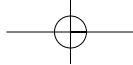




Government Response to the  
Intelligence and Security  
Committee's  
Annual Report 2001–2002

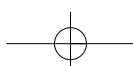
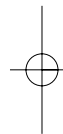
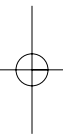
Presented to Parliament by the Prime Minister  
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JUNE 2002



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## Introduction

1. The Government is grateful to the Intelligence and Security Committee for its Annual Report, the first produced by the Committee since its appointment by the Prime Minister in August 2001. The Report ranges across the work done by the Committee in the last year and demonstrates how effectively parliamentary oversight of the intelligence and security Agencies is working. It also shows how the co-operation given by Government Departments has assisted the Committee in its oversight responsibilities for the security and intelligence Agencies themselves. The fact that Ministers from five Departments provided evidence to the Committee in this parliamentary session indicates the importance and value the Government attaches to the work of the Intelligence and Security Committee.
2. The nature of the work of the Agencies means that much of what they do cannot be made public. The Intelligence and Security Committee, operating within “the ring of secrecy”, therefore plays an important role in assuring their accountability. Under the Intelligence Services Act 1994, the Intelligence and Security Committee was set up by Parliament and given exceptional access to material of the highest classification. But, as in the past, and in accordance with the Act, it has been necessary, in consultation with the Committee, to make excisions of secret matters from the published version of the Report.
3. The Government welcomes the Committee’s full endorsement of the work of the Agencies, its recognition of the dedication and commitment of their staff, and the contribution they make to identifying and reducing the threats to the United Kingdom and its citizens. But one of the purposes of oversight is to identify areas of concern and the Committee has addressed these in the Annual Report and noted them in its conclusions and recommendations. The Government’s response is set out in this paper.

## September 11 Terrorist Attacks

4. The ISC Report focuses in particular on the activities and work of the Agencies and the UK intelligence community in the run-up to, and aftermath of, the terrorist attacks in the US on 11 September 2001.
5. The Government shares the ISC view that, during 2000 and in 2001 up to 11 September, there was a high level of awareness of the serious and growing threat posed by Usama Bin Laden and his Al Qa’ida network to US and UK interests. The Committee has noted that the UK was active in focusing international attention on Afghanistan and the Taliban before 11 September. The intelligence reports and assessments provided by the UK intelligence community in the period up to September left no room for complacency about the likelihood and imminence of major terrorist attacks. The Committee reports that the Agencies did not overlook any intelligence which would have forewarned of the terrorist attacks on September 11, a view endorsed by the Government. It was not known where or when the attacks were to take place, nor who the attackers themselves were to

be. Given the nature of terrorist organisations, such as Al Qa'ida, and the recognised difficulty of acquiring pre-emptive intelligence about the detail of their specific plans and intentions, that is neither surprising nor cause for retrospective complaint. The Agencies, in co-operation with their international partners, had already achieved considerable success in providing coverage of and countering the threat posed by Usama Bin Laden before 11 September, as the ISC has noted in its Report.

6. The Government agrees with the Committee that the events of 11 September demonstrated the vulnerability of our society to ruthless and co-ordinated attacks by terrorists with no regard for their own lives nor those of other people. Before 11 September the scale of this vulnerability had not been fully understood. The lessons for the US, the UK, and others have been salutary. The intelligence community has played, and will continue to play, its part in efforts across Government to improve and safeguard the resilience of the UK's national infrastructure.
7. The ISC Report draws attention to the rapid response of the Agencies to the events of 11 September, and to the significant role which intelligence has played in helping policy makers to formulate and direct the Government's overall response. The Government acknowledges its debt to the Agencies and the wider intelligence community, and to their dedicated and professional staff, for their contribution. Their intelligence, assessments, operations and advice have played an important part in making sure that the decisions taken have been founded on the best possible understanding of events in Afghanistan and elsewhere.
8. The Committee also reports on the longer-term plans of the Agencies, including plans for the deployment of resources and the introduction of improved capabilities. It notes the formation of the National Criminal Intelligence Service (NCIS) terrorist finance unit. The creation of this specialist unit complements other work in this field including the creation of a dedicated unit within the Security Service. The unit will draw on information provided by the new Terrorist Finance Unit established at NCIS and will focus on the assessment, reporting and investigation of terrorist finances.
9. The ISC is concerned that, as a result of the need to deploy extra resources to counter-terrorism, the Agencies have had to reduce resources in certain other subject areas, resulting in gaps in the intelligence coverage and, over time, unacceptable risks to national security. The Government recognises that the increase in demand for intelligence to support the campaign against terrorism has meant that the Agencies, among others, have been obliged to review their priorities within their own budgets. This process has been carried out professionally and carefully, and the Government will continue to keep the situation under review. It is inevitable that if some areas of activity become relatively more important to the national interest, others become relatively less so and may have less resources devoted to them. All decisions about matching resources to tasks involve a degree of risk. Identifying, quantifying, managing and, where possible, mitigating those

risks is one of the basic responsibilities of the management of the Agencies. The Government is confident that the judgements taken so far have been the right ones, and that no unacceptable risks with or to national security have been, or will be taken.

10. The ISC supports the collaborative work of the Agencies with their partners abroad, and wants to see this vigorously pursued in the future. Even before 11 September, there were well-established and effective links, both bilateral and multilateral, between the Agencies and a wide range of international partners, on counter-terrorist and other investigations and operations. The Government shares the ISC objective of making such liaison relationships even more close and effective.

### Expenditure and Resources

11. In light of its review of the issues surrounding the events of September 11 and the Agencies' response, the ISC has commented in its Report on the resources of the Agencies and their level of funding. The Committee welcomes the speed with which the Treasury was able to find additional funding for the Agencies on this occasion. But it believes that the Agencies were resource limited and operating under financial pressures prior to the 11 September attacks. It recommends that the Agencies should be funded to be able to meet the new demands now being placed on them.
12. The Committee will appreciate that, as for all Departments, funding for the Agencies is decided after careful consideration of the fiscal position as a whole. This involves unavoidable trade-offs between intelligence priorities, other national security priorities such as defence and law enforcement, and other national priorities like education and health. There can never be a commitment to fund the Agencies to meet all the demands which might be made of them. The task of resource allocation is to set budgets for public sector organizations which are taut and realistic. The Agencies are under an obligation to seek maximum efficiency from the resources which are allocated to them.
13. The funding for the Agencies set in the 1998 and 2000 Spending Reviews stabilised and then began to increase the Agencies' budgets after a period in which they had changed their methods of working and staffing levels significantly to meet the demands of a different set of targets. The Government is satisfied that in the case of the Agencies the budgets set were appropriate to meet their objectives and to provide a satisfactory level of service on the major requirements placed on them at the time. It is the intention to maintain that position in the future.
14. After September 11 it was clearly important to provide the Agencies with additional resources quickly so that they could respond to new requirements as fully and as rapidly as possible. The Government welcomes the Committee's recognition of the need for this allocation from the Reserve.

15. The Committee's Report sets out the expenditure plans for the Agencies for the period 1999–2004. The budgets for 2003–04, 2004–05 and 2005–06 are being reviewed as part of the Government's current Spending Review, which will take into account the additional pressures on the Agencies when allocating their resources for the years ahead.
16. The Government welcomes the Committee's emphasis on the importance of imagery intelligence to a range of activities principally, though not exclusively, in support of operations by the Armed Forces. The Ministry of Defence has primary responsibility in this field, but will continue to work closely with other government departments, agencies and allies to ensure that the UK keeps in step with technological advances in this field and that the necessary levels of finance will be made available to meet this important national requirement.

### Staffing and Recruitment

17. The Government is content that the Agencies were taking all suitable measures to redress the shortfalls in staffing to which the Committee refers, and that these shortfalls had no significant adverse impact on the Agencies' ability to respond appropriately to the 11 September attacks. Staffing levels are not always directly related to financial resources; availability of relevant skills and experience is also a key factor. As the Committee notes, this issue was already being addressed before 11 September.
18. The Government notes the ISC concern about the Agencies' language capabilities and agrees that maintaining a suitable level of linguistic expertise across the full spectrum of languages is a significant challenge. The Agencies co-operate together on this very closely. They have long established mechanisms for bolstering language capability where necessary and where there are shortfalls they make use of language retraining schemes. They are successful in meeting most of their targets.

### National Intelligence Machinery

19. In its Report the Committee describes the UK's intelligence machinery, the role of the Joint Intelligence Committee (JIC), the arrangements by which the intelligence requirements laid on the Agencies are drawn up and receive approval by Ministers, and the process for reviewing the Agencies' performance. Following an ISC recommendation in an earlier Report, that someone from within the intelligence community should be appointed to the position of Chairman of the Joint Intelligence Committee and Intelligence Co-ordinator, it welcomes the appointment of John Scarlett.
20. The Government notes the ISC recommendation that the Ministerial Committee on the Intelligence Services (CSI) should meet annually and that these meetings should review the UK's Requirements and Priorities for Secret Intelligence, agree the Agencies' budgets, and receive briefings on current threats from the Agencies. As noted in previous Responses, the Prime Minister receives regular reports from the Heads of the Agencies,

and the Home Secretary and Foreign Secretary are directly and regularly engaged in the day-to-day work of the Agencies. Also, as the Report recognises, regular meetings of a similar composition to CSI took place after the 11 September terrorist attacks. The Government agrees that it is important for Ministers to be aware of the requirements placed on the Agencies and to be properly briefed on their performance. Every year the Intelligence Co-ordinators' Annual Report of Agency Performance and the Intelligence Requirements and Priorities paper are formally submitted to CSI.

21. The Committee notes that the SCOPE Business Change Programme is beginning to take shape and that a Programme Director has been appointed. The Committee recommends that the key requirements are finalised and funding agreed as soon as possible. The Government welcomes the Committee's recognition of the importance of the SCOPE Programme, and the work already underway. The Programme Board has now agreed, and prioritised, the key requirements, and a funding bid has been made as part of SR2002.

### Commissioners

22. The Committee has suggested that it still needs to see the confidential annexes to the Commissioners' reports, redacted as necessary, in order to fulfil its statutory requirement to oversee the Agencies' administration processes.
23. As explained in previous reports the Government is not able to make the confidential annexes to the Commissioners' reports available to the Intelligence and Security Committee. The confidential annexes to annual reports by the Commissioners contain explicit details of sources and operations of the Agencies. Such information is defined as "sensitive" by the Intelligence Services Act 1994, which recognises that the heads of the Agencies may be unable to disclose it to the Intelligence and Security Committee. The Commissioners' published reports do, however, give an opinion on the whole area under review. They record the errors which have been reported each year and the corrective measures taken. Only in a few exceptional cases, where it is not possible to explain the error without detailing sensitive operational matters, would an error be recorded in the confidential annex. Because the confidential annexes are largely confined to sensitive operational detail, it would not be practical to redact them. However, as the Government has previously made clear, if the Committee has a particular concern, it will seek to provide it with the information necessary.
24. The Government recognises the Committee's concerns regarding the need for additional staff to support the Interception of Communications Commissioner. Officials are discussing with the Commissioner what extra resources would be required to deal with the anticipated increase in work. The Government will make available to the Commissioner an appropriate level of resources to enable him to carry out his responsibilities.

## Project Management

25. The Government agrees that large programmes or projects, such as the Agencies' IT projects and the GCHQ New Accommodation Programme, should be managed effectively and that post-implementation assessment of benefits achieved should be carried out. The Agencies follow Office of Government Commerce best practice as appropriate.

## GCHQ Accounts and New Accommodation Programme

26. The Committee recommends that appropriate management processes are put in place to assure the proper maintenance of accounting records at GCHQ. The Cabinet Secretary, as Principal Accounting Officer, has been paying close attention to the continuing difficulties which GCHQ has had in meeting the required Accounting Standards, as has the Foreign Secretary. It is important to note that, although the NAO again qualified its opinion on the 2000–01 account, there were significant improvements from the previous year. Throughout this period, GCHQ staff have consulted both NAO and HM Treasury advisers for guidance and assurance. There is no complacency either in GCHQ or elsewhere in government about the importance of resolving these difficulties. The Government recognises the size of the task for GCHQ, and is monitoring the situation very closely to ensure that the problem is resolved as quickly as possible.
27. The Committee is concerned that, in order to keep within the agreed relocation budget, GCHQ should not reduce its operational effectiveness and agreed service to its customers. The Government is confident that GCHQ has a sound plan for its moves to the New Accommodation and fully expects that it will be able to maintain its vital outputs over the period of the move. The diversion of resources from the development of future capability into the New Accommodation Programme, and the plans to move equipment and people from one site to another, involve the acceptance of some risk to the level of service which GCHQ can provide over the period of the move. But the very substantial gains in GCHQ's long-term effectiveness, which the move will bring about, will far outweigh any temporary impact. Additional financial resources have been agreed to meet much of the cost of transition into the new building, in order to keep those risks at an acceptable level.

## Policy

28. The Government notes the Committee's intent to examine the use of intercepted material and communications. It also notes the Committee's support for the Wilson Doctrine. As the Prime Minister informed the House of Commons on 19 December (column 366), if the policy is ever changed or altered then Parliament will be informed as soon as it is compatible with the security of the country to do so.

## Agencies' Work Against Serious and Organised Crime

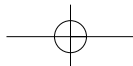
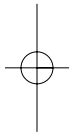
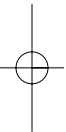
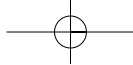
29. The Government welcomes the recognition of the valuable support provided by the Agencies and the contribution they make to combating serious crime. The principal purpose of the Agencies' efforts against these targets is to support the law enforcement agencies in operations which are part of agreed national strategies to counter crime. The Agencies are also assisting the law enforcement agencies to develop further their own intelligence analysis and assessment skills through skills transfer mechanisms such as staff secondments. If there is a greater demand from law enforcement for support from the Agencies, and if this demand is consistent with the Government's agreed strategies, the provision of additional resources to allow this to proceed would be a matter to be considered alongside other Departments' funding requirements through the normal public expenditure mechanisms. Bids, sponsored by the Home Office, to allow the Agencies to do more against serious crime targets in the period 2003–2006 will be considered within the current Spending Review.

## Communications

30. The Government notes the Committee's concern regarding secure communications equipment and information security capability. A number of steps have already been taken to improve the position. The establishment of a Central Sponsor, and the response to other recommendations in Sir Edmund Burton's report, are also intended to address this issue and future funding is being addressed in the Spending Review.

## Investigator's Work

31. The Government welcomes the Committee's conclusion that it is satisfied with the structures established between the relevant bodies, including the Agencies and the MoD, to cover the Agencies' scientific and technical research and development work. The relations between all those involved in R&D will continue to be kept under review.
32. The Government notes the ISC recommendation that JIC processes should be subjected to the disciplines of the Internal Audit process for inter-departmental systems, as prescribed in the Government Internal Audit Manual. The Cabinet Office Audit Service stands ready to provide an audit service to the Intelligence and Security Secretariat, which supports the JIC, as necessary. It is already playing an important part in providing independent assurance on the management of the SCOPE programme. The Government welcomes this.





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