



Government Response to the
Intelligence and Security
Committee's Annual Report
2005–2006

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

JULY 2006

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GOVERNMENT RESPONSE TO THE INTELLIGENCE AND SECURITY COMMITTEE'S ANNUAL REPORT 2005–2006

The Government attaches great importance to the work of the Intelligence and Security Committee (ISC) in providing independent and effective parliamentary oversight of the security and intelligence Agencies and is grateful to it for its latest Annual Report.

The ISC's Report contains a number of conclusions and recommendations. These are set out below (in **bold**). Each one is followed immediately by the Government's response.

- 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 Government welcomes the Committee's recognition of the fact that the security and intelligence Agencies have continued to carry out a wide range of important work in what has been a particularly challenging year for them.

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.**

The Government notes the Committee's view (in paragraph 9 of its report) that combining the responsibilities of the Security and Intelligence Co-ordinator (SIC) post and the JIC Chairman role may mean that the JIC role will receive insufficient attention and that the responsibilities and interests of the SIC may clash with those of the JIC Chairman. The Committee sees any such clash arising from its view that the SIC's responsibility is "to represent the views and interests of the intelligence community to the Prime Minister", while the JIC Chairman's role is to provide "independent unbiased advice".

The SIC has a range of responsibilities for security, including his role as Principal Accounting Officer for the Single Intelligence Account. In that role his task is to ensure that the sums provided for the security and intelligence Agencies are properly spent in ways which maximise value for money from the expenditure as a whole. This requires a coherent strategy for our intelligence effort and plans and programmes matched to it. In discharging this role, the SIC works closely with the Agencies but is required to provide Ministers with independent, unbiased advice about the effectiveness of that effort. The SIC is not appointed to represent the Agencies' views and interests. It follows that the Government sees no clash between these roles. They are in fact mutually reinforcing.

The Government's decision to appoint Sir Richard Mottram to the roles of both SIC and JIC Chairman was consistent with the Butler Review's recommendation that the post of JIC Chairman be filled by someone with experience of dealing with Ministers in a very senior role. Far from devaluing it, combining the two posts has added further weight and authority to the JIC Chairman role.

The Government agrees with the importance of strengthening the opportunity for challenge and dissent at all levels across the intelligence community. The arrangements in place under the JIC Chairman are intended to ensure this.

As was explained to the Committee, in due course the Cabinet Secretary intends to review whether joining the two functions has been successful, including the issue of loading.

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.

As indicated in its response to the Committee's *Annual Report 2004–2005*, the Government is committed to making each year's Review available to Ministers in sufficient time for them to take it into account before consideration of the following year's intelligence Requirements and Priorities paper.

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.

The Government notes the Committee's comments.

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

The Government notes the Committee's intention to monitor the impact of the DIS modernisation programme.

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 Government welcomes the Committee's recognition of the efforts that have been made to build counter-terrorist capacity since 9/11, including the doubling in the Government's annual expenditure on security and counter-terrorism from £1 billion to £2 billion by 2007-08. As the Committee acknowledges, the Government has since the last Spending Review made an additional £85 million available to support the expansion of the security and intelligence Agencies. More recently, the Government has also allocated a further £34 million to the Agencies from the Central Reserve and a further £5 million from the Counter-Terrorism Pool to enable modernisation of existing capabilities. The Government agrees with the Committee that it is important to ensure that this additional funding achieves its purpose and has plans to review the delivery of its counter-terrorism and security plans and expenditure in order to inform the Comprehensive Spending Review.

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.**

The Government agrees that any programme of expansion needs to be carefully managed. Existing Security Service projects were accelerated following the July bombings but, as the Committee reflected in its *Report into the London Terrorist Attacks on 7 July 2005*, there is a need to balance the need for expansion with the need to absorb and train people effectively. Given the extent of the threat from international terrorism, difficult choices on priorities will continue to be necessary for the foreseeable future.

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, the 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.

As the ISC's report acknowledges, funding until 2007/08 has been agreed. The relevant organisations recognise the need to reach early agreement on funding levels beyond that date. The close relationship between them means that planning is proceeding unaffected.

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.

The regionalisation programme was one of those expanded and accelerated in response to the July bombings. The Security Service has always enjoyed a close and productive working relationship with the police and the regionalisation programme has already proved to be a valuable further development of that relationship.

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.

As the Committee's report reflects, the project is on schedule for completion in summer 2006, and within an agreed revised budget. The Security Service has taken steps to increase the levels of project management expertise within the Service and introduced a Centre of Excellence in project management in line with best practice guidelines set by the Office of Government Commerce.

SIS

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.

The Government welcomed the advice of the NAO in 2004/05 on the provision of high-level financial management to the SIS Board. The Government does not consider SIS has been slow to respond; the Management Information System which SIS introduced in 2005/06 provides the SIS Board with a much wider range of information than financial indicators alone.

- 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.**

SIS has introduced significant changes to its profile and recruitment in 2005/06, with the move to a public website and open recruitment. The full effect of these measures will take some time to emerge, but the Government welcomes the Committee's intention to monitor this area.

GCHQ

- 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.**

The Government notes the Committee's intention to monitor the costs and benefits of the upgrade programme.

- 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.**

The Government acknowledges the Committee's concerns and notes its continuing interest in the matter. The issue is currently at conciliation stage but may revert to arbitration, as provided for under the Partnership Agreement between GCHQ and the Civil Service unions.

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

The Government notes the Committee's interest in this matter.

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.**

The Government notes the Committee's comments.

- 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.**

The Government intends periodically to reissue the guide to readers of intelligence across government, including Ministers and officials. It agrees that it would be helpful to include this in induction material for newly-appointed Ministers and officials in posts with substantial intelligence-related content.

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

The Government notes the Committee's comments.

- 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.**

The ability of the JIC to reach a single, agreed assessment on a particular issue is one of its main strengths and is highly valued by Ministers and other senior readers. However, as the Government stated in its response* to Lord Butler's review, in cases when the JIC cannot reach consensus, dissenting views will be reflected by the JIC Chairman in a note on the front of the final JIC assessment.

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.**

The Government acknowledges that simultaneous implementation of the two Programme Phases carries a risk which the Central Programme Team and partners are working closely together to mitigate. The Programme Board has recently agreed a revised release strategy for the delivery of Phase II capability, which has drawn upon the valuable lessons already learned from Phase I.

* *Review of Intelligence on Weapons of Mass Destruction: Implementation of its Conclusions (2005)*
Cm 6492

- 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.**

The Government accepts that the cultural change issues highlighted by the Committee are very important and has recently implemented a revised business change governance structure to take account of this. The Agencies have put in place staff and structures to address the business change issues arising from SCOPE.

- 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.**

The Government welcomes the Committee's recognition of the importance of the Overseas Project. Since the Committee took evidence earlier this year, considerable progress has been made, which has included the development of a detailed design with the SCOPE Phase II supplier. It is the intention of the Central Programme Team to produce a business case that will capture the case and costs to meet the full FCO requirement.

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.**

The Government is grateful for the Committee's contribution to the debate about BBC Monitoring and notes its continuing interest.

- 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.**

The Government welcomes the Committee's recognition of the Agencies' role in promoting improved intelligence co-operation with our European partners. Effective international co-operation on terrorism remains crucial to countering the global threat.

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.

The Government notes the Committee's intention to assess the effectiveness of co-operation in this area.

Review of the Threat System

In addition to responding to the conclusions and recommendations, it may be helpful to refer to paragraph 81 of the Report, in which the Committee noted that it had not yet seen the Government's review of the threat level and alert system. The Government has now responded directly to the ISC on this point. It has also published a document explaining the system.



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