



INTELLIGENCE AND SECURITY COMMITTEE OF PARLIAMENT



PRESS RELEASE

GCHQ ACCOMMODATION PROCUREMENT: A CASE STUDY

The Intelligence and Security Committee of Parliament (ISC) has today published its Report entitled *GCHQ accommodation procurement: a case study*. The Chairman of the ISC, the Rt Hon. Dr Julian Lewis MP, said: “This is the final Report resulting from the Inquiries conducted by the previous Committee. I thank the Chair of that Committee, the Rt Hon. Dominic Grieve QC, and the former members of the ISC for their work on this.”

The two members of the ISC who served on the previous Committee, the Rt Hon. Kevan Jones MP and Stewart Hosie MP, said:

“Our intelligence Agencies receive considerable funding from the public purse and they must be careful custodians of it, just like any other part of Government. Procurement processes must be conscientiously conducted, and bear in mind that operational capabilities must be the spending priority. We therefore chose to investigate GCHQ’s procurement process for office accommodation for the newly established National Cyber Security Centre when it became apparent that their chosen option of Nova South was over twice the cost of the alternative option in Canary Wharf.

“The cost significantly exceeded the funding allocation, meaning that GCHQ is paying for the shortfall out of its main budget – money which could otherwise have been spent on operational capabilities.

“The NAO assisted us in our Inquiry: we are grateful for their considerable expertise. Their analysis unearthed a number of issues on which we subsequently questioned GCHQ and the Cabinet Office. Our Inquiry has discovered very significant shortcomings throughout the procurement process - including an arbitrary timetable, faulty criteria, ignored warnings, an absurd weighting mechanism, unjustified score changes, a ‘no-hoper’ alternative and, finally, the Principal Accounting Officer being overruled.

“From the outset, the selection criteria used were faulty: an unnecessarily tight timetable was imposed arbitrarily at the outset, resulting in excessive haste which potentially led to faulty decision-making - and to good options being summarily dismissed due to non-availability within that timescale. Locations outside London were never considered, and great emphasis was placed on finding high-end accommodation - without any case being made for that being necessary. Then, at a late stage, the location requirement was changed from the initial one of ‘tech hubs’ such as Shoreditch, to the Westminster area – despite this never being formally specified as a criterion and the case for it also not being made. This switch at such a late stage in the process meant that much of the work undertaken previously was rendered useless.

“Even disregarding the faulty criteria, it is clear that GCHQ selected Nova South against all the evidence - and warnings that it would neither be ready on time nor receive approval from the Government Property Unit.

“Nova South was around double the cost of typical Government accommodation in London: this was allowed to happen because the scoring system which GCHQ chose significantly under-weighted costs and over-weighted location. Even then, Nova South did not come out on top in GCHQ’s own scoring outcome at Shortlist stage. Nine out of the ten scores therefore appear to have been arbitrarily changed - and in direct contradiction of the criteria - in favour of Nova South by the time of the Draft Full Business stage.

“At the point of the Draft Full Business Case, Nova South had been put into a ‘Final Two’ run-off with a complete ‘no-hoper’ - a building in Canary Wharf which self-evidently did not meet what, by this point, had somehow become the driving criterion of being located in Westminster.

“Tellingly, by the time of the Full Business Case, cost-related factors had been removed as key criteria. Nova South was therefore put forward despite it being much more expensive than other options - critically, it considerably over-shot the funds originally allocated and led to other areas of GCHQ’s spending being cut. This is not the only trade-off required: given that the Nova South lease is for 15 years, further sacrifices will have to be made for these luxury offices.

“The role of ministers in the process as a whole was highly unsatisfactory, culminating in the then Chancellor overruling the then National Security Adviser’s very strong advice to reject Nova South in order to confirm what GCHQ had made clear was the only option that they would accept. In this regard we note that the then National Security Adviser failed to seek a ministerial direction.

“While the procurement process was unacceptable - with an emphasis on image rather than cost - the scope of the Committee’s Report is solely about that process, which was run by GCHQ. NCSC was at that point still not in existence, and our findings do not reflect in any way on the quality of the NCSC’s work or its overall success as a new institution. We had, for a number of years, criticised the number of different teams across Government which had overlapping roles in relation to cyber security, and the creation of the NCSC appears to have addressed our concern. We therefore welcome the establishment of a single body with responsibility in this area, even if the way in which its accommodation was selected was highly questionable.”

FULL LIST OF RECOMMENDATIONS AND CONCLUSIONS IN THE REPORT

- A. The launch date of October 2016 was an arbitrary decision by Ministers: GCHQ has made clear that there was no operational reason for it, and that it could well have been later. Ministers' decisions should be led by operational and practical demands, bearing in mind the public purse.
- B. It is very likely that more suitable accommodation options – which may well have proved better value for money than Nova South – were discounted due to the arbitrary availability deadline of October 2016 (a deadline which was not, in the end, met by Nova South).
- C. There was an obvious benefit of running the NCSC from a single physical location from the outset. However, we are unconvinced by the argument that the NCSC could not have been run 'virtually' from its four predecessor organisations' sites for a little longer if that were needed: this had been a tested set-up for a number of years, and indeed the 'virtual' (if not yet physical) integration of the organisations into the NCSC should have made their collaboration easier.
- D. We recognise that a London presence makes NCSC easily accessible to stakeholders. It is noteworthy, however, that Ministers did not give any thought to whether more of its work could have remained in Cheltenham or whether it could have been sited in an accessible location elsewhere in the UK – which would almost certainly have been cheaper.
- E. We understand that the NCSC was a new endeavour: no comparable organisation had been established elsewhere in the world. This might have excused a few minor 'false starts'. However, Ministers' views as to the core functions of a new organisation should have been established clearly at the outset and before any action was taken (such as determining its location). It appears that the haste to launch the NCSC was key to the failure to do this.
- F. While a case could be made that incident management might be better facilitated by a location near Westminster, there was no clearly made justification for dismissing Canary Wharf on this ground. Moreover, if incident management was to be the priority, it should have been used in the assessment criteria from the start.
- G. It is not clear that, overall, the physical security risks of Canary Wharf were significantly higher than those of Nova South.
- H. It is therefore our view that the requirement for a location near Westminster was more a matter of preference than necessity: given that public money was being spent, the objective justification for this preference should have been spelt out.
- I. The Shortlist makes it clear that Canary Wharf represented the best option on the criteria used. GCHQ and Ministers should not have rejected this conclusion by subsequently attempting to massage the process to ensure that their preferred option was selected.
- J. If GCHQ's management had by now determined that they wished NCSC to be located near Westminster to perform its incident management function, then as a matter of process they should have informed the author of the Shortlist about this radical change in criterion. Having failed to do so, the Shortlist was rendered useless.
- K. It would have clearly been far more useful for the 'Final Two' to have included a comparator to Nova South which met what, by now, appeared to be the most fundamental single criterion. It appears that Canary Wharf only remained in contention because by this stage GCHQ was – through demands for haste and its own failure to apply the new criterion

at Shortlist stage – too far down the road to work up an alternative. This is unacceptable, and effectively left Nova South as the sole option at Draft Full Business Case stage – despite it not being acceptable to the Government Property Unit and not meeting the original criteria.

L. That each of the 12 criteria was weighted equally is odd, if not absurd: in any procurement process, some factors will be more important than others and should be weighted accordingly.

M. It is not clear whether the obvious overweighting of location and underweighting of costs was a deliberate ploy to ensure that a more luxurious and better-located option was chosen, or simply an error caused by failure properly to think through the criteria. Either way, these wrongly weighted criteria were key to the eventual selection of Nova South.

N. It appears that there was no justification for changing nine out of the ten scores between the Shortlist and Draft Full Business Case stages: the new scores did not match any scoring criteria, and so can only have been to ensure that the preferred option of Nova South scored more highly. This approach is entirely unacceptable: if the criteria had changed in practice, GCHQ should have formally updated the scoring system.

O. It is noteworthy that GCHQ was willing to postpone investment in operational capabilities in *** in order to allocate the NCSC more expensive accommodation. This will not be the only trade-off necessary: given that the Nova South lease is for 15 years, further such sacrifices will be required. In our view, operational capabilities should almost always come first – and the justification for departing from this was not made during the selection process.

P. We accept that the NCSC, being in London and having a public-facing role, might reasonably occupy a building more expensive than the Government average. However, we are concerned by how ready GCHQ was to spend so considerably over the allowance provided in the National Cyber Security Programme. Even if we were to accept that Canary Wharf was not suitable, the fact that it was available within the original funding allocation suggests that other suitable options might have been available.

Q. GCHQ's failure to include the two criteria relating to cost as "*key criteria*" in its Draft Full Business Case is indicative of the attitude to the budget for the new Centre throughout this process. It is unacceptable for any public sector organisation not to include costs among the key criteria in a procurement process.

R. While we recognise that the NCSC requires suitable facilities for meeting external stakeholders and delivering press conferences, this does not differentiate it from other Government departments dealing with the private sector. Moreover, as the change in location criterion was driven by the need for the NCSC to be more Whitehall-facing than industry-facing, 'image' should have then become proportionately less important. The extent of the weight put on the quality and appearance of the office accommodation was excessive, with no case being made for it.

S. The NSA considered that Nova South did not represent value for money, was not deliverable in time, and put other national security issues at risk. On the basis of the criteria used in the selection process, this was a sensible conclusion.

T. Given the gravity of the NSA's concerns about the choice of Nova South, it is surprising that he did not seek a formal ministerial direction when the Chancellor disagreed. It is our view that he should have done so.

U. GCHQ's letter of 11 May 2016 and HM Treasury officials' advice to the Chancellor both explicitly confirm that by Draft Full Business Case stage, GCHQ did not consider Canary Wharf a realistic possibility. This confirms our view that it was wholly inappropriate for GCHQ therefore to have included it as one of the 'Final Two' in order to steer the decision towards their preferred option of Nova South.

V. We note that HM Treasury officials' advice to the Chancellor offered the option of looking at other sites before making a final decision on either Nova South or Canary Wharf, with NCSC working virtually in the meantime. This appears to us to have been the sensible way forward, given that Nova South was expensive and Canary Wharf was unpopular with GCHQ.

W. The extent to which HM Treasury officials' advice focuses on GCHQ being "*adamantly opposed*" to Canary Wharf – set against the fact that it met most of the criteria, the timeframe and the funds allocated – is striking. His officials made clear that the Chancellor would have to have strong feelings to outweigh the unpopularity of the option with GCHQ.

X. It is entirely right for Ministers to set the vision and direction. In some cases, however, this can result in 'pet projects', and evidence from GCHQ suggests that they considered this to be the case in respect of the Chancellor and Nova South. However the contemporaneous documentation indicates that GCHQ's own preferences appeared to play an equally strong part.

Y. At best, it appears that there was a lack of understanding between GCHQ and the Chancellor in terms of timing and location. The Chancellor did clearly consider an office which provided "*a modern, hi-tech environment*" to be essential, and GCHQ clearly considered a Westminster location non-negotiable. When combined with a tight deadline, this led to a choice which prioritised image over cost. Had the decision-making process been better, both might have been achieved, to the benefit of the public purse.

NOTES TO EDITORS

1. The Intelligence and Security Committee of Parliament (ISC) is a statutory committee of Parliament that has responsibility for oversight of the UK Intelligence Community. The Committee was originally established by the Intelligence Services Act 1994, and was reformed, and its powers reinforced, by the Justice and Security Act 2013.
2. The Committee oversees the intelligence and security activities of the UK, including the policies, expenditure, administration and operations of MI5, MI6 (the Secret Intelligence Service or SIS) and the Government Communications Headquarters (GCHQ). The Committee also scrutinises the work of the other parts of the Intelligence Community, including the Joint Intelligence Organisation and the National Security Secretariat in the Cabinet Office; Defence Intelligence in the Ministry of Defence; and the Office for Security and Counter-Terrorism in the Home Office.
3. The Committee consists of nine members drawn from both Houses of Parliament, and appointed by Parliament. The Chair is elected by its Members. The Members of the Committee are subject to Section 1(1)(b) of the Official Secrets Act 1989 and are routinely given access to highly classified material in carrying out their duties.
4. This Report was prepared by the previous Committee:
 - The Rt Hon. Dominic Grieve QC MP (Chair)
 - The Rt Hon. Richard Benyon MP
 - Stewart Hosie MP
 - The Rt Hon. Caroline Flint MP
 - The Rt Hon. David Hanson MP
 - The Rt Hon. the Lord Janvrin GCB GCVO QSO
 - The Rt Hon. Kevan Jones MP
 - The Most Hon. the Marquess of Lothian QC PC
 - The Rt Hon. Keith Simpson MP
5. The present Committee Members are:
 - The Rt Hon. Dr Julian Lewis MP (Chair)
 - Colonel Bob Stewart DSO MP
 - The Rt Hon. Sir John Hayes CBE MP
 - Stewart Hosie MP
 - Dame Diana Johnson DBE MP
 - The Rt Hon. Kevan Jones MP
 - Mark Pritchard MP
 - The Rt Hon. Theresa Villiers MP
 - Admiral The Rt Hon. Lord West of Spithead GCB DSC PC
6. The Committee sets its own agenda and work programme. It takes evidence from Government Ministers, the Heads of the intelligence and security Agencies, officials from UKIC, and other witnesses as required. The Committee makes an Annual Report on the discharge of its functions and also produces Reports on specific issues.
7. The Committee receives highly classified evidence, much of which cannot be published without damaging the operational capabilities of the intelligence Agencies. There is

therefore a lengthy process to prepare the Committee's reports ready for publication, which consists of four stages and takes around four months. The fourth stage is for the Prime Minister to confirm under the Justice and Security Act that there is no material remaining in the report which would prejudice the discharge of the functions of the Agencies (by this point this has already been confirmed by the Agencies themselves). It has previously been agreed that the Prime Minister would have ten working days in which to provide this confirmation, before the Report is laid before Parliament.