

Intelligence and Security Committee of Parliament

GCHQ accommodation procurement: a case study



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of the Justice and Security Act 2013

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The Committee oversees the intelligence and security activities of the UK Intelligence Community, including the policies, expenditure, administration and operations of MI5 (the Security Service), MI6 (the Secret Intelligence Service or SIS) and GCHQ (the Government Communications Headquarters)* and the work of the Joint Intelligence Organisation (JIO) and the National Security Secretariat (NSS) in the Cabinet Office; Defence Intelligence (DI) in the Ministry of Defence; and the Office for Security and Counter-Terrorism (OSCT) in the Home Office.

The Committee consists of nine Members drawn from both Houses of Parliament. Members are appointed by the Houses of Parliament, having been nominated by the Prime Minister in consultation with the Leader of the Opposition. The Chair of the Committee 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. The Committee sets its own agenda and work programme, taking evidence from Government Ministers, the Heads of the intelligence and security Agencies, senior officials, experts and academics as required. Its Inquiries tend to concentrate on current events and issues of concern, and therefore focus on operational and policy matters, while its annual reports address administration and finance.

The reports can contain highly classified material, which would damage the operational capabilities of the intelligence Agencies if it were published. There is therefore a well-established and lengthy process to prepare the Committee's reports ready for publication. The

* The Committee oversees operations subject to the criteria set out in section 2 of the Justice and Security Act 2013

Report is checked to ensure that it is factually correct (i.e. that the facts and figures are up to date in what can be a fast-changing environment). The Intelligence Community may then, on behalf of the Prime Minister, request redaction of material in the report if they consider that its publication would damage their work, for example by revealing their targets, methods, sources or operational capabilities. The Committee requires the Intelligence Community to demonstrate clearly how publication of the material in question would be damaging since the Committee aims to ensure that only the minimum of text is redacted from a report. Where the Committee rejects a request for material to be redacted, if the organisation considers that the material would cause serious damage to national security if published, then the Head of that organisation must appear before the Committee to argue the case. Once these stages have been completed the report is sent to the Prime Minister to consider. Under the Justice and Security Act 2013 the Committee can only lay its reports before Parliament once the Prime Minister has confirmed that there is no material in them which would prejudice the discharge of the functions of the Agencies or – where the Prime Minister considers that there is such material in the report – once the Prime Minister has consulted the Committee and they have then excluded the relevant material from the report.

The Committee believes that it is important that Parliament and the public should be able to see where information had to be redacted: redactions are clearly indicated in the report by ***. This means that the published report is the same as the classified version sent to the Prime Minister (albeit with redactions).

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SECTION 1: THE INQUIRY

1. In November 2015, the then Chancellor (at that time the Chair of the National Security Council sub-Committee on Cyber) announced¹ that the UK would establish a new “*National Cyber Centre*” in 2016 as part of GCHQ. The Minister for the Cabinet Office subsequently announced in March 2016 that it would be named the “*National Cyber Security Centre*” (NCSC) and that it would open by October that year.

2. The NCSC was to be formed by merging four existing teams: the Communications-Electronics Security Group (a department of GCHQ which provided cyber security advice to both Government and the private sector), the Centre for Cyber Assessment (also within GCHQ, responsible for providing cyber threat assessments to Government departments), the Computer Emergency Response Team UK (a team in the Cabinet Office primarily responsible for the incident management of cyber emergencies) and the cyber security functions of the Centre for Protection of National Infrastructure (the UK’s protective security authority).

3. The premise behind the NCSC was that it should:

- establish a central authority within HMG responsible for cyber security;
- provide a central point of contact in HMG on cyber security matters for both the public and private sectors, providing specialist advice to both; and
- be part of GCHQ, enabling it to draw on the secret expertise within the organisation, while maintaining a strong outward-facing public profile, working closely with industry and academia.

4. The NCSC formally began operating in October 2016, as planned, in accommodation within the new Nova South development in Victoria, central London.

5. As part of the Committee’s routine oversight of GCHQ’s administration and finances, in autumn 2016, we requested a copy of the business case for the NCSC accommodation.² Upon reviewing it, it was apparent that the chosen option, Nova South, had a running cost of more than double that of the second place option. As a result, we questioned GCHQ further during an oral evidence session in December 2016. When this did not allay our initial concerns, we requested assistance from the National Audit Office in analysing the procurement process: we are most grateful for their considerable expertise and assistance. The National Audit Office’s analysis uncovered a number of significant issues, which we subsequently raised in evidence with GCHQ and NSS.

6. This Report is solely an examination of the process followed by HMG to procure the NCSC’s accommodation. It does not address the quality of the NCSC’s work or its overall success as a new institution. The NCSC has now been operational for over three years, and its Annual Reviews report the impressive work it has undertaken over this period. The creation

¹ In a speech to GCHQ on 16 November 2015.

² The Committee’s remit includes the administration, finances and policy of the seven organisations it oversees. These have usually been reported on in Annual Reports, such as that in 2016–2017, rather than in Special Reports, which have tended to focus on operational matters. Administration and finances are an important part of the Committee’s remit: if there are problems in these areas, then the operational work will suffer. There is no other body which is able to scrutinise these matters, and it is essential that they do receive scrutiny, given the sizeable budget allocated to the Agencies.

of a dual-facing organisation – combining highly classified capabilities and information with a strong public profile – was ambitious. This Committee welcomed its establishment: we had previously criticised the number of different teams across Government which had seemingly overlapping roles in relation to cyber security,³ and the creation of the NCSC appears to have addressed our concern. Operationally, it appears to be successful, and we will be examining its work in detail in due course.

Summary of the procurement process

The procurement process can be roughly separated into three stages:

- i. The Initial Market Survey, which identified 28 options (January to March 2016).
- ii. The Shortlist, which brought forward five options from the Initial Market Survey and introduced five new options from within the existing HMG estate (March 2016).
- iii. The Full Business Case, or ‘Final Two’, which put GCHQ’s preferred option of Nova South head-to-head with a fall-back option in Canary Wharf (April to December 2016).

A detailed timeline can be found in the Annex, but we have summarised each of the three stages below.

Phase One: Initial Market Survey

7. Shortly after the Chancellor’s announcement in November 2015, GCHQ commissioned a property advisory consultancy firm (***) to undertake a “high-level market assessment” of options.⁴ GCHQ specified five minimum requirements around size, availability, transport links, specification and that it be in a “tech/creative hub area location which attracts top quality firms from that sector”.⁵ On 27 January 2016, the consultancy firm presented GCHQ with 21 different options in both private and public sector buildings. This ‘long list’ included the Government-leased building in Canary Wharf, which eventually made the ‘Final Two’, but it did not include the new-build commercial property, Nova South.

8. After this ‘long list’ had been produced, GCHQ asked the consultancy firm also to look at options near Westminster (i.e. not in a ‘tech hub’).⁶ A new appraisal of seven such options was produced on 3 March 2016. This appraisal included Nova South.

Phase Two: Shortlist

9. On 10 March 2016, the consultancy firm produced a Shortlist of ten options: of these ten, three were taken from the original list of 21 options in tech hubs, two from the subsequent list

³ For example, in the Committee’s Annual Report 2010–2011, we expressed our concern that there appeared to be 18 departments and agencies which, at that point, had some element of responsibility for cyber security (paragraphs 191–195, Cm 8114). This echoed concerns about duplication which we had expressed in the Committee’s Annual Report 2009–2010 (paragraphs 50–51, Cm 7844).

⁴ This commission was made as part of a standing ‘call off’ contract for real estate consultancy services between HMG and the consultancy firm (written evidence – GCHQ, 20 September 2019).

⁵ *High Level Market Assessment Interim Draft Report*, 27 January 2016. Specifically, the other four minimum requirements were (i) a size of 20,000–40,000 square feet; (ii) availability of a minimum of 20,000 square feet by October 2016; (iii) good transport links; and (iv) a modern specification and amenities.

⁶ The specific request was to be within the Government Secure Zone – an area around Westminster and Buckingham Palace.

of seven options near Westminster, and five were newly introduced options from within the existing Agency and Ministry of Defence (MoD) property portfolio.

10. The Shortlist scored Canary Wharf – a property already leased by HMG – as the top option, with new-build commercial properties in Nova South and Shoreditch coming joint second, followed by an existing Agency-owned building in the Westminster area, ***, which we will refer to as “Carraway House” (since it is currently unavowed).

11. Shortly afterwards, GCHQ decided that Nova South was its preferred option, with Canary Wharf (which had scored higher) as the alternative fall-back option. This appeared to be due to the late change in criteria that the office accommodation needed to be near Westminster, rather than close to ‘tech hubs’ (the rationale for this change is explored in Section 3, The Location Requirement).

Phase Three: Full Business Case (the ‘Final Two’)

12. On 26 April 2016, GCHQ submitted a Draft Full Business Case to support its choice of Nova South to the National Security Adviser (NSA) (who is also the Principal Accounting Officer for GCHQ).

13. On 4 May 2016, the NSA wrote to the Chancellor (as Chair of the National Security Council sub-Committee on Cyber) recommending against Nova South. He said *“From an accounting officer’s perspective, this option gives me some concern, both on value for money and deliverability grounds”, and that he “cannot recommend Nova South as value for money”. He concluded “I would therefore advise against agreement”.*

14. HM Treasury subsequently requested further analysis from GCHQ, which continued to argue in support of its preferred option of Nova South. The advice to the Chancellor from his officials offered both options alongside the possibility of reopening the search, but noted that Canary Wharf *“is likely to be very unpopular with GCHQ”* and therefore concluded that *“unless you have strong feelings about the cost difference or do not feel that Nova South meets your requirements, we recommend that you approve GCHQ’s preferred option”*.⁷ As a result, the Chancellor’s private office replied to the NSA on 18 May 2016 stating that *“While [Canary Wharf] is cheaper, the Chancellor’s view is that Nova South meets more of the criteria for the NCSC, in that it presents a more modern, hi-tech image and is closer to Whitehall and agency partners”*. Following the Chancellor’s decision, the NSA approved the Nova South option on 20 May 2016.

Issues uncovered

15. Our Inquiry has uncovered significant shortcomings in the selection of NCSC’s accommodation. These can be brigaded under three themes, as follows, and are explored throughout this Report.

⁷ HM Treasury officials’ advice to the Chancellor, 13 May 2016.

Questionable criteria

- (i) A tight timetable was imposed arbitrarily, which potentially led first to good options being dismissed due to non-availability and then to faulty decisions being made due to excessive haste.
- (ii) Locations outside London, which would almost certainly have been much cheaper, were not considered even at the earliest stages of the process.
- (iii) An unusual degree of emphasis was put on finding high-quality accommodation without a case being properly made for it.
- (iv) The late change in location criterion (from ‘tech hubs’ to ‘somewhere near Westminster’) wasted time and money.
- (v) Although the requirement for a location near Westminster may have been justifiable, this was not specified as a selection criterion at any stage, and the case for it was therefore never made as part of the formal selection process.

The selection of Nova South against the evidence

- (i) GCHQ selected Nova South as its preferred option, despite:
 - a. it being in contravention of its own scoring outcome at the Shortlist stage;
 - b. warnings that it would not receive approval from the Government Property Unit; and
 - c. warnings that it would not be ready in time.
- (ii) Canary Wharf was included as the only competition to Nova South, despite it being a ‘no hoper’ due to it not meeting what had (by then) become the key criterion of being located near Westminster.
- (iii) The scoring process under-weighted costs and over-weighted location.
- (iv) The scores of Canary Wharf significantly decreased and those of Nova South significantly increased between Shortlist and Draft Full Business Case stages, despite the fact that the scoring criteria did not change.
- (v) Nova South was 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.
- (vi) Cost-related factors were removed as “*key criteria*” in the Full Business Case.

Ministerial involvement

- (i) Relevant Ministers – whose views in relation to the core functions of the NCSC were critical to the decision to change the criteria to look for – were seemingly not consulted early enough to inform the initial search for accommodation.
- (ii) Although the NSA (as Principal Accounting Officer for GCHQ) comprehensively rejected Nova South, he did not seek a ministerial direction when the Chancellor indicated that he was content for Nova South to proceed.

SECTION 2: A TIGHT TIMELINE

16. The timeframe in which accommodation had to be found for the NCSC (eleven months) was a repeated trope throughout the evidence given to our Inquiry, proffered as something of an excuse for some of the shortcomings of the accommodation selection process. For example, in their covering letter to the evidence provided to the Committee, NCSC and NSS noted that “given the demanding timescale to launch the Centre, the hunt for a site to accommodate the new NCSC could not have waited until the policy development and organisational design was completed.”⁸

17. In broad terms, the timescale was as follows:

- November 2015: announcement that a new “*National Cyber Centre*” will be established “*in 2016*”.
- March 2016: announcement that the NCSC will open in October 2016.
- October 2016: NCSC launched.

On the face of it, this appears a challenging timescale for setting up a major new organisation and procuring its office accommodation (which would then have to be modified to achieve high-level security accreditation). On closer examination, however, the issue is more complex.

An arbitrary deadline?

18. On whether there was an operational need to launch the new organisation in October 2016, GCHQ said:

I am trying to channel what Ministers were telling us at the time ... they were frustrated with some of the shortcomings of delivery of the first [National Cyber Security Strategy], which is why we were being set up and why the new strategy was taking the shape that it did. I think if we had told them it was going to take more than a year ... to get the ... vision fully operational, I think they would have pushed back on us very hard. They were in those discussions.

...

*Ministers decided to set a target of opening in the second half of 2016 and that was the agreed date. There was no operational requirement for that. It was a date picked to set a deadline to get us ready.*⁹

When asked whether a cynic might say that the October 2016 deadline was purely about allowing Ministers to announce the launch and gain positive media coverage at an early stage, rather than operational factors, GCHQ admitted, “*I don’t even think you need to credit the cynic with it; I think that is perfectly valid.*”¹⁰

⁸ Letter from the CEO of NCSC and the Deputy National Security Adviser to the Committee, 22 May 2019.

⁹ Oral evidence – GCHQ, 27 June 2019.

¹⁰ Oral evidence – GCHQ, 27 June 2019.

A ‘virtual launch’?

19. As previously explained, the NCSC was a merger of four existing teams: the Communications-Electronics Security Group, the Centre for Cyber Assessment, the Computer Emergency Response Team UK, and the cyber security functions of the Centre for Protection of National Infrastructure. These organisations were already functioning at the time the NCSC was announced, and they each had their own office space. It would therefore have been possible for the NCSC ‘brand’ and management structures to be launched in October 2016, and for the operational staff in the four teams to continue working in their existing accommodation while the proper processes were followed to procure new office space for the new organisation. We note that the Chancellor’s own officials indicated that it would be possible to postpone a hard launch date,¹¹ and there was no indication in their advice that this was a red line for the Chancellor. It may therefore be that GCHQ felt a pressure which was not there. However, we have seen no firm indication as to whether the tight deadline was from Ministers or self-imposed.

20. In fact, despite talk of a hard deadline of October 2016, a ‘virtual’ start is exactly what happened. While the NCSC was indeed formally ‘launched’ in October 2016, the first staff did not move into Nova South until November 2016 and the final staff not until late April 2017 – over six months after the ‘launch’.

21. GCHQ explained that it had been difficult to run incidents out of split accommodation during those six months:

*In that period between October 3rd 2016, and full operational capacity of Nova South at the end of April, we ran a number of quite difficult incidents. ... trying to run [such incidents] out of a mixture of Palmer Street, GCHQ’s old offices, with very limited outside connectivity in terms of phones and that sort of thing, access to emails, and trying to then run it through CERT ... where it was difficult to get into, very hard to communicate with, and so on, trying to run the press aspects of that.... It was very very difficult.*¹²

We recognise that the situation was not ideal and that merged accommodation needed to be found. However, our point remains that the situation described is not clearly any different from the pre-existing situation in terms of the four predecessor teams involved (and was arguably somewhat better than before because the teams were at least now ‘virtually’ – albeit not physically – integrated). The criterion that accommodation be available by October 2016 was proven not to be essential and should not therefore have been allowed to dictate the process as it did.

Would a slower timescale have made any difference?

22. The supposed haste with which accommodation had to be found was cited as a major criterion from the very start of the accommodation search: at the Initial Market Survey and Shortlist stages, “available for occupation by October 2016” was a fixed criterion. As a result, only sites which were available on or shortly after October 2016 were considered as being in scope.

¹¹ HM Treasury officials’ advice to the Chancellor, 13 May 2016.

¹² Oral evidence – GCHQ, 27 June 2019.

It is very possible, therefore, that better-value options were ignored due to an arbitrary deadline – which the option finally selected did not even meet.

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.

SECTION 3: THE LOCATION REQUIREMENT

A location in London

23. In November 2015, a few days before the public announcement of the new “*National Cyber Centre*”, the National Security Council sub-Committee on Cyber discussed the nature of the new Centre. The Chancellor summed up the sub-Committee’s discussion: “*The Centre should report to GCHQ and be part of it, but have its own identity, be customer facing, with a strong London focus*”.¹³ It is apparent from the minutes that there was no discussion of the possibility of locating the National Cyber Security Centre (NCSC) outside London.

24. There are some obvious arguments in favour of the headquarters of an organisation such as the NCSC being in London, primarily because of the increased accessibility for stakeholders in both the public and private sectors. We also understand that, although the outward-facing part of the NCSC is in London, it still benefits from considerable deep technological capability located in Cheltenham. Nevertheless, it is notable that the decision to locate the NCSC’s headquarters in the UK’s most expensive city appears to have been taken so readily, without any consideration of other options: GCHQ said, “we never considered any option outside London because the ministerial direction was not to do that”.¹⁴

25. When we asked whether there had been any consideration given to locating NCSC staff in Manchester – which already has a GCHQ presence and which is often seen as the UK’s ‘second city’ for the tech industry – GCHQ replied that:

*the board of GCHQ ... have [since the establishment of NCSC] been very supportive [of the concept of locating more NCSC staff outside London] and we want to put a strong NCSC presence into the new Heron House facility in Manchester that is opening and being staffed up next year, and we are looking at that.*¹⁵

It appears, therefore, that there will be staff located in Manchester but in addition to those located in London: it will therefore not represent a reduction of London-based NCSC posts.

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.

Changing purpose and requirement

26. Even once the decision had been taken that the NCSC should be in London, the location requirements within London changed considerably as the primary purpose and focus of the NCSC shifted. Initially, locations in ‘tech hub’ districts of London (such as Shoreditch) were sought but, during the course of the process, that was changed to a requirement to be

¹³ Minutes of the National Security Council sub-Committee on Cyber, 11 November 2015. While the news release on Gov.uk, which accompanied the Chancellor’s speech that publicly announced the Centre a few days later stated that it would be in Cheltenham, we understand that this was simply an error on the part of its author.

¹⁴ Oral evidence – GCHQ, 27 June 2019.

¹⁵ Oral evidence – GCHQ, 27 June 2019.

near Westminster. This was because of a new-found desire for the NCSC to be near central Government departments and for the physical security benefits of a location in – or sufficiently near to be easily incorporated into – the Government Secure Zone (an area around Westminster and Buckingham Palace which, because of the large number of sensitive sites it contains, benefits from significantly enhanced security measures such as extra CCTV and armed police coverage). The problems caused, and questions raised, by this are explored in this section.

Phase One: Initial Market Survey

27. In Phase One, the consultancy firm was initially asked to look for accommodation which, as a minimum requirement, was in a “*‘tech’/creative hub area location which attracts top quality firms from that sector*”.¹⁶ When asked why a location in a ‘tech hub’ was part of the original requirement, GCHQ explained:

*...part of the vision was it needed to be industry facing and there was a sense it could play a dynamic part in the sort of tech UK vision by being co-located alongside it. So that meant things like looking at places like Shoreditch, or looking at places like where Google had built in Euston, and so on.*¹⁷

28. In January 2016, the consultancy firm accordingly produced a ‘long list’ of 21 sites which included options in Clerkenwell, Shoreditch, Whitechapel, White City and Paddington, as well as the option in Canary Wharf which ultimately made the ‘Final Two’. It did not include any locations near Westminster – because that area is not a ‘tech hub’ and therefore it did not meet the minimum requirement.

Late change: ditching the tech hubs and moving towards Government

29. On 12 February 2016, the Director General Cyber Security at GCHQ wrote to the Minister for the Cabinet Office saying:

We are considering options in Canary Wharf and searching in the Paddington area, amongst others. Canary Wharf [which represented surplus existing HMG office space] would have the advantage of fitting with the Government’s property hub strategy.

In the same letter, he also said that GCHQ was continuing to consider the possibility of “*accommodation in part of the current London national security estate*”. In fact, GCHQ had commissioned the consultancy firm to conduct another search – concentrating on options in the Westminster area – at around the same time.¹⁸

30. Just three weeks later (on 3 March 2016), the consultancy firm produced a second list of seven commercial property options entitled “*Westminster and Victoria Accommodation Options*”. At this point, it appears that the minimum requirement of a ‘tech hub’ had been jettisoned and the new requirement was instead to be near Westminster.

¹⁶ January 2016 High Level Market Assessment Interim Draft Report, produced by the consultancy firm.

¹⁷ Oral evidence – GCHQ, 27 June 2019.

¹⁸ GCHQ informs us that “[t]he work on our refined requirements [i.e. to provide options in the Westminster area] was commissioned in mid-February but we do not have a written record of the commission” (written evidence, GCHQ – 20 September 2019).

What led to the late change?

31. It has been difficult to ascertain what the decision-making process was between February and March 2016 which led to this late change in the key criterion, and made a location near Westminster the priority. The NCSC was intended to be a central point of contact for both public and private sectors, and its need for a strong outward-facing profile was emphasised from the outset – hence the need to be in a ‘tech hub’. The written evidence NSS and GCHQ provided to the Committee simply says that, following the production of the ‘tech hub’ list:

The business then reviewed both the results and the criteria, providing a clearer set of requirements, resulting in significant changes to the criteria, including moving the search area to include Victoria and Westminster due to the requirement to be within the Government Secure Zone [emphasis added].

32. The contemporaneous paper trail contains little to explain the shift in focus. The letter from the Director General Cyber Security at GCHQ to the Minister for the Cabinet Office, dated 12 February 2016, emphasised the benefits of Canary Wharf. On 29 February 2016, a letter from the Chancellor to the Minister for the Cabinet Office introduced a new emphasis on the incident management element of NCSC’s work. This was followed on 1 March 2016 by a visit by the Director GCHQ to the Canary Wharf option, which apparently “*crystallised the need for the accommodation to be located within the Government Secure Zone*”. Finally, on 18 April 2016 the Director GCHQ and Director General Cyber Security wrote to the Minister for the Cabinet Office stating:

... over the course of the process it has become clearer that the site ideally needs to be within the Government Secure Zone (GSZ, an area encompassing much of SW1) or close enough to it to be incorporated into it.

33. Given, however, that the consultancy firm produced the list of seven options near Westminster on 3 March 2016, there must have been some discussion of moving the search area between 12 February (when the emphasis was still on other areas) and 29 February (when the emphasis on ‘incident management’, which might militate towards being close to central Government, was introduced by the Chancellor), because it would surely have taken more than a couple of days for the consultancy firm to produce this additional set of options.

34. We therefore asked GCHQ exactly when and why the location requirement switched, and were informed that it was “after the late February letter from the Chancellor [to the Minister for the Cabinet Office] stressing the importance of incident management”.¹⁹ In summary, this letter emphasised that the NCSC needed to be able to manage serious cyber emergencies on behalf of central Government, and in GCHQ’s words “incident management meant proximity to the crisis centre of Government was more important”.²⁰

35. When pressed further on the exact timings of the shift in focus – given that the Chancellor’s letter was dated just four days before the list of accommodation options near Westminster was produced – GCHQ said that it had previously picked up the change in Ministers’ focus: “*we were then getting very strong hints which were then confirmed in the Chancellor’s letter that*

¹⁹ Oral evidence – GCHQ, 27 June 2019.

²⁰ Oral evidence – GCHQ, 27 June 2019.

*it was incident management that was going to be the absolute critical function”.*²¹ That this meant a location near Westminster appears to have been GCHQ’s extrapolation. In this context, we note the mention in HM Treasury officials’ advice to the Chancellor both of his steer for the NCSC to be “*suitably located to manage a crisis*” and also of his interest in “*areas such as Shoreditch or St Pancras*”.²²

Why the change in purpose?

36. The initial location requirement (to be near a ‘tech hub’) was in order that the NCSC be accessible to its stakeholders. NCSC remains clear that it considers one of its major objectives to engage with a wide range of stakeholders in the tech industry. The change in location criteria was therefore surprising, given how strongly the outward-facing nature of the NCSC has been emphasised before and since. When asked why a location in a ‘tech hub’ had previously been considered essential, but then so quickly dropped, GCHQ responded:

*I mean retrospectively it was probably a mistake.... [By early March 2016] we no longer considered the ... tech hub options as viable.... We tested it a bit and we talked to industry. The way Shoreditch was configured, both in terms of available properties, but also the sorts of companies there, it wasn’t really suitable. The way the likes of the big US tech giants were coming into London, frankly, we deal very closely with the US tech giants, but we deal with California ... and in terms of the key decision taken in global cyber security, they are not taken in the UK subsidiaries.*²³

37. The arguments posed in favour of being near Westminster related instead to NCSC’s inward-facing role: easier incident management with proximity to Cabinet Office Briefing Room (COBR) meetings, improved physical security by being in the Government Secure Zone, and easier day-to-day access to other national security bodies. In terms of incident management, we note that there are a large number of organisations which may be involved in COBRs, and which deal with other national security bodies, many of which are not located near Westminster – GCHQ itself, for example. We pressed GCHQ on whether the incident management function – important as it may be – could not have been achieved from another location, in particular the fall-back option of Canary Wharf. We noted that, door to door, the walk from Nova South to 70 Whitehall takes a similar amount of time to the direct tube journey from the alternative option in Canary Wharf. In response, GCHQ said, “if you think about incident management, then often it will include classified documents and current policy is not to travel on the Underground with classified documents”,²⁴ and that the journey by car – which would be required to carry hard copy classified documents – would take much longer. Given that both 70 Whitehall and NCSC have access to secure email (and therefore hard copies could have been printed at the end destination rather than transported), this may not carry much weight: when asked about this, NCSC could only reply, “you then increase the administrative burden at the other end”.²⁵ Given that GCHQ admitted that the NCSC only needs to support a COBR “once every couple of months, on average”,²⁶ this is not convincing.

²¹ Oral evidence – GCHQ, 27 June 2019.

²² HM Treasury officials’ advice to the Chancellor, 13 May 2016.

²³ Oral evidence – GCHQ, 27 June 2019.

²⁴ Oral evidence – GCHQ, 27 June 2019.

²⁵ Oral evidence – GCHQ, 27 June 2019.

²⁶ Oral evidence – GCHQ, 27 June 2019.

38. Regarding the physical security benefits of a location near Westminster (i.e. in the Government Secure Zone), GCHQ suggested that this preference was established by “further CPNI work being done”²⁷ in March and April 2016. We have reviewed CPNI’s advice to GCHQ, and we note that it considered that Nova South and Canary Wharf presented a very similar level of physical security vulnerability.²⁸ The only net advantage of Nova South over Canary Wharf which CPNI adduced was that, being a location in or near the Government Secure Zone,²⁹ it would benefit from enhanced armed police coverage.

39. We do, however, note that a location near Westminster offers proximity to Government departments more broadly, as well as being closer to Parliament, SIS and MI5 – which we recognise could offer day-to-day benefits.

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.

Phase Two: Shortlisting

40. After the consultancy firm produced the list of options near Westminster on 3 March 2016, GCHQ then produced a Shortlist on 10 March 2016. This included three of the 21 long-listed ‘tech hub’ options (of which one was Canary Wharf) and two of the seven long-listed locations near Westminster (of which one was Nova South). In addition, a further five public sector buildings (all near Westminster) were added to the Shortlist: three Agency-owned buildings,³⁰ MoD Main Building, and a commercially leased building previously owned by MI5.³¹

²⁷ Oral evidence – GCHQ, 27 June 2019.

²⁸ Letter from CPNI to GCHQ dated 18 April 2019.

²⁹ At the time, CPNI and GCHQ believed that Nova South was just outside the Government Secure Zone, and that the boundaries would need to be slightly adjusted to include it. The decisions on accommodation were taken on this basis, despite the fact that this was not in fact the case.

³⁰ Carraway House, Thames House and Palmer Street.

³¹ ***.

41. These ten buildings were scored, with the following results:

- Top – the Canary Wharf option, scoring 9.5/12.
- Joint second – Nova South and a commercially let building in Shoreditch, scoring 6.5/12.
- Fourth – an existing Agency building, Carraway House, also scoring 6.5/12, but performing worse on the more important Tier 1 criteria.

The Shortlist appraisal concludes that *“the assessment indicates clear blue water between Canary Wharf ... and the other options based on the assessment criteria”*.

42. It also notes that the commercial solutions such as Nova South *“are unlikely to receive approval within the required timescales and will not be supported by [the Government Property Unit] or HMT”* – presumably because of their not falling within the Government Property Unit’s ‘hub’ strategy and their higher running costs. The Shortlist therefore recommends that GCHQ proceeds with the Canary Wharf option.

43. Yet this appraisal was produced nine days after the Director GCHQ’s visit to Canary Wharf which had apparently *“crystallised the need for the accommodation to be located within the Government Secure Zone”*³² – rendering the Shortlist process null and void. It is not clear why the author of the Shortlist had seemingly not been informed that the requirement had significantly changed, and, when asked, GCHQ could not provide an explanation.

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.

Phase Three: preferred option and business cases

44. Despite the Shortlist appraisal unequivocally concluding that Canary Wharf was the preferred option by a clear margin, and that Nova South would not meet the timescale nor be approved by the Government Property Unit, the Director General Cyber Security and Director GCHQ produced a note for the Minister for the Cabinet Office in early April 2016 recommending Nova South:

On balance, GCHQ recommends Nova South with Canary Wharf as a fallback option. The reasons for this are around Victoria as a much better location for a national centre (although it is also clear that the Nova development projects a much more modern and private sector focussed image, as originally suggested by the Chancellor at NSC Cyber).

³² Written evidence – NSS and GCHQ, 22 May 2019.

45. The note does not mention the concerns raised in the Shortlist that Nova South would be unlikely to receive the required approvals within the timescale and would not be supported by either the Government Property Unit or HM Treasury.³³

46. At this point, with Canary Wharf clearly unacceptable to GCHQ, and new criteria having been introduced, the correct course of action would have been to re-run the process.

Why was Canary Wharf picked as second choice?

47. Given how clear GCHQ's view was by this stage that a location outside the Westminster area could not meet Ministers' requirements for the NCSC, it seems very odd that they put Canary Wharf forward as the alternative to Nova South.

48. It could easily appear, therefore, that Canary Wharf was included at this stage as a 'no hoper', in order to ensure the selection of the preferred option of Nova South – rendering the comparison of the two at Draft Full Business Case stage something of a sham. In response to this, GCHQ admitted, "*we were very uneasy about Canary Wharf but we had not taken it off the table because it was the main developed option at that point*".³⁴

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.

³³ We note, however, that the Technical Aspects Comparison of Nova South vs Canary Wharf document – which accompanied the note for the Minister for the Cabinet Office – does state in relation to Nova South that "*Business case approval & GPU endorsement could be more difficult/time consuming than South Colonnade*".

³⁴ Oral evidence – GCHQ, 27 June 2019.

SECTION 4: THE SCORING PROCESS

49. As well as the deficiencies in the criteria and the other qualitative issues already delineated, there were also quantitative problems in the scoring system. These are explored in this section.

Weighting the criteria

50. At both Shortlist and Draft Full Business Case stages, the options were scored against the same criteria. In each case, there were five more important ‘tier 1’ criteria and seven less important ‘tier 2’ criteria, including two “*estates*” (as opposed to “*business*”) criteria.³⁵ The full criteria were as follows:

Criteria	Description	
Capital outlay	An indication of the potential capital outlay (specification not yet defined).	Tier One Criteria
Running costs	An indication of the potential rent and rate costs of each option. This will form only part of the total running costs which will need to be fully assessed as part of the business case.	
Proximity to key stakeholders	Proximity and travel time to Whitehall, other Government departments, Agency partners and other key stakeholders, such as universities, tech hubs and potential employees.	
Instinctiveness	Does the proposed solution have the ‘look and feel’ of a 21st-century technology organisation.	
Availability	Time required to deliver proposed solution for first occupancy.	
IT	The ability to implement TOP SECRET STRAP/** and OFFICIAL IT in mixed high/low [security] environment.	Tier Two Criteria
Accessibility	Accessibility refers to the ability of key stakeholders to enter the proposed site unhindered to a greater or lesser degree.	
Security	The extent to which the proposed solution can facilitate the necessary security constraints.	
Strategic alignment	The extent to which the proposed solution aligns with the Agencies’ and the Government Property Unit’s (GPU) estates and wider strategies	
Scalability	The extent to which the proposed solution offers scope for growth and expansion.	
Occupancy	[Estates criteria; no description provided]	
Size	[Estates criteria; no description provided]	

³⁵ These criteria – “*occupancy*” and “*size*” – were included by the GCHQ estates team as opposed to NCSC stakeholders.

51. The scoring methodology was as follows, with each option being awarded a full point, half point or no points against each criterion:

Criteria	Scoring Methodology					
Capital outlay	●	Requires initial capital outlay of £3m or less	◐	Requires initial capital outlay of between £3.1m and £5m	○	Requires initial capital outlay of more than £5m
Running costs	●	Requires annual running cost of £3m or less	◐	Requires annual running cost of between £3.1m and £5m	○	Requires annual running cost of more than £5m
Proximity to key stakeholders	●	Travel time of 10 minutes or less to Westminster station	◐	Travel time of 11–20 minutes to Westminster station	○	Travel time of more than 20 minutes to Westminster station
Instinctiveness	●	Digital	◐	Modern office	○	Traditional/ Government stock
Availability	●	By October 2016	◐	By Quarter 1 2017	○	Beyond Quarter 1 2017
IT	●	TOP SECRET / Official blend	◐	Official with TOP SECRET to follow	○	TOP SECRET with Official to follow
Accessibility	●	Approved visitor (commercial model)	◐	N/A	○	Access requires [a staff pass] or escorted
Security	●	Full accredited facility	◐	Risk assessed but not accredited	○	No risk assessment
Strategic alignment	●	Aligned with GPU strategy	◐	Retain/reuse/ recycle existing Agency estate	○	Commercial solution
Scalability	●	More than 60,000 square feet available now	◐	Space may become available in the future	○	You would fully occupy the building
Occupancy	●	Dedicated NCSC	◐	NCSC and other Government departments	○	Multi-occupancy
Size	●	40,000 square feet or above	◐	20,000 to 40,000 square feet	○	Less than 20,000 square feet

Despite the existence of the two tiers, there was no distinction made in terms of the scores and it appears therefore that the two tiers only existed in case there was a tie.

Under-weighting running costs (rent and rates)

52. The scoring system allowed only one point for “*Running costs*” (i.e. rent and rates). This meant that no matter how expensive the rent was, the maximum deduction was one point (out of 12).³⁶ Given how critical a factor the cost is on any procurement (whether of office accommodation or anything else), this seems very surprising.

53. The importance of this can be seen in the Draft Full Business Case, where Nova South lost just half a point compared with Canary Wharf, despite costing over twice the amount.³⁷ When asked about this, GCHQ said, “*I accept that criticism.... The lack of weightings were not particularly helpful*”.³⁸

Over-weighting location

54. Location had an impact on scoring against four of the 12 criteria – a third of all the points available (compared with, as noted above, just one point for cost):

- **Proximity to key stakeholders:** Nova South scored a full point and Canary Wharf zero, due to Nova South being “a short walk to Whitehall”.
- **Instinctiveness:** Nova South scored a full point but Canary Wharf just half a point, because it was seen as too heavily favouring the financial services industry over a broader range of stakeholders.
- **Security:** Nova South scored a half point because it was in the Government Secure Zone, whereas Canary Wharf scored zero.
- **Strategic alignment:** both sites were scored equally based on their alignment with wider HMG strategies in relation to estates and collaborative working.

It seems clear that – whether intentionally or not – the location of the accommodation was significantly over-weighted, particularly when compared with the weighting of running costs, and this favoured Nova South. When challenged on this, GCHQ admitted the deficiency: “*to demonstrate objectively that location was four times the weight of cost is not something I am going to try to do...*”.³⁹

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.

³⁶ The other cost-related factor, “*Capital outlay*”, could not differentiate the options given that they were both newly ready offices.

³⁷ £6.4m per annum for Nova South versus £3.1m per annum for Canary Wharf.

³⁸ Oral evidence – GCHQ, 27 June 2019.

³⁹ Oral evidence – GCHQ, 27 June 2019.

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.

Changes to scoring between Shortlist and Draft Full Business Case

55. Despite the criteria being unchanged between the Shortlist and the Draft Full Business Case, the scores that Nova South and Canary Wharf were awarded at each stage were changed. In each case, the change benefited Nova South.

56. At Shortlist stage, the following scores were awarded (with Nova South scoring 6.5/12 and Canary Wharf 9.5/12):

	Canary Wharf	Nova South
Capital outlay	●	●
Running costs	●	○
Proximity to key stakeholders	◐	●
Instinctiveness	◐	◐
Availability	●	◐
Tier 1 sub-total	4.0	3.0
IT	◐	◐
Accessibility	●	●
Security	◐	○
Strategic Alignment	●	○
Scalability	●	●
Occupancy (e.g. sole occupancy)	◐	○
Size	●	●
Totals	9.5	6.5

57. At Draft Full Business Case stage, the following scores were awarded (with Nova South scoring 9.5/12, and Canary Wharf 7.5/12):

	Canary Wharf		Nova South	
Capital outlay	●	Newly refurbished facility (2016), hence no additional works assumed at this time, other than required fit out and security enhancements	●	Newly constructed facility, completed in 2016, hence no additional works assumed at this time, other than required fit out and security enhancements
Running costs	●	Estimated at c.£3.1m (excluding VAT, not applicable) per annum for one floor	⦿	Estimated at c.£6.4m (inclusive of VAT) per annum to deliver for 1.5 floors
Proximity to key stakeholders	○	Minimum 20-minute journey via public transport to Whitehall, not quickly accessible by car	●	Short walk to Whitehall
Instinctiveness	⦿	Instinctively provides the 'look and feel' of a 21st century technology organisation; however, is associated with the financial services industry	●	Instinctively provides the 'look and feel' of a 21st century technology organisation and is associated with a broader range of sectors including the Government
Availability	⦿	Requires a memorandum of terms of occupation with the GPU, and, GPU agreement with Barclays and the Canary Wharf Group	●	Requires a commercial lease with Land Securities
Tier 1 sub-total	3.0		4.5	
IT	⦿	Official infrastructure is assumed to be able to be supported by existing connections; TOP SECRET IT implementation requires additional due diligence to confirm achievability	⦿	Official infrastructure is assumed to be able to be supported by existing connections; TOP SECRET IT implementation requires additional due diligence to confirm achievability

	Canary Wharf		Nova South	
Accessibility	●	As the NCSC would occupy an element of the building, it is assumed that approved visitors could be allowed access (subject to appropriate separation of the TOP SECRET environment)	●	As the NCSC would occupy an element of the building, it is assumed that approved visitors could be allowed access (subject to appropriate separation of the TOP SECRET environment)
Security	○	CPNI report undertaken with risks to be addressed, unable to be within the Government Secure Zone	◐	CPNI report undertaken with risks to be addressed, ability to be within the Government Secure Zone
Strategic alignment	◐	The facility aligns with HMT/GPU property strategies; however, does not fully support collaboration due to location	◐	Commercial solution but fully supports collaboration and crisis response due to Whitehall proximity
Scalability	●	Provides potential for future expansion	●	Provides potential for future expansion
Occupancy (e.g. sole occupancy)	◐	NCSC would occupy the facility alongside public sector organisations	◐	NCSC would occupy the facility alongside private sector organisations
Size	●	Meets the space requirements	●	Meets the space requirements
Totals	7.5		9.5	

58. To summarise, the changes in scores were as follows:

- Increase in points for Nova South:
 - from 0 to 0.5 for Running costs.
 - from 0.5 to 1 for Instinctiveness.
 - from 0.5 to 1 for Availability.
 - from 0 to 0.5 for Security.
 - from 0 to 0.5 for Strategic alignment.
 - from 0 to 0.5 for Occupancy.

- Decrease in points for Canary Wharf:
 - from 0.5 to 0 for Proximity to key stakeholders.
 - from 1 to 0.5 for Availability.
 - from 0.5 to 0 for Security.
 - from 1 to 0.5 for Strategic alignment.

Why did the scores change between the two stages?

59. The only justification for changes in score between the Shortlist stage and the Draft Full Business Case stage would be if the intrinsic attributes of Nova South and Canary Wharf had changed, or if further due diligence had been undertaken which justified a change in score (because the criteria against which the two options were being scored had not changed). Neither appears to have been the case.⁴⁰

60. Moreover, in seven of the ten criteria, the scores given in the Draft Full Business Case do not match the criteria:

- **Running costs:** the criterion stated that a building with an annual running cost of £5m or more should score zero points, but Nova South – which cost £6.4m – was still awarded a half point.
- **Proximity to key stakeholders:** the criterion stated that this should be judged by travel time to Westminster station (less than 10 minutes scoring a full point, more than 20 minutes scoring zero, and half a point for times in between). Nova South scored a full point on the grounds it was “a short walk” away (and Canary Wharf scored zero). In reality, however, Nova South is around 20 minutes’ walk, whereas Canary Wharf is just 15 minutes away on the Jubilee Line.
- **Instinctiveness:** the criterion stated that a building which was a “modern office” should score a half point, and if “digital” it should score a full point. Nova South was awarded a full point despite having no obvious “digital” attributes.
- **Availability:** work undertaken by GCHQ in April 2016⁴¹ showed that both Nova South and Canary Wharf would be available for occupation at exactly the same time, but Nova South was awarded a full point while Canary Wharf was only awarded a half point.⁴²

⁴⁰ The only change in score which might be justifiable against the criteria was the increase in score for Security for Nova South from 0 (“no risk assessment”) to 0.5 (“risk assessed but not accredited”), because a risk assessment was indeed undertaken by the CPNI in relation to Nova South in the six weeks between the production of the Shortlist and the Draft Full Business Case. However, were this criterion to be applied, then Canary Wharf should also have scored 0.5 for Security (given that it also had a risk assessment in place). Given that Canary Wharf’s score was changed to 0 at this stage, this negates the justification for the change to Nova South’s score. On the subject of the security risk assessment more generally, the CPNI’s summary letter dated 18 April 2016 assessed Nova South and Canary Wharf to be broadly similar, with the only net difference being that Canary Wharf was firmly outside the Government Secure Zone and Nova South was just outside – with the potential that it might be possible to incorporate it (this was later found to be incorrect because Nova South was in fact already just within the Government Secure Zone). This difference was not therefore substantive and did not relate to the criteria.

⁴¹ Accommodation Options Appraisal Phase 1 – Technical Aspects Comparison of Nova South vs Canary Wharf, 6 April 2016.

⁴² We have been informed that at a later stage “it became apparent that the deal for the lease GPU were seeking at Canary Wharf ... would not be in place until later than expected in 2016” (written evidence – GCHQ, 18 July 2019), but the exact impact on availability – and when the extent of the impact (if any) became clear – is not apparent to us.

- **Security:** the criterion did not mention the Government Secure Zone, and work by the CPNI suggested that both options had broadly similar physical security vulnerabilities. However, Nova South was awarded a half point and Canary Wharf zero points, seemingly on the sole basis that the latter was not in the Government Secure Zone.
- **Strategic alignment:** Canary Wharf was awarded just a half point despite being fully aligned with the GPU's strategy. The same score was awarded to Nova South, which should have scored zero given that GCHQ itself had previously said it "*will not be supported by GPU or HMT*".⁴³
- **Occupancy:** Nova South scored half a point even though, according to the criteria, it should – as a multi-occupied building with non-Government tenants – have been given zero.

61. When challenged on the obvious failure to score objectively against the criteria, GCHQ admitted, "*there is something in that criticism ... there is a mismatch in some of the criteria specifications and the discussions that one would recall at the time*".⁴⁴ It seems that, while GCHQ senior officials and Ministers had changed their minds about what the criteria should be, none of this was written down: "*there was something in discussion which I can't find anywhere in the paperwork but it was definitely somewhere in the discussion about [changing criteria]*".⁴⁵

62. In oral evidence, GCHQ made clear that in reality the criteria had changed between the Shortlist and Draft Full Business Case stages: for example, on "*Strategic Alignment*", GCHQ explained that it had become clear that Nova South "*was much better aligned to the Government's national cyber security objectives around incident management*",⁴⁶ despite the relevant formal criterion being related only to the GPU's strategy for use of accommodation.

63. Overall, GCHQ admitted, "*the criteria were very very difficult to operate when you are trying to do something very different [from what was proposed when the criteria were established]*".⁴⁷ It also admitted:

*we were trying to adapt the criteria to something that made sense for the project we were trying to do... [W]e were looking at how to deliver a complicated project at speed and ... we applied the criteria narrowly, in the way that was originally specified. It didn't work. It didn't give sensible answers.*⁴⁸

GCHQ summarised that "*there were aspects of the process that, to put it euphemistically, were highly inelegant*".⁴⁹

⁴³ Accommodation Options Appraisal Phase 1 – Long List to Short List, and Preferred Solution, 10 March 2016.

⁴⁴ Oral evidence – GCHQ, 27 June 2019.

⁴⁵ Oral evidence – GCHQ, 27 June 2019.

⁴⁶ Oral evidence – GCHQ, 27 June 2019.

⁴⁷ Oral evidence – GCHQ, 27 June 2019.

⁴⁸ Oral evidence – GCHQ, 27 June 2019.

⁴⁹ Oral evidence – GCHQ, 27 June 2019.

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.

SECTION 5: COSTS

Cost comparison

64. According to the Draft Full Business Case:

- Nova South's running costs were £6.4m per annum.⁵⁰
- Canary Wharf's running costs were £3.1m per annum.⁵¹
- Neither option involved any significant capital outlay above a routine fit-out and security requirements.

Nova South was therefore over twice the price of Canary Wharf at the stage when it was approved. Over the 15-year span of the negotiated lease, the difference in cost between Nova South and Canary Wharf would – according to the Draft Full Business Case figures – amount to around £50m. Furthermore, the cost of Nova South works out at over £21,000 per staff member per annum,⁵² which is more than double the average Government cost for London-based staff.⁵³

Costs against allocated funds

65. The funding originally allocated for the NCSC's accommodation under the National Cyber Security Programme was £3.5m per year. Canary Wharf would therefore have been within this allowance, but clearly Nova South overshot – by a very considerable 83%.

66. GCHQ decided to fund the shortfall (almost £3m per annum) out of its main budget. In order to do so, it had to reduce funding for other investments. This meant that GCHQ was unable to fund the repair of some infrastructure and security upgrades ***, as well as some business continuity and data back-up work.⁵⁴ When asked about the decision to reduce operational investment in order to allow the additional expense of accommodation in Nova South, GCHQ responded:

⁵⁰ This figure includes VAT. It was later reduced to £5.8m per annum after negotiations following the European Union referendum result, but it was the £6.4m figure which successfully passed the approval processes at this time. GCHQ has argued that, because the VAT would have been returned to the Exchequer, it should be disregarded in the cost. However, it is not an established principle of public sector budgeting and accounting to disregard tax costs on these grounds, and in any case, if GCHQ had not leased the space in Nova South, it would most likely have been taken by a private sector entity instead, which could potentially have meant genuinely additional money flowing to the Exchequer instead.

⁵¹ VAT is not applicable to this figure. (We note that it appears as £3.6m in the Final Full Business Case, but we understand from GCHQ that this was simply a drafting error.)

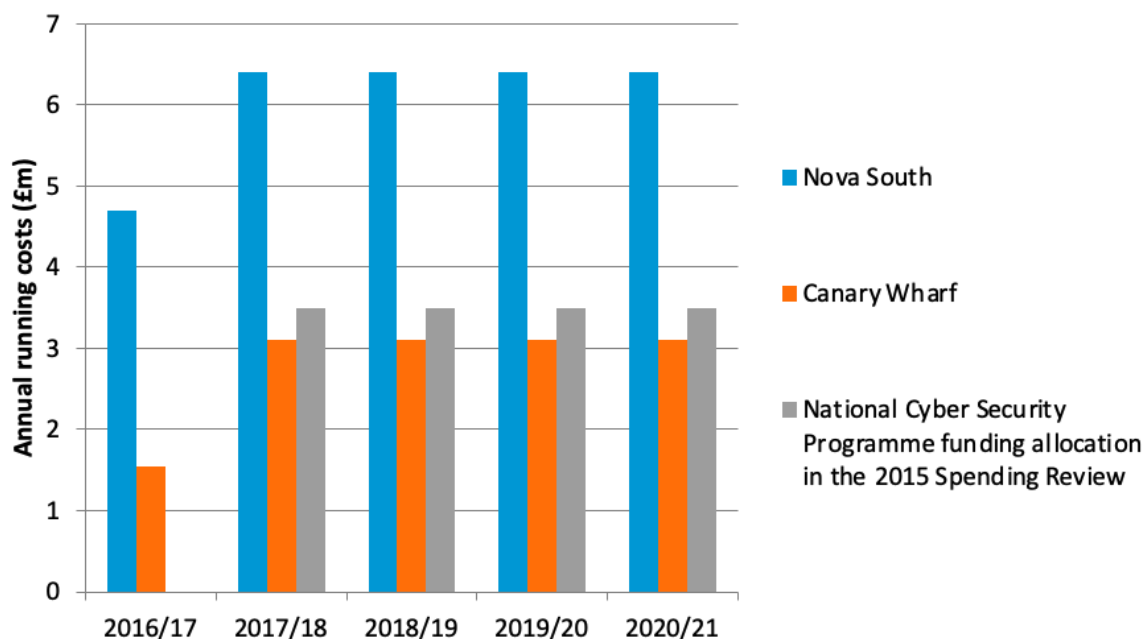
⁵² GCHQ informs us that “on any given week-day, there are up to 300 staff members working in Nova South” (written evidence – GCHQ, 28 July 2020); assuming, therefore that a maximum of 300 full-time equivalent staff members work at Nova South, the cost of the accommodation when it was approved amounted to at least £21,333 per full-time equivalent staff member per annum.

⁵³ According to the *State of the Estate 2015–16* report, published by the Government Property Unit, the average cost of Government accommodation nationally per full-time equivalent member of staff was then £4,587 per annum. The report does not give a London-specific figure per full-time equivalent member of staff, but later versions of the report do provide both a national average and regional averages per square metre of office space. An extrapolation from these latter figures suggests that the cost of Government accommodation per full-time equivalent member of staff in Greater London in 2015–16 would have been a little under £10,000 per annum. GCHQ has highlighted that these average costs include buildings with no public-facing purpose and without any security requirements, but we note that Canary Wharf would have housed the NCSC for around the Greater London average cost per full-time equivalent member of staff.

⁵⁴ Letter from the Director GCHQ and Director General Cyber Security GCHQ to the National Security Adviser, 11 May 2016.

*the people ... who head *** ... were disappointed and we had to give them commitments that we would do the upgrades, and we have done subsequently ... it was a very difficult trade off ... but we decided collectively as a leadership team that the importance to the department and the country of delivering these new national cyber security objectives were so important that that was a trade off worth taking.*⁵⁵

Nova South costs, compared with those of Canary Wharf and the budget



Why wasn't cost a key criterion?

67. In the Shortlist and the 'Final Two' scoring which accompanied the Full Business Case, five of the 12 criteria were categorised as 'tier 1': Capital outlay; Running costs; Proximity to key stakeholders; Instinctiveness; and Availability. However, in the Full Business Case, the two 'tier 1' criteria which related to cost were downgraded. Only Proximity, Instinctiveness and Availability were listed as *"the key criteria used to appraise the accommodation options"*. It is not clear why the costs-related criteria were judged to be of 'tier 1' importance in the Shortlist, but then demoted from 'key criteria' in the Full Business Case.

'Image'

68. It is clear throughout that the 'image', or quality, of the new office accommodation was a much higher priority than would usually be the case for a civil service building. The early documents looking at accommodation options list *"Modern specification and amenities"* as a minimum customer requirement. This translated through into one of the five 'tier 1' criteria in the formal appraisal as *"Instinctiveness"*, which also became one of the top three 'key criteria' in the Draft Full Business Case. We are surprised that 'image' should so readily be allowed to

⁵⁵ Oral evidence – GCHQ, 27 June 2019.

trump cost when it comes to public sector procurement, without a proper case being made for it.

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.

SECTION 6: THE PRINCIPAL ACCOUNTING OFFICER AND MINISTERS

The Principal Accounting Officer's opinion

69. On 26 April 2016, the Director GCHQ and Director-General Cyber Security wrote to the National Security Adviser (NSA) to request his formal approval, as Principal Accounting Officer for the Agencies, for the Draft Full Business Case for Nova South.

70. On 4 May 2016, the NSA wrote to the Chancellor, in his capacity as Chair of the National Security Council sub-Committee on Cyber, to advise him as follows:

From an accounting officer perspective, [Nova South] causes me some concern, both on value for money and deliverability grounds. I would therefore advise against agreement unless there are other considerations of ministerial and public expectation which have not been fully brought out in the Business Case.

71. The NSA's rejection of the proposal was on five distinct grounds. First, he explained that he did not consider Nova South to provide value for money:

£14 million was allocated for NCSC accommodation from within the NCSP early on in the SDSR process, on the basis of Government Property Unit (GPU) calculations, the space required and the cost to secure it in Central London. The GPU has offered accommodation at their hub at Canary Wharf under this allocation, with the added benefit that this is in line with the agreed Government Estates' strategy. In contrast, the Nova South accommodation will cost a minimum of £30 million over the period – over twice the original calculated amount. With security outfitting to be added, this difference in cost may be yet higher. Without commenting on wider Government Estates' strategy, I therefore cannot recommend Nova South as value for money.

72. He then addressed the question of location, where he found Nova South to have been unnecessarily promoted:

There is clearly some operational value from proximity to Whitehall, but I think that this may be overstated in the business case. Both Nova South and Canary Wharf are well within expected response times for supporting COBR (one hour).

73. He also considered that the presentational advantage of smart offices may have been overstated:

GCHQ have sought to capture the hard-to-quantify benefit of having a more modern and high profile building than that offered by a shared Government building (albeit one in the modern financial district). I find this hard to judge. Neither building is purpose built and both involve compromises.

74. Crucially – given the importance that had been placed on a launch date in October – he found that Nova South was not deliverable within the specified timeframe:

I also have some doubts about the deliverability of Nova South. The NCSC will be the most exposed, and perhaps highest profile, UK Agency facility. Both possible sites present unusual risks by housing a sensitive enclave in a building shared with the private sector. The Canary Wharf site is available now, with existing preparation for at least a basic level of security, which can be enhanced. The Nova South site is still under construction and the security constraints and outfitting arrangements have yet to be brokered with Land Securities. These may take months to negotiate and are not certain to be agreed at all, with consequent risk to an October opening.

75. Finally, he set out his concern that over-spending on NCSC accommodation could risk damaging national security:

More generally, as SIA accounting officer, I am concerned that GCHQ's proposal to pay the additional costs above the NCSP allocation from their core funding could increase the overall risk that they will not reach the stretching efficiencies' targets agreed in the settlement following the SDSR. GCHQ acknowledge that this NCSC spend will have an unspecified impact on transformational capabilities and mission outcomes. The generous SIA settlement reflected not only the greater operational challenge, but also the transformational imperative for all three Agencies, and I would be concerned about any compromise on that at this early stage in the spending period.

76. The letter is comprehensive and unequivocal. As Principal Accounting Officer for the Agencies – and therefore answerable to Parliament for their spending – the National Security Adviser opposed the choice of Nova South.

77. Soon after this advice was sent, the NSA met the Chancellor to discuss this issue. We are informed that no note of this meeting can be found. We find this highly surprising, given that private secretaries would routinely attend and minute meetings their ministers held. However, we have been informed that meetings between the NSA and the Chancellor were not regularly minuted.

The role of HM Treasury

78. Following the NSA's advice to reject GCHQ's request, HM Treasury requested further input from GCHQ. This resulted in a letter from the Director GCHQ and Director General Cyber Security to the NSA dated 11 May 2016. The letter largely re-stated GCHQ's existing case for Nova South, but with a somewhat more urgent and emotive tone. Perhaps the most pertinent point in this letter is the extent to which it demonstrates that GCHQ had in fact dismissed the NSA's preferred option of Canary Wharf: it states that the requirement to prioritise incident management "*led us to conclude that the Government Property Unit hub at [Canary Wharf] ... was not suitable*" and that "*GCHQ does not see the decision as a choice between Nova South and [Canary Wharf]*". This is highly surprising since this letter is in relation to a Draft Full Business Case which quite explicitly presents these as being GCHQ's two options.

HM Treasury officials' advice to the Chancellor

79. On 13 May 2016, HM Treasury officials provided written advice to the Chancellor on this issue, a copy of which has been provided to the Committee. They advised that “GCHQ have submitted a business case for approval of their preferred option for the location of the NCSC”, analysed the two options of Nova South and Canary Wharf, noted the NSA’s concerns about cost and deliverability of Nova South, and set out three options:

- Reject GCHQ’s preferred option of Nova South and ask them to locate the NCSC at Canary Wharf: the benefits of Canary Wharf being its lower running costs and its greater likelihood of being ready in time.
- Reject Nova South and ask GCHQ to look at other options before making a final decision: noting that this “would delay the hard opening, probably into 2017. However, the work of the NCSC can start virtually before it finds a permanent location if necessary.”
- Approve Nova South: the benefits being its “more modern, hi-tech feel” and that it would “benefit from proximity to Whitehall and agency partners” – set against the additional cost and the later delivery date.

In relation to the choice between Canary Wharf and Nova South, they note that “you could reasonably justify both options. The choice is more a matter of overall cost and affordability versus the location and image.”

80. What is most striking about the advice, however, is what it reveals about the extent of GCHQ’s opposition to Canary Wharf – despite this being an option they themselves had put forward in the final two. This is stated repeatedly throughout the document in the strongest terms: “GCHQ conclude that [Canary Wharf] is not suitable.... [they] are adamantly opposed to [Canary Wharf].... if they do not receive approval for Nova South, they would prefer to look at other options...”.

81. It is GCHQ’s opposition to their own suggestion of Canary Wharf that forms the primary basis for the actual recommendation to the Chancellor from his officials: “Whilst Canary Wharf is cheaper and meets most of the criteria and is most likely to be open in Autumn, it is unpopular with GCHQ. Nova South, whilst more expensive, does present a more modern, hi-tech image and is closer to Whitehall and agency partners. Purely on cost grounds, [Canary Wharf] is the best option. However it is likely to be very unpopular with GCHQ.... Unless you have strong feelings.... we recommend that you approve GCHQ’s preferred option”.

82. This emphasis on GCHQ is at odds with the impression that we were given in evidence that the decision was based on the Chancellor’s preferences. Indeed, somewhat surprisingly, given that GCHQ has suggested that it was the Chancellor who was particularly keen for a location near Westminster, the advice notes that he had “previously shown interest in assessing the options for locating the NCSC in areas such as Shoreditch or St Pancras” and that he “may consider that this is more likely to meet [his] requirement for a modern, hi-tech environment in the heart of London’s tech district”. However, we note that he had also previously said that “the Day 1 priority of the [NCSC] should be incident management”,⁵⁶ which GCHQ felt militated towards a location near Westminster.

⁵⁶ Letter from the Chancellor to the Minister for the Cabinet Office dated 29 February 2016.

83. Similarly, while we were also under the impression that it was Ministers driving the timetable, HM Treasury officials make it clear that it was entirely feasible to operate the NCSC ‘virtually’ for a little longer while seeking other options which meet GCHQ’s criteria – with no suggestion in their advice that this might be an unpalatable option to the Chancellor.

The Chancellor’s decision

84. Shortly after the submission, on 18 May 2016, the Chancellor’s private office emailed the NSA as follows:

Based on your discussion last week and the further information provided by GCHQ, the Chancellor understands that the options presented in their business case are finely balanced. While [Canary Wharf] is cheaper, the Chancellor’s view is that Nova South meets more of the criteria for the NCSC, in that it presents a more modern, hi-tech image and is closer to Whitehall and agency partners.

Following assurances from GCHQ that they can manage the additional cost from within their budget without impacting delivery of their Spending Review commitments, and that the site will be available for launch by October, the Chancellor has decided to approve GCHQ’s preferred option to locate the NCSC at Nova South.

85. The Chancellor, therefore, agreed to GCHQ’s preference, which was in direct conflict with the NSA’s objections and recommendation. However, the NSA did not then – as Principal Accounting Officer for GCHQ – seek a formal ministerial direction from the Chancellor. (When a minister wishes to pursue an option which the Principal Accounting Officer views as breaching regularity, propriety, value for money or feasibility criteria, it is usual practice for the Principal Accounting Officer to seek a direction.) Given the strength of the terms in which he had originally written to the Chancellor, we questioned the lack of a ministerial direction. NSS responded “*I don’t think the then Principal Accounting Officer would regard himself as being overruled*”. On 20 May 2016, the NSA wrote to GCHQ to give his approval to proceed with Nova South based on the assurances given.

The wider role of Ministers

86. Throughout our Inquiry, it has been apparent that the Chancellor – as chair of the National Security Council sub-Committee on Cyber – took a close interest in the establishment of the NCSC: “the idea for [the NCSC] came from within GCHQ just after the election in 2015.... So we put in a paper around just before the summer recess and, when we came back, ministers had sparked on the idea, particularly the then Chancellor”.⁵⁷ GCHQ also said, “*the Chancellor ... was driving the agenda, there is no question about that*” and that “*the delivery of this project in the way that satisfied the Chancellor of the Exchequer was clearly a dominant criteria*”.⁵⁸ The evidence supports this sense of a ‘pet project’.

87. We questioned whether this extended to the eventual selection of Nova South in preference to Canary Wharf. GCHQ said:

⁵⁷ Oral evidence – GCHQ, 27 June 2019.

⁵⁸ Oral evidence – GCHQ, 27 June 2019.

[T]here are discussions with his officials, not all of them are recorded ... and there are chance encounters saying “The Chancellor is worried, he is probably going to write a letter, we are working up a letter”, et cetera, and that is just the way that Government works.... [T]he people who wrote that letter [of 29 February 2016] to express the Chancellor’s views [on what the primary functions of the NCSC should involve] would have told us they were saying “Look, this needs to be, you know, incident management is moving us towards ... We are not sure about this ... Canary Wharf type option”.⁵⁹

However, having since seen the written advice from those HM Treasury officials to their Minister, it does not support this. It indicates the Chancellor’s interest in options in other areas, including his suggestion of a “modern, hi-tech environment in the heart of London’s tech district”, and does not directly refer to the incident management benefits of a Westminster location. The deciding factor is GCHQ’s feelings on the matter, with the Chancellor being advised that any decision other than Nova South would be “very unpopular” with GCHQ.

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.

⁵⁹ Oral evidence – GCHQ, 27 June 2019.

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.

ANNEX: THE PROCUREMENT TIMELINE

2015

17 November The Chancellor announces the creation of a “*National Cyber Centre*” by the end of 2016.

2016

27 January The property advisory consultancy firm engaged by GCHQ outlines 21 accommodation options near ‘tech hubs’, including a Government-owned building in Canary Wharf.

12 February Director General Cyber Security at GCHQ writes to the Minister for the Cabinet Office to update him on the NCSC, referring favourably to potential office accommodation in Canary Wharf and also mentioning Paddington.

16 February The Minister for the Cabinet Office writes to the Chancellor on the design of the future NCSC, but not mentioning accommodation.

29 February The Chancellor responds to the Minister for the Cabinet Office, again not mentioning accommodation procurement.

1 March Director GCHQ visits the Canary Wharf option, which “*crystallised the need for the accommodation to be located within the Government Secure Zone*”.

3 March The consultancy firm produces an appraisal of seven options near Westminster.

10 March A Shortlist of ten options (three from the original list of 21, two from the supplementary list of options near Westminster, and five other Government buildings) was appraised, putting Canary Wharf at the top, with Nova South and Shoreditch coming joint second.

18 March The Minister for the Cabinet Office publicly announces that the NCSC will open in October and be located in London.

6 April Director General Cyber Security at GCHQ writes to NSS with a draft note for the Minister for the Cabinet Office expressing GCHQ’s decision to go for Nova South.

18 April Director GCHQ and Director General Cyber Security submit a Draft Full Business Case for Nova South to the Minister for the Cabinet Office.

26 April Director GCHQ and Director General Cyber Security submit the Draft Full Business Case for Nova South to the NSA for approval.

4 May The NSA writes to the Chancellor in relation to the business case for Nova South, expressing concerns on both value for money and deliverability grounds.

11 May Director GCHQ and Director General Cyber Security write to the NSA with further arguments in favour of Nova South.

GCHQ accommodation procurement: a case study

- 18 May** The Chancellor's private office emails the NSA, referring to a conversation between them the previous week, stating the Chancellor's preference for Nova South.
- 20 May** The NSA writes to Director GCHQ to approve progressing negotiations in relation to Nova South.
- 5 August** In the NSA's absence, his deputy Paddy McGuinness formally approves the business case for Nova South.
- 3 October** The NCSC begins its first day of operations.
- Mid-November** The first NCSC staff move into Nova South.

2017:

- 14 February** The Queen formally opens Nova South.
- Mid-April** The final staff move into the newly completed seventh floor of Nova South.

LIST OF WITNESSES

GOVERNMENT COMMUNICATIONS HEADQUARTERS

CABINET OFFICE

The Rt. Hon. George Osborne CH provided evidence in writing.

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