable to check or verify and have consequently been seriously incorrect on occasion. This tension has become greater and gained additional importance as the Agencies have acquired a more prominent position in the public consciousness. This has happened because of the Government’s publication of intelligence-derived material and because of the understandable media interest in the terrorist threat and the steps being taken to deal with it.

87. The increased competitiveness of the media and the establishment of 24-hour news programmes have resulted in an inexorable rise in the demand for stories. A further complication is that the public now questions the Agencies’ ability to produce accurate intelligence, which puts pressure on the Agencies to show how and when their intelligence was accurate and useful.

88. The Government is trying to balance the need to inform people about issues that affect them, such as the terrorist threat to the UK, whilst still protecting the Agencies’ work. This is a difficult balance, which requires further thought.

LEGISLATION

Official Secrets Acts

89. In last year's Annual Report,²⁸ we noted that the Official Secrets legislation had developed over a number of years and that anomalies had developed on matters such as penalties and the type of offences. We recommended that "*the time has come to consider whether a new Act would be the appropriate way forward*".

90. When asked if he had looked at our recommendation, the Home Secretary told us earlier this year:

"I have. I have seen it and I absolutely understand and, by the way, accept the need that has been identified. In particular, we accept there is a need to amend section 1 of the 1989 Act. But the question is one of priority and legislative time and how to deal with that, but I think what I need to say to you on this is I do want to give it priority and I am ready to do so."

91. While we wait for the Government's proposals on the amendments to the Official Secrets Acts, we believe that this new legislation would benefit from pre-legislative scrutiny. We will monitor developments and comment as necessary.

Intercept as Evidence

92. We have previously reported on "*our discussions with the Prime Minister and other Ministers on whether intercepted material should be available for use in prosecutions rather than solely for the purpose of intelligence gathering*".²⁹ We also reported that work had started in 2003 on reviewing this policy and was due to be completed in June 2004. The multi-agency steering group produced a classified report³⁰ for Ministers in June 2004, which was the fifth occasion in the last 10 years that reports on this matter had been produced for Ministers. The multi-agency group, which was chaired by the Home Office, involved the Crown Prosecution Service, the police and other law enforcement agencies, the intelligence and security Agencies, the FCO and Scottish Office. The report proposed a three warrant system, all of which would continue to be authorised by Secretaries of State or the Deputy First Minister in Scotland:

- a. Intelligence Warrants, which would be similar to current warrants in that their existence or the collected material could never be disclosed in court;

²⁸ Cm 6240

²⁹ Cm 6240

³⁰ 2003–04 Review of Intercept as Evidence

- b. Non-evidential Warrants, the product of which would be disclosable to the defence if it met the normal tests for disclosure and was not protected by public interest immunity, but it could not generally be relied on as evidence by the prosecution; and
- c. Evidential Warrants, the product of which would be treated like any other evidence.

93. On receipt of this report, the Prime Minister commissioned further work in order to establish the extent to which some of the biggest risks associated with the three warrant system could be mitigated. These included maintaining the vital co-operation between the intelligence and law enforcement Agencies ***.

This work identified a particular problem presented by the current step change in communications technology: that there was no way of reliably testing the legal model devised to deliver evidential intercept, which was firmly grounded in the current technology. We have discussed the principle and details of using intercepted material as evidence with both the Home Secretary and the Security and Intelligence Co-ordinator, have taken evidence from the Agencies and have seen the multi-agency steering group's report.

94. It was this report, in association with the further work that identified the problems surrounding technological changes, that informed the Government's recent decision not to remove the current prohibition on the use of intercepted material as evidence at this time, but to keep the matter under review. **We are aware of the reasons behind the Government's decision not to allow the use of intercepted material as evidence at this time. We will continue to examine this matter.**

CONCLUSIONS AND RECOMMENDATIONS

- A. Whilst this Report includes a number of criticisms and concerns relating to the UK Intelligence Community, we would not wish these points to overshadow the essential and excellent work that the Agencies have undertaken. As ever, much of this work will never be reported and therefore we wish to place on record our appreciation of the staff within the UK Intelligence Community. Without their work, the UK would not have been protected against terrorist attack.
- B. The Ministerial Committee on Intelligence Services (CSI) has not met again since it met in December 2003, which was the first time in over seven years. This is a disappointment to us because our view is that it should meet regularly to enable collective discussion by Ministers of intelligence priorities and developments. At present, Ministers discuss intelligence only in the context of crisis or single-issue meetings.
- C. We will monitor developments within the Defence Intelligence Staff (DIS) and we will comment on the changes to the Assessments Staff and monitor their implementation.
- D. We recommend that in future Ministers should see the *Annual Review by the JIC Chairman* within two months of its completion, so as to enable it to be taken into account before the next year's Intelligence Requirements and Priorities are endorsed.
- E. We are concerned that the Security Service does not yet have sufficient project managers or expertise to manage all their IT and capital projects at the same time. We have raised these concerns with the Director General, who has assured us that she is conscious of the problems and is taking steps to address them. We will continue to monitor this.
- F. We recommend that the funding for the Security Service's national security work in Northern Ireland, which is currently forecast to be over £*** for 2005–06, be allocated as soon as possible.
- G. We repeat the concerns we expressed last year that, because of the necessary focus on counter-terrorism, significant risks are being taken in the area of counter-espionage.
- H. We will monitor the use of the high-level financial management information by the SIS Board and its impact on budgetary control.
- I. BBC Monitoring provides a valuable service and we will comment on the new funding arrangements and their impact on capacity once they are agreed by stakeholders.

- J. We recommend that the Security and Intelligence Co-ordinator examines Joint Working, within the context of the Agencies' Efficiency Delivery Plans and counter-terrorism work, and that he identifies further areas for improvement. We will consider the Efficiency Adviser's future reports.
- K. We note that our concerns about the developed vetting standards have been investigated and that a programme is in place to establish a baseline standard of developed vetting that the whole community can accept. The work now being undertaken across the community to establish and maintain the standards of developed vetting is encouraging. We will monitor this work.
- L. We recommend that the current process of requiring Agencies to apply to a Secretary of State for a nationality waiver be reviewed.
- M. We recommend that Ministers are informed forthwith of any withdrawal or amendment by the issuing Agency of an intelligence report upon which they have been briefed. We are concerned at the amount of intelligence on Iraqi WMD that has now had to be withdrawn by the SIS.
- N. The proposals to implement the recommendations of the Butler Review and the corresponding changes have only just been agreed by the Government and are in the process of being fully implemented. These are important changes and we will comment in due course on their implementation and to what extent they are appropriate and effective.
- O. We note that considerable progress has now been made on the SCOPE programme – although critical issues such as the award of the contract for Phase 2 have yet to be completed. SCOPE is now over three years late, but the delay has allowed a significantly more robust programme, with better risk management, to be developed. However, the Committee remains concerned that SCOPE has yet to deliver any usable benefits to the UK Intelligence Community as a whole.
- P. The Government is trying to balance the need to inform people about issues that affect them, such as the terrorist threat to the UK, whilst still protecting the Agencies' work. This is a difficult balance, which requires further thought.
- Q. While we wait for the Government's proposals on the amendments to the Official Secrets Acts, we believe that this new legislation would benefit from pre-legislative scrutiny. We will monitor developments and comment as necessary.
- R. We are aware of the reasons behind the Government's decision not to allow the use of intercepted material as evidence at this time. We will continue to examine this matter.

THOSE WHO HAVE GIVEN ORAL EVIDENCE

Ministers

Rt. Hon. Jack Straw, MP – Foreign Secretary
Rt. Hon. David Blunkett, MP – Home Secretary
Rt. Hon. Charles Clarke, MP – Home Secretary
Rt. Hon. Geoff Hoon, MP – Defence Secretary
Rt. Hon. Patricia Hewitt, MP – Trade and Industry Secretary

Officials

GOVERNMENT COMMUNICATIONS HEADQUARTERS

Dr David Pepper
Other officials

SECRET INTELLIGENCE SERVICE

Mr John Scarlett CMG
Other officials

SECURITY SERVICE

Hon. Eliza Manningham-Buller
Other officials

CABINET OFFICE

Sir Andrew Turnbull KCB
Sir David Omand GCB
Mr William Ehrman CMG
Mr Tim Dowse
Mr Bruce Mann
Mr Chris Wright
Dr Michael Taylor
Other officials

FOREIGN AND COMMONWEALTH OFFICE

Mr David Richmond CMG
Other officials

MINISTRY OF DEFENCE

Lieutenant General Andrew Ridgway CB CBE

Major General Robin Brims CBE DSO

Other officials

HOME OFFICE

Mr Bob Whalley

Other officials

DEPARTMENT OF TRADE AND INDUSTRY

Mr Robert Wright

Members of the media

The BBC

Ms Helen Boaden (Head of News)

Mr Stephen Whittle

The Guardian

Mr Alan Rushbridger (Editor)

Mr Richard Norton-Taylor

The Daily Telegraph

Mr Michael Smith

The Financial Times

Mr Andrew Gowers (Editor)

The Mail on Sunday

Mr Peter Wright (Editor)

Mr John Wellington

The Sunday Times

Mr John Withrow (Editor)

