



# Intelligence and Security Committee

## Annual Report 1998-99

Chairman:  
The Rt Hon Tom King CH MP  
Intelligence Services Act 1994  
Chapter 13

Presented to Parliament by the Prime Minister  
by Command of Her Majesty  
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# INTELLIGENCE AND SECURITY COMMITTEE

## Annual Report 1998-99

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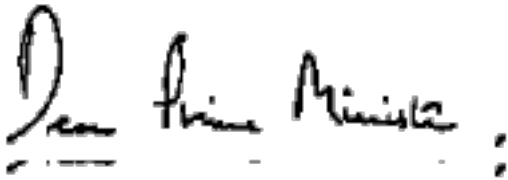
*From the Chairman: the Rt. Hon. Tom King, C.H., M.P.*

## INTELLIGENCE AND SECURITY COMMITTEE

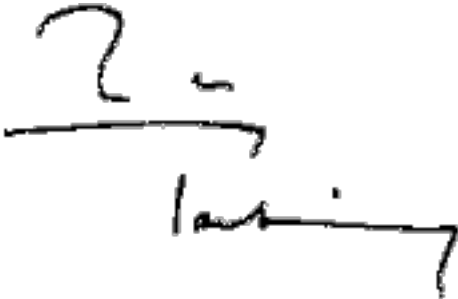
70 Whitehall  
London SW1A 3AS

6 August 1999

The Rt. Hon. Tony Blair, M.P.  
Prime Minister  
10 Downing Street  
London SW1A 2AA

A handwritten signature in dark ink, appearing to read 'Tom King', followed by a comma.

I enclose the fourth Annual Report of the Intelligence and Security Committee on the discharge of our functions under the Intelligence Services Act 1994. Subject to any consultation with the Committee as provided for in section 10(7) of the Act, we hope that it will be possible for you to lay our Report before each House of Parliament at an early date.

A handwritten signature in dark ink, appearing to read 'Tom King', with a horizontal line underneath.

# INTELLIGENCE AND SECURITY COMMITTEE

The Rt. Hon. Tom King, CH, MP (Chairman)

The Rt. Hon. Lord Archer of Sandwell, QC

The Rt. Hon. Barry Jones, MP

The Rt. Hon. Alan Beith, MP

Mr Dale Campbell-Savours, MP

Ms Yvette Cooper, MP

Mr. Kevin Barron, MP

Mr Michael Mates, MP

Mr Allan Rogers, MP

*In our last report we confirmed the importance of continuing high quality intelligence and security services for our country. The Cold War may have ended but significant threats remain, and new ones are arising. Intelligence is crucial to our ability to counter them, and it is a constant challenge to ensure that it is adequate for the task.*

*Today's world is a highly charged environment, with financial, political, military and social pressures combining to produce instability and disorder. Last year we drew attention to the question of humanitarian and peacekeeping tasks for our Armed Forces. This year saw the violent upheaval of Kosovo, with the sustained air campaign leading on to a substantial deployment of British troops into the territory. Last year we warned that the risk of proliferation of nuclear, biological and chemical weapons had sharply increased. This year saw the detonation of Indian and Pakistani nuclear weapons, and thus two more members joining that previously exclusive club.*

*Last year we spoke of the scale of terrorist attacks around the world, which averaged 60 a week, and of increasing concern over Islamic terrorist threats. This year saw the attacks on the US embassies in Nairobi and Dar es Salaam which killed 220 people and wounded 5000 and which confirmed the scale of the threat posed by Usama bin Laden and other Islamic groups.*

*Last year, in describing the problem of serious crime, we highlighted the trade in drugs and the traffic in illegal immigrants as major challenges. This year, in spite of continuing effort, we see no improvement in these areas. Rather the reverse has occurred; in addition there has been an extremely rapid growth in cigarette smuggling*

*Critical to our security as well is the proper protection of secret information. In the past year the obtaining of US nuclear secrets by the Chinese, organised Russian hacking into vital US defence secrets, and the intended betrayal on the Internet of possible members of SIS by a disaffected former member, were most unwelcome setbacks.*

*This briefest of snap shots shows all too clearly how unstable and dangerous is our present world. Our safety depends on good intelligence and security, and it is vital that these agencies are properly maintained and funded in a sustainable way.*

*That is the responsibility of Ministers and of those in charge of the Agencies. It is our responsibility as a committee to hold them to account. The following pages describe how we have sought to discharge this task.*

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# GLOSSARY

C&AG	Comptroller and Auditor-General
CDI	Chief of Defence Intelligence
CESG	Communications Electronics Security Group, GCHQ
CIA	Central Intelligence Agency (US)
CSI	Ministerial Committee on the Intelligence Services (UK)
DIS	Defence Intelligence Staff, MOD
FBI	Federal Bureau of Investigation (US)
FCO	Foreign and Commonwealth Office
GAE	General Administrative Expenditure
GCHQ	Government Communications Headquarters
HMCE	Her Majesty's Customs and Excise
IOCA	Interception of Communications Act 1985
ISA	Intelligence Services Act 1994
IT	Information Technology
JIC	Joint Intelligence Committee
MATL	Maternity Leave
MOD	Ministry of Defence
MRP	Security Service Manual of Recording Policy
NAO	National Audit Office
NAP	New Accommodation Project (GCHQ)
NATO	North Atlantic Treaty Organisation
NCIS	National Criminal Intelligence Service
NIS	National Investigation Service (HM Customs and Excise)
NSA	National Security Agency (US GCHQ equivalent)
OCE	Other Current Expenditure
PAC	Public Accounts Committee
PES	Public Expenditure Survey
PFI	Private Finance Initiative
PSA	Property Services Agency
PSIS	Permanent Secretaries' Committee on the Intelligence Services
REU	Restricted Enforcement Unit (DTI)
SIS	Secret Intelligence Service
SIV	Single Intelligence Vote
SIVR	Single Intelligence Vote Review
SO(SSPP)	Sub-committee of the Official Committee on Security, on Security Service Priorities and Performance
SUPL	Special Unpaid Leave
VX	SIS, Vauxhall Cross
WMD	Weapons of Mass Destruction
Y2K	Year 2000 problem/Millennium bug



# Introduction

1. The Intelligence and Security Committee is established under the Intelligence Services Act 1994 to examine the expenditure, administration and policy of the United Kingdom's three Intelligence and Security Agencies: SIS, GCHQ and the Security Service. Committee members are notified under the Official Secrets Act 1989 and operate within the 'ring of secrecy'. We report directly to you on our work, and through you to Parliament.

2. In preparation for this Annual Report we have taken evidence from 47 separate witnesses. A full list is at Appendix 1 and includes:

- the Heads of SIS, GCHQ and the Security Service, and a number of their staff;
- officials from the Cabinet Office, the Ministry of Defence, the Foreign and Commonwealth Office, the Home Office, the National Audit Office and the Department of Trade and Industry; and
- officials from law enforcement agencies and HM Customs and Excise.

3. Separately, we took evidence and published a special report on the intelligence aspects of the Sierra Leone affair. Recently, we made the appointment of John Morrison to the new post of Investigator to the Committee, implementing the recommendation made by the Committee in our last report and agreed by you. This year saw the departure of our first Clerk, Jonathan Alden, who had served the Committee so well since its inception, and we welcomed Alistair Corbett as his successor.

4. In addition to our formal evidence-taking sessions, we had informal update briefings with the heads of all three Agencies and received a briefing from the Chief of Defence Intelligence (CDI) and officers of the Defence Intelligence Staff (DIS). We continue to take a close interest in and receive briefings on the activities of the DIS, due to the key role it plays in the UK intelligence community. The DIS is an important customer for the Agencies and provides them, in turn, with valuable technical advice, support and analysis.

5. We conducted a full Committee and a number of 'sub-group' visits to the three Agencies and their out-stations. The whole Committee visited the GCHQ and Security Service facilities in \*\*\* while the sub-group visits have concentrated on issues being pursued in formal Committee inquiries, including those of personnel management and personal files, meeting a broad range of staff involved at all levels.

6. We continue to take an interest in international developments in intelligence oversight. As part of this work two members of the Committee, supported by the Investigator and Clerk, attended the Bi-Annual Inspector-Generals' Conference in Canada during June. The Conference was attended by representatives from Australia, Belgium, Canada, New Zealand, South Africa and the USA. The Committee have provisionally offered to host the next Conference in 2001. Additionally the Committee Chairman visited Estonia to speak to Ministers, their Parliamentary oversight committee and intelligence officials. A full list can be found at Appendix 2.

7. During the course of the year, we were again pleased to receive officials and Parliamentarians interested in the field of intelligence and oversight from a number of other countries, including Australia, Canada, Germany, Hungary, South Korea, Romania, Poland and the Ukraine.

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## Programme of Work

8. In our last Annual Report<sup>1</sup> we identified a number of issues that would form the basis of our next year's programme. These were:

- the detail of the Single Intelligence Vote settlement and the full range of issues covered in the recent review of the Vote;
- any changes proposed in the funding and structure of the DIS as a result of the Government's Strategic Defence Review, and the implications that these may have for work of the Agencies;
- additional work on personal files;
- recent measures taken to enhance the Agencies' internal security policies and procedures;
- questions of intelligence policy in relation to recent events in Sierra Leone, in light of the findings of the Legg inquiry;
- co-ordination between the Agencies and the law enforcement organisations in fighting serious organised crime, in particular what value is added by the Security Service involvement in this new area; and
- developing the Committee's investigative oversight capability.

9. We also proposed to conduct inquiries into two areas of particular concern to the Committee: the Agencies' work in respect of the security of Government communications, including our defences against what is commonly termed information warfare; and the Agencies' work in countering the proliferation of weapons of mass destruction.

10. During the year, we finished taking evidence on Sierra Leone and reported to you in February<sup>2</sup>. We completed our inquiries into the Agencies' work in the area of counter-proliferation of Weapons of Mass Destruction (WMD) and into the co-ordination between the Agencies and the law enforcement agencies in fighting serious organised crime and the value added by the Security Service involvement in this area. We selected and then tasked the Investigator to conduct a stock-taking exercise into security policies and procedures, with particular reference to recent developments and the Committee's previous recommendations. We received evidence on the security of Government communications and the impact of encryption in electronic commerce on the Agencies' ability to conduct their work. Due to the additional work that arose during the year, we were not able to complete certain tasks identified in our original programme. We shall, therefore, carry these forward in the coming year.

11. In addition, the Committee considered a number of other intelligence and security matters which are relevant to our remit. We have continued to take a close interest in GCHQ's New Accommodation Project (NAP). In connection with this major project, the Committee took the opportunity to review the previous experiences of the Security Service and the SIS. **We examined the National Audit Office (NAO) reports<sup>3</sup> on the on the purchase, development and fitting out of the Security Service's building, Thames House, and the SIS headquarters, Vauxhall Cross. The reports showed that the outfitting of both buildings resulted in significant cost increases of over three and a half times above the initial submissions to Ministers. The Committee is concerned that there should not be a similar cost escalation in GCHQ's project.**

## The Agencies' Current Priorities and Plans

12. As in previous years, we have continued our practice of inviting the Heads of the Agencies to give formal annual presentations to the Committee on their performance, current priorities, future plans and finances. These took place in the spring of this year. These formal sessions were supplemented by briefings on the Agencies' priorities, successes and problems, and evidence on particular areas being investigated by the Committee. **We are grateful for the update briefs provided by the Agencies, which illuminate their work and the contribution they play in a wide range of national security, intelligence and law enforcement areas.**

13. This regular update allows both the Committee and the Agencies to develop an understanding of the way each other works

and forms a framework against which aspects of the Agencies' work can be assessed on a consistent basis. We welcome the efforts that have been made by the Agencies in this area, seeking to provide clearer information for the Committee's consideration.

14. With the exception of the Security Service, which has a separate committee validating its priorities, the Agencies' priorities are set by the Joint Intelligence Committee (JIC) and are endorsed by Ministers. **It is clearly essential that sufficient guidance on priorities is given and the necessary resources made available to meet the requirements as far as possible. We review the Agencies' priorities each year and intend to revisit in the coming year the challenging process of establishing requirements and priorities.**

## *SIS*

15. SIS briefed us on their activities during the year<sup>4</sup>. A large proportion of their operational effort was devoted to countering the proliferation of weapons of mass destruction, a matter which is covered elsewhere in this report. SIS made a significant effort to provide the Government with secret intelligence in the confusing and difficult situation in the Former Yugoslavia, including in support of military operations. The efforts of SIS in obtaining sources to gather intelligence from Saddam Hussein's inner circle continued to be very important. Another significant area for SIS was international counter-terrorism work, which included a particular focus on \*\*\*. Work by SIS also culminated in the successful disruption of a number of other terrorist organisations. In addition, SIS continued to provide valuable intelligence on \*\*\*

\*\*\*

We discuss SIS's contribution to the fight against serious organised crime in a later section.

16. SIS's current major capital project is \*\*\*

\*\*\*

\*\*\*

## *GCHQ*

17. During the year GCHQ has provided support over a wide range of areas<sup>5</sup>. It has continued to monitor the threats arising from the situation in Iraq particularly in the \*\*\*

\*\*\*

The provision of sigint on the Kosovo conflict required \*\*\*

\*\*\*

Intelligence was used to inform the UK government and military commanders, as well as Allies and NATO. GCHQ continued to provide sigint support to military operations elsewhere, in particular to \*\*\* and to the government to inform policy development. We have noted the increased effort in the field of countering international terrorism and the close co-operation with the law enforcement agencies. Of particular interest was GCHQ's work on counter-proliferation, which provided a new insight into the co-operation between \*\*\* entities on ballistic missiles and allowed SIS and HM Customs and Excise to thwart the delivery of \*\*\*

\*\*\*

In the field of serious organised crime, there has been a significant increase in the tasking of GCHQ, reflecting the effectiveness of sigint reporting in this area, which we discuss later in the report.

18. Internally the last year has been a period of change at GCHQ. It has been devoting considerable effort to the re-engineering of its organisational structures and processes, including organisational teamworking, functionally based technical project groups and a one-stop shop for IT support for new requirements. These changes will be underpinned by a substantial continuing investment programme to develop GCHQ's technical capability and communications within the Agency. One particular challenge for GCHQ has been to ensure that its systems are able to cope with the millennium date change - "the Y2K problem". Further details can be found in paragraph 26. To complement these developments, GCHQ have continued to push ahead with their training programme.

19. We are following closely the development plans for GCHQ's New Accommodation Project. This is being taken forward as a Private Finance Initiative as announced by the Foreign Secretary in May, with GCHQ Services Ltd, a consortium of Tarmac, Group 4 and BT, chosen as the preferred bidder. The Committee is monitoring the continuing negotiations with the consortium prior to contract signature. Further details on the cost can be found in paragraph 49. **As we reported to you last year, the challenge of ensuring that the project is brought in on time and to cost with no interruption to operating capabilities during this reorganisation is a daunting one, which will demand the highest levels of management and technical skills.**

### *Security Service*

20. The Security Service has continued to devote a significant proportion of its effort to countering Irish and domestic terrorism, and the allocation of resources rose above the previously forecast level. We took detailed evidence from the Director General<sup>6</sup> about the Security Service's operations in this area: these included their role in the arrest of three dissident Republicans who were on the point of carrying out terrorist actions in London; the arrest of members of a Loyalist group who were charged with involvement, although subsequently acquitted, in a drug deal on the mainland; and \*\*\*

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Against the background of the aim to seek a lasting political settlement in Northern Ireland, we recognise the continuing threat from some factions and the work needed to counter these. This clearly illustrates the need to continue to devote considerable resources to this area of work.

21. There was a slight increase in the resources devoted to international terrorism, where the Service concentrated on three particular areas: state-sponsored terrorism; national and separatist groups, especially those with a presence in the United Kingdom; and the growing threat from Islamic extremism. Of the other key areas of the Security Service's work, we have taken separate evidence on counter-proliferation and serious crime, and these aspects are covered elsewhere in this report.

22. In terms of future development, the Security Service is currently engaged in four major capital projects:

- i. \*\*\*  
\*\*\*
- ii. \*\*\*  
\*\*\*
- iii. the enhancement of the existing interception/transcription system to address Y2K requirements and allow a \*\*\* ; and
- iv. an integrated personnel and financial resource management system.

### *Agency IT systems*

23. One of the key themes we identified in looking at the Agencies' capital projects is the development of IT systems to enhance their capabilities and to make the most effective use of all the information available to them. In setting up projects and procuring new systems of this kind, we consider it vital that decisions are taken on the basis of the best possible information. We particularly welcome the co-operative approach being adopted by all three Agencies in the areas of IT development, including search facilities, data storage, maintenance, administration systems and commercial contractor support team arrangements. **We intend to take evidence from the Agencies in the coming year about their expertise and decision-making processes in this area.**

### *Y2K Compliance*

24. There has been a great deal of publicity about the Millennium Bug and the potential problems of non-compliance. In view of the critical work carried out by the Agencies and the need to maintain seamless operations, we asked all three Agencies for an assurance that their essential and critical systems are able to cope with the millennium date change - the Y2K problem. We were told that all three Agencies have been considering this problem seriously since 1996.

25. SIS<sup>7</sup> have tested a prioritised list of systems; 86 per cent of which are already proven to be compliant, the remaining high impact systems should be so by the end of September. Arrangements are in hand to test all contingency plans by the end of October. In order to minimise the consequence of any failures of systems outside their control, SIS plan \*\*\*

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\*\*\*

SIS have appointed a "Millennium Manager" with the authority to deal with any problems that arise over the new year period.

26 For GCHQ<sup>8</sup> the potential for difficulties is somewhat greater, since sigint is the product of a network of complex technical operations around the world. GCHQ estimates that it will take some 150 man years - at a cost of around £12.5 million - to ensure that its systems are in shape to ensure uninterrupted service over the millennium. We consider this expenditure to be essential. In view of GCHQ's close relationship with its US counterpart the NSA there is a degree of interdependency, but we have been assured that GCHQ are working in close partnership with NSA on this. GCHQ has adopted a system whereby it is the responsibility of a nominated expert in each of its 14 technical domains to ensure that the necessary work is carried out to achieve compliance, providing documentary evidence to an independent panel drawn from GCHQ's technical and business areas that the required work has been carried out in accordance with stringent standards. GCHQ have made arrangements for a team of experienced senior staff to be in attendance during the holiday period, with technical and production staff on call.

27. Like the other two Agencies, the Security Service<sup>9</sup> has in place arrangements to deal with the potential difficulties, including the availability of key operational staff over the holiday period. Its main area of concern has been in replacing commercial off-the-shelf software products with Y2K compliant versions. The Service's most recent assessment of the compliance of equipment supporting its key activities is in the region of 70%, with the expectation that this figure will rise to 100% by September. The Service has also assessed the impact of outside failures, e.g. power and transport, on its ability to provide an uninterrupted service and has ensured that it has systems in place to circumvent any external difficulties.

**28. Each of the Agencies assesses that the vast majority of their systems, including all their key and vital systems, will be proven compliant by September and we are impressed by their thorough approach. However, there is no room for complacency and we will be seeking further updates from all the Agencies on this issue during the autumn.**

## Personnel Management Issues

### *Recruitment*

29. We were briefed by all the Agencies on a number of staff recruiting and retention matters. We were informed by the Agencies that they do not have any serious difficulties over recruitment, other than those discussed below, and that they are able to find the right staff at the correct levels. We were briefed by GCHQ<sup>10</sup> that they have overcome the problems in recruiting IT Specialists that we described last year, as their starting salaries were now comparable with those in the private sector. We are encouraged by this news. However, GCHQ did concede that they were experiencing difficulties in recruiting linguists<sup>11</sup>, in that they face a constant challenge to recruit for some of the rarer language requirements, particularly languages of \*\*\*

One of the biggest difficulties facing GCHQ is that many applicants fail to meet the nationality criteria. As nearly all the work of the linguists in GCHQ entails access to extremely sensitive material and methods, the potential for conflict of interest due to connections with possible targets is the biggest risk for native speakers. GCHQ did assure us that they were tackling the problem and stated that they were using a range of different ways to reduce the shortfall, including intensive training and attachments from other agencies. **We will monitor the situation and report to you.**

30. We were informed by SIS<sup>12</sup> that currently 34 members of staff were on Maternity Leave (MATL). Additionally, 83 members of staff are on Special Unpaid Leave (SUPL), which is granted for either family reasons or for career development for periods of up to three years duration. GCHQ<sup>13</sup> have 17 members of staff on MATL and 23 staff on SUPL, of whom 20 are extending maternity leave; while the Security Service<sup>14</sup> have 33 staff on MATL and 20 staff on SUPL, of whom 11 are extending maternity leave. We understand that the one reason for the higher proportion of SIS staff members on SUPL is that they \*\*\*

### *Employment Tribunals*

31. The Committee continues to believe that everything possible should be done to ensure that employees of the Agencies have the same rights as employees elsewhere, particularly in access to employment tribunals. Under current procedures, employment tribunals may hear cases involving national security, in camera and possibly with the Tribunal President sitting alone. However, if this arrangement is deemed not to provide sufficient protection where vital national security matters may be involved, the Secretary of State can issue a certificate preventing an individual from having access to a tribunal. This is what happened in the Tomlinson case. The Tribunals established under the Security Service Act 1989 and the Intelligence Services Act 1994 were not set up to handle complaints involving staff of the Agencies, and have made clear their view that they are not adequately equipped to do so. In our last annual report<sup>15</sup> we recommended that a suitable industrial tribunal be established with the necessary integrity and security clearance to handle potentially sensitive material. The lack of a suitable industrial

tribunal has also been commented upon by The Rt Hon Lord Justice Stuart-Smith, the Commissioner for the Intelligence Services Act 1994, in his annual reports. He described the situation as "unsatisfactory" in his 1998 annual report<sup>16</sup>.

32. The Committee was informally advised that the Government had it in mind to move an amendment to the Employment Relations Bill to achieve our objectives. In the event, no such amendment was moved in the whole of the Commons proceedings on the Bill. We were then informed that the Government was considering tabling amendments to the Bill in the House of Lords and it was only at the Report Stage in the Lords that the amendment was moved. The amendment removed Ministers' powers to exclude Crown employment for national security reasons from rights conferred under the Employment Rights Act 1996, replacing it with the power to direct that proceedings are to be heard by a specially composed employment tribunal and for special procedures to be used to safeguard national security. In spite of the fact that the amendment was intended to reflect the Committee's earlier proposal, we were not consulted at all on its content, which proved to be incorrectly drafted and unacceptable to the Committee.

33. Our concern was that the amendment gave Ministers the power to exclude the applicant and their representative from all or part of the employment tribunal proceedings on national security grounds. We believe that while it could be necessary, in the interests of national security, to exclude the applicant and their representative from part of the proceedings, we could not see any reason to exclude the applicant and their representative from all of the proceedings. Additionally, the Committee agreed that if Ministers exercised their powers to exclude, the matter should be reported upon by the Commissioners for the Security Service Act 1989 and the Intelligence Services Act 1994. This was to provide a proper check on executive power. The Committee tabled amendments to reflect these concerns. The Government did not accept any of the Committee's amendments, but incorporated an amendment allowing the applicant to make a statement before any part of the proceeding from which they are excluded. The Government also undertook to consult the Committee when it drew up the regulations and procedures for these employment tribunals.

34. The most unsatisfactory way in which this issue was handled in the very last stages of the Bill and at the very eve of the Summer Recess prevented this matter from being sensibly resolved. **We strongly support the right to have access to an employment tribunal and that, if the Government requires special powers to guard national security, we believe that the Commissioners should examine the use of those powers. We recommend that you require any Minister exercising this power to submit their direction to the Commissioners for their consideration. We also recommend that this provision is incorporated in legislation.**

#### *Staff Counsellor*

35. We were pleased to see that, in line with our recommendation last year, the terms of reference of the Staff Counsellor to the Agencies had been amended to allow him to examine any matter that is brought to his attention by staff of the Agencies, including grievances against management; and that the number of his regular formal visits to the Agencies has been increased. We noted the appointment in March of Sir John Chilcot as Staff Counsellor, in succession to Sir Christopher France.

#### *Commissioners' reports*

36. The three Reports of the Commissioner for 1998 under the Intelligence Services Act 1994, the Security Service Act 1989 and the Interception of Communications Act 1985 were published in June<sup>17</sup>. We note that the reports by the Rt Hon Lord Justice Stuart-Smith and the Rt Hon The Lord Nolan keep under review the exercise by the Secretaries of State of their power relating to warrants and authorisations. The reports also cover the Commissioners' investigations of complaints in which it is alleged that something has been done in relation to the property of the complainant; and the Commissioner's investigation of complaints referred to them by the Tribunals in which the Tribunal has not upheld the complaint, but believes that the Agency's conduct was unreasonable. **We believe that the Government should make the confidential annexes available to us. Access to the complete reports would allow the Committee to note the way in which the Agencies follow the regulations and procedures set out by the law and checked by the Commissioners, and hence allow us to form an opinion on the Agencies' administration in this vital area.**

#### *Efficiency Advisor*

37. We noted the appointment of Mr Sandy Russell as the Efficiency Advisor to the Agencies until March 2002. Mr Russell was previously the Deputy Chairman of HM Customs and Excise and he has been appointed on a part time basis to act as an independent adviser to help the Agencies to improve efficiency within the Single Intelligence Vote (SIV). We understand that he will work with each Agency to develop their systems for improving efficiency, including areas of co-operation between them. We are also told that he will provide continuous external advice to the Cabinet Secretary and the heads of the Agencies on the means by which efficiency within the SIV could be enhanced. We were told that Mr Russell has produced his first

report, which is currently being considered by Ministers. **The Committee supports this appointment, as it should increase both the efficiency of the Agencies and the co-operation between them. We have requested that the reports produced by Mr Russell are copied to us to allow us to monitor the implementation of his recommendations and to question the Agencies on further efficiencies**<sup>18</sup>.

## Expenditure issues

38. This is the second year for which we are able to present the Agencies' individual budget and expenditure in the new format, attached at Appendix 3 to this Report. This new format continues to be of assistance to NAO, the Committee and, hopefully, to Ministers as we suggested in our last Annual Report.

39. The SIV outturn totals for 1994/95 to 1998/99 and the budgets for 1999/2000-2001/2 are shown in the table below. Last year we announced our intention to consider the publication of even more financial information. **In a spirit of greater openness we therefore publish the expenditure totals for each of the Agencies for each of the last five years with their forecast for the next three years. We have decided again to include this information in this year's report in the hope that you will reconsider your concerns over publication.**

*All figures £m (Cash)*

	SIS	GCHQ	Security Service	SIV TOTAL
1994/95	***	***	***	855.1
1995/96	***	***	***	780.8
1996/97	***	***	***	740.7
1997/98	***	***	***	703.3
1998/99	***	***	***	695.4
1999/2000	***	***	***	742.9
2000/2001	***	***	***	744.8
2001/2002	***	***	***	746.7

*Notes:*

- 1. These figures exclude the costs of the SIS and Security Service pension schemes.*
- 2. 'Exceptional' costs associated with the moves of SIS and the Security Service into Vauxhall Cross and Thames House respectively are included in the earlier years.*
- 3. Figures for 1998/99 onwards show a net reduction of around £14m, reflecting accounting adjustments with the introduction of capital charging for property.*
- 4. The figures for GCHQ do not include a separate provision for the New Accommodation Project.*
- 5. The figures for 1997/98 are the final outturns for the period, the figures for 1998/99 are provisional outturns.*
- 6. The figures for 1999/2000 to 2001/2002 have changed from the Comprehensive Spending Review settlement due to PES transfers outside of the SIV.*

40. 1998 brought the completion of the review of public expenditure which included an examination of the expenditure and requirements of all three Agencies. Whereas last year we were able to discuss the review process with those responsible for the review, this year we were able to take evidence from the Agencies on the detail of their settlements and the range of issues covered in the review. **During the course of taking evidence from the three Agencies we have been impressed by their commitment to secure efficiency savings in their respective areas of activity, without compromising the volume, quality and value of their effort.**

41. The Chief of SIS assured us that the Service could essentially continue to provide the current level of service during the next two years of the SIV. As far as year three was concerned we were told that the position would be "challenging"<sup>19</sup>. The Security Service told us that on overall resources, money would be tight though manageable by use of increased savings and

efficiencies. They told us that the substantial reduction in staff that had taken place over recent years was largely due to developments in IT systems. This had led to increased resources going into operational areas and operational personnel and we welcome the efficiency gains. However, the Director General stated his concerns over his ability to maintain outputs and undertake new challenges in the third year of the SIV<sup>20</sup>. We believe that these concerns should be fully addressed as a matter of some urgency.

42. The Director, GCHQ, told us that he regarded the SIV settlement as "pretty fair" and we noted that GCHQ had successfully argued in the Single Intelligence Vote Review that reductions in civilian staff numbers would have risked affecting outputs. He told us, however, that there nevertheless remains the challenge to find efficiency savings of about 8.3% per annum, starting from the current year's baseline<sup>21</sup>. The Committee recognises that GCHQ is facing one of the most challenging periods in its history and we are strongly of the view that the scale and scope of GCHQ's work should not be reduced, particularly during the centralisation on the new site. **The combination of existing planned closures and re-deployments, technical improvement programmes, the New Accommodation Project at Benhall and the requirement to secure increased value for money, including the use of employees to replace outside contractors, call for highly complex decisions to be taken in a period of uncertainty. These decisions require considerable management expertise and we would expect such expertise to be in place.**

### *Accommodation expenditure issues*

43. Last year we recommended<sup>22</sup> that "in view of our own statutory responsibility to examine the Agencies' expenditure, formal provision should be made for the disclosure of information and reports by the Comptroller and Auditor-General to this Committee, in consultation with the chairman of the House of Commons Public Accounts Committee". As part of the implementation of this recommendation we discussed the Agencies' expenditure with officials from the National Audit Office (NAO). Additionally, in order to prepare ourselves for the oversight of GCHQ's New Accommodation Project we considered the three NAO reports<sup>23</sup> covering the acquisition and refurbishment of both Thames House (Security Service) and Vauxhall Cross (SIS). **We were surprised that the reports had not been published previously, and the Committee believe that these NAO reports should be published. We believe that publication would not in any way prejudice national security or compromise commercial confidentialities.** As part of this process we have summarised these reports' conclusions and recommendations. We believe that the NAO possess unique capabilities in this area, which we intend to continue to use to support our work.

### *Thames House*

44. On the purchase of Thames House, the NAO believe that the Property Services Agency (PSA) could have saved £13m (on the eventual purchase price of £82m) on payments to intermediaries if the building had been acquired at an early stage direct from ICI, the previous owners. Equally, we note that Property Holdings, PSA's successor body, accept that while a lower price was possible earlier, they argue that without a clearly identifiable requirement for the building at an early stage Ministers did not consider a speculative purchase the best use of available funds. We also note that the NAO question the accuracy of the buildings condition survey and they believe that a further survey before purchase might have revealed the full extent of remedial works required and so influenced negotiations over price<sup>24</sup>.

45. On the refurbishment of Thames House, the NAO report<sup>25</sup> that in March 1987 PSA provided a "provisional order of costs" at about £60m; this rose to between £115m and £145m in November 1987 when calculated on a different costing basis, although the upper figure was not included in the final submission. By June 1990, when Ministers were finally informed of escalating costs, the estimate stood at £251m. Estimated costs later rose to almost £300m before final savings and changes in inflation assumptions brought costs down to £227m. We note that it was only on the intervention of Mrs. Thatcher and the appointment of developers Stanhope as commercial advisers that economies were found. Consultancy and management fees on the project amounted to £37m, about 16% of total costs; these included £4m for PSA, £11m for the management contractor, £16m for the design team and nearly £2.5m for advisors appointed by the Security Service.

### *Vauxhall Cross*

46. On the acquisition of Vauxhall Cross, the NAO notes PSA and Treasury concerns over added costs due to variations in design specification on the Vauxhall Cross contract<sup>26</sup>. The NAO expressed concerns over PSA's early failure and subsequent delay in recognising the need for tight controls over non-fixed priced additional items.

47. On the development and fitting out costs, the NAO note<sup>27</sup> that in November 1987 SIS, using the PSA guide, assessed these costs to be £22m. By September 1988 the costs had increased to £43m and by July 1989 to £77m. In 1990 SIS estimated the

costs at £107m, which subsequently fell to £96m in June 1991 and then £89m as firmer estimates became available. The final outturn stands at £81m.

*Conclusions and Recommendations*

48. Both Vauxhall Cross and Thames House projects indicate the importance of three general principles for project assessment and management:

- i. Initial estimates should be adequately drawn up and any significant omissions and qualifications highlighted so that decisions can be made in the light of material facts.
- ii. Objectives including time and cost targets should be set at the earliest opportunity to enable a project to be properly monitored and controlled and to minimise the risk of cost increases and delays.
- iii. The cost of consultancy work should be set against a pre-determined target percentage and be subjected to rigorous competitive tendering.

*GCHQ New Accommodation Project*

49. **We expect GCHQ to have these three principles in mind in the management of the New Accommodation Project.** PFI may, by definition, introduce greater financial control on project development by transferring an element of risk but the risk of slippage and overspend still exists. This risk is evident from the current figures provided to the Committee<sup>28</sup> (see table) as the estimated Net Present Value of the contract has risen by \*\*\* in less than nine months. Due to our statutory responsibility to examine GCHQ's expenditure, we are discussing the financial monitoring of this and other projects with the NAO to enable us to closely examine the expenditure through the project's life.  
**We recommend that the NAO reports on the New Accommodation Project as soon as a contract is placed and we will report to you on this matter in due course.**

*GCHQ New Accommodation Project Costs*

	Capital Cost	Net Present Value
Base Case (Evidence March 1998)	***	***
	(rough estimate)	
GCHQ Services Ltd bid at the	***	***
preferred bidder stage (September 1998)		
GCHQ Service Ltd price (May 1999)	***	***
Public Sector Benchmark	***	***
(Risk Adjusted)		

*Note: These figures cannot be made public at this time due to contract negotiations. They will be made available in due course.*

Sierra Leone

50. In February, we reported to you<sup>29</sup> on the coup in Sierra Leone, in the light of claims that British intelligence was involved in the events which led to the restoration of the Kabbah government, together with allegations of collusion by the Government in breaches of the UN arms embargo on that country. The Committee looked into these matters, and took the opportunity to examine how the Agencies respond to a situation where a crisis suddenly arises in a country which has not previously required any active intelligence effort. We were struck too by the public reports that the High Commissioner, who had been evacuated from Freetown, apparently had no secure communications equipment and was solely dependent on an insecure hotel fax in Conakry. We wanted to inquire how such an unsatisfactory situation had occurred, given significant investment by the Foreign and Commonwealth Office in communications systems.

51. We took evidence from the Heads of SIS and GCHQ<sup>30</sup>. In the meantime, the Government commissioned Sir Thomas Legg to conduct an investigation into what Government officials and Ministers knew about breaches of the arms embargo. Following publication of that report<sup>31</sup>, we also took evidence from the Chairman of the Joint Intelligence Committee, the



Chief of Defence Intelligence, the High Commissioner in Sierra Leone, Mr Peter Penfold, and FCO officials in charge of communications support.<sup>32</sup>

52. With regard to the allegations of SIS involvement in the events in Sierra Leone, we were given a categorical assurance by the Chief of SIS that his Service was not involved in any way with the counter-coup in Sierra Leone, or with the activities of the private military company, Sandline International, in that country. From the evidence we were given, we understand that SIS had two incidental contacts with Executive Outcomes (another private company) and Sandline International, but that there were no active dealings with these companies. We recognise the difficulties that can arise in such circumstances from contact with companies which might employ former employees of the Service and have noted the requirement for members of the Service to be aware of the need to handle any such contacts with considerable care. But we also recognise that, in certain circumstances, these companies may have an important role to play in the provision of valuable information.

53. \*\*\* SIS was able to produce intelligence reports after the 1997 coup with significant help from friendly liaison services. In response to demand for intelligence on the situation in a number of West African countries, GCHQ was also able to generate a number of reports on countries that had not previously required significant intelligence effort, illustrating well the flexibility of intelligence collection by sigint.

54. We examined the quality of intelligence assessments produced by the JIC on the events in Sierra Leone. In one case, a JIC assessment looked to be significantly at variance with that of the DIS as recorded in a note of a meeting held in the FCO. However, on further inspection, this record was found to have inaccurately compressed what had been said at the meeting. But a further JIC assessment proved to be badly wrong. This stemmed from the fact that there was no method of direct consultation with the High Commissioner on the relevant assessments being produced in Whitehall. We believe that this was a serious failing in the system.

55. We examined in some detail the fact that, since the High Commissioner did not have access to secure communications equipment, he was unable to receive intelligence reports or assessments. Nor could he transmit information securely back to London, and the later attempts to provide him with secure communications equipment failed. This was in sharp contrast to the position of the Military Liaison Officer who had arrived for his deployment in Sierra Leone with portable secure voice communications. All this underlines the importance of the FCO being able to provide secure communications equipment at short notice anywhere in the world where such a requirement might arise.

56. In its response to our report, the Government<sup>33</sup> agreed with us that it should be able to provide secure communications equipment promptly when overseas posts' circumstances change. **We acknowledge that it is vital that the equipment and documents are afforded the correct level of protection; however the Government did not indicate in its response how it planned to ensure that both secure equipment and suitable protection are provided when needed. We intend to question the Government further on action being taken to ensure that there is a sufficient reserve of suitable emergency communications equipment, which can be deployed with the correct protection.**

## Proliferation of Weapons of Mass Destruction

57. We took evidence over a six-week period on the work of the Agencies to counter the proliferation of weapons of mass destruction (WMD), which are nuclear, biological and chemical weapons. This work is First Order of Importance in the Joint Intelligence Committee's (JIC) Requirements and Priorities,<sup>34</sup> and, while the direct nuclear threat to the UK is currently limited to Russia and China; \*\*\* India and Pakistan are nuclear powers and a number of countries, such as \*\*\*, are developing nuclear weapons and their delivery systems, some with substantial range. Turning to the threat from biological and chemical weapons, \*\*\*

are among the countries that possess chemical weapons and several countries are still conducting research into biological weapons, including \*\*\*. We know that Iraq had, and may still have, biological and chemical weapons, and was developing nuclear weapons. **The threat to our armed forces deployed overseas from these weapons is very real, and we believe that the Agencies play a vital role in establishing the threat to our service personnel.**

58. We were told that the DIS plays a key role in the intelligence community in this area<sup>35</sup>, as it provides technical expertise to the Agencies, Government Departments and HM Customs and Excise (HMCE), as well as analysing the intelligence produced by the Agencies in order to establish the existence of WMD programmes in countries of concern and the technological requirements of those programmes. We were told that the JIC regularly takes papers on WMD related matters, as well as producing annual reports on WMD matters<sup>36</sup>. We note that there is a separate Requirements and Priorities paper for WMD and that this states that "the Agencies may be required to undertake disruptive action in response to specific tasking"<sup>37</sup>. **We support this capability, which we understand would be under Ministerial approval, as a useful part of Government**

**policy to prevent or hinder the proliferation of WMD.**

59. We were told that the task of SIS in counter-proliferation is to provide intelligence on the nuclear, chemical, biological and ballistic missile programme posing the greatest threat to the United Kingdom. They report on \*\*\*

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Work in this area accounts for \*\*\* of SIS resources and involves \*\*\* staff in London, supported by \*\*\* overseas stations<sup>39</sup>. GCHQ has \*\*\* staff working in this area, accounting for \*\*\* of the total reporting output<sup>40</sup>.

60. The Agencies assist in the prevention of the export of controlled goods and technology. The DTI is the licensing authority for both controlled goods and technology in the WMD area, through the Export Control Organisation. The Director of Export Control chairs the Restricted Enforcement Unit (REU), the inter-departmental body that meets fortnightly to review intelligence information from all sources about possible export control violations and procurement for WMD. The FCO, MOD and DIS are all represented on the REU, as are the Agencies and HM Customs and Excise (HMCE). While the REU naturally focuses on the issues involving individuals and organisations in the UK, it also reviews export control-related intelligence that involves overseas entities<sup>41</sup>. **We were concerned to be told that UK companies and individuals are still attempting to export material illegally from the UK to countries of concern.** We were told that<sup>42</sup> in the past year the Security Service had contributed to the prevention of 20 attempts by companies and organisations to circumvent the Government's counter-proliferation policy.

61. HMCE play a vital role in preventing the export of WMD related materials from the UK, with its National Investigation Service (NIS) investigating the more serious breaches of export controls with a view to criminal prosecution. These breaches would include using false end-user certificates, false end-users on genuine certificates, incorrect declarations of the manifest and by routing material through other countries before re-exporting it to the country of concern. The NIS also receives, analyses, sanitises and disseminates intelligence to UK ports and harbours. However HMCE's resources are limited and the effective deployment of Customs' resources at the major ports and airports is therefore highly dependent on good and timely intelligence<sup>43</sup>. **We welcome the close co-operation between the Agencies and HMCE/NIS, particularly through staff exchanges and secondments.**

62. We were also briefed<sup>44</sup> on the Security Service's Awareness Programme, in which staff visit companies and universities, \*\*\* as part of a series of pre-programmed visits, to brief them on the countries and organisations of WMD concern. The awareness visits also produce useful information for the Security Service, which is then reported back to the REU.

63. In evidence the Committee was told that the UK export control policy is working and it is believed that no WMD related equipment or technology has been exported from the UK to a country of concern. Additionally, we were assured that European countries were applying similar export restrictions<sup>45</sup>.

64. **However, we are concerned that too much faith is being placed in the ability of various control regimes and treaties, together with the effectiveness of UK and international policies, in preventing the proliferation of WMD.** Intelligence shows that certain countries have obtained and continue to obtain the necessary technical assistance and equipment from \*\*\* to develop their missile programmes. Similarly, the components and technology necessary to produce chemical and biological weapons are also being supplied to proliferating countries. **We do not believe that the current policy towards counter proliferation has been completely successful - it has slowed WMD development programmes rather than stopping them.** This fact has been recognised in a recent MOD publication<sup>46</sup> which states that "The international community cannot rely solely on the negotiation of arms control agreements to ensure that a determined proliferator cannot in practice acquire, by clandestine means, the technology and materials necessary to produce biological or chemical weapons and their means of delivery". **Consequently, we believe that any such policy that attempts to prevent proliferation occurring is unsustainable.**

65. **However, we were concerned that the evidence from the Foreign Office appears to suggest<sup>47</sup> that sanctions and control regimes are working. We believe this view is not backed up by the intelligence which the Agencies have provided, \*\*\* While we acknowledge that intelligence may be acted upon at official level in fora such as the REU<sup>48</sup>, we are concerned that Ministers may not be fully briefed on the violations of both sanctions and control regimes.** The Agencies' counter proliferation work is highly focused on the UK - and rightly so - to ensure that the UK does not unwittingly aid proliferators.

66. **We believe that a more proactive approach could pay dividends. This would require greater effort by the Agencies to track down and stop proliferators.** Wherever possible, this should be in close co-operation with Allies, who also face the

threat from these weapons. However, the situation that exists today, that of proliferators armed with weapons of mass destruction but who do not know how or when they would use them, cannot be addressed simply by a counter-proliferation policy. We believe that the Government should continue to develop an intelligence-based strategy in line with the "Deterring Use"<sup>49</sup> policy, to cover the situation as it develops. This would work in parallel with the increasingly proactive counter-proliferation policy. **We believe that the work of the Agencies in countering proliferation is putting strain on their resources, as the Agencies find themselves attempting to cover new, high priority targets. Any additional work will clearly put further pressures on the Agencies' resources which will need to be carefully managed and may require the re-prioritisation of work.**

## Serious Crime

67. We continue to take a close interest in the role of the Agencies in supporting law enforcement organisations in the fight against serious crime. The Agencies have a statutory function<sup>50</sup> to support the prevention or detection of serious crime, which therefore requires them to allocate resources to this task. The Committee found that during the past year no additional resources were allocated to counter serious crime, even though the work against drug trafficking is a JIC First Order of Importance requirement. The Agencies informed us that they were meeting the requirements of the police through the co-ordination of the National Criminal Intelligence Service (NCIS). The Security Service confirmed that all their law enforcement taskings came through NCIS and we were also told<sup>51</sup> that the arrangements for tasking GCHQ and the SIS were more ad-hoc than the statutory link between NCIS and the Security Service.

### *Drugs*

68. We heard about the role that the Agencies, along with HMCE, were playing in preventing drugs from reaching the UK. We were told<sup>52</sup> that Colombians supply the majority of cocaine in the UK and that 90% of the heroin is provided by Turkish groups. The drugs are transported from the production areas in South America and Asia and through the intermediate points of Spain and Turkey to distribution sites in Europe and the UK before reaching the dealers on the UK streets. We are unclear if it is permitted for the Agencies and law enforcement organisations to interdict the supply of drugs before they reach the UK. While there are potential political risks attached to operations to interdict and disrupt drug supplies outside the UK, the threat we face from drugs is very real. **We believe a full intelligence based assessment should be made of just how great a proportion of the present drug supplies could be stopped and the scale of effort and resources that it might require. We are not convinced that enough effort is being focused at stopping the drugs reaching the UK.**

69. We were briefed that there were limitations to the intelligence and operational support the Agencies were able to provide, particularly in \*\*\* due to a shortage of resources. Law enforcement agencies and HMCE believe that \*\*\* could provide more intelligence if they had the correct \*\*\*

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HMCE stated<sup>53</sup> that in order to help ensure that they received better support \*\*\* they had seconded a team of five into \*\*\*

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**We were also alarmed to be told by the Director General of the Security Service<sup>54</sup> that if his expected funding problems in the third year transpired, the work against serious organised crime would need to be scaled down.**

### *Other serious crime*

70. We were also told of the growing importance of cigarette smuggling into the UK. HMCE believe<sup>55</sup> that the Exchequer loses £1500m every year from duty and tax avoidance on cigarettes - the payable tax on a standard 30 foot lorry container of cigarettes is £1m - and the Agencies are unable to allocate resources of any significance to combat this illegal activity. We understand that the scale of profits that can be made by cigarette smuggling is comparable to drug smuggling and that criminals are swapping to cigarette smuggling as the risks and penalties are lower. **We believe that any additional resources given to the Agencies to allow them to conduct work in this area could be effectively self-funding for the Exchequer through the recovery of duty and tax.**

### *NCIS and the Agencies*

71. We believe that the Agencies make a valuable contribution to the fight against serious crime, and the fight against drugs in particular. However, we have been told that their contributions are resource (finance and manpower) limited and they cannot

meet all the requirements placed on them by NCIS. We therefore believe that the allocation of resources to combat serious crime should be reviewed. The Committee also believe that NCIS is resource limited and that this results in a failure to effectively use all the intelligence the Agencies produce and to effectively task them. **We believe that the current funding arrangement for NCIS, based on negotiations between the NCIS Authority and English and Welsh police services, together with the Scottish and Northern Ireland Offices is a system that by its nature will continuously limit funding below the necessary level.**

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1. *Cm 4073, October 1998.*
2. *Cm 4309, May 1999.*
3. *Memoranda by the Comptroller and Auditor General: a) Purchase of Buildings or the Security Service and the Secret Intelligence Service (March 1992); b) Refurbishment of Thames House (November 1995); and c) Fitting Out of Vauxhall Cross (November 1995).*
4. *Evidence from the Chief of SIS, March and April 1999.*
5. *Evidence from the Director of GCHQ, March and April 1999.*
6. *Evidence from the Director General of the Security Service, March and April 1999.*
7. *Evidence from SIS, July 1999.*
8. *Evidence from GCHQ, July 1999.*
9. *Evidence from the Security Service, July 1999.*
10. *Evidence from the Director of GCHQ, June 1999.*
11. *Evidence from GCHQ, July 1999.*
12. *Evidence from SIS, July 1999.*
13. *Evidence from GCHQ, July 1999.*
14. *Evidence from the Security Service, July 1999.*
15. *Cm 4073, October 1998.*
16. *Cm 4361, June 1999.*
17. *Cm 4361, June 1999. Cm 4365, June 1999. Cm 4364, June 1999.*
18. *Evidence from the Cabinet Office, February 1999 and July 1999.*
19. *Evidence from the Chief of SIS, December 1998.*
20. *Evidence from the Director General of the Security Service, March 1999.*
21. *Evidence from the Director of GCHQ, March 1999.*
22. *Cm 4073, October 1998.*
23. *Memoranda by the Comptroller and Auditor General: a) Purchase of Buildings for the Security Service and the Secret Intelligence Service (March 1992); b) Refurbishment of Thames House (November 1995); and c) Fitting Out of Vauxhall Cross (November 1995).*

24. *Memorandum by the Comptroller and Auditor General: Purchase of Buildings for the Security Service and the Secret Intelligence Service (March 1992).*
25. *Memorandum by the Comptroller and Auditor General: Refurbishment of Thames House (November 1995).*
26. *Memorandum by the Comptroller and Auditor General: Purchase of Buildings for the Security Service and the Secret Intelligence Service (March 1992).*
27. *Memorandum by the Comptroller and Auditor General: Fitting Out of Vauxhall Cross (November 1995).*
28. *Evidence from GCHQ, June 1999.*
29. *Report to the Prime Minister by the Intelligence and Security Committee, February 1999 (Cm4309).*
30. *Evidence from the Chief of SIS, May 1998. Evidence from the Director of GCHQ, June 1998.*
31. *Report of the Sierra Leone arms investigation (Sir Thomas Legg KCB QC and Sir Robin Ibbs KCB), July 1999.*
32. *Evidence from the Chairman of the JIC, December 1998. Evidence from the Chief of Defence Intelligence, December 1998. Evidence from Mr Peter Penfold, November 1998. Evidence from the FCO, December 1998.*
33. *Cm 4347 May 1999.*
34. *Evidence from the Cabinet Office, May 1999.*
35. *Evidence from SIS, May 1999. Evidence from the Security Service, June 1999.*
36. *Evidence from the Cabinet Office, May 1999.*
37. *Evidence from the Cabinet Office, May 1999.*
38. *Evidence from the Cabinet Office, May 1999.*
39. *Evidence from SIS, May 1999.*
40. *Evidence from GCHQ, May 1999.*
41. *Evidence from the Cabinet Office, May 1999. Evidence from the DTI, June 1999.*
42. *Evidence from the Security Service, June 1999.*
43. *Evidence from the Cabinet Office, May 1999. Evidence from HM Customs & Excise, May 1999.*
44. *Evidence from the Security Service, June 1999. Evidence from the Director General of the Security Service, June 1999.*
45. *Evidence from the Department of Trade and Industry, June 1999. Evidence from the Ministry of Defence, June 1999.*
46. *"Defending against the threat from Biological and Chemical Weapons", Ministry of Defence, July 1999.*
47. *Evidence from the FCO, May 1999.*

48. *Evidence from the FCO, May and July 1999.*
49. *Defending against the threat from Biological and Chemical Weapons", Ministry of Defence, July 1999.*
50. *Intelligence Services Act 1994, Security Service Act 1996.*
51. *Evidence from NCIS, July 1999.*
52. *Evidence from NCIS, July 1999.*
53. *Evidence from HM Customs and Excise, July 1999.*
54. *Evidence from the Director General of the Security Service, July 1999.*
55. *Evidence from HM Customs and Excise, July 1999.*
56. *Evidence from the Home Office, June 1999.*
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# Other Matters

## *Commercial Encryption*

72. In light of the Government's proposals for the regulation of electronic commerce, we asked for evidence from the Home Office and Agencies on the effect that commercial encryption technologies would have on the work of the Agencies. The Agencies and law enforcement organisations stated<sup>56</sup> that the ability to intercept and monitor communications in real time provides both the initial intelligence needed to mount operations and the ongoing intelligence to bring them to a successful conclusion. GCHQ stated in their evidence that \*\*\*

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Currently \*\*\* of GCHQ's intelligence reporting results from the successful application of cryptanalytic and other technical skills. The Security Service told us that \*\*\*

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The SIS stated that \*\*\*

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73. The Home Office stated that "It is, however, the potential use of encryption rather than its current application which gives rise to the greatest concern. Communications technologies are converging around common digital protocols in a way which will soon allow new encryption methods to be applied equally to voice as to internet data traffic. When that happens, if nothing were done, the valuable interception capability would be progressively lost to the law enforcement services and to the Agencies". **We therefore welcome the Government's proposals under the Electronic Commerce Bill to include powers to issue orders for the production of keys held by any person where they are required in order to decrypt material which has been, or is being, lawfully acquired. We understand that this would include interceptions under the Interception of Communications Act 1985 which is currently also under review. We will report to you as this matter develops.**

## *Security Policies and Procedures*

74. In recent years there have been a number of serious security breaches in the intelligence communities both in the UK and the US. In each of our previous reports, the Committee has emphasised its concern about the need to learn the lessons of these breaches and for the necessary steps to be taken. We understand that a number of enhancements have been introduced by the Agencies, **but we remain concerned as to whether our recommendations have been fully taken on board and introduced throughout the security and intelligence community. Against this background, we have tasked our Investigator to conduct a stocktaking exercise into the security policies and procedures with particular reference to recent enhancements and the Committee's previous recommendations. We will report to you on the outcome of this work in due course.**

75. We have also noted that the Security Commission has been asked by you to investigate and report on the case of Chief Petty Officer Hayden, who was convicted in November 1998 of offences under the Official Secrets Act. We understand that one of the reasons that you did not ask this Committee to report on the case is that CPO Hayden was a member of the Armed

Forces and not of the Agencies. We await the Security Commission's report with interest.

### *External Records/Files*

76. In our report last year, we outlined our interim conclusions in respect of the policy on the creation and retention by the Agencies, most notably the Security Service, of personal files. In particular, we noted the fact that the Security Service was reviewing its files relating to individuals aged 55 and over. Whilst recognising that the judgement in respect of the review and destruction of individual files is made solely by the Security Service, it was our conclusion that a form of independent check should be built into that process, particularly in respect of files relating to subversion.

77. We were pleased to note that in its response to our report last year the Government<sup>57</sup> stated that "the Service will no longer surface records in the vetting context purely on account of membership of organisations hitherto considered subversive". We understand this to mean that if a person had been a member of an organisation previously considered to be subversive, that information would not be used in the vetting process.

78. In July 1998, the Home Secretary announced that he had invited the Advisory Council on Public Records to review the criteria which the Security Service employs to select files for permanent preservation on grounds of historical interest. However in the Government's response to our last annual report, it was stated that "the Government does not believe that the process of reviewing files for destruction would be assisted by independent scrutiny". The Home Secretary, during the debate on our report in November, then stated that he would look at the matter again. The Council reported to the Home Secretary in December last year recommending, inter alia, that officials of the Public Record Office with the appropriate security clearance would, in future, be invited to examine files which had been earmarked for destruction by the Security Service. This would provide a useful measure of external scrutiny of the selection process to ensure that historical records were not being destroyed. The Committee welcomes this development.

**79. However, we were disappointed that in the period between when the Home Secretary agreed to look again at this issue and his acceptance of the Advisory Council's recommendations in January 1999, the Security Service continued its programme of destruction. We understand that around 3000 files were destroyed between November 1998 and January 1999<sup>58</sup>. Where such reviews of policy are announced in future, we strongly recommend that immediate action is taken to avoid a repeat of this.**

80. With regard to the destruction of personal files, the Director-General<sup>59</sup> has told us that files are not destroyed if the subject was actively investigated by the Security Service using intrusive investigative techniques, nor if the file was used in a way that might have adversely affected the subject, such as an adverse trace during the security vetting process which affected their employment prospects. He also stated that files on organisations would not be destroyed. When asked if there were plans to release any information on people or organisations previously regarded as subversive, such as their names, he stated that there are currently no plans for the Service to release post-war information on individuals or organisations previously regarded as subversive. The Director General's view was that this could lead to potentially large numbers of requests for such information, as well as the loss of confidence of those agents and others who supplied information to the Service in confidence and to the exposure of intelligence techniques and methods which remain sensitive. **We will wish to examine this matter further.**

81. We have taken information from the Data Protection Registrar about the changes in this area which will flow from the implementation of the Data Protection Act 1998<sup>60</sup>. Under the Data Protection Act 1984, a certificate by a Minister that an exemption is required for purposes of national security could not be challenged, but the new Act will mean that individuals affected by a Ministerial certificate will have the right to appeal against such a decision to the Data Protection Tribunal. The 1998 Act confers on individuals certain rights which may go some way to meeting our concerns about personal files held by the Agencies. **We intend to pay close attention to the effects of the enactment of the Data Protection Act 1998 in this area, and the development of individuals' rights under the Human Rights Act.**

**82. In our work to date in this area, we have concentrated on the destruction of files by the Security Service. We intend to consider these issues further, in particular, the creation of files and rights of access, and the verification of information held on individuals by the Agencies.**

### *Defence Intelligence Staff (DIS)*

83. We were unable to ascertain the effect of the Strategic Defence Review on the DIS as CDI was unable to brief us on these matters due to Operation Desert Fox and the military campaign in Kosovo. **We will be taking evidence in the Autumn on both any changes in the funding and structure of the DIS as a result of the Government's Strategic Defence Review, together with the implications that these may have for the work of the Agencies, and the intelligence contribution to**



policy in the Kosovo campaign. We will also be examining the material produced.

### *Developing Oversight*

84. Following the recommendation in our last Annual Report<sup>61</sup> that the Committee needed its own investigatory capability, we were grateful for your agreement and support in the appointment of an Investigator. The Committee interviewed a number of identified candidates for the position, before selecting John Morrison, the recently retired Deputy Chief of Defence Intelligence, DIS, as the Investigator. Mr Morrison, who took up his appointment in June, will work part-time as required by the Committee and will conduct investigations into matters as directed by the Committee. He brings with him a great knowledge of intelligence matters, as he has worked alongside, but not in, the Agencies for almost all of his 32 year career.

85. The Investigator is a significant enhancement to the Committee as he will be able to pursue matters in much greater detail than we can. This was recognised by the Home Affairs Committee of the House of Commons, which stated<sup>62</sup> that "the establishment of the post of 'Investigator' should make it [the ISC] more effective". He will work under the statutory authority of the Committee, as detailed in the Intelligence Services Act 1994 and will report directly to us. The Investigator will be able to inspect all documents, files and reports connected with the investigation, as well as interview key personnel, in preparing his report. He will then, in consultation with the appropriate Agency Head to ensure that operationally sensitive information is not unnecessarily disclosed, submit his report to the Committee. **We will then consider the matter, together with any recommendations, and report, as necessary, to you. We see the Investigator reinforcing the authority of any findings we make, and to be an important element in establishing public confidence in the oversight system.**

86. We have formulated a schedule for the Investigator, which will allow him to cover areas of substance, whilst allowing him the flexibility to divert his attention to immediate matters as directed by the Committee. We also believe that if the Agencies themselves wish a matter or event to be investigated and reported, they could invite the Committee to deploy the Investigator. In such circumstances the Investigator would still report to the Committee. As mentioned in paragraph 10, we have already tasked the Investigator to conduct a stocktaking exercise into security policies and procedures, with particular reference to recent enhancements and the Committee's previous recommendations. Mr Morrison will report back to us in the Autumn.

### *Oversight and Parliament*

87. The Home Affairs Committee (HAC) of the House of Commons reported on the Accountability of the Security Service in June<sup>63</sup>. They concluded that the Intelligence and Security Committee (ISC) should be replaced by an inter-departmental select committee, "a reconstituted ISC", which reported to Parliament rather than to the Prime Minister. The majority of this Committee, with a minority dissenting, does not support this recommendation. We await, with interest, the Government response to the HAC report which will be produced in the Autumn. We note the statements in the HAC report on the success of the ISC, three of which are reproduced below:

"....the reports of the ISC itself have shed light on areas of security service activity which hitherto had lain in darkness. These developments have been an important advance on what had gone before."

"....we wish to record our view that the establishment of the statutory Intelligence and Security Committee has been a significant step forward over previous arrangements in providing democratic accountability."

"....we note that in practice the ISC has gone beyond even the limits of the three principal agencies to examine other intelligence work within the government."

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57. Cm 4089, October 1998.

58. Evidence from the Security Service, June 1999.

59. Evidence from the Security Service, June 1999.

60. Evidence from the Data Protection Registrar, January 1999 and May 1999.

61. Cm 4073, October 1998.

62. Home Affairs Committee Report "Accountability of the Security Service", June 1999, HC291.



## Conclusions and recommendations

88. On the basis of the evidence we have taken this year, we conclude that:

### The Agencies' current priorities and plans

A. The process for setting the Agencies' priorities is well established, but it is important that the Agencies are given sufficient guidance in this area and the necessary resources to meet these priorities to the best of their abilities. (Paragraph 14.)

B. We strongly support the Agencies' work in support of UK and allied operations in the Gulf and the Balkans which continue to be of some concern at this time. (Paragraphs 15-17.)

C. We continue to give our support to the Agencies' work to counter the threats from terrorism, either at home or abroad, and note the continuing need to allocate resources to this area of work. (Paragraphs 15-21.)

D. The challenge of ensuring that GCHQ's New Accommodation Project is brought in on time and to cost with no interruption to operating capabilities during this reorganisation is a daunting one, which will demand the highest levels of management and technical skills. (Paragraph 19.)

### IT Systems

E. It is important that the Agencies make the best use of the IT systems available to them, including collaborative projects where appropriate. We intend to question the Agencies in the coming year about their expertise and decision-making processes in this area. (Paragraph 23.)

### Y2K Compliance

F. Each of the Agencies assesses that the vast majority of their systems, including all their key and vital systems, will be proven compliant by September, and we are impressed by their thorough approach. However, there is no room for complacency and we will be seeking further updates from all the Agencies on this issue during the autumn. (Paragraph 28.)

### Recruitment

G. We are encouraged by the efforts taken by the Agencies to overcome their difficulties in the recruitment of staff, notably IT specialists by GCHQ. However, it is vitally important that the Agencies are able to recruit staff with the necessary language skills, and we intend to keep this situation under review. (Paragraph 29.)

### Employment Tribunals

H. We believe that the introduction of an amendment to the Employment Relations Bill to allow the Agencies' employees access to employment tribunals was most unsatisfactorily handled. We strongly support the right to have access to an employment tribunal and that, if the Government requires special powers to guard national security, we believe that the Commissioners should examine the use of those powers. We recommend that you require any Minister exercising this power to submit their direction to the Commissioners for their consideration. We also recommend that this provision is incorporated in legislation. (Paragraphs 31-34.)

### Commissioners' reports

I. We believe that the Government should make available to us the confidential annexes to the reports of the

Commissioners, to allow us to see how the Agencies follow the regulations and procedures set down in law, and to form a view on their administration. (Paragraph 36.)

## Expenditure

J. We have noted the position of the Agencies with regard to the SIV settlement, and the difficulties that SIS and the Security Service envisage in the third year. We shall continue to pay close attention to the ability of the Agencies to meet their objectives against realistic budget settlements. (Paragraphs 41-42.)

## Publication of NAO Reports

K. With the agreement of the Chairman of the Public Accounts Committee, we have seen that NAO reports on the acquisition and refurbishment of Thames House and Vauxhall Cross. We were surprised that the reports had not been published previously, and the Committee believes that these NAO reports should be published. We believe that publication would not in any way prejudice national security or compromise commercial confidentialities. (Paragraph 43.)

L. We continue to value the special capabilities of the NAO in advising over the unique value for money and expenditure issues in respect of the Agencies. (Paragraph 43.)

## GCHQ New Accommodation Project

M. We will continue to follow closely the plans for GCHQ's new accommodation project. We consider it vitally important that the particular lessons of the Vauxhall Cross and Thames House projects identified by the NAO in relation to estimates, objectives and the cost of consultancy should be borne in mind by GCHQ at all stages through the project, in order to ensure that similar difficulties do not occur. (Paragraph 49.)

N. We recommend that the NAO reports on the New Accommodation Project as soon as a contract is placed and we will report to you on this matter in due course. (Paragraph 49.)

## Sierra Leone

O. Following our examination of the Sierra Leone affair, we noted the need to be able to provide secure communications equipment and suitable protection to overseas posts at short notice. We intend to question the Government further on the steps it has taken to meet this requirement. (Paragraph 56.)

## Proliferation of Weapons of Mass Destruction

P. We have been informed by the Agencies about their important work in seeking intelligence to help counter the proliferation of weapons of mass destruction. However, we are concerned that there appear to be inconsistencies between the information provided by the Agencies and Government departments about whether sanctions and control regimes are working effectively. We believe that if the Agencies were more proactive they could produce better results in countering proliferation. The work of the Agencies in countering proliferation is putting strain on their resources, as the Agencies find themselves attempting to cover new, high priority targets. Any additional work will clearly put further pressure on the Agencies' resources which will need to be carefully managed and may require the re-prioritisation of work. (Paragraphs 61-66.)

## Serious crime

Q. We have taken evidence from the Agencies and from others, including the law enforcement agencies, about work to counter serious crime. We note the scale of serious crime, most notably in the area of drug smuggling and the involvement of Turkish groups, and cigarette smuggling. (Paragraphs 68-70.)

R. On the basis of the evidence we took, we believe that the current system of allocating resources to NCIS means that funding will continue to be limited below the necessary level. (Paragraph 71.)

# Commercial Encryption

S. We welcome the Government's proposals under the Electronic Commerce Bill to include powers to issue orders for the production of keys in order to decrypt material which has been lawfully acquired. We intend to keep this issue under review. (Paragraph 73.)

# Security Policies and Procedures

T. We continue to take a close interest in security policies and procedures, and have tasked our Investigator to undertake a stocktaking exercise in this area. (Paragraph 74.)

# External records/files

U. We welcome the Home Secretary's agreement to the involvement of Public Record Office officials in the examination of files identified by the Security Service for destruction. This will allow for a degree of independent scrutiny that we consider especially important. However, we were disappointed that the Security Service continued to destroy files during the review of this matter, and we strongly recommend that there are no recurrences of such an event. (Paragraphs 78-79.)

V. We intend to examine the whole area of files in greater detail, including issues relating to file creation and rights of access, the verification of information, and the implications of data protection and human rights legislation. (Paragraphs 81-82.)

# Defence Intelligence Staff

W. The Defence Intelligence Staff plays a key role at the heart of the United Kingdom's intelligence organisation. We intend to take evidence on any changes of funding and structure of the DIS and the implications that this might have for the Agencies, and its contribution to the UK and Alliance's intelligence effort in the Kosovo campaign. (Paragraph 83.)

# Investigator

X. We believe that the appointment of the Investigator has significantly enhanced the Committee's capability, and we have already tasked him with his first investigation. We also believe that the Agencies should be able to invite the deployment of the Investigator into any particular matter which they wish to be investigated, although he will be required to report to the Committee in the first instance, under the terms of the Intelligence Services Act 1994. (Paragraph 86.)

# Future programme of work

89. Over the course of the next year, we shall pursue a number of issues identified elsewhere in this Report, including:

- the process of establishing the requirements and priorities for the Agencies and the allocation of sufficient resources to requirements;
- the details and costs of the PFI for GCHQ's New Accommodation Project;
- the Agencies' ability to operate into the year 2000 and other Y2K issues;
- co-ordination between the Agencies and the law enforcement organisations in fighting serious organised crime, in particular the Agencies' work conducted overseas;
- the intelligence contribution to the Kosovo campaign and the analysis of the material produced;
- in respect of personal files:

- i. whether individuals should have rights in connection with the destruction or otherwise of any file held on them and protections against having inaccurate information gathered, stored and used against individuals' interests;
- ii. the position under future/current data protection legislation; and
- iii. implications of the European Convention on Human Rights;

- recent measures taken to enhance the Agencies' internal security policies and procedures; and

- any changes proposed in the funding and structure of the DIS as a result of the Government's Strategic Defence Review, and the implications that these may have for work of the Agencies.

90. We also propose to continue our inquiries into an area of particular concern to the Committee, the Agencies' work in respect of the security of Government communications and the UK's defences against what is commonly termed information warfare. We will also be looking into the Agencies' IT systems and co-operation between them and their customers.

Signed TOM KING  
Chairman, on behalf of the  
Intelligence and Security Committee  
30 July 1999

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## APPENDIX 2

# THOSE MET DURING THE CHAIRMAN'S VISIT TO ESTONIA

*27-29 SEPTEMBER 1998*

Mr Enn Tarto, Chairman of the ad hoc Committee of the Supervision of the Lawfulness of the Activities and Operations of the National Security Police Board

Mr Eerik Niiles-Kross, National Security Co-ordinator

Mr Olaari Taal, Minister of the Interior

Mr Aldis Alus, Deputy Director Security Police

Mr Paul Varul, Minister of Justice

Mr Indrek Tarand, Estonian Foreign Ministry

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## APPENDIX 1

# THOSE WHO HAVE GIVEN ORAL EVIDENCE

## OFFICIALS

### CABINET OFFICE

Mr John Alpass  
Mr Michael Pakenham CMG  
Senior Officials

### MINISTRY OF DEFENCE

Vice Admiral Alan West DSC  
Senior Officials

### FOREIGN AND COMMONWEALTH OFFICE

Senior Officials

### GCHQ

Mr Francis Richards CMG CVO  
Senior Officials

### HM CUSTOMS AND EXCISE

Mr Dick Kellaway  
Senior Officials

### HOME OFFICE

Senior Officials

### METROPOLITAN POLICE

Assistant Commissioner David Veness QPM

### NATIONAL AUDIT OFFICE

Senior Officials

### NATIONAL CRIMINAL INTELLIGENCE SERVICE

Mr John Abbott QPM

### NATIONAL CRIME SQUAD

Mr Roy Penrose OBE QPM

### SECURITY SERVICE

Mr Stephen Lander CB  
Senior Officials

### SIS

Sir David Spedding KCMG CVO OBE  
Mr Richard Dearlove  
Senior Officials

### DEPARTMENT OF TRADE AND INDUSTRY

Senior Officials

### OTHERS

Professor John Simpson





**APPENDIX 3:**

**SECURITY SERVICE ESTIMATES AND OUTTURN DETAILS (CASH)**

SUMMARY: £K

A1 - RUNNING COSTS: £K

A2 - OTHER CURRENT EXPENDITURE: £K

A3 - CAPITAL EXPENDITURE: £K

AZ - APPROPRIATIONS IN AID: £K (ANTICIPATED RECEIPTS)

**SIS ESTIMATES AND OUTTURNS DETAILS (CASH)**

SUMMARY: £M

A1 - RUNNING COSTS: £M

A2 - OTHER CURRENT EXPENDITURE: £M

A3 - CAPITAL: £M

AZ - APPROPRIATIONS IN AID: £M (ANTICIPATED RECEIPTS)

**GCHQ ESTIMATES AND OUTTURN**

SUMMARY: £m

A1 - RUNNING COSTS: £m

A2 - OTHER CURRENT EXPENDITURE: £m

A3 - CAPITAL EXPENDITURE: £m

AZ - APPROPRIATIONS IN AID: £m (ANTICIPATED RECEIPTS)

**CESG EXPENDITURE (ACCRUALS)**

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**APPENDIX 3: SECURITY SERVICE ESTIMATES AND OUTTURN DETAILS (C)**

	SUMMARY: £K								E 97/8 outturn
	a	b	c	d	e	f	g	h	
	95-96 Outturn	96-97 Outturn	97-98 Outturn	98-99 Cash Limit	98-99 Est. Outturn	99-00 Base line	00-01 Base line	01-02 Base line	
Running Costs	***	***	***	***	***	***	***	***	
Other Current Expenditure (OCE)	***	***	***	***	***	***	***	***	
Capital	***	***	***	***	***	***	***	***	
Appropriations-in- Aid (Receipts)	***	***	***	***	***	***	***	***	
Control Total	***	***	***	***	***	***	***	***	
Net Superannuation	***	***	***	***	***	***	***	***	
Total	***	***	***	***	***	***	***	***	

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**SECURITY SERVICE ESTIMATES AND OUTTURN DETAILS (CASH)**

	A1 – RUNNING COSTS: £K								97/ outt
	a	b	c	d	e	f	g	h	
	95-96 Outturn	96-97 Outturn	97-98 Outturn	98-99 Cash Limit	98-99 Est. Outturn	99-00 Base line	00-01 Base line	01-02 Base line	
Staff Numbers	***	***	***	***	***				
Staff Salaries	***	***	***	***	***	***	***	***	
Seconded Staff Salaries	***	***	***	***	***	***	***	***	
Casual/local staff	***	***	***	***	***	***	***	***	
Overtime	***	***	***	***	***	***	***	***	
Cost of Living Allowance (COLA), transfer costs, overseas rent and detached duty expenses etc.									
Redundancy Costs	***	***	***	***	***	***	***	***	
Pensions Contributions	***	***	***	***	***	***	***	***	
<b>TOTAL STAFF</b>	***	***	***	***	***	***	***	***	
Accommodation, maintenance, utilities, rates and rents	***	***	***	***	***	***	***	***	
Other Gov Depts.	***	***	***	***	***	***	***	***	
Training, Phones & other supplies	***	***	***	***	***	***	***	***	
VAT Refunds	***	***	***	***	***	***	***	***	
<b>TOTAL</b>	***	***	***	***	***	***	***	***	
<b>TOTAL excl. VAT</b>	***	***	***	***	***	***	***	***	

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**SECURITY SERVICE ESTIMATES AND OUTTURN DETAILS (CASH)**

	A2 – OTHER CURRENT EXPENDITURE: £K								97/ outt
	a	b	c	d	e	f	g	h	
	95-96 Outturn	96-97 Outturn	97-98 Outturn	98-99 Cash Limit	98-99 Est. Outturn	99-00 Base line	00-01 Base line	01-02 Base line	
Costs of running agents	***	***	***	***	***	***	***	***	
***	***	***	***	***	***	***	***	***	
Ops. Transport									
Ops. Stores									
Ops. Research & Development									
Other Operational Expenditure	***	***	***	***	***	***	***	***	
<b>TOTAL OPERATIONAL</b>	***	***	***	***	***	***	***	***	
Supplies & Consumables	***	***	***	***	***	***	***	***	
Other Gov Depts.	***	***	***	***	***	***	***	***	
VAT refunds	***	***	***	***	***	***	***	***	
Capital Charging				***	***	***	***	***	
<b>TOTAL</b>	***	***	***	***	***	***	***	***	
<b>TOTAL excl. VAT</b>	***	***	***	***	***	***	***	***	

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**SECURITY SERVICE ESTIMATES AND OUTTURN DETAILS (CASH)**

	A3 – CAPITAL EXPENDITURE: £K								97, outl
	a	b	c	d	e	f	g	h	
	95-96 Outturn	96-97 Outturn	97-98 Outturn	98-99 Cash Limit	98-99 Est. Outturn	99-00 Base line	00-01 Base line	01-02 Base line	
Operational Items	***	***	***	***	***	***	***	***	
IT Equipment	***	***	***	***	***	***	***	***	
Building Projects	***	***	***	***	***	***	***	***	
Furniture									
Property	***	***	***	***	***	***	***	***	
Vehicles	***	***	*****	***	***	***	***	***	
VAT refunds	***	***	***	***	***	***	***	***	
TOTAL	***	***	***	***	***	***	***	***	
TOTAL excl. VAT	***	***	***	***	***	***	***	***	

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**SECURITY SERVICE ESTIMATES AND OUTTURN DETAILS (CASH)**

	AZ – APPROPRIATIONS IN AID: £K (ANTICIPATED RECEIPTS)								97/ outt AND
	a	b	c	d	e	f	g	h	
	95-96 Outturn	96-97 Outturn	97-98 Outturn	98-99 Cash Limit	98-99 Est. Outturn	99-00 Base line	00-01 Base line	01-02 Base line	
Seconded Staff	***	***	***	***	***	***	***	***	
Rents									
Other Non-Capital Receipts									
Capital Receipts	***	***	***	***	***	***	***	***	
<b>TOTAL</b>	***	***	***	***	***	***	***	***	
	<b>SUPERANNUATION</b>								
Payment of Pensions & Lump Sums	***	***	***	***	***	***	***	***	
Receipts	***	***	***	***	***	***	***	***	
<b>TOTAL</b>	***	***	***	***	***	***	***	***	

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**SIS ESTIMATES AND OUTTURNS DETAILS (CASH)**

	SUMMARY: £M									E 97/5 outtu
	a	b	c	d	e	f	g	h	i	
	94-95 Outturn	95-96 Outturn	96-97 Outturn	97-98 Outturn	98-99 Est.	98-99 Est. Outturn	99-00 Base line	00-01 Base line	01-02 Base line	
A1 Running Costs	***	***	***	***	***	***	***	***	***	
A2 Other Current Expenditure (OCE)	***	***	***	***	***	***	***	***	***	
A3 Capital Expenditure	***	***	***	***	***	***	***	***	***	
AZ Receipts	***	***	***	***	***	***	***	***	***	
Control Total	***	***	***	***	***	***	***	***	***	
B1 Pensions	***	***	***	***	***	***	***	***	***	
TOTAL	***	***	***	***	***	***	***	***	***	
***	***	***	***	***	***	***	***	***	***	
***	***	***	***	***	***	***	***	***	***	
***	***	***	***	***	***	***	***	***	***	
Note 1	The 1998/99 Estimate figures are drawn from the position post-Spring Supplementary.									
Note 2	Figures for 1999/00 – 2001/02 are as approved in outcome of the SIVR, with adjustments subsequently agreed with HMT.									
Note 3	***									
	***									

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## SIS ESTIMATES AND OUTTURNS DETAILS (CASH)

	A1 – RUNNING COSTS: £M									97/ outt
	a	b	c	d	e	f	g	h	i	
	94-95 Outturn	95-96 Outturn	96-97 Outturn	97-98 Outturn	98-99 Est.	98-99 Est. Outturn	99-00 Base line	00-01 Base line	01-02 Base line	
Staff numbers	***	***	***	***	***	***	***	***	***	
Staff salaries	***	***	***	***	***	***	***	***	***	
Seconded staff numbers	***	***	***	***	***	***	***	***	***	
Seconded staff salaries	***	***	***	***	***	***	***	***	***	
Casual/local staff	***	***	***	***	***	***	***	***	***	
Overtime	***	***	***	***	***	***	***	***	***	
Redundancy & early departure Costs	***	***	***	***	***	***	***	***	***	
Pensions Contributions	***	***	***	***	***	***	***	***	***	
Total Staff	***	***	***	***	***	***	***	***	***	
COLA, transfer costs, overseas rent and detached duty expenses etc.	***	***	***	***	***	***	***	***	***	
Accommodation, maintenance, utilities, rates and rents	***	***	***	***	***	***	***	***	***	
Other Gov Depts.	***	***	***	***	***	***	***	***	***	
Training, Phones & other supplies	***	***	***	***	***	***	***	***	***	
VAT Refunds			***	***	***	***	***	***	***	
<b>TOTAL</b>	***	***	***	***	***	***	***	***	***	
Note 1 The COLA, transfer costs, overseas rent and detached duty expenses category includes expenditure on non-operational travel and security										
Note 2 Transfer costs and overseas rent are included in payments made to the FCO shown under 'Other Government Departments'.										

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**SIS ESTIMATES AND OUTTURNS DETAILS (CASH)**

	<b>A2 – OTHER CURRENT EXPENDITURE: £M</b>									<b>1975 outt</b>
	<b>a</b>	<b>b</b>	<b>c</b>	<b>d</b>	<b>e</b>	<b>f</b>	<b>g</b>	<b>h</b>	<b>i</b>	
	<b>94-95 Outturn</b>	<b>95-96 Outturn</b>	<b>96-97 Outturn</b>	<b>97-98 Outturn</b>	<b>98-99 Est.</b>	<b>99-00 Est. Outturn</b>	<b>99-00 Base line</b>	<b>00-01 Base line</b>	<b>01-02 Base line</b>	
Costs of running agents	***	***	***	***	***	***	***	***	***	
***	***	***	***	***	***	***	***	***	***	
Ops. Transport	***	***	***	***	***	***	***	***	***	
Ops. R&D	***	***	***	***	***	***	***	***	***	
Total operational	***	***	***	***	***	***	***	***	***	
Supplies and consumables	***	***	***	***	***	***	***	***	***	
Capital charge	***	***	***	***	***	***	***	***	***	
VAT refunds			***	***	***	***	***	***	***	
<b>TOTAL</b>	<b>***</b>	<b>***</b>	<b>***</b>	<b>***</b>	<b>***</b>	<b>***</b>	<b>***</b>	<b>***</b>	<b>***</b>	
Note 1 Ops. R&D includes expenditure on Comms development and IT development.										
Note 2 Additional line for capital charging accounting adjustment included to avoid distortion of other figures.										

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## SIS ESTIMATES AND OUTTURNS DETAILS (CASH)

	A3 – CAPITAL: £M									97/ outt
	a	b	c	d	e	f	g	h	i	
	94-95 Outturn	95-96 Outturn	96-97 Outturn	97-98 Outturn	98-99 Est.	99-00 Est. Outturn	99-00 Base line	00-01 Base line	01-02 Base line	
Operational items	***	***	***	***	***	***	***	***	***	
IT equipment	***	***	***	***	***	***	***	***	***	
Building materials	***	***	***	***	***	***	***	***	***	
Furniture	***	***	***	***	***	***	***	***	***	
Property	***	***	***	***	***	***	***	***	***	
Vehicles	***	***	***	***	***	***	***	***	***	
VAT refunds	***	***	***	***	***	***	***	***	***	
<b>TOTAL</b>	***	***	***	***	***	***	***	***	***	
Note 1	***									
Note 2	The decrease in expenditure shown in 98/99 and subsequent years reflects a Treasury approved reclassification of Capital Expenditure to OCE under Resource Accounting. Figures for 97/98 and previous years have been restated.									
Note 3	IT equipment includes communications infrastructure expenditure.									

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## SIS ESTIMATES AND OUTTURNS DETAILS (CASH)

	AZ – APPROPRIATIONS IN AID: £M (ANTICIPATED RECEIPTS)									97/ outt
	a	b	c	d	e	f	g	h	i	
	94-95 Outturn	95-96 Outturn	96-97 Outturn	97-98 Outturn	98-99 Est.	99-00 Est. Outturn	99-00 Base line	00-01 Base line	01-02 Base line	
Seconded staff	***	***	***	***	***	***	***	***	***	
Rents	***	***	***	***	***	***	***	***	***	
Other non-capital receipts	***	***	***	***	***	***	***	***	***	
Capital receipts	***	***	***	***	***	***	***	***	***	
<b>TOTAL</b>	***	***	***	***	***	***	***	***	***	
<b>B1 – PENSIONS</b>										
Payment pensions and lump sums	***	***	***	***	***	***	***	***	***	
Receipts	***	***	***	***	***	***	***	***	***	
<b>TOTAL</b>	***	***	***	***	***	***	***	***	***	

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## GCHQ ESTIMATES AND OUTTURN

	SUMMARY: £m									97/ outt
	a	b	c	d	e	f	g	h	i	
	94-95 Outturn	95-96 Outturn	96-97 Outturn	97-98 Outturn	98-99 Est. Spr. Supp	98-99 Est. Outturn	99-00 Base line	00-01 Base line	01-02 Base line	
A1 – Running Costs (Of which CESC)	***	***	***	***	***	***	***	***		
A2 – Other Current Expenditure (Of which CESC)	***	***	***	***	***	***	***	***		
A3 – Capital Expenditure (Of which CESC)	***	***	***	***	***	***	***	***		
AZ – Appropriations in Aid (Of which CESG)	***	***	***	***	***	***	***	***		
TOTAL (Of which CESC)	***	***	***	***	***	***	***	***		

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## GCHQ ESTIMATES AND OUTTURN

	A1 – RUNNING COSTS: £m									97/ outt
	a	b	c	d	e	f	g	h	i	
	94-95 Outturn	95-96 Outturn	96-97 Outturn	97-98 Outturn	98-99 Est. Spr. Supp	98-99 Est. Outturn	99-00 Base line	00-01 Base line	01-02 Base line	
Staff numbers	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	
Staff salaries	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	
Seconded staff	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	
Casual/local staff	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	
Overtime	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	
COLA	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	
Redundancy costs	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	
Pension contribution	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	
Accommodation, maintenance, utilities, rates & rent	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	
Other Government departments	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	
Training, phones, and other supplies	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	
TOTAL	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	
Grossing up of VAT recoveries	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	
CESG element	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	
Gross Running Cost Total	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx	

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## GCHQ ESTIMATES AND OUTTURN

	A2 – OTHER CURRENT EXPENDITURE: £m									97/ outt
	a	b	c	d	e	f	g	h	i	
	94-95 Outturn	95-96 Outturn	96-97 Outturn	97-98 Outturn	98-99 Est. Spr. Supp	98-99 Est. Outturn	99-00 Base line	00-01 Base line	01-02 Base line	
Military manpower services	000	000	000	000	000	000	000	000	000	
Numbers of military manpower	000	000	000	000	000	000	000	000	000	
Other services from MoD	000	000	000	000	000	000	000	000	000	
Services from other government depts	000	000	000	000	000	000	000	000	000	
Technical maintenance				000	000	000	000	000	000	
Communications rental				000	000	000	000	000	000	
Technical services	000	000	000	000	000	000	000	000	000	
Surveying and other services for accommodation	000	000	000	000	000	000	000	000	000	
<b>TOTAL</b>	000	000	000	000	000	000	000	000	000	
Grossing up of VAT Recoveries		000	000	000	000	000	000	000	000	
CESG OCE spend				000	000	000	000	000	000	
<b>Gross OCE Total</b>	000	000	000	000	000	000	000	000	000	

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## GCHQ ESTIMATES AND OUTTURN

	A3 – CAPITAL EXPENDITURE: £m									97/ outt
	a	b	c	d	e	f	g	h	i	
	94-95 Outturn	95-96 Outturn	96-97 Outturn	97-98 Outturn	98-99 Est. Spr. Supp	98-99 Est. Outturn	99-00 Base line	00-01 Base line	01-02 Base line	
IT equipment	***	***	***	***	***	***	***	***	***	
Building projects	***	***	***	***	***	***	***	***	***	
Plant infrastructure	***	***	***	***	***	***	***	***	***	
Vehicles	***	***	***	***	***	***	***	***	***	
Furniture	***	***	***	***	***	***	***	***	***	
<b>TOTAL</b>	***	***	***	***	***	***	***	***	***	
Grossing up of VAT recoveries	***	***	***	***	***	***	***	***	***	
CESG Element	***	***	***	***	***	***	***	***	***	
VAT refunds	***	***	***	***	***	***	***	***	***	

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## GCHQ ESTIMATES AND OUTTURN

	AZ – APPROPRIATIONS IN AID: £m (ANTICIPATED RECEIPTS)									97/ outt AND 1
	a	b	c	d	e	f	g	h	i	
	94-95 Outturn	95-96 Outturn	96-97 Outturn	97-98 Outturn	98-99 Estimate Spring Supp	98-99 Est. Outturn	99-00 Base line	00-01 Base line	01-02 Base line	
Seconded staff	***	***	***	***	***	***	***	***	***	
Rents	***	***	***	***	***	***	***	***	***	
Other non-capital receipts	***	***	***	***	***	***	***	***	***	
Capital receipts	***	***	***	***	***	***	***	***	***	
TOTAL	***	***	***	***	***	***	***	***	***	
RC VAT refunds OCE VAT refunds Capital VAT refunds	***	***	***	***	***	***	***	***	***	
GESG Element	***	***	***	***	***	***	***	***	***	
GROSS	***	***	***	***	***	***	***	***	***	

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## CESG EXPENDITURE (ACCRUALS)

Although CESG planned spend no longer appears in full on the face of the Vote since repayment, the accrued full economic costs of plans for 1998/99 and plus the probable outturn for 1998/99:

	1998/99 (Business Plan)		1998/99 (Probable Outturn)		1999/00 (Planned)
	£m		£m		
Running Costs	***	Running Costs	***	Running Costs	
Other Current Expenditure	***	Other Current Expenditure	***	Other Current Expenditure	
Capital	***	Capital	***	Capital	
GCHQ support to CESG	***	GCHQ support to CESG	***	GCHQ support to CESG	
Net accruals element	***	Net accruals element	***	Net accruals element	
Total Gross Expenditure	***	Total Gross Expenditure	***	Total Gross Expenditure	
Accrued Receipts	***	Accrued Receipts	***	Accrued Receipts	
Net Cost of CESG	***	Net Cost of CESG	***	Net Cost of CESG	

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