

**THE ARCHITECTURE OF INTELLIGENCE:
PUBLIC GOVERNANCE OF THE SECRET STATE IN
AUSTRALIA, NEW ZEALAND, AND CANADA**

A thesis submitted for the degree of Doctor of
Politics and History

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March 2016

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Abstract

The use of clandestine intelligence is a crucial part of a democratic government's efforts to protect its citizens and its interests, however it is also one of the most politically and operationally sensitive areas of government activity. How do states ensure coherence across their national intelligence effort? Gaining a better understanding of an intelligence community gives us a better understanding of the government it serves, and visa versa. While there has been much written about the intelligence agencies in Australia, New Zealand, and Canada, the interdepartmental architecture that governs the national intelligence effort in each state has gone relatively unstudied. There is value in examining this architecture individually, and comparatively. Through detailed organisational analysis, it is concluded that the core conventions of the Westminster system, specifically collective ministerial responsibility and a professional public service, work to reinforce coherence in all three intelligence communities. However, the coherence in each community is also affected by the national culture towards intelligence, which manifests itself through differing approaches to ministerial accountability in each community.

'I still believe the secret services are the only real expression of a nation's character.'

Ian Richardson as Bill Haydon, *Tinker Tailor Soldier Spy* (1979)

Dedication

To Nan, Mom, and Dad.

Acknowledgments

The author would like to thank: Dr. Philip H.J. Davies and Dr. Kristian Gustafson for their guidance, patience, and comradeship; Dr. Jeremy Littlewood for acting as local supervisor in Canada; the faculty and staff of Brunel University's Politics and History Department; Dr. Stephen Marrin; Alastair Bland; Berenice Burnett; and, of course, my Marisa.

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Glossary

A Note: *UK spelling conventions are used throughout except where the spelling is part of a proper name (example: 'Foreign Intelligence Program'). Monetary figures are in the currency of their context (AUS Dollars, CAN Dollars, or NZ Dollars). Also, name changes are frequent amongst government organisations; I have tried to note name changes in the glossary and in the text, but for maximum accuracy I use the organisation names that were accurate at the time.*

ACBPS—Australian Customs and Border Patrol Service (ACBPS)

ACC—Australian Crime Commission (Australia)

ACSC—Australian Cyber Security Centre (Australia)

ACTC—Australian Counter-Terrorism Centre (Australia)

ADF—Australian Defence Forces (Australia)

ADM—Assistant Deputy Minister (Canada)

ADM-AILO—Assistant Deputy Minister Committee for Afghanistan Intelligence Lead Official (Canada)

ADM(IA)—Assistant Deputy Ministers' Committee on Intelligence Assessments (Canada)

ADM(Intelligence)—Assistant Deputy Ministers' Committee on Intelligence (Canada)

ADM(NSOps)—Assistant Deputy Ministers' Committee on National Security Operations (Canada)

AFP—Australian Federal Police (Australia)

AGCTC—Australian Government Counter-Terrorism Committee (Australia)

AGCTPC—Australian Government Counter-Terrorism Policy Committee (Australia)

AGD—Attorney-General's Department (Australia)

AGO—Australian Geospatial Intelligence Organisation (Australia). Formerly the Defence Intelligence and Geospatial Organisation.

AH/IP—Ad Hoc Cabinet Committee on Intelligence Priorities (Canada)

AIO—Australian Imagery Organisation (Australia). Predecessor of DIGO.

AIS—Ad Hoc Cabinet Committee on Intelligence and Security (New Zealand)

ANAO—Australian National Audit Office (Australia)

ANZUS—Australia, New Zealand, United States Security Treaty

ASD—Australian Signals Directorate (Australia), formerly the Defence Signals Directorate (DSD), Defence Signals Division (DSD), and Defence Signals Branch (DSB).

ASIO—Australian Security Intelligence Organisation (Australia)

ASIS—Australian Secret Intelligence Service (Australia)

Assoc. Secretary, NSIP—Associate Secretary, National Security & International Policy (Australia), formerly the National Security Advisor.

Asst. Secretary S&I—Assistant Secretary to the Cabinet for Security & Intelligence (Canada, specific to PCO)

ASP97—*Australian Strategic Policy 1997* (Australia)

ATIA—*Access to Information Act 1985* (Canada)

AUSTRAC—Australian Transactions and Reports Analysis Centre (Australia)

BC—British Columbia (Canada)

BK—Babbar Khalsa (Canada, India, and other countries)

BPC—Border Protection Committee of Cabinet (Australia)

BPTF—Border Protection Task Force (Australia)

BPWG—Border Protection Working Group (Australia)

BRUSA—Britain / United States of America Communications Intelligence Agreement of 1947 (UK, US, Australia, Canada, New Zealand), succeeded by the UKUSA Agreement.

CAF—Canadian Armed Forces (Canada)

CAG—Controller and Auditor General (New Zealand)

CB—Central Bureau (US, UK, Australia, New Zealand, Canada)

CBNRC—Communications Branch, National Research Council (Canada)

CBSA—Canada Border Services Agency (Canada)

CC/Afghanistan—Cabinet Committee on Afghanistan (Canada)

CC/FAS—Cabinet Committee on Foreign Affairs & Security (Canada)

CCMP—Canadian Cryptographic Modernization Program (Canada)

CC/NS—Cabinet Committee on National Security (Canada)

CC/P&P—Cabinet Committee on Priorities & Planning (Canada)

AH/PSAT—Ad Hoc Cabinet Committee on Public Security and Anti-Terrorism (Canada)

CC/S&I—Cabinet Committee on Security and Intelligence (Canada)

CTAG—Combined Threat Assessment Group (New Zealand)

CTCC—Counter-Terrorism Coordinating Committee or Counter-Terrorism Control Centre (Australia)

CDF—Chief of Defence Force (Australia)

CDI—Chief of Defence Intelligence (Canada)

CDS—Chief of the Defence Staff (Canada)

CE—Chief Executive (New Zealand), equivalent of Canadian ‘Deputy Minister’ and Australian ‘Secretary.’

CER—Collection Evaluation Report (Australia)

CF—Canadian Forces (Canada)

CFO—Chief Financial Officer (Australia, Canada, New Zealand)

CFS—Canadian Forces Station (Canada)

CFINTCOM—Canadian Forces Intelligence Command (Canada)

CFINTGRP—Canadian Forces Intelligence Group (Canada)

CFIOG—Canadian Forces Information Operation Group (Canada)

CFISnet—Crown Financial Information System Network (New Zealand)

CFJIC—Canadian Forces Joint Imagery Centre (Canada)

CI—Counter-intelligence

CIA—Central Intelligence Agency (US)

CIASIS—Commission of Inquiry into the Australian Secret Intelligence Service 1995, the ‘Samuels and Codd Report’ (Australia)

CIB—Current Intelligence Brief (Canada)

CIO—Chief Information Officer (Australia)

CIS—Cabinet Strategy Sub-committee on Intelligence and Security (New Zealand)

CJI—Coordinator of Joint Intelligence (Australia)

CNSB—Coordinated National Security Budget (Australia)

COMSEC—Communications Security

‘Core Four’ —Refers to the four principal all-source assessment organisations within the Canadian IC (PCO’s IAS, CSIS’ IAB, CDI, and ITAC). (Canada)

CoS—Chiefs of Staff (Australia, Canada, New Zealand)

CoSC—Chiefs of Staff Committee (Australia, Canada, New Zealand)

CP—Commonwealth Police (Australia)

CRC—Communications Research Committee (Canada)

CRO—Client/Customer Relations Officer (Canada, New Zealand)

CS—Counter-Subversion

CSB—Communications Security Board (Canada)

CSE—Communications Security Establishment (Canada)

CSIS—Canadian Security Intelligence Service (Canada)

CSO—Customer Services Officer (Australia)

CSOB—Cyber Security Operations Board (CSOB)

CT—Counter-terrorism

CTAG—Combined Terrorism Assessment Group (New Zealand)

CTSN—Canadian Top Secret Network (Canada)

DC—Defence Committee (Australia)

DCE/S&I—Deputy Chief Executive, Security & Intelligence (New Zealand)

DCI—Director of Central Intelligence (United States)

DCS—Director of Communications Security (Canada)

DDA—Deputy Director of Administration at the Canadian Security Intelligence Service (Canada)

DDR—Deputy Director for Requirements at the Canadian Security Intelligence Service (Canada)

DEA—Department of External Affairs (Canada, Australia, and New Zealand)

DepSec—Deputy Secretary (In Australia, DepSecs are the second most senior civil servants within a department. In Canada, DepSec is most often a Deputy Secretary to the Cabinet within PCO, which is usually a junior DM appointment)

DES—Domestic and External Security Coordination Committee of Cabinet (New Zealand)

DES Coordinator—Domestic and External Security Coordinator (New Zealand)

DESG—Domestic and External Security Group (New Zealand)

DFA—Department of Foreign Affairs (Australia, Canada)

DFAIT—Department of Foreign Affairs and International Trade (Canada)

DFATD—Department of Foreign Affairs, Trade, and Development (Canada)

DFAT—Department of Foreign Affairs and Trade (Australia)

DFIB—Daily Foreign Intelligence Brief (Canada)

DG—Director General. A senior executive within the Australian and Canadian civil services). NOTE: A DG in both countries is not equivalent. In Australia, a DG (e.g. DG of ASIS

or DG of ONA) is a deputy head, equivalent to a Secretary. A DG in Canada (below a DM and an ADM) is roughly equivalent to a First Assistant Secretary in Australia.

DHH—DND Directorate of History and Heritage (Canada)

DI&S Branch—Defence, Intelligence, and Security Branch of the DPMC (Australia)

DIB—Defence Intelligence Board (Australia)

DIGO—Defence Imagery and Geospatial Organisation (Australia)

DIMIA/DIMA—Department of Immigration, Multicultural, and Indigenous Affairs / Department of Immigration and Multicultural Affairs (Australia). The department added 'Indigenous' depending on ministerial responsibilities.

DIO—Defence Intelligence Organisation (Australia)

DI&S Branch—Defence, Intelligence and Security Branch (Australia)

DL(2)—Defence Liaison 2 Division (Canada)

DM—Deputy Minister (Canada), equivalent to Australian 'Secretary' or New Zealand 'Chief Executive.'

DMAILO—Deputy Ministers' Committee on Afghanistan Intelligence Lead Official (Canada)

DMGTFAD—Deputy Minister's Committee on Global Trends, Foreign Affairs, and Defence (Canada).

DMIA—Deputy Ministers' Committee on Intelligence Assessment (Canada)

DMIC—Deputy Ministers' Committee on Intelligence Collection (Canada)

DMNS—Deputy Ministers' Committee on National Security (Canada)

DND—Department of National Defence (Canada)

DoD—Department of Defence (Australia)

DoF—Department of Finance (Australia)

DPMC—Department of Prime Minister and Cabinet (Australia)

DRAP—Deficit Reduction Action Plan (Canada)

DSB—Defence Signals Branch (Australia). See ASD.

DSD—Defence Signals Directorate (Australia). See ASD.

DSMOS—Department of the Special Minister of State (Australia)

DSTO—Defence Science and Technology Organisation (Australia)

EAB—External Assessment Bureau (New Zealand), formerly EIB.

EIB—External Intelligence Bureau (New Zealand)

EMIS—Expenditure Management Information System (Canada)

EPR—End Product Report

ERC—Expenditure Review Committee (Australia)

ERD—Cabinet Committee on External Relations and Defence (New Zealand)

F&DP Secretariat—PCO Foreign and Defence Policy Secretariat (Canada)

FAS—First Assistant Secretary (Australia)

FIB—Foreign Intelligence Bureau (Canada)

FICC—Foreign Intelligence Coordinating Committee (Australia)

Finance—Department of Finance (Canada)

FIP—Foreign Intelligence Program (Canada)

FIPs—Foreign Intelligence Priorities (Canada)

FIPD—Foreign Intelligence Planning Document (Australia)

FIRs—Foreign Intelligence Requirements (New Zealand)

FIRC—Foreign Intelligence Coordinating Committee (New Zealand)

FOIA—*Freedom of Information Act* (Australia)

FRUMEL—Fleet Radio Unit Melbourne (US, Australia)

FTE—Full-Time Equivalent (Australia, Canada, New Zealand)

FYRP—Defence Five-Year Rolling Programme (Australia)

GCHQ—Government Communications Headquarters (UK)

GCIPIs—Government of Canada Intelligence Priorities (Canada)

GCSB—Government Communications Security Bureau (New Zealand)

GEOINT—Geospatial Intelligence

GLO—Government Liaison Office, or Government Liaison Officer (Canada)

GLU—Government Liaison Unit, Canadian Security Intelligence Service (Canada)

GNZ—GEOINT New Zealand (New Zealand)

GSRP—Global Security Reporting Program (Canada)

HBSD—Homeland and Border Security Division in DPMC (Australia)

HIAM—Heads of Intelligence Agencies Meeting (Australia)

HPCG—Homeland and Border Security Policy Coordination Group (Australia)

HUMINT—Human Intelligence

I&S—Intelligence & Security Committee of Cabinet (Australia)

IAB—Intelligence Assessments Branch, Canadian Security Intelligence Service (Canada)

IAC—Intelligence Advisory Committee (Canada)

IAS—Intelligence Assessment Secretariat (Canada), formerly known as the International Assessment Staff

IBET—Integrated Border Enforcement Team (Canada)

IC—Intelligence Community

ICG—Intelligence Coordination Group (New Zealand)

ICSI—Interdepartmental Committee on Security and Intelligence (Canada)

ICSS—Intelligence Community Shared Services (New Zealand)

ICT—Information and Communications Technology

IGIS—Inspector General of Intelligence and Security (Australia)

ISIS—Islamic State of Iraq and al Shaam

IM—Intelligence Memoranda (Canada)

IMINT—Imagery Intelligence

INSET—Integrated National Security Enforcement Team (Canada)

IO—Intelligence Officer (Canada, Australia, New Zealand, usually referring specifically to an employee of CSIS, ASIO, ASIS, or NZSIS who is trained to handle human sources).

IPC—Intelligence Policy Committee (Canada)

ISD—Intelligence and Security Department as designated by the *Public Finance Act 1989*; formerly designated as Security and Intelligence Departments. (New Zealand)

IRD—Intelligence Requirements Document, Canadian Security Intelligence Service (Canada)

ITAC—Integrated Terrorism Assessment Centre, formerly the Integrated Threat Assessment Centre (Canada)

JI—Jemaah Islamiyah

JIB(L)—Joint Intelligence Bureau, London (UK)

JIB(M)—Joint Intelligence Bureau, Melbourne (Australia)

JIB(O)—Joint Intelligence Bureau, Ottawa (Canada)

JIC—Joint Intelligence Committee (Australia, Canada, New Zealand)

JIC(S)—Joint Intelligence Committee subcommittee on SIGINT (Australia)

JIO—Joint Intelligence Organisation (Australia)

JIS—Joint Intelligence Staff (Canada, Australia)

JMT—Joint Management Team (Canada)

JTAC—Joint Terrorism Analysis Centre (UK)

LAC—Library and Archives Canada (Canada)

LTAP—Long-Term Accommodation Project of CSE (Canada)

MC—Memorandum to Cabinet (Canada)

MCOA—Multi-Class Output Appropriation (New Zealand)

MD—Ministerial Directive (Canada)

MINO—Minister’s Office

MIP—Military Intelligence Program (US)

MFAT—Ministry of Foreign Affairs and Trade (New Zealand)

MMSI—Ministers’ Meeting on Security and Intelligence (Canada)

MoD—Ministry of Defence (New Zealand)

MOU—Memorandum of Understanding (Canada, Australia, New Zealand)

MYOP—Multi-Year Operational Plan (Canada)

NAA—National Archives of Australia (Australia)

NAB—National Assessment Bureau (New Zealand), formerly the EIB.

NAC—National Assessment Committee (Australia)

NAS—National Assessment Staff (Australia)

NBTC—National Border Targeting Centre (Australia)

NCSC—National Cyber Security Centre (New Zealand)

NDA—*National Defence Act* (Canada)

NFIAPs—National Foreign Intelligence Assessment Priorities (Australia)

NIC—National Intelligence Committee (Australia)

NICC—National Intelligence Coordinating Committee (Australia), formerly the Foreign Intelligence Coordinating Committee.

NICMC—National Intelligence Collection Management Committee (Australia), formerly the NICRC.

NICR Paper—National Intelligence Collection Requirements Paper (Australia)

NICRC—National Intelligence Collection Requirements Committee (Australia)

NIP—National Intelligence Program (US), formerly the National Foreign Intelligence Program (NFIP).

NISC—National and International Security Committee of Cabinet (Australia)

NPP—New Policy Proposal (Australia, Canada, New Zealand)

NRC—National Research Council (Canada)

NRSI—National Requirements for Security Intelligence (Canada)

NSA—National Security Advisor (Canada, Australia)

NSC—National Security Committee of Cabinet (Australia, Canada and New Zealand)

NS Division—National Security Division of the DPMC (Australia)

NSER—National Security Expenditure Report (Canada)

NSES—RCMP National Security Enforcement Section (Canada)

NSIP Group—National Security and International Policy Group within DPMC (Australia).

NSPCG—National Security Policy Coordination Group (Australia)

NSPL—National SIGINT Priorities List (Canada)

NTAC—National Terrorism Assessment Centre (Australia)

NZCSO—New Zealand Combined Signals Organisation (New Zealand)

NZDF—New Zealand Defence Force (New Zealand)

NZDPMC—New Zealand Department of Prime Minister and Cabinet (New Zealand)

NZIB—New Zealand Intelligence Brief (New Zealand)

NZIC—New Zealand Intelligence Council (New Zealand)

NZICnet—New Zealand Intelligence Community Network (New Zealand)

NZIGIS—New Zealand Inspector General of Intelligence and Security (New Zealand)

NZSIS—New Zealand Security Intelligence Service (New Zealand)

NZSS—New Zealand Security Service (New Zealand), predecessor to NZSIS.

NZP—New Zealand Police (New Zealand)

OAG—Office of the Auditor General (Canada)

OCI—Office of Current Intelligence of the JIO (Australia)

OCSEC—Office of the CSE Commissioner (Canada)

ODESC—Officials Committee on Domestic and External Security Coordination (New Zealand)

ODESC(G)—Officials Committee on Domestic and External Security Coordination, Governance (New Zealand)

ODESC(I)—Officials Committee on Domestic and External Security Coordination, Intelligence (New Zealand)

ODESC(P)—Officials Committee on Domestic and External Security Coordination, Policy (New Zealand)

ODNI—Office of the Director of National Intelligence (United States)

OFCANZ—Organised and Financial Crime Agency New Zealand (New Zealand)

OIA—*Official Information Act* (New Zealand)

ONA—Office of National Assessment (Australia)

OPP—Ontario Provincial Police (Canada)

OSB—Operation Sovereign Borders (Australia)

OSB IDRG—Operation Sovereign Borders Interdepartmental Reference Group (Australia)

OSB JATF—Operation Sovereign Borders Joint Agency Task Force (Australia)

OSIC—Office of Security and Intelligence Coordination of DPMC (Australia)

PCO—Privy Council Office (Canada)

PFA—*Public Finance Act 1989* (New Zealand)

PEMS—Policy and Expenditure Management System (Canada)

PHCIS—Permanent Heads' Committee on Intelligence and Security (Australia)

PIF—Performance Improvement Framework (New Zealand)

PJCIS—Parliamentary Joint Committee on Intelligence and Security (Australia)

PM—Prime Minister (Australia, Canada, New Zealand)

PMD—Prime Minister's Department (Australia, New Zealand). Now DPMC and NZDPMC.

PMO—Prime Minister's Office (Australia, Canada, New Zealand)

PSAT—Public Security and Anti-Terrorism (Canada)

PSEPC—Public Safety and Emergency Preparedness Canada (Canada)

PSU—Physical Surveillance Unit (Canada)

R&P—Requirements and Priorities, for intelligence production (Canada, Australia, New Zealand)

RADARSAT—Canadian radar imaging satellite system (Canada)

RAP—Requirements, Analysis, and Production Branch (Canada)

RCAGA—Royal Commission on Australian Government Administration 1976, the 'Coombs Commission' (Australia)

RCASIA—Royal Commission on Australian Security and Intelligence Agencies 1984, the 'Second Hope Royal Commission' (Australia)

RCIS—Royal Commission on Intelligence and Security 1977, the 'First Hope Royal Commission' (Australia)

RCMP—Royal Canadian Mounted Police (Canada)

RCMP/SS—Royal Canadian Mounted Police Security Service (Canada)

RFI—Request for Information

RO—Reports Officer, NZSIS (New Zealand)

RoD—Cabinet Record of Decision (Canada)

S&I Secretariat—Security & Intelligence Secretariat (Canada)

SC—Senior Committee (Canada)

SIB—Security & Intelligence Branch of the RCMP (Canada)

SAC—Security Advisory Committee (Canada)

SCISA—*Security of Canada Information Sharing Act* (Canada)

SCIS—Secretaries' Committee on Intelligence and Security (Australia), formerly PHCIS.

SCNS—Secretaries' Committee on National Security (Australia), formerly SCIS.

SEATO—South East Asia Treaty Organisation

SEC—Security committee of Cabinet (Australia)

SEC—Cabinet Committee on State Sector Reform and Expenditure Control (New Zealand)

Secretary—Departmental Secretary (Australia), equivalent of Canadian 'Deputy Minister' and New Zealand 'Chief Executive.'

Security Service—UK's security intelligence organisation, formerly known as MI5.

'the Services'—Umbrella term used to refer to the armed services, i.e. army, navy, air force, and special forces (Australia, Canada, and New Zealand).

SGD—Solicitor General's Department, often known simply as 'Sol Gen' (Canada)

SIA—Single Intelligence Account (UK). Known as the Single Intelligence Vote from 1994-2001, and historically as the Secret Vote.

SIB—Security and Intelligence Board (New Zealand)

SI/CLIENTREL—Client Relations Section, PCO S&I Secretariat (Canada)

SID—Security and Intelligence Department, under the *Public Finance Act 1989* (New Zealand)

SIEV—Suspected Illegal Entry Vessel (Australia)

SIG—Security and Intelligence Group, NZDPMC (New Zealand)

SIGINT—Signals Intelligence

SIRC—Security Intelligence Review Committee (Canada)

SIS—Secret Intelligence Service (UK), formerly known as MI6.

SI/OPS—Operations Division, PCO S&I Secretariat (Canada)

SI/SPP—Strategic Policy and Planning Division, PCO S&I Secretariat (Canada)

SOC—Senior Officials’ Committee (Canada)

SOI—Statement of Intent (New Zealand)

SPARG—Security Planning and Research Group, SGD (Canada)

SPCG—Strategic Policy Coordination Group (Australia)

SRA—Strategic Results Area (New Zealand)

SRB—Special Research Bureau (Canada)

SRG—Security and Risk Group (New Zealand)

SSA—*State Services Act 1988* (New Zealand)

SSC—State Service Commission (New Zealand)

SSC-CMI—Senate Select Committee on a Certain Maritime Incident (Australia)

T&SS—Technical and Scientific Services branch of the Canadian Security Intelligence Service (Canada)

TARC—Target Approval and Review Committee (Canada)

TB—Treasury Board (Canada)

TBS—Treasury Board Secretariat (Canada)

TechOps—Technical Operations (Canada). In text, reference to TechOps refers to a unit within the Canadian Security Intelligence Service in the 1980s.

UK—United Kingdom

UKUSA—United Kingdom / United States of America Communications Intelligence Agreement, 1954 (UK, USA, Canada, Australia, New Zealand)

US—United States of America

USDI—Under-Secretary of Defense for Intelligence (United States)

USSEA—Under-Secretary of State for External Affairs (Canada). Now the Deputy Minister of Foreign Affairs.

VEMB—Veteran’s East Memorial Building (Canada)

Vote CS&I—Vote Communications Security & Intelligence (New Zealand)

Vote NZDF—Vote Defence Force (New Zealand)

Vote PMC—Vote Prime Minister and Cabinet (New Zealand)

Vote SI—Vote Security Intelligence (New Zealand)

WG—Watch group or working group (Canada, New Zealand)

WIB—Weekly Intelligence Brief (Canada)

WMD—Weapons of Mass Destruction

WRC—Warrant Review Committee (Canada)

XU—Examination Unit (Canada)

Chapter 1

Exploring the Architecture of Intelligence: Structures and Systems of the Secret State

How do intelligence communities work? This may seem like a straightforward question, but, in reality, it is fraught with complexity. Complex as it may be, our understanding of how these communities work is vitally important. Effective intelligence is a key asset in a state's efforts to protect its citizens. However, these organisations can employ sophisticated intrusive powers, the use of which must be properly balanced with the protection of civil liberties. Ultimately, secret intelligence represents the complexity of the social contract between a state and its citizens perhaps more poignantly than any other government activity.

While the definition of 'intelligence' has been the subject of significant academic debate, it is sufficient for our purposes to focus on intelligence derived from clandestine sources because this is inherently where the tension with the wider democratic system lies. Additionally, it is the production and use of clandestine intelligence that sets apart a 'community' of actors and organisations within government; the producers or consumers of open-source intelligence¹ would encompass nearly every organisation in the public sector. Given this, when intelligence is discussed through this work, it is in reference to *clandestine* intelligence. The question of how intelligence communities work, however, is a large one. In focusing the question, it is helpful to break down its components, outline their importance, and determine what we do and do not know.

Intelligence as a State Activity

Firstly, why focus on intelligence? Former UK intelligence mandarin David Omand has pointed out that clandestine intelligence has been an inherent part of ensuring the

¹ 'Open-source intelligence' refers to intelligence derived from openly available information. It should also be noted that the concept of intelligence derived from 'protected information,' or what some have termed PROTINT (i.e. information that is not classified for national security purposes, but also not openly available because it is protected for privacy purposes). On PROTINT, see Omand, D. (2009) *The National Security Strategy: Implications for the UK Intelligence Community*, London: Institute for Public Policy Research, http://www.ippr.org/files/images/media/files/publication/2011/05/National%20Security%20Strategy_1675.pdf?noredirect=1 (Accessed January 2016).

security of the state and its citizens since the inception of the state itself. Omand also points out that the relationship between an *open* democratic state and the *secret* intelligence effort used to protect that state and its citizens is naturally tense.² Yet a state's secret intelligence effort is an inherent part of its national security effort. If governments need to understand other actors to make sound decisions, then they need clandestine intelligence to understand actors who are trying *not* to be understood. Put another way, governments need intelligence to defeat 'denial and deception' (D&D). Denial, according to Godson and Wirtz's definition, "refers to the attempt to block information which could be used by an opponent to learn some truth." Deception refers to an actor's "effort to cause an adversary to believe something that is not true."³ Actors employ D&D to mask their true intentions, thus increasing the likelihood of their own success. Barton Whaley, one of those who pioneered the study of deception, has found that strategic deception has existed across different cultures throughout much of history, with varying degrees of intensity and sophistication.⁴ Most well-known examples of D&D are state-based, such as the Soviet use of D&D to hide the placement of missiles in Cuba in 1961-62 (codenamed Operation ANADYR),⁵ or the significant D&D operations,⁵ that have accompanied covert nuclear development, such as the Indian Pokhran II nuclear tests in 1998.⁶ While these cases are historical, there are still significant and recent examples of states using sophisticated D&D methods to hide their true intentions, such as the Russian intervention in the Ukraine.⁷ Additionally, D&D has consistently been employed by non-state actors, such as terrorist organisations and organised crime networks, to disguise their movement, operational planning, and targets.⁸ If other actors cloak their true intentions in secrecy, a state must use

² Omand, D. (2010) *Securing the State*, London: Hurst.

³ Godson, R. and Writz, J.J. (2000) 'Strategic Denial and Deception' *International Journal of Intelligence and Counterintelligence*, 13:4, p.425.

⁴ Whaley, B. (2007) *The Prevalence of Guile: Deception through Time and Across Cultures and Disciplines*, Foreign Denial and Deception Committee, Washington DC: Office of the Director of National Intelligence/National Intelligence Committee.

⁵ Hansen, J.H. (2002) 'Soviet Deception in the Cuban Missile Crisis' *Studies in Intelligence*, 46:1, pp.49-58.

⁶ Gordon, B. (2015) 'Deception in Covert Nuclear Development' in S. Minot (Ed.) *Nuclear Scholars Initiative: A Collection of Papers from the 2014 Nuclear Scholars Initiative*, New York: Rowman and Littlefield.

⁷ Lindley-French, J. (2015) *NATO: Countering Strategic Maskirovka*, Ottawa: Canadian Defence and Foreign Affairs Institute.

⁸ Wirtz, J.L. (2008) 'Hiding in Plain Sight: Denial, Deception, and the Non-State Actor' *SAIS Review*, 28:1, pp.55-63; Jessee, D.D. (2006) 'Tactical Means, Strategic Ends: Al Qaeda's Use of Denial and Deception'

secret means to try and understand those actors; hence the continuing importance of clandestine intelligence in national security.⁹

Given that intelligence is, and will remain, an inherent part of government, the better an understanding we have of the national intelligence effort, the better an understanding we have of the government itself. Intelligence scholars Christopher Andrew and David Dilks first highlighted this in 1984 when they termed intelligence communities the ‘missing dimension’ of the study of government.¹⁰ Similarly, Andrew and Richard Aldrich have argued that belated efforts to link the study of intelligence to political history and international relations left us with incomplete understandings of these larger disciplines as well.¹¹ Given this, the study of intelligence as a state activity remains an important area of academic inquiry that can contribute to multiple disciplines including politics, history, public administration, public policy, and organisation studies.

The Idea of an Intelligence Community

Another important element to the question of how intelligence communities (ICs) work is the concept of ‘community’ itself. *What is important about a community?* The effectiveness of any state’s national intelligence effort is partly defined by the level of coherence between the different intelligence organisations. Figure 0.1.1 outlines the core ‘intelligence disciplines’ that make up the bulk of a state’s intelligence effort. Each discipline requires a high level of technical expertise to collect and analyse information to produce single-source intelligence reporting. Still other organisations, or parts of organisations, are engaged in collating and assessing multiple types of single-source

Terrorism and Political Violence, 18:3, pp.367-388; Bell, J. B. (2000) ‘Conditions Making for Success and Failure of Denial and Deception: Nonstate and Illicit Actors’ *Trends in Organized Crime*, 6:1, pp.32-58.

⁹ On the close relationship between D&D and intelligence, see Jones, R.V. (1980) ‘Intelligence and Deception’ in Pfaltzgraff, R.L., Ra’anan, U., Milberg, W.H. (eds.) *Intelligence Policy and National Security*, London: Macmillan, pp.3-22.

¹⁰ Andrew, C. and Dilks, D. (Eds.) (1984) *The Missing Dimension: Governments and Intelligence Communities in the Twentieth Century*, London: Macmillan.

¹¹ See Andrew, C. (2004) ‘Intelligence, International Relations, and ‘Under Theorisation’’ in L.V. Scott and P. Jackson (eds.) *Understanding Intelligence in the Twenty-First Century: Journey in Shadows*, London: Routledge, pp.29-41; Aldrich, R.J. (2010) ‘Intelligence and International Security’ in R.A. Denemark (ed.) *The International Studies Encyclopedia* Vol.VI, Oxford: International Studies Association/Wiley-Blackwell.

reporting to produce assessments that represent the agreed view of the intelligence community on a question of national importance to government.

| Figure 0.1.1: Core 'Intelligence Disciplines' |
|--|
| Human Intelligence (HUMINT) |
| Signals Intelligence (SIGINT) |
| Imagery Intelligence (IMINT) |
| Geospatial Intelligence (GEOINT) |
| Measurement and Signature Intelligence (MASINT) |

A state's intelligence effort is most effective when it is coordinated towards the same goals, when the different organisations can interact easily and cooperatively with each other, and when there is a coherent approach to resources. Organisationally, this coherence is achieved through formal and informal interdepartmental architecture (alternatively termed the 'interagency' architecture), that connects the intelligence organisations to each other and to the rest of government.

Shortcomings in the interdepartmental architecture have been identified as contributing factors to 'intelligence failures' in many instances. The 9/11 Commission in the United States (US) stressed, among other issues, failures in interagency cooperation and management of the intelligence community as a contributing factor to the failure to detect the 9/11 plotting.¹² The result was the creation of the Office of the Director of National Intelligence (ODNI) in 2004 with the passage of the *Intelligence Reform and Terrorism Prevention Act*. This new office reflected a long-standing debate within the US about whether intelligence should be managed by the dual-hatted¹³ Director of Central Intelligence or by a dedicated 'intelligence czar'.¹⁴

¹² National Commission on Terrorist Attacks Upon the United States, (2004) *The 9/11 Commission Report: Final Report of the National Commission on Terrorist Attacks Upon the United States*, Washington D.C.: Government Printing Office, pp.399-415.

¹³ Under the *National Security Act of 1947*, the Director of Central Intelligence had been both the head of the Central Intelligence Agency and the titular head of the US IC.

¹⁴ On the discussion around IC management in the US, see Davies, P.H.J (2012) *Intelligence and Government in Britain and the United States: Volumes 1 and 2*, Oxford: Praeger.

In the UK, intelligence coordination has been an ongoing point of concern for those analysing the community as a whole. Harry Hinsley's history of British intelligence during the Second World War addressed matters of coordination and Lord Franks' review of the Falkland Islands War also highlighted the importance of coordination by directly addressing the national assessments function and, less explicitly, the definition of requirements and priorities.¹⁵ Lord Butler's review of intelligence on Iraq's weapons of mass destruction programme indicated not only the importance of interdepartmental architecture bringing together the intelligence agencies, but also the importance of this architecture within the overall cabinet policymaking machine.¹⁶ Butler looked closely at the composition and workings of the UK's Joint Intelligence Committee (JIC) and similar interdepartmental intelligence machinery, ultimately finding the design of the machinery sound, with the exception that there was a need to further integrate the defence intelligence function into the 'national' intelligence effort. Importantly, however, Butler's most significant concern over the interdepartmental architecture was not related to the intelligence machinery, but to the policy machinery. In a carefully worded conclusion, Butler stated that the "informality and circumscribed character" of policymaking on Iraq may have undercut "informed *collective* political judgment" (*italics added*).¹⁷ In this conclusion, Butler raised an important point: the intelligence machinery sits within the larger policy architecture. More will be said on this shortly.

The contemporary importance of interagency architecture has also been alluded to in a series of major reviews within the three smaller governments that, together with the US and UK, comprise the 'Five Eyes'.¹⁸ Because of traditional links solidified through the Second World War and early Cold War years, as well as being leading members of the British Commonwealth, Canada, Australia, and New Zealand have often (although not always) held privileged positions *vis a vis* their larger allies. The three governments have

¹⁵ Franks, Lord Oliver (1983) *Falkland Islands Review: Report of a Committee of Privy Counsellors*, London: HMSO, paragraphs 304-323.

¹⁶ Butler, R. (2004) *Review of Intelligence on Weapons of Mass Destruction: Report of a Committee of Privy Counsellors*, London: The Stationary Office, pp.147-48

¹⁷ Butler, 2004, p.148.

¹⁸ The term 'Five Eyes' is the informal name referring to the five member governments of the UKUSA Agreement of 1956 on the sharing of signals intelligence. These member states are the US, UK, Canada, Australia, and New Zealand.

balanced between the massive capabilities of the United States IC on one hand, and the long experience and shared political traditions of the UK IC on the other.

In Canada, Justice John Major's Commission of Inquiry into the Investigation of the Bombing of Air India Flight 182 (known as the 'Major Commission'), which published its final report in 2010, cited what it saw as significant deficiencies in government coordination and management of intelligence as a principle problem in preventing and then investigating the worst act of terrorism targeting Canadians.¹⁹ Major stated decisively that, "there is a lack of institutionalised co-ordination and direction in national security matters. Canadian agencies have developed a culture of managing information in a manner designed to protect their individual institutional interests."²⁰ However, many in government argued that the Commission had largely studied the circumstances surrounding an event 25 years prior, and that significant progress had been made since then on coherence across the IC. This view was reflected in the Canadian government's own response to the Major Commission, when it stated that since 1985, and specifically following the 9/11 attacks, significant evolution had taken place in the Canadian IC resulting in improvements across several areas.²¹ However, there was no chronological study that explained this evolution in the interdepartmental architecture, making it hard to verify the claims on either side of the debate.

In Australia, Philip Flood's 2004 *Review of Australia's Intelligence Agencies* highlighted the importance of cross-community requirements and priorities for intelligence collection and analysis, and recommended the strengthening of the interdepartmental architecture through both increased resourcing of the Office of National Assessments (ONA), and the adjustment of committee structures.²² Unlike the Major Commission however, Flood also made recommendations regarding the resourcing of the intelligence agencies, and how (or whether) resources were matched to tasking, thus

¹⁹ Air India Flight 182 was bombed in 1985 by Sikh militants connected to the violent Babbar Khalsa terrorist group. The intelligence-related implications of the bombing are discussed further in Chapter 5 and 11.

²⁰ Major, J. (2010) *Air India Flight 182: A Canadian Tragedy—Key Findings*, Commission of Inquiry into the Investigation of the Bombing of Air India Flight 182, Ottawa: Public Works and Government Services, p.7

²¹ Public Safety Canada (2010) *Action Plan: The Government of Canada Response to the Commission of Inquiry into the Investigation of the Bombing of Air India Flight 182*, Ottawa: Government of Canada, p.1.

²² Flood, P. (2004) *Final Report of the Inquiry into Australia's Intelligence Agencies*. Canberra: Commonwealth of Australia, pp.60-68

highlighting fiscal management of the IC as another significant interdepartmental process.²³ The 2008 *Review of Homeland and Border Security*, carried out by former Secretary of the Defence Department Ric Smith, echoed Flood's emphasis on the importance of the interagency architecture, citing its importance in enabling government to "plan and evaluate the activities of agencies and to ensure targeted resource allocation that reflects current priorities."²⁴ Given this importance, the Smith Review recommended several changes to the Australian architecture that built on Flood's 2004 recommendations.

New Zealand's *Intelligence Agencies Review* of 2009, carried out by Simon Murdoch, a high-ranking civil servant with long experience in national security affairs, again highlighted the importance of the interagency architecture. Murdoch stressed the general importance of community-wide governance, particularly in priority-setting, fiscal management, and assessment processes, citing the "ongoing need to[...]govern the intelligence system on behalf of ministers, at the cross agency level, in terms of setting future direction, determining resourcing/capability priorities and performance-managing."²⁵ In determining how to meet this ongoing need, Murdoch also placed an emphasis on the interdepartmental architecture, echoing the findings of the previous reviews across the US, UK, Australia, and Canada.²⁶

If a coherent national intelligence effort is important in the overall effectiveness of a state's intelligence effort, then the design of the architecture that enables or inhibits that coherence is equally important to understand. However, the coherence *between* the organisations that comprise the intelligence community is only part of what defines the effectiveness of an intelligence community.

²³ Ibid.

²⁴ Smith, R. (2008) *Report of the Review of Homeland and Border Security: Summary and Conclusions*. Canberra: Commonwealth of Australia.

²⁵ Murdoch, S. (2009) *Report to the State Services Commissioner: Intelligence Agencies Review*, Wellington: State Services Commissioner, p.4. The Murdoch Review is discussed further in Chapters 4, 7, and 10.

²⁶ Ibid. See particularly Murdoch's recommendations regarding cabinet and officials' committees and the processes that they manage, which will be discussed further in the following sections on New Zealand's IC.

The Intersection between the Open State and its Secret Servants

The use of the term ‘architecture’ is intentional. Structures alone, taken strictly in the sense of organisation charts, do not fully address the interagency dimension. Interdepartmental committees may exist, but if they encompass ineffectual or problematic processes then the community effort will suffer as much as if the structures themselves were nonexistent.

The core systems used by a state to govern its intelligence effort are the setting of national requirements and priorities (R&Ps) for intelligence, the management of resources (expenditure management) across the different organisations, the approval and review of operational activities, and the assessment of the operating environment. These four systems are important for several reasons. Firstly, they are meant to provide coherent direction to the national intelligence effort, ensuring that the capabilities of the secret state can effectively serve the open state.

Secondly, as K.G. Robertson argued in the case of the UK intelligence community, financial management and priority-setting systems are fundamental internal mechanisms by which intelligence communities are kept accountable for their activities.²⁷ Philip Davies added to this by articulating a ‘triad of control’ that exists through: a) executive-level approval and review of operational activities; b) effective fiscal control of the different elements of an IC; and c) the setting of government’s requirements and priorities for intelligence.²⁸ Davies’ later writing added a fourth consideration to the original triad: the machinery of coordination that is meant to link the multiple processes into coherent IC management, and thus reflecting the mutual importance of key processes and the structures that oversee them.²⁹ Figure 0.1.1 provides a basic illustration of the executive-level interagency structures and the key systems that flow through them, as developed from Robertson and Davies. For our purposes, the systems can be simplified from three to

²⁷ Robertson, K.G. (1988) ‘Accountable Intelligence—The British Experience’ *Conflict Quarterly*, 8:1, pp.3-28.

²⁸ See Davies, P.H.J, (2009) ‘Britain’s Machinery of Intelligence Accountability: Realistic Oversight in the Absence of Moral Panic’ in *Democratic Oversight of Intelligence Services*, ed. Daniel Baldino, Sydney: Federation Press, pp.140-41; Davies, P.H.J, Glee, A and Morrison, J.N.L, (2006) *The Open Side of Secrecy: Britain’s Intelligence and Security Committee*, London: Social Affairs Unit.

²⁹ See Davies, P.H.J (2012) *Intelligence and Government in Britain and the United States: Volumes 1 and 2*, Oxford: Praeger.

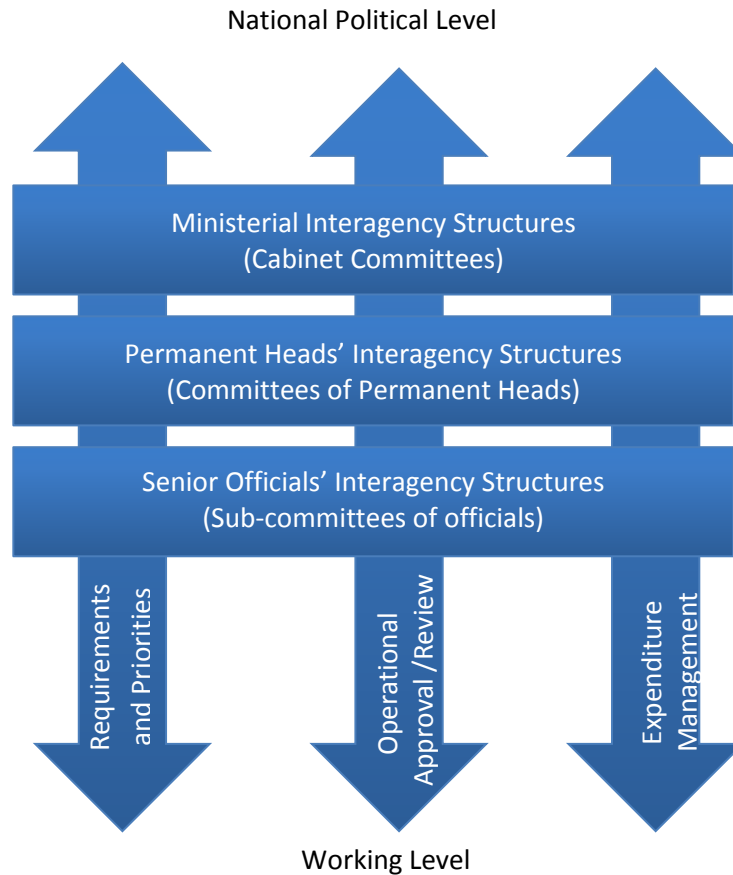
two because our analysis of the national requirements and priorities-setting process includes, to the extent necessary, the tasking of the collection agencies, and national-level review of their activities on an ongoing basis.

Coherence as the Ultimate Goal

Understanding how the interagency architecture works and why it works the way it does becomes fundamental in maintaining public trust in the state's secret servants. Additionally, knowledge of the interagency architecture allows us to more accurately diagnose which of the shortcomings perceived to exist within a community are legitimate and which are the results of unrealistic expectations or larger trade-offs. The Major Commission admitted that an important challenge in studying intelligence is the ability to, "distinguish between unrealistic expectations about the performance of the intelligence community and reasonably avoidable weaknesses in the intelligence process."³⁰ This leaves us with another subsequent question then: *when we talk about 'coordination,' what is the ultimate goal? What is the outcome that the government is trying to achieve through the use and design of the interdepartmental architecture?*

³⁰ Major, J. (2010) *Air India Flight 182: A Canadian Tragedy—Volume 2, Part 1: Pre-Bombing*, Final Report of the Commission of Inquiry into the Investigation of the Bombing of Air India Flight 182, Ottawa: Public Works and Government Services, p.132

Figure 0.1.2: The Architecture of Intelligence Community Governance



Chapter 2 addresses this question in some detail from a theoretical perspective, but it is necessary to lay a foundation here, as it informs the core research questions outlined shortly. In looking further into the concept of the core executive³¹ Patrick Weller and Herman Bakvis comparatively examined in 1997 whether the core executive's capacity to pursue coherent policy outcomes was being stripped away, leading to a 'hollow crown.'³² The concept of 'coherence' is particularly useful as it helps to nuance the idea of coordination. Weller and Bakvis describe coherence as:

The capacity of the core executive to ensure that the component parts of the government, and the policies they seek to implement, are consistent and not contradictory. The notion of coherence is not necessarily a requirement for

³¹ The core executive refers to all the actors and organisations at the centre of government that coordinate government business.

³² See Weller, P., Bakvis, H., and Rhodes, R.A.W. (eds.) (1997) *The Hollow Crown: Countervailing Trends in Core Executives*, London: Macmillan Press Ltd.

*rationality derived policy. Indeed, policy is always bound to be negotiated through institutions, interest groups and established procedures. But is it thereafter consistent? Coherence is thus concerned with values, procedures and institutions, some of which will assist, others diminish, that capacity.*³³

This sounds simple enough on the face of it, but achieving coherence when there are incoherent environmental demands being placed on an organisation or, even more complex, a group of organisations, is a difficult task. In fact, Weller and Bakvis' definition of coherence as the capacity to achieve consistent outcomes is somewhat vague. What should the outcomes be consistent with? If there are competing demands on organisations, how coherent an outcome can reasonably be expected?

Richard Betts contends that failings are inevitable in intelligence, as in any other enterprise, because there are always 'inherent enemies,' which Betts describes as the "collection of mental limitations, dilemmas, contradictory imperatives, paradoxical interactions, and trade-offs among objectives" that, if tampered with, can create alternative problems just as the original ones are fixed.³⁴ Because of these inherent problems, efforts must be made to realistically determine where failures can be *lessened*, as opposed to the rather unrealistic goal of *eradicating* them.³⁵

While Betts makes his argument in relation to strategic intelligence analysis, his concept extends into the intelligence policy environment as well. Complete coherence in an intelligence community is, much by design, a difficult goal to attain. As much as IC managers in the core executive would like to achieve maximum efficiency, there are other legitimate demands on intelligence agencies as public sector organisations within democratic systems.

³³ Weller, P. and Bakvis, H. (1997) 'The Hollow Crown: Coherence and Capacity in Central Government' in Weller, P., Bakvis, H., and Rhodes, R.A.W. (eds.) (1997) *The Hollow Crown: Countervailing Trends in Core Executives*, London: Macmillan Press Ltd, p.13.

³⁴ Betts, R.K. (2007) *Enemies of Intelligence: Knowledge and Power in American National Security*, New York: Columbia University Press, pp.12-14.

³⁵ *Ibid*, p.18.

What Intelligence Communities, and Through What Lens?

Given the importance of the executive-level interagency architecture as outlined above, it is surprising how little research has been attempted, particularly on a comparative basis. In fact, several distinct gaps exist in this regard in both government and academic or public writing on intelligence, public administration, and organisation studies. The general failure to study intelligence community management, particularly within a comparative framework, was highlighted by Davies who, drawing on former characterisations of intelligence as the ‘missing dimension’ of government, stated that the study of intelligence agencies and communities as organisations was itself a missing dimension.³⁶ Of particular importance are three key gaps in the larger disciplines of intelligence studies, public administration, and organisation studies:

- a) Comparative studies of IC governance architecture are extremely rare outside the US and UK context;
- b) Organisational literature has only begun to address intelligence communities;
- c) Literature on the open state has largely ignored the secret state, and vice versa, particularly in the case of IC governance architecture.

Literature on the open state has largely ignored the secret state, and *vice versa*, particularly in the case of IC governance architecture. It is important to note that these gaps are not mutually exclusive, but often overlap as in the case of Australia, Canada, and New Zealand. Because of this lack of study, there is little idea as to how national intelligence management relates not only downward to a small community of specialised agencies but also upward to the larger organisations and concepts within government, or for that matter to the national political context. Within this existing deficit, a lack of comparative study leaves important hypotheses regarding national-level variables untested.

While there have been some notable exceptions recently,³⁷ the lack of comparative analysis outside the US and UK ICs is problematic. Comparative studies yield a level of analysis that single case studies cannot. Theda Skocpol, in *States and Social Revolutions*,

³⁶ Davies, P.H.J (2010) ‘The Missing Dimension’s Missing Dimension’ in *Public Policy & Administration*, 25:5, pp.5-9.

³⁷ Davies, P.H.J and Gustafson, K. (eds.) (2013) *Intelligence Elsewhere: Spies and Espionage Outside the Anglosphere*, Washington, DC: Georgetown University Press.

argues that comparative historical analysis is the most useful approach to isolating causal variables when studying phenomenon where the variables are many but the available number of cases is relatively few.³⁸ James Mahoney and Dietrich Rueschemeyer add that the comparison of a small number of cases over a set period of time allows a researcher to “comfortably move back and forth between theory and history in many iterations of analysis as they formulate new concepts, discover novel explanations, and refine preexisting theoretical expectations in light of detailed case evidence.”³⁹ Davies, responding partially to Glenn Hastedt’s earlier call for comparative studies of intelligence communities,⁴⁰ supports this idea by stating that the broad view of comparative analysis and the detail of case study research must ultimately work in tandem to fully explain a subject.⁴¹ Davies adds that comparative analysis can also identify variations of intensity within the same qualitative variable across multiple cases, a characteristic which is particularly important in cases where the impact of variables are difficult to measure.⁴²

The value of a comparative approach to intelligence studies has been illustrated by a number of authors, however these authors have most consistently focused their attention on the US and UK communities. In the ‘first generation’ of intelligence studies through the 1970s and 1980s, some works comparative works focused simply on exploring the communities, rather than explaining them.⁴³ Some authors did start to delve more deeply into comparative national systems. K.G. Robertson’s work, as previously discussed, provides the basic case for an examination of the interagency architecture of intelligence communities, identifying that the machinery existing between secret agencies, and

³⁸ Skocpol, T. (1979) *States and Social Revolutions: A Comparative Analysis of France, Russia, and China*, Cambridge: Cambridge University Press, p.36.

³⁹ Mahoney, J. and Rueschemeyer, D. (2003) ‘Comparative Historical Analysis: Achievements and Agendas’ in J. Mahoney and D. Rueschemeyer (eds.) *Comparative Historical Analysis in the Social Sciences*, Cambridge: Cambridge University Press, p.13

⁴⁰ Hastedt, G.P. (1981) “Towards the Comparative Study of Intelligence’ *Conflict Quarterly*, 11:3, 44-72.

⁴¹ Davies, P.H.J (2012) *Intelligence and Government in Britain and the United States: Volume 1-Evolution of the US Intelligence Community*, Oxford: Praeger, p.16

⁴² Davies, P.H.J (2012) *Intelligence and Government in Britain and the United States: Volume 2-Evolution of the UK Intelligence Community*, Oxford: Praeger, p.3

⁴³ Richelson, J.T. and Ball, D. (1985) *The Ties that Bind: Intelligence Cooperation Between the UKUSA Countries*, Boston: Allen and Unwin.

between the secret and open sides of government.⁴⁴ Michael Herman's comparative study *Intelligence Power in Peace and War*,⁴⁵ which explored the UK and US intelligence communities as national *systems*, provides an analysis of organisational themes that comprehensively positioned the ICs as functions of larger government operations. While narrower in scope than some earlier work on the five UKUSA states, Herman's analysis was much deeper and took steps to try and explain different organisational outcomes through theoretical or conceptual ideas. A key shortcoming however was Herman's failure to place his analysis of the communities in an encompassing theoretical framework regarding organisation. While Robertson and Herman's work opened the door to comparative organisational analysis of intelligence communities, there was a need for deeper analysis regarding what each of these approaches said about larger systems of government and, in essence, different organisational, political, or national cultures.

The second wave of intelligence studies, brought a new depth to the comparative study of ICs, largely building on the early steps taken twenty years before. Davies' later US-UK study, *Intelligence and Government in Britain and the United States*, exploited the benefits of comparative analysis in examining the interagency architecture in the British and US intelligence communities. Davies mapped the development of the two communities using detailed organisational analysis and a wider comparative context as "complementary counterparts,"⁴⁶ highlighting the impact of distinctly different organisational and management cultures on the development of intelligence community structures and processes. At base, he questions why communities of similar organisations trying to do similar tasks and achieve similar goals result in very different outcomes; on the one hand the US IC notorious for interagency rivalry and fierce independence, and on the other, the British IC renowned for collegial structures and cooperative interdependence (even if at times grudgingly so.) His thesis, borne out through organisational analysis of both structures and processes, is that "the critical considerations that tip British intelligence towards tighter integration and collaboration and U.S. intelligence towards more division

⁴⁴ Robertson, K.G. (1987) 'The Politics of Secret Intelligence-British and American Attitudes' in *British and American Approaches to Intelligence*, ed. K.G. Robertson, London: Macmillan.

⁴⁵ Herman, M (1996) *Intelligence Power in Peace and War*, Cambridge: Royal Institute of International Affairs.

⁴⁶ Davies, P.H.J (2012) *Intelligence and Government in Britain and the United States: Volume 1-Evolution of the US Intelligence Community*, Oxford: Praeger, p.16

and competition have to do with fundamental but often weakly or wholly unacknowledged *cultural* factors.”⁴⁷ He contextualises these cultural differences by drawing on variances in traditions of organisational theory, namely neoinstitutional theories in the case of the United States and core executive or contingency theory in the case of the United Kingdom.

The failure thus far to expand this type of comparative organisational analysis beyond the US and UK systems leaves several important gaps. Firstly, the US and UK were long recognised as divergent cases; thus the requirement was to identify why they diverged. In the case of the smaller Commonwealth partners within the Five Eyes, there is less understanding of the degree to which the systems are divergent or convergent in the first place. Additionally, while it is easy to attribute convergence in the three systems to common political traditions or divergence to differing geographic positions, the actual motivations for organisational change have not been adequately explored using a method that, as Skocpol would have argued, was best suited to identifying causal variables. Finally, comparative organisational studies of the UK and US intelligence communities are inherently skewed by the fact that both states have long histories as leading global powers. There is a need to address whether there are common determinants for organisational change within small- or medium-powers that play out differently than those within major powers. This is particularly important given the Five Eyes alliance framework, which encompasses governments with foreign and defence policies of varying ‘sizes.’ Expanding the comparative framework to encompass Canada, Australia, and New Zealand yields a more complete organisational understanding of arguably the closest multilateral grouping of intelligence communities seen in the modern age.

While the lack of a comparative study covering the three smaller Five Eyes partners is in itself problematic, so too is the failure to apply an analytic framework drawn from organisation theory. Exploring intelligence communities using organisational concepts yields a new level of understanding of the secret state. Drawing on the theoretical

⁴⁷ Davies, P.H.J (2012) *Intelligence and Government in Britain and the United States: Volume 2-Evolution of the UK Intelligence Community*, Oxford: Praeger, p.4

foundation laid by Graham Allison and Philip Zelikow in *Essence of Decision*,⁴⁸ Amy Zegart's *Flawed by Design* illustrates through that there were deep-rooted neoinstitutionalist tendencies at work between US actors in the period leading up to the passage of the *National Security Act of 1947*.⁴⁹ She posits that this organisational culture contributed to the 'flawed design' of the core national security machinery, specifically the Central Intelligence Agency, Joint Chiefs of Staff, and National Security Council system, resulting in a community that remains handicapped for nearly identical reasons today.⁵⁰ While Zegart's work is limited to the US context and deals with a timeline that is, in the grand scheme, relatively short, her use of organisation theory added a level of understanding to the US national security system that had been difficult to articulate through previous analysis.

An effort to draw out organisational analysis over a longer timeline was made by Philip Davies in his early work on Britain's Secret Intelligence Service (SIS).⁵¹ Following on the foundation set by Robertson and Herman, Davies' study of SIS is framed by organisation and management theory, allowing him to draw conclusions about the relationship of intelligence to the wider British government and illustrate that even a secretive agency such as SIS was impacted by the larger management culture of the UK civil service. In both Zegart's and Davies' work, important linkages were made between the secret and open sides of government, illustrating that the intelligence communities were inherently impacted by the state they served, for better or worse. Christopher Andrew and Richard Aldrich have argued that the belated effort to link the study of intelligence to political history and international relations has left us with incomplete understandings of these larger disciplines and an incomplete contextualisation of intelligence as an area of government operations.⁵² The same argument can be made for organisation studies; the

⁴⁸ Allison, G. and Zelikow, P. (1999) *Essence of Decision: Explaining the Cuban Missile Crisis* (2nd Ed.), New York: Longman.

⁴⁹ Zegart, A.B. (2000) *Flawed by Design: The Evolution of the CIA, JCS, and NSC*, Stanford: Stanford University Press.

⁵⁰ Zegart, A.B. (2009) *Spying Blind: The CIA, the FBI, and the Origins of 9/11*, Princeton: Princeton University Press.

⁵¹ Davies, P.H.J (2004) *MI6 and the Machinery of Spying: Structure and Process in Britain's Secret Intelligence*, London: Frank Cass.

⁵² See Andrew, C. (2004) "Intelligence, International Relations, and 'Under Theorisation'" in L.V. Scott and P. Jackson (eds.) *Understanding Intelligence in the Twenty-First Century: Journey in Shadows*, London: Routledge,

discipline will not be complete without consistent study of the secret state, and the study of the secret state cannot be complete without organisational analysis.

Into the Commonwealth: Choosing the Governments to Compare

Importantly, while there is a growing tradition of using organisational analysis to study IC governance in the UK and US contexts, the tradition has not extended to Australia, New Zealand, or Canada. This is a surprising void considering the strong traditions of public administration scholarship in all three states.

Canada's literature on government is quite vibrant, however it has consistently shied away from addressing the secret state, instead focusing on cabinet decision-making structures, accountability, and policy processes. Richard French's *How Ottawa Decides* traced central policy planning in Ottawa from 1968-84 providing valuable insight into the decision-making process in the Canadian executive and the growth of central departments over this period.⁵³ French's work is now dated however and does not address intelligence or security issues, limiting it to foundational applicability for any study of the Canadian IC. What French's study does do is illustrate the importance of the interagency structures in the Canadian government in general, placing significant emphasis on the interlocking committees and relationships that tie together major policy actors. Much more recent are Donald Savoie's *Governing from the Centre* and *Breaking the Bargain*.⁵⁴ The former examines the growth of the 'centre of government' placing particular emphasis on the Prime Minister's Office, Privy Council Office, Treasury Board, and Department of Finance. The latter examines the relationship between officials, politicians and accountability in the current environment with a focus on changing administrative and political culture. Savoie's general conclusion that the center of government has grown substantially in power, centralising authority and turning the Westminster system into 'court government', is well supported through his analysis. Surprisingly however, while both works are recent enough

pp.29-41; Aldrich, R.J. (2010) 'Intelligence and International Security' in R.A. Denemark (ed.) *The International Studies Encyclopedia* Vol.VI, Oxford: International Studies Association/Wiley-Blackwell.

⁵³ French, R.D. (1984) *How Ottawa Decides: Planning and Industrial Policy Making, 1968-1984* (2nd ed), Toronto: James Lorimer.

⁵⁴ Savoie, D.J. (1999) *Governing from the Centre: The Concentration of Power in Canadian Politics*, Toronto: University of Toronto Press, and Savoie, D.J. (2003) *Breaking the Bargain: Public Servants, Ministers and Parliament*, Toronto: University of Toronto Press.

to take advantage of new openness regarding the Canadian IC, Savoie's discussion of PCO's role in intelligence community management is nonexistent. This leaves an observer to question whether Savoie's conclusions about the strength of the center of government are truly applicable across all sectors. Subsequently, Savoie's general thesis, that a strong center of government has been detrimental, clashes with the findings of, for instance, the Major Commission, which recommended a stronger center of government to coordinate national security. Because Savoie failed to address the interagency intelligence architecture, we are left wondering how the center of government in Canada actually *does* coordinate intelligence and security matters. Alongside Savoie's study of the centre of government is David Good's work on the Canadian government's politics of fiscal management, which is addressed at length in Part 3.⁵⁵

There are a few authors whom have made a consistent effort to cover the Canadian intelligence community, mostly from the discipline of history. Wesley Wark's internal history of the IC is still classified, but large portions of it were made available to the author through the *Access to Information Act* (ATIA).⁵⁶ What becomes apparent is that Wark's history, while a seminal undertaking, is limited by the fact that it stops in approximately the 1960s, just before significant changes in the interagency architecture in Canada took effect.⁵⁷ Additionally, the available portions of Wark's history essentially compose a historical narrative rather than a consistent attempt to analyse organisational interaction or decision-making based on a theoretical framework. In this sense, what Wark has compiled is a necessary narrative of the early modern history of Canadian intelligence, but this needs to be significantly modernised and the organisational aspects fully exploited as Davies has done in his US-UK study.

This matter was partially taken up by Kurt Jensen's writing on Canada's foreign intelligence efforts during the Cold War. Jensen's *Cautious Beginnings* traces the

⁵⁵ Good, D.A. (2007) *The Politics of Public Money: Spenders, Guardians, Priority Setter, and Financial Watchdogs in the Canadian Government*, Toronto: University of Toronto Press.

⁵⁶ Wark, W. (undated) *Internal History of the Canadian Intelligence Community*. Privy Council Office, SECRET, Released to the author under ATIA.

⁵⁷ Such changes include the formation of new interdepartmental machinery within the Privy Council Office (PCO) in 1972 to coordinate national intelligence or the movement of Canada's SIGINT agency to the National Defence portfolio in 1975.

development of both Canada's SIGINT programme and minimal HUMINT programme through the Second World War and early Cold War to approximately 1951.⁵⁸ Importantly, Jensen uses this examination, which places a focus on organisational development, to draw larger conclusions about views of Canadian policymakers towards intelligence.⁵⁹ Unfortunately, like Wark's internal history, Jensen's work is very chronologically limited, making it difficult to determine whether the trends he identifies have had any staying power, or whether they have changed and if so how. While Jensen has traced the foreign intelligence HUMINT programme through to the end of the Cold War, the increase in historical scope has come at the price of an even narrower focus.⁶⁰ Jensen's history is limited exclusively to foreign intelligence, leaving security intelligence, which Canada has traditionally placed more emphasis on, outside the scope of much of his writing.

More recent works by Stephane Lefebvre and Stuart Farson have explored legal frameworks, strategic culture, and policy, providing a useful viewpoint on Canadian intelligence immediately prior to and after the 9/11 attacks.⁶¹ However, what is apparent in Canadian literature on intelligence is a distinct lack of comparative study. As Hastedt has noted, comparative study of intelligence communities is important because it allows us to test the uniqueness of variables, to identify new variables at play that are not uncovered in national studies, and to "place variations or similarities in a broader context," allowing us to not just identify variables but judge the intensity of variables more accurately. Without some form of comparative analysis, it is difficult to achieve a true understanding of intelligence communities and their place in government.

Similar problems are found in Australian literature. Major government reviews of intelligence have been more common in Australia than in Canada, but have frequently suffer from similar shortcomings; they are chronological snapshots with limited scope. The

⁵⁸ Jensen, K. (2008) *Cautious Beginnings: Canadian Foreign Intelligence 1939-51*, Vancouver: UBC Press.

⁵⁹ Ibid, p.173-74

⁶⁰ Jensen, K. (2004) 'Canada's Foreign Intelligence Interview Program, 1953-90' *Intelligence and National Security*, 19:1, pp.95-104

⁶¹ See Lefebvre, S. (2010) 'Canada's Legal Framework for Intelligence' *International Journal of Intelligence and Counterintelligence*, 23:2, pp.247-295; Lefebvre, S. (2009) 'Canada's Intelligence Culture: An Assessment,' *The Democratization of Intelligence: Melding Strategic Intelligence and National Discourse*, Russell G. Swenson and Susana C. Lemozy (eds.) Washington: National Defence Intelligence College; and Farson, S. (1999) 'Is Canadian Intelligence Being Re-Invented?' *Canadian Foreign Policy Journal*, 6:2, pp.49-86.

exception was Justice Robert M Hope's 1976 Royal Commission on Intelligence and Security, or RCIS, which is likely one of the most comprehensive examinations of an IC ever conducted. With the declassification of Hope's multi-volume final report in 2008, which included historical studies and a full volume on IC coordination, an important resource became available to scholars studying the Australian IC.⁶² Yet while Hope's RCIS reports represent important documentation up to 1976, important changes to the Australian IC took place *because* of Hope's review. In understanding the long-term development of the IC's executive interagency architecture, it is necessary to explore the discussions and decisions that took place *after* 1976 leading to the design of the modern Australian community.

Australia's range of academic or public literature, like Canada's encompasses impressive work in regard to public administration, political science and international affairs, as well as a growing body of literature relating to intelligence. Australia, like the UK has published a series of official histories that help to tell the 'official' story Australian government administration. While the first two out of three volumes of the official history of ASIO have proven minimally interesting from the perspective of the interagency architecture. They do, however, address significant events, such as the 'Murphy Raids' that allow a better understanding of ministerial accountability arrangements. They are, however, ultimately single-agency histories.⁶³ Similarly, the official history of the Australian Department of the Prime Minister and Cabinet (DPMC) traces the growth of the DPMC over time, mirroring Savoie's complaint about the growing strength of the PCO in Canada, but does more to place it in the context of changing administrative requirements of the Australian state.⁶⁴

John Wanna and Patrick Weller provide a valuable overview of Australian governance traditions.⁶⁵ The broad-stroke approach identifies some key trends in the Australian approach to governance that are particularly important. For instance, they

⁶² The general outline of the RCIS can be found on the National Archives of Australia website at: <http://www.naa.gov.au/collection/explore/security/royal-commission/index.aspx> (Accessed Dec 2012)

⁶³ Horner, D. (2014) *The Spy Catchers: The Official History of ASIO, 1949-1963*, Sydney: Allen & Unwin;

Blaxland, J. (2015) *The Protest Years: The official History of ASIO, 1963-1975*, Sydney: Allen & Unwin.

⁶⁴ Weller, P., Scott, J., and Stevens, B. (2011) *From Postbox to Powerhouse*, Sydney: Allen & Unwin.

⁶⁵ Wanna, J. and Weller, P. (2003) 'Traditions of Australian Governance' *Public Administration*, 81:1, pp.63-94.

identify that federalism in Australia took on an increasingly changed tone after the 1970s. Instead of a federalist approach based on competition, cooperative mechanisms for the pursuit of policy goals were established.⁶⁶ Additionally, Wanna and Weller identify pragmatism as a driving organisational principle for the Australian Public Service, focusing on what mechanisms appear to work as opposed to any staunch adherence to an ideological ideal.⁶⁷ This has potentially significant impact on the study of the Australian IC, but as with the Canadian case, no thorough attempt has been made to tie the traditions of the open state to those of the secret state.

Narrowing somewhat to the administrative and policy-making aspects of government, Colin Campbell and Patrick Weller present useful examinations of the Australian executive and public service through the 1980s and 1990s. Campbell's particular is on focus on public service reform initiatives, which led mainly to changes in management and budgetary planning processes.⁶⁸ Weller, taking a slightly different track, examines the changing environment and role of permanent department heads,⁶⁹ in a similar study to those conducted in Canada by Gordon Osbaldeston and Jacques Bourgault.⁷⁰ This literature by Campbell and Weller is important because it highlights changing concepts within the Australian executive and public service regarding accountability, policy planning, efficiency and resourcing which may have also had impacted the way the Australian IC is managed. However, as with much of the public administration writing emanating from Australia, Campbell and Weller do not address to what extent management reforms in the public service were mirrored in the IC. This tendency is even seen in writing by former public servants who themselves had direct responsibility for intelligence matters. Geoffrey Yeend, a former Secretary of the Department of Prime Minister and Cabinet (DPMC) virtually ignored the intelligence

⁶⁶ Ibid, p.73-5

⁶⁷ Ibid, p.65

⁶⁸ Campbell, C. (2001) 'Juggling Inputs, Outputs, and Outcomes in the Search for Policy Competence: Recent Experience in Australia' *Governance*, 14:2, pp.253-82.

⁶⁹ Weller, P. (2001) *Australia's Mandarins: The Frank and the Fearless?* Sydney: Allen & Unwin.

⁷⁰ Osbaldeston, G. (1989) *Keeping Deputy Ministers Accountable*, Toronto: McGraw-Hill Ryerson; Bourgault, J. (2003) *The Contemporary Role and Challenges of Deputy Ministers in the Government of Canada*. Ottawa: Canadian Centre for Management Development.

responsibilities of the DPMC when describing its role in 1979, all the more surprising considering the completion of the Hope Royal Commission only three years before.⁷¹

The writing on the national security sector in Australia does more to address the IC, but lacks the advantages of a comparative study. Tiernan's study of former PM John Howard's national security advisory system addresses the recent structures of national security decision-making within the Australian core executive, but does not discuss the IC management architecture particularly.⁷² There is also little sense of how the present machinery developed, what the key drivers were, or how it works on a daily basis as opposed to the rather exceptional environment of John Howard's policy deliberations over Iraq. Garry Woodward and, earlier, A.D. McLennan have done more in this regard while addressing the development of Australia's intelligence assessment machinery.⁷³ Yet these works do not address the second aspect of ONA's mandate: interagency management of the foreign intelligence function. However, they do begin to address the Australian IC's consumer-driven culture, a factor that plays heavily into the nature of the management architecture.

Perhaps one of the most comprehensive works thus far on the AIC, and one which does address management issues, is Allan Gyngell and Michael Wesley's *Making Australian Foreign Policy*.⁷⁴ This impressive book addresses the different aspects of foreign policy-making in Australia, with an entire chapter devoted to the intelligence community. The major strength of Gyngell and Wesley's book is that it takes a holistic view of foreign policy-making and addresses each area of operation, such as the IC, with a case study. A major weakness as far as this study is concerned however is that while the book does outline certain management aspects of the IC, it does little to address their development over time or to illustrate executive-level ongoing processes such as the definition of requirements

⁷¹ Yeend, G.J. (1979) 'The Department of the Prime Minister and Cabinet in Perspective' *Australian Journal of Public Administration*, 38:2, pp.133-150.

⁷² Tiernan, A. (2007) 'The Learner: John Howard's System of National Security Advice' *Australian Journal of International Affairs*, 61:4, pp.485-509.

⁷³ Woodward, G. (2001) 'Enigmatic Variations: The Development of National Intelligence Assessment in Australia' *Intelligence and National Security*, 16:2, pp.1-22; McLennan, A.D. (1995) 'National Intelligence Assessment: Australia's Experience' *Intelligence and National Security*, 10:4, pp.72-91.

⁷⁴ Gyngell, A. and Wesley, M. (2003) *Making Australian Foreign Policy* New York: Cambridge University Press. See Ch.7 entitled 'The Australian Intelligence Community'.

and priorities or fiscal management. Chad Whelan's *Networks and National Security* explores networks within the Australian national security community. Whelan's work is a welcome addition in that it is an attempt to directly address aspects of the IC using some form of organisational theoretical framework. However, while Whelan's work admirably illustrates the existence of complex networks, it does little to draw historical trends in development or to place these networks in a comparative context. The fact that networks exist is a useful point, but what is the quality of these networks compared to others, how do they form and because of what drivers? These are questions that can only be answered through a more comprehensive comparative organisational study.

New Zealand shares Canada and Australia's rich history of public administration literature, but in regard to intelligence literature is even sparser. Academic works such as Matheson's examination of New Zealand's strategic governance,⁷⁵ Boston's examination of the role of senior public servants,⁷⁶ or Jensen's work on the New Zealand budgetary process,⁷⁷ are now increasingly accompanied by works by former senior public servants and ministers outlining how they saw their work on a daily basis. Important amongst these studies by former practitioners is former PM Geoffrey Palmer's examination of the roles of the prime minister and the cabinet, chiefly because Palmer was in power when the *New Zealand Bill of Rights* and *State Sector Act* were passed, fundamentally reforming the state structures of New Zealand.⁷⁸ Two senior department heads have also written, but in distinctly different fashions. Chief Executive of the New Zealand Department of Prime Minister & Cabinet (NZDPMC) Mark Prebble's examination of the constitutional balance of power and accountability is meant as an exploration of the day-to-day functions and processes of constitutional government, and is an extremely useful window into how the

⁷⁵ Matheson, A. (1998) 'Governing Strategically: The New Zealand Experience' *Public Administration and Development*, 18:4, pp.349-63.

⁷⁶ Boston, J. (2001) 'New Zealand: 'cautionary tale or shining example?'' in R.A.W Rhodes and P. Weller (eds.), *The Changing World of Top Officials: Mandarins or Valets?*, Buckingham: Open University Press.

⁷⁷ Jensen, G. (2003) 'Zen and the Art of Budget Management: The New Zealand Treasury' in Wanna *et al*, (eds.) *Controlling Public Expenditure: The Changing Roles of Central Budget Agencies—Better Guardians?*, Cheltenham: Edward Elgar.

⁷⁸ Palmer, G. (2006) 'The Cabinet, the Prime Minister, and the Constitution: The Constitutional Background to Cabinet' in *New Zealand Journal of Public and International Law*, 14:1.

New Zealand government functions.⁷⁹ Another former Chief Executive of NZDPMC and also the Ministry of Defence (MOD), Gerald Hensley, has written an autobiography that, while less programmatic than Prebble's, highlights important relationships within central departments between ministers and officials.⁸⁰ Additionally, Hensley's history in the Ministry of Foreign Affairs and Trade (MFAT), NZDPMC, and MOD, places him as a key figure in IC development.

Historically, writing on intelligence in New Zealand has been left to investigative journalists. In this area, the outcomes are quite uneven. Hager's detailed organisational research on the Government Communications Security Bureau is not matched by his knowledge of policy, nor is it supported by any larger analytical framework.⁸¹ What results is a well-researched book that unsurprisingly fits a particular political agenda by painting the GCSB as a 'local office' of the larger US and UK agencies. Hager fails to address alternative hypotheses for the picture his research paints, in part because the narrow focus on a single agency did not yield larger dynamics apparent through a focus community-wide policymaking. In this we find another reason to address the three smaller members of the Five Eyes through a comparative organisational study: it may add nuance to our understanding of how 'net intelligence importers' view their alliance environment.

One can see that from the preceding analysis that the three principle shortcomings in the existing literature create a significant gap that needs to be addressed. While all three states have rich traditions of public administration scholarship, that scholarship has barely touched the secret state. Secondly, organisation and management models have been applied with great effect to the US and UK intelligence communities, but have not yet been applied to the three smaller partners, leaving a gap in our understanding of how and why organisational trends develop in these three cases. Lastly, there is a distinct need for comparative analysis outside the US and UK cases in order to build a more thorough understanding of the qualitative variables in each of the national communities, and the

⁷⁹ Prebble, M. (2010) *With Respect—Parliamentarians, Officials, and Judges too*, Wellington: Institute of Policy Studies.

⁸⁰ Hensley, G. (2006) *Final Approaches: A Memoir*, Auckland: Auckland University Press.

⁸¹ Hager, N. (1996) *Secret Power*, Nelson: Craig Potton.

larger alliance environment in which they operate. Taken together, these shortfalls create a significant literature gap

Sources and Methods: Researching Comparative Intelligence Communities

While it may seem counter-intuitive, the study of intelligence organisations can draw on a wide variety of data sources. However, these sources, as with many areas of qualitative study, are often incomplete. Historical works, such as Wark's history of the Canadian IC, McKinnon's history of the New Zealand Treasury,⁸² or Weller *et al's* history of the Australian DPMC,⁸³ provide useful repositories of data of varying applicability but can be combined to form the foundation of a data set. Historical studies are complemented by secondary sources drawn from public administration, political science, international affairs, and security studies. Additionally, government or agency reporting provides a consistent insight into the management of the secret state. Unclassified annual reports are issued each year by many of the intelligence agencies themselves, all policy departments, and oversight bodies such as the Canadian Security Intelligence Review Committee (SIRC), the Australian Parliamentary Joint Committee on Intelligence and Security (PJCIS) or Inspector General of Intelligence and Security (IGIS), or the New Zealand Inspector General of Intelligence and Security (NZIGIS).

Of course, the public reporting of government must be verified through additional sources that are less impacted by the Hawthorne effect. Verifying this information and expanding on it must be done through the analysis of parliamentary evidence, access to the reports and documentation of government inquiries or royal commissions, previously released archival records, declassified documentation, and elite interviews, all of which are used in this study. This allows us to first fill as many existing gaps as possible, and

⁸² McKinnon, M. (2003) *Treasury: The New Zealand Treasury, 1840-2000*, Auckland: Auckland University Press.

⁸³ Weller *et al*, 2011.

triangulate between source types in order to verify or disprove what individual sources are saying, much as in the practice of intelligence itself.⁸⁴

While the full range of sources will become apparent throughout the following chapters, some explanatory discussion of two particular source types is required earlier, namely: declassified documents and elite interviews. Declassified documents were available from all three governments through their respective information access legislation.⁸⁵ Declassified documentation was obtained either through original requests issued by the author or through obtaining copies of already released packages of documents. Declassified and archival documentation from the following organisations was analysed:

Canada

- Privy Council Office (PCO)
- Department of Foreign Affairs and International Trade (DFAIT)
- Public Safety Canada (PSC)
- Department of National Defence (DND), which also handles requests regarding the Communications Security Establishment Canada (CSEC)
- Canadian Security Intelligence Service (CSIS)
- Royal Canadian Mounted Police

Australia

- Department of the Prime Minister and Cabinet (DPM&C)
- Department of Finance (DoF)
- Department of the Treasury
- Department of Foreign Affairs and Trade (DFAT)
- Department of Defence (DoD)
- Attorney General's Department
- Australian Security Intelligence Organisation

⁸⁴ For a discussion of triangulation and the conduct of elite interviewing drawn directly from the study of intelligence, see Davies, P.H.J. (2001) 'Spies as Informants: Triangulation and the Interpretation of Elite Interview Data in the Study of the Intelligence and Security Services' *Politics*, 21:1, pp.73-80.

⁸⁵ The *Access to Information Act, 1985* in Canada, *Freedom of Information Act, 1982* in Australia, and *Official Information Act, 1982* in New Zealand.

- Australian Crime Commission
- Australian Federal Police

New Zealand

- Department of Prime Minister & Cabinet (NZDPMC)
- Ministry of Defence (MoD)
- State Services Commission (SSC)
- New Zealand Security Intelligence Service (NZSIS)
- Government Communications Security Bureau (GCSB)
- New Zealand Police

Where these documents are cited in the text of this study, they are identified as originating from declassification.

Elite interviews were carried out in a semi-formal method, allowing for the general targeting of interview questions for relevance, but allowing the interviewee to stray when necessary to discuss aspects that they viewed as important. The interviews covered a range of individuals across the three governments nearly all of which have experience in more than one organisation of interest. In total, 25 elite interview subjects were questioned, consisting of former or serving government officials across Canada, Australia, New Zealand, and the UK. The interview subjects included those who had served within intelligence agencies and also those who had served within policy departments and central coordinating agencies. Because of the nature of the information and the legal constraints inherent in public service, particularly in the intelligence organisations, interviews were conducted under the condition of strict confidentiality. To enable the accurate citation of interview material under these conditions, a similar coding system was devised as was used by Davies in his work on the British Secret Intelligence Service and later US-UK study. Each interviewee was assigned a code beginning with 'I' and followed by the sequential number of their interview. Hence the fifth person to be interviewed is coded as 'I-5' and they are cited as such throughout the text. In many cases multiple interviews were conducted with an interviewee, or interviews were followed by correspondence on detailed points. In cases where in-person interviews were not possible because of distance, they were conducted via Skype, telephone, or correspondence (in that order of preference).

Sources and Methods: Public Governance of the Secret State

Given the preceding discussions, we can narrow down our lines of inquiry into one overarching question, with three more detailed and manageable questions. The overarching research question is: *How do intelligence communities work?* Included in this is an implied assumption that they may not work, or work only partially. By employing the concept of coherence across the national intelligence effort, we can pose these more manageable questions, and subsequent hypotheses:

- *What is coherence in the national intelligence effort?*
 - *H1: Coherence is defined by seeking maximum operational effectiveness within the intelligence effort, even at the expense of legitimacy.*
 - *H2: Coherence is defined by seeking maximum legitimacy for the intelligence effort, even at the expense of effectiveness.*
 - *H3: Coherence is defined as a balance between operational effectiveness and legitimacy. Trade-offs are made between both to ensure balance.*
- *How has the capacity of the centre of government to pursue coherence across the national intelligence effort evolved?*
 - *H1: The capacity of the centre has not evolved, but has stagnated.*
 - *H2: The capacity of the centre has evolved to principally meet changes in the 'operational' demands (threat/global environments, technological environment), even if this is at the expense of legitimacy.*
 - *H3: The capacity of the centre has evolved to principally meet changes in institutional demands (accountability, constitutional norms, public opinion) even if this is at the expense of operational effectiveness.*
 - *H4: The capacity of the centre has evolved to balance both operational and institutional demands, and pursues this balance even if trade-offs have to be made between one or both sets of demands.*
- *What factors enable or constrain the capacity of the centre of government to ensure coherence across the national intelligence effort?*
 - *H1: How cabinet is used enables or constrains the capacity of the centre of government to ensure coherence.*

- *H2: Prime ministerial power enables or constrains coherence across the intelligence effort.*
- *H3: The culture of the public service constrains or enables coherence across the intelligence effort.*
- *H4: How ministerial accountability manifests itself enables or constrains coherence across the intelligence effort.*
- *H5: A combination of the factors above (or possibly unforeseen factors) constrain or enable coherence across the intelligence effort.*

The study itself goes about testing these hypotheses through six major elements. First, it lays the theoretical groundwork, providing the framework of analysis and exploring the meaning of coherence in the national intelligence effort (Chapter 2). It then addresses the development of the executive-level governance structures within the core executive that are used to pursue coherence in the intelligence effort (Part 1: Machinery). In keeping with the idea that architecture encompasses both structures and systems, the system for setting intelligence requirements and priorities (R&Ps) is examined (Part 2), as is the system for expenditure management (Part 3). The concluding section (Chapter 12) of the study then teases out the larger implications of the research, tying the findings directly to the research questions already expressed, and determining conclusions relevant to our understanding of intelligence, government, and comparative politics.

The expected outcome is, first, that the concept of ‘coherence’ is greatly defined by the democratic space, and is ultimately a balance between operational and institutional demands. This allows the IC in question to maintain a workable level of operational effectiveness without compromising the legitimacy of the secret state politically and in the eyes of the citizenry. Secondly, and following from the first expected outcome, it is expected that the core executive evolves the architecture of IC governance as much as possible to allow it to strike a balance between operational and institutional demands. Lastly, it is expected that prime ministerial interest in intelligence matters enables or constrains coherence across the intelligence effort.

Chapter 2

Organising for Coherence in National Intelligence

When IC managers within the core executive adjust the interdepartmental architecture to pursue coherence across the national intelligence effort, what are they actually pursuing? What is 'coherence'? In organisation studies, it is generally posited that organisations evolve to meet the demands of external environments or organisational fields (both will be discussed further shortly). One tradition has argued that when the organisation achieves the best 'fit' with its external environment, the organisation operates at maximum efficiency. Thus, in this tradition, operational efficiency is the goal. A second tradition on organisation studies has argued that organisations adopt certain designs that are perceived as the best within their field of organisations. The design seems rationale because it has worked well for others in the field, but may not be efficient for the organisation adopting it. In this second tradition, legitimacy is the ultimate goal. Either theoretical tradition could be applicable to the interdepartmental IC architecture. Does the core executive adapt the machinery to meet changes in the actual business of intelligence (and hence pursuing 'efficiency' in the ability to produce timely, relevant intelligence)? Conversely, perhaps changes in how their more powerful allies are organised drives organisational evolution (pursuing legitimacy amongst peers)? Finally, could it be a balance between the two, and the IC managers adjust the architecture as needed to balance between the competing demands of multiple environments? In short, does the goal of 'coherence' reflect operational efficiency, institutional legitimacy, or a combination of the two?

Different explanations for micro-and macro-level organisational change suggest different drivers for decisions regarding organisational form. Confirmation, disapproval, or reshaping of these different drivers through empirical application offer insight into the value systems, management culture, and policymaking within the intelligence communities and the governments they serve. Additionally, the application of important organisational theories to public sector organisations (which are rare in occurrence) and to intelligence

communities in particular (even rarer) yields important qualifiers to traditional theoretical approaches. Application of elements of contingency theory, institutional isomorphism, strategic choice theory, and complexity theory to the Australian, Canadian, and New Zealand intelligence communities reveals that implicit assumptions that have led to divergence between contingency theory and institutional isomorphism do not necessarily apply within the context of the three ICs in question, reinforcing the idea that the theoretical perspectives can be quite complimentary. Particularly, if the ICs are analysed as large organisations balancing differentiation and integration within specialised sub-units, the ‘incommensurability’ of macro and micro levels of analysis becomes much less problematic. Additionally, competing demands are imposed on the ICs by multiple environments or the interaction of overlapping organisational fields. Lastly, and most importantly, for public sector intelligence organisations in democracies legitimacy and efficiency are both rational pursuits, thus defining ‘coherence’ in the national intelligence effort as a balance between competing environmental demands that protects the operational effectiveness of the intelligence community while at the same time protecting the legitimacy of it in a democratic system.

Environment, Contingency, and Choice

Weber’s classic ideas regarding organisational development posited that organisations would face decreasing variability in their environments. Because of low external variability but increasing task complexity, maximum efficiency, Weber argued, could be obtained through highly bureaucratic organisations that were very good at accomplishing repetitive complex tasks amidst a low-variability environment.¹ While Weber’s organisational typologies and characteristics still provide the basis for much organisational theory, subsequent studies found that in light what was actually *increasing* environmental variability as well as task complexity, organisations were forced to adapt their structures in ways that indicated Weber’s typologies were not mutually exclusive. Burns and Stalker put forth the idea that the most effective organisational form was

¹ See Weber, M. (1948) ‘Bureaucracy’ in H. Gerth and C. Wright-Mills eds., (1991) *From Max Weber*, London: Routledge.

dependent on what type of environment or task the organisation was facing.² In unstable and complex environments, collegial and adaptive organisational forms were required because these structures were flatter, more creative and flexible, yet had higher administrative cost.³ In stable environments, bureaucratic organisations could provide maximum efficiency by decreasing the administrative cost associated with collegial forms of management through increased specialisation and hierarchy.⁴ In what became known as 'matrix' management, companies were found to be using elements of both organisational forms simultaneously depending on the task at hand.⁵ In this form of management, specialists from organisational sub-units within a bureaucracy are pulled into collegial structures, either bilaterally or multilaterally, were they address non-routine, complex functions such as product design or strategic planning.⁶ This form of management allows the firm to leverage the best of both organisational forms.

Ultimately, very few, if any, large organisations operate purely as either mechanistic bureaucracies or organic collegial structures. Most tasks require some form of bureaucratic specialisation to make efficiency gains, while the complexity of managing large modern organisations requires cross-unit coordination. This is no different in modern intelligence communities, as has been addressed by Davies in the case of the US and UK communities.⁷ This is equally true for the present three cases. At the level of individual agencies or departments, collegial arrangements to deal with both management matters, such as the Executive Leadership Group of Australia's DPMC, and operational matters, such as the Target Approval and Review Committee (TARC) within the Canadian Security Intelligence Service, are taken-for-granted characteristics.⁸ In

² See Burns, T. and Stalker, G.M., (1966) *The Management of Innovation*, London: Tavistock; Burns, T. (1963) 'Mechanistic and Organismic Structures' in D.S. Pugh ed. *Organization Theory: Selected Classic Readings*, (5th Edition, 2007), London: Penguin.

³ Ibid.

⁴ Ibid. Burns and Stalker defined these as 'organic' and 'mechanistic' organisations, respectively.

⁵ On matrix management, see Knight, K. (1977) *Matrix Management*, Farnborough: Gower Press.

⁶ Ibid.

⁷ Davies, 2012 and 2001.

⁸ On the DPMC Executive Leadership Group and several other collegial management bodies, see the department's annual reports, most recently Department of Prime Minister and Cabinet, (2012) *Annual Report 2011-12*, Canberra: Commonwealth of Australia, pp.62-5. On the CSIS

wider terms, the very cabinet systems in each government are illustrations of matrix management, employing interconnected committees of politicians and officials to oversee the strategic direction of specialised departments or agencies across multiple sectors.

As Knight pointed out, a matrix approach can take several forms ranging from bilateral secondments of personnel to multilateral committees or dual reporting arrangements.⁹ This dynamic within an organisation creates a continuous process of what Lawrence and Lorsch referred to as ‘differentiation and integration.’ In their seminal work on organisations and environments, Lawrence and Lorsch stated, “this division of labour among departments and the need for unified effort lead to a state of differentiation and integration within any organisation.”¹⁰ They identified a critical conflict in this dynamic however: that the process of differentiation created cultural barriers to integration amongst actors. Lawrence and Lorsch admit that their basic model of an organisation adapting itself to its environment is complicated when that organisation is then broken down into specialised sub-units which each have to adapt to and address particular aspects of the overall environment, thus placing emphasis on the mechanisms for integration which promote a unified sense of purpose regardless of specialisation.¹¹

Matrix management provides an applicable frame of analysis for not only individual agencies, but also an intelligence community *as a whole*. In Australia, Canada, and New Zealand, the communities are broken down into specialised organisations that are responsible for particular tasks such as intelligence collection, analysis, all-source assessment, tasking, policy development, or a combination of several of these functions. Within these functions, agencies may have further specialised responsibility for collection and analysis of particular

TARC, see Canadian Security Intelligence Service (2005) *Backgrounder No.17: Control, Accountability, and Review*, Ottawa: Canadian Security Intelligence Service, <https://www.csis.gc.ca/nwsrm/bckgrndrs/bckgrndr17-eng.asp> (Accessed December 2012)

⁹ Knight, 1977.

¹⁰ Lawrence, P.R. and Lorsch, J.W. (1967) *Organization and Environment: Managing Differentiation and Integration*, Boston: Harvard University, p.8.

¹¹ Lawrence and Lorsch, 1967, p.209

types of information, such as reporting from human sources (HUMINT) or signals intelligence (SIGINT). At community level, these agencies are analogous to the sub-units that Lawrence and Lorsch discuss as being necessarily differentiated in order to leverage the benefits of specialisation. Above these organisations sit the central agencies of government that have responsibility for policy or fiscal coordination.¹² These are the organisations responsible for integration, managing the government-wide interagency structures and processes meant to achieve and operationalise a sense of common purpose. Several IC developments can be understood as being driven by matrix management concepts. The creation of specialised joint terrorism assessment centres is one very apparent example. The complex and fluid threat of terrorism required a unified analytic effort that drew on the knowledge and capabilities across a number of specialised agencies. At the same time, the urgency and operational interconnectedness of the counter-terrorism effort required a level of commitment and positioning that was a misfit for the usual all-source assessment machinery. This provided the rationale behind the formation of the Canadian Integrated Threat Assessment Centre (ITAC), the Australian National Threat Assessment Centre (NTAC), and New Zealand's Combined Threat Assessment Group (CTAG); integrated organisations of secondees drawing on the knowledge bases and infrastructure of their home departments, and governed by interagency committees.

The premise that the optimal organisational form is contingent on the nature of the organisation's environment ultimately began a new theoretical direction known as *contingency theory*. In contrast to preceding organisational literature that had focused on finding a universal organisational ideal where organisations were closed systems, contingency theory posits that there is no universally ideal organisational form. Instead, contingency theory argues that because organisations are in fact open systems, the ideal organisational form is

¹² The central agencies in Australia, Canada and New Zealand are the departments with responsibility for: a) providing support to the cabinet system; b) providing support to the prime minister; c) managing the macro- and micro-economic policies of government; and d) managing the overall personnel and professionalisation policies of government. These organisations will be addressed further in subsequent chapters.

dependent on finding the optimum 'fit' between structural variables and variables within the operating environment.¹³ Morgan compared this to organisations acting as complex organisms in a biological sense, seeking to adapt to their environment in a way that allows the highest performance.¹⁴ Morgan's metaphor, as well as being an effective means of understanding contingency theory's basic tenets, also illustrates the foundations for contingency theory within biological studies of general systems. In biology, the primary motivator for the complex cell is survival and growth. However, the first generation of contingency theory failed to adequately explain several key aspects, such as how an organisation moves from a state of fit to one of misfit and why management has incentive to increase contingencies sparking further cyclical fit-misfit-fit development.¹⁵

Neo-contingency theory, formulated by Donaldson, addresses these shortcomings by drawing further on concepts from economics and finance. Donaldson posits that an optimal fit between structural and environmental variables produces a performance level yielding slack resources that are then reinvested in the organisation. This reinvestment in turn increases contingencies (Donaldson uses the examples of increases in personnel or technology systems) and forces the organisation into a state of misfit.¹⁶ Additionally, environmental changes or goal-shifting activities can create states of misfit that then must be readdressed.¹⁷ This essentially posits a cyclical process of performance increase, decline, and readjustment, which has also be criticized for being too reactive in nature.¹⁸

However, emanating from the same tradition of organisational design, advocates of strategic choice have refined the original theoretical discussion

¹³ Ibid.

¹⁴ Morgan, G. (1997) *Images of Organisation* (2nd edition), London: SAGE, pp.33-71

¹⁵ Donaldson, L. (2001) *The Contingency Theory of Organizations*, Thousand Oaks, Cal: Sage, p.246

¹⁶ Ibid, pp.246-269

¹⁷ Ibid.

¹⁸ See McKinley, W. and Mone, M. (2003) 'Micro and Macro Perspectives in Organization Theory: A Tale of Incommensurability,' and Lewin, A.Y. and Volberda, H.W. (2003) 'The Future of Organization Studies: Beyond the Selection-Adaptation Debate,' both in Tsoukas, H. and Knudsen, C. (eds.) *The Oxford Handbook of Organization Theory: Meta-theoretical Perspectives*, Oxford: Oxford University Press.

regarding contingency and environment by illustrating that, “context is a determining factor--perhaps overall the determining factor--designing, shaping, and modifying the structure of any organisation. But within these contextual limits, top management has plenty of leeway left to make its influence felt.”¹⁹ Theorists such as Pugh, Child, and Schreyogg contend that rational strategic choice is an integral component of determining ‘fit,’ which in this case was defined as ‘dynamic’ or active as opposed to the previous implicit focus on reaction.²⁰ Child argues that a simple focus on the environment does not adequately explain, a) the choice of an organisation to enter into an environment, or b) the ability of some organisations to manipulate their environment to gain further advantage.²¹ Indeed, Child states that, “The argument from environment has frequently blurred the distinction between characteristics of the environment as such and their perception and evaluation by those within an organisation,” and adding that the perception of an organisation’s environment by its managers, “may well have other important referents apart from those of a purely economic nature.”²² Schreyogg criticizes the deterministic tradition put forward by classical contingency theorists, stating that this is a very limited perception of organisation-environment interaction and in fact ignores foundational implications of the general systems approach that posits a two-way interaction.²³

This idea of a two-way interaction, and the resulting implication of strategic choice in organisational design, is inherently important for a study of the interagency architecture of intelligence communities. As previously noted, the interagency architecture does not just comprise structures such as interdepartmental committees or bilateral and multilateral relationships, but also central processes designed to manage the direction and resourcing of the intelligence community as a whole. Processes for defining national requirements

¹⁹ Pugh, D.S. (1972) ‘The Measurement of Organizational Structure: Does Context Determine Form?’ *Organizational Dynamics*, 1:4, p.28

²⁰ Pugh, 1972; Child, J. (1972) ‘Organizational Structure, Environment and Performance: The Role of Strategic Choice’ *Sociology*, 6:1, 1-22; Schreyogg, G. (1980) ‘Contingency and Choice in Organisational Theory’ *Organization Studies*, 1:4, pp.305-26.

²¹ Child, 1972, p.4.

²² Child, 1972, pp.4-5

²³ Schreyogg, 1980.

and priorities for an IC or the budgeting and accountancy arrangements which manage the fiscal resources of an IC are inherently about making choices regarding what environmental factors decision-makers most need to address or would like to try and influence through gaining decision advantage. This idea is supported by Cyert and March's idea that the stance that managers take towards the organisation's environment will be indicative of their perception of that environment *in relation to the goals that have been set for the organisation*.²⁴ The design of different regimes for authorising intelligence collection operations also inherently involve choices regarding which environments decision-makers wish to influence, and to what extent.

For instance, the inclusion of Section 16 in the *Canadian Security Intelligence Service Act, 1984* ('the CSIS Act'), which allows the Service to collect foreign intelligence but within Canadian borders was based on the belief of policymakers that there was a need, defined by the global environment, to increase the Canadian government's capacity for the collection of foreign intelligence. However, the decision to stop short of the creation of a dedicated HUMINT organisation for foreign intelligence, in contrast to Australia that had created ASIS, was based on a strategic choice regarding the extent to which Canada should be involved in the foreign intelligence 'market' and the parameters that would define that involvement.²⁵ This decision, as we shall see, was based on policymakers' perceptions of the optimal fit of Canada's IC architecture to a complex environment that included not only economic but also political reference points.

Fields, Legitimacy, and Isomorphism

While contingency theorists and strategic choice theorists appear to disagree on the freedom of choice that managers have (i.e. whether organisations are reactively adapted or actively designed to meet their environments), both perspectives posit a rational response to uncertainty based

²⁴ Cyert, R.M. and March, J.G. (1963) *A Behavioral Theory of the Firm*, Englewood Cliffs, NJ: Prentice Hall, pp.118-120

²⁵ This will be more fully explored in the following chapters.

on the development of an organisational form that provides the most satisfactory level of performance. However an alternative theoretical school within neoinstitutionalism has developed which suggests a significant amount of organisational change is driven by the adoption of institutionalised myths that provide legitimacy as opposed to efficiency.

While traditional institutionalists viewed the growth of formal structures as the manifestation of rational methods of organisation, neoinstitutionalists such as Meyer and Rowan contend that formal structures, “dramatically reflect the myths of their institutional environments instead of the demands of their work activities.²⁶ They suggest that once adopted, formal structures can become institutionalised within their fields. Through institutionalisation, structures are imbued with a *ceremonial* legitimacy that outweighs their relative value to performance. In short, they become accepted as the legitimate way of doing business. Meyer and Rowan state that the myths that perpetuate formal structures have two priorities:

First they are rationalized and impersonal prescriptions that identify various social purposes as technical ones and specify in a rulelike way the appropriate means to pursue these technical purposes rationally. Second, they are highly institutionalized and thus in some measure beyond the discretion of any individual participant or organization. They must, therefore, be taken for granted as legitimate, apart from evaluations of their impact on work outcomes.²⁷

Because of the perpetuation of rationalised institutional norms through environmental socialisation, neoinstitutional theorists argue that organisational options are, in effect, rigged through the institutional promotion of options that are deemed legitimate. These options may not, however, represent performance-maximising structures, and therefore are *rationalised* but not *rational*.

Powell and DiMaggio extended this basic premise in an effort to explain why organisations within a sector often exhibit strong tendencies towards

²⁶ Meyer, J.W. and Rowan, B. (1991) ‘Institutionalized Organisations: Formal Structure as Myth and Ceremony’ in W.W. Powell and P.J. DiMaggio (eds.) *The New Institutionalism in Organizational Analysis*, Chicago: Chicago University Press, p.41

²⁷ *Ibid*, p.44

homogeneity.²⁸ In doing so, they build on the earlier population ecology writing of Hanaan and Freeman, and Hawley, in developing *institutional isomorphism*.²⁹ For Powell and DiMaggio, a key development is the 'structuration' of an organisational field by organisations that see themselves as performing the same functions. They define a 'field' as "organizations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies and other organizations that produce similar services or products."³⁰ The structuration of such a field involves four elements:

1. "An increase in the extent of interaction among organizations in the field;"
2. "The emergence of sharply defined interorganizational structures of domination and patterns of coalition;"
3. "an increase in the information load with which organizations in a field must contend;"
4. "and the development of a mutual awareness among participants in a set of organizations that they are involved in a common enterprise."³¹

The application of these four elements of structuration to the Australian, Canadian and New Zealand ICs strongly indicates the existence of such an 'organisational field.' For instance, bilateral and multilateral interaction between the agencies and departments is quite regular, both on an implicit and explicit level. Multiple liaison officers from the Five Eyes ICs are regularly posted directly to each other's capitals to provide day-to-day interaction. Perhaps the best-known instance of this is the attendance of Five Eyes liaison officers at the first 40 minutes of each weekly Joint Intelligence Committee meeting in London.³² Ongoing cooperation, particularly in the area of SIGINT, has been robustly illustrated by Richelson and Ball, and in the area of counter-intelligence by Wright and Rimington who both wrote of the regular Five Eyes CAZAB

²⁸ Powell, W.J. and DiMaggio, P.J. (1983) 'The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields' *American Sociological Review*, 48:2, p.148

²⁹ See Hannan, M.T. and Freeman, J.H. (1977) 'The Population Ecology of Organizations' *American Sociological Review*, 82:5, 929-64; also Hawley, A. (1968) 'Human Ecology' in D.L. Sills (ed.) *International Encyclopedia of the Social Sciences*, New York: Macmillan.

³⁰ Powell and DiMaggio, 1983, p.148

³¹ Ibid.

³² 'The British Intelligence System' Talk by a former Cabinet Office official, University of Nottingham, Nov 20, 2009.

meetings.³³ Also, it has been stated that heads of agencies within the three governments are more willing to discuss issues existing within their own agencies with their Five Eyes counterparts, not only because of secrecy, but also because of the perception that they do the same job and therefore can discuss common experiences, problems, and solutions.³⁴ Additionally, declassification of expense claim information for senior government officials under transparency policies in Canada indicate regular, usually informal, bilateral and multilateral meetings of key figures involved with intelligence community management from the central agencies. Of particular note are the annual ‘Heads of Intelligence Assessment Meetings’ that are attended by key managers in the all-source assessment organisations as well as intelligence community coordinators from the Five Eyes ICs.³⁵

Powell and DiMaggio state that once a field has been structured, actors are socialised into an understanding of what constitutes ‘appropriate’ or ‘legitimate’ organisational responses to environmental pressures through coercive, mimetic, or normative constraining forces.³⁶ While individual organisations may make initially rational choices regarding an organisational form that is connected to achieving increased performance, the growth of institutions within the organisational field act to constrain subsequent option sets. This isomorphic behavior pushes organisations within a field towards homogeneity by replacing the search for performance-maximising organisational forms with legitimacy-maximising forms.³⁷ In the common understanding of institutional isomorphism, managers are reproducing organisational arrangements not because they have consciously weighed possible performance-based costs and benefits, but, as Powell and DiMaggio argue, “because individuals often cannot conceive of appropriate alternatives (or because they regard as unrealistic the alternatives they can imagine,” and adding to this that,

³³ Richelson, J.T. and Ball, D. (1985) *The Ties that Bind*, Sydney: Allen & Unwin, pp.135-97, 228-38; Wright, P. and Greenglass, P. (1988) *Spycatcher*, Sydney: Heinemann, p.386; Rimmington, S. (2001) *Open Secret*, London: Arrow Books, pp.205-08.

³⁴ Interview with I-1.

³⁵ Proactively disclosed information regarding the travel and expense claims submitted by senior officials in PCO. <http://www.pco-bcp.gc.ca/di/index.asp?lang=eng> (Accessed Dec 2012)

³⁶ Powell and DiMaggio, 1983, pp.52-4

³⁷ Ibid.

“Institutions do not just constrain options: they establish the very criteria by which people discover their preferences.”³⁸

Each of these theoretical perspectives has had significant impact on thinking about organisational development over several decades, yet two significant shortcomings exist. Firstly, as Child has pointed out, the many approaches to explaining organisational change that developed through the 1970s and 1980s meant that the range of theoretical perspectives was artificially diverse and required further efforts to determine if outwardly competing theoretical perspectives could be combined, and, if so, under what conditions.³⁹ Secondly, these theoretical perspectives have their basis predominantly in private sector models, which posit certain dynamics in regard to environment, competition, and rationality. When we apply contingency, strategic choice, and isomorphism theories to public sector organisations in general, and these three ICs in particular, we find several important empirical clarifications that can be made regarding levels of analysis; the environments or fields in which the ICs operate; the existence of competition; and the nature of rationality for the three intelligence communities.

Levels of Analysis

McKinley and Mone have stated that one of the significant differentiations between contingency theory and institutional isomorphism is each theory's level of analysis.⁴⁰ This assertion comes from the idea that contingency theory has predominantly dealt with change in individual organisations, drawing a more direct line between the individual organisation and its 'environment,' which subsumes other organisations. Institutional isomorphism, on the other hand, has focused analysis at the 'field' level, exploring structuration of organisational fields or sectors and the impact this has across multiple organisations.

³⁸ Powell, W.W. and DiMaggio, P.J. (1991) 'Introduction' in W.W. Powell and P.J. DiMaggio (eds.) *The New Institutionalism in Organizational Analysis*, Chicago: Chicago University Press, p.11

³⁹ Child, J. (1997) 'Strategic Choice in the Analysis of Action, Structure, Organizations and Environment: Retrospect and Prospect' *Organization Studies*, 18:43, p.44

⁴⁰ McKinley and Mone, 2003.

However, when we look at the Australian, Canadian, and New Zealand ICs, the separation of levels of analysis blurs significantly. The three ICs, while comprising several different agencies, departments, and sub-units, are themselves organised to resemble large organisations, with cabinet committees and their mirror committees of permanent heads⁴¹ coming to resemble boards of directors and management boards. While each agency or department has a mandate to manage its specialist function(s), there is also articulation of national R&Ps, sector-wide financial management, and sharing of specialist capabilities across mandates. These structures and processes resemble what Lawrence and Lorsch referred to as the means of integrating necessarily differentiated organisational sub-units.⁴² In fact, it is the formation and operation of these overarching structures and processes that shed light on the characteristics of intelligence ‘communities’ as Davies has shown in the case of the US and UK ICs. How these structures and processes have matured, and the drivers for similar or dissimilar evolution, illustrate important characteristics about the communities *as organisations*.

Additionally, if we take each of the ICs as organisations in themselves as the interagency architecture suggests, then the interactions between the three communities, and their interactions with many intelligence allies that come from multilateral alliance structures such as the UKUSA Agreement, allow for the type of field- or environment-level analysis that both contingency and isomorphism theories contend is important. This allows us to explore the extent to which the interagency architecture of the ICs has evolved *as a whole* in response to their national, alliance, and global environments.

The very existence of the interagency architecture in each IC indicates a desire by the three governments to manage their ICs as supra-agency organisations in order to maximise strategic coherence. With this in mind, and given that the general focus of this study is the interagency IC architecture that

⁴¹ The term ‘permanent heads’ is used to generically denote the senior non-political permanent officials who manage departments and agencies. In Canada, these officials are known as Deputy Ministers (DMs); in Australia they are known as Secretaries; in New Zealand they are known as Chief Executives (CEs).

⁴² Lawrence and Lorsch, 1967, pp.12-13

sits above individual agencies or departments, the difference in levels of analysis posited by McKinley and Mone becomes null and void. This becomes more apparent when one more fully explores how each theoretical tradition treats the idea of the 'field' or the 'environment'.

Environments, Fields, and Complexity

As we have seen, contingency theory and the refinements proposed by strategic choice theory as well as institutional isomorphism contend that drivers external to an organisation have significant impact on its architecture. Institutional isomorphism views the impact of institutionalisation within organisational fields as a key driver while contingency and strategic choice theory recognise the importance of environmental dynamics in influencing organisational change. Interestingly, neither institutional isomorphism nor contingency theories recognise much room for managerial choice. Contingency theory posits that organisational change is a rational but largely predetermined cycle in which managers find an optimal 'fit' with their organisation's environment. Institutional isomorphism suggests that institutionalisation within fields delegitimises alternative structural options, progressively limiting the number of options available to managers of individual organisations.

However, the idea of the organisational 'field' cannot exist in a vacuum. Fields themselves are groupings of organisations, of one form or another, within the larger environments that concern contingency theorists. Indeed, the concept of the firm has been one of the maturing elements of neoinstitutional theory.⁴³ Organisational fields are determined to a large extent by the perception of the organisations involved. Powell and DiMaggio stated that a necessary step in the structuration of a field is the perception of the organisations involved that they are in the same business.⁴⁴ Similarly, Lawrence and Lorsch pointed out that an

⁴³ For a discussion of the changing perception of the organisational field, see Wooten, M. and Hoffman, A.J. (2008) 'Organisational Fields: Past, Present and Future' in Greenwood, R. *et al*, (eds.) *The SAGE Handbook of Organisational Institutionalism*, London: SAGE, pp.130-47

⁴⁴ Powell and DiMaggio, 1983, p.148

organisation can only begin to respond to its environment after the organisation answers, implicitly or explicitly, the question of “What business are we in?”⁴⁵

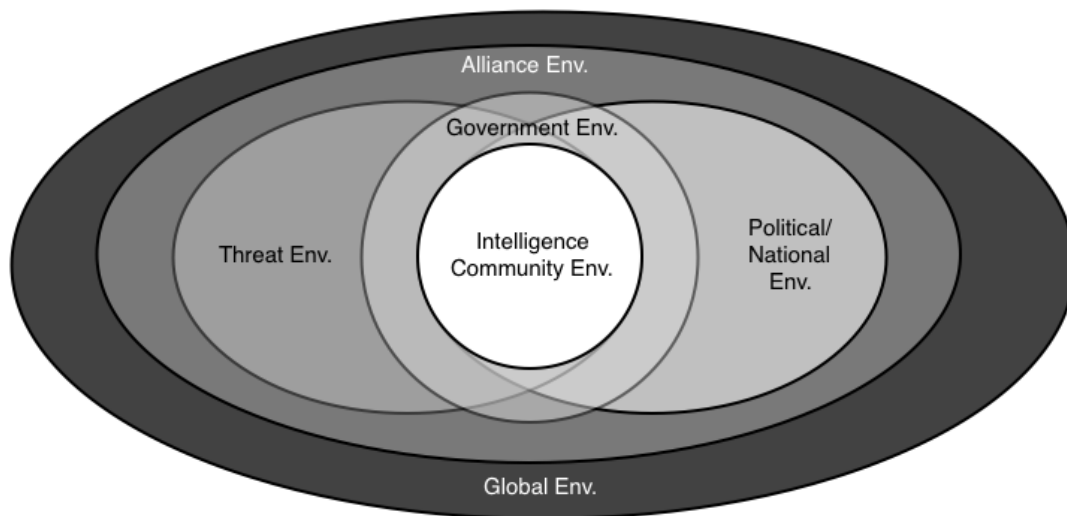
For the Australian, Canadian, and New Zealand ICs, the general answer to this question appears, at the outset, relatively simple: they are in the business of providing intelligence to decision-makers in order to secure and promote the state and its citizenry.⁴⁶ But this simple answer does not correspond to a single organisational environment. There is recognition in the organisational literature that environments can place conflicting demands on organisations.⁴⁷ The traditional ‘measurement’ for environmental complexity has been the heterogeneity of organisations within the environment. In fact, intelligence community managers in all three governments must react to *multiple environments* that each places their own, often contradictory, pressures on the ICs. Figure 0.2.1 broadly illustrates the multiple environments in which these ICs operate. One might ask why it makes sense to treat these as distinct environments. Each of these environments can encompass their own organisational fields or sectors acting as sub-systems. Additionally however, it is necessary to illustrate that interaction between these ‘environments’ is not consistent. While government interacts with the threat environment on a consistent basis because of the state’s responsibility to protect its citizens, the national/political environment’s direct interaction with the threat environment is far less consistent, and limited to instances in which the threat environment has breached the government environment. This in turn changes the perception of each towards the larger global environment. Where citizens see global complexity bringing significant opportunities, intelligence actors see the dark side of the same complexity on a daily basis.

⁴⁵ Lawrence and Lorsch, 1967, p.209

⁴⁶ For a discussion of the legitimacy of secret intelligence in the modern state, see Omand, D. (2010) *Securing the State*, London: Hurst & Company.

⁴⁷ Cannon, A.R., St. John, C.H. (2007) ‘Measuring Environmental Complexity: A Theoretical and Empirical Assessment’ *Organizational Research Methods*, 10:2, pp.296-321.

Figure 0.2.1: The Many Environments of Intelligence Organisations



Interactions between actors at the national and international levels across multiple sectors place simultaneous and often inconsistent pressures on the ICs. Contingency and neoinstitutional theories both recognise that a failure to achieve environmental or institutional ‘fit’ inflicts a cost on an organisation.⁴⁸ However, partly through theoretical necessity, both have tended to treat environmental or institutional changes as occurring on a singular basis. If X environmental or institutional change occurs, an organisation will adjust Y structural variable accordingly. This is a problematic simplification in the case of intelligence communities. Often multiple environmental changes are occurring simultaneously, and may make conflicting demands on the organisation. For instance, consider the dual shocks of the 2008 financial crisis and the Arab Spring. The financial crisis forced governments into fiscal conservatism, which was often accompanied by significant public sector budget cuts. Conversely, the Arab Spring significantly increased the need for intelligence coverage of multiple highly complex crises across the Middle East and North Africa that involved political, economic, military, and proliferation issues simultaneously. Alternatively, strategic issues have, as Kuvaas has stated, uncertain implications, adding that this makes “strategic issues ill-structured and ambiguous, and open

⁴⁸ Volberda, H.W. et al (2012) ‘Contingency Fit, Institutional Fit, and Firm Performance: A Metafit Approach to Organization-Environment Relations’ *Organization Science*, 23:4, pp.1040-54

to multiple interpretations.”⁴⁹ IC managers at the official and political levels must determine how best to approach problems with multiple interpretations and contradictory drivers, devising community strategies that balance the response to both (which in turn involves several choices about resources and priorities).

Strategic choice has drawn a direct linkage with strategic issue diagnosis (SID) as refined by Dutton, illustrating that strategic choice is inherent in managers’ diagnostic approach to strategic issues.⁵⁰ As Child notes, Dutton posits two forms of SID behavior: *automatic* and *active*.⁵¹ Dutton argues that managers who encounter issues that they are more personally connected with, that occur within cognitively familiar contexts, or that occur in particular organisational settings tend to rely to a larger extent on automatic interpretations of the issue, minimising the need for further investment of time and resources.⁵² Conversely, active SID is “intentional and conscious, involving a much greater degree of information search and analysis,”⁵³ in which decision-makers uncover and consider multiple interpretations of the issue at hand and how best to manage it.⁵⁴ Interestingly, Kuvaas’ 2002 study, while supporting the existence of both automatic and active SID, questions whether organisations engaged in active SID actually produce ‘better’ decisions.⁵⁵ Child has correctly drawn a link between automatic SID behavior and Powell and DiMaggio’s institutional isomorphism, which essentially sets up the sociological structuration that can lead to automatic SID behavior.⁵⁶ Later research posited that automatic SID was characterised by the classification of issues within a relatively simple *threat-opportunity* framework.⁵⁷ Alternatively, active SID was characterised by the examination of a strategic issue through a *feasibility-urgency* framework, in which managers

⁴⁹ Kuvaas, B. (2002) ‘An Exploration of Two Competing Perspectives on Informational Contexts in Top Management Strategic Issue Interpretation’ *Journal of Management Studies*, 39:7, pp.979

⁵⁰ *Ibid*, pp.50-1

⁵¹ *Ibid*, pp.50-52, and Dutton, J.E. (1993) ‘Interpretations of Automatic: A Different View of Strategic Issue Diagnosis’ *Journal of Management Studies*, 30:3, pp.339-57

⁵² Dutton, 1993, pp.342-49

⁵³ *Ibid*, p.342

⁵⁴ *Ibid*.

⁵⁵ Kuvaas, 2002.

⁵⁶ Child, 1997, p.51

⁵⁷ Julian, S.C. and Ofori-Dankwa, J.C. (2008) ‘Toward and Integrative Cartography of Two Strategic Issue Diagnosis Frameworks’ *Strategic Management Journal*, 29:1, pp.95-96

studied their ability to act in light of an issue's importance.⁵⁸ However, Julian and Ofori-Dankwa's 2008 study argued that the traditional focus on automatic threat-opportunity diagnosis was not as strongly supported as a model that integrated active forms of diagnosis as well. Hence, they proposed an integrated model that focuses on favorability (the response to an issue leading to gain), urgency (importance of the issue), and influence (the resources available to the organisation to respond), termed the 'FUI framework.'⁵⁹ The empirical support for this integrated FUI framework illustrates that decision-makers do not simply adopt the institutionalised response to strategic issues, but also incorporate active thinking about what aspects of particular solutions can serve their organisation best, and what aspects should be deleted based on criteria specific to their context.

Strategic choice perspectives have argued that organisational design incorporates a dynamic relationship between the organisation and its environment, in which one influences the other and *vice versa*.⁶⁰ Neergard's concept of 'bridging,'⁶¹ in which managers attempt to influence their environments through negotiation and reciprocity, supports the idea of 'core executive' interdependencies which have been applied to Westminster systems in recent studies.⁶² If one considers the composition of the interdepartmental committees that act as management boards for the ICs in question, one finds not only managers from the intelligence agencies but also the policy departments and central agencies. Overlapping attendance both vertically and horizontally between these structures provides further interaction between the principal intelligence actors and the wider circle of government stakeholders concerned with the health of the IC.⁶³ The structures and processes for managing the three ICs have progressively developed to allow for this the type of dynamic

⁵⁸ Ibid.

⁵⁹ Julian and Ofori-Dankwa, 2008, pp.110-12

⁶⁰ Child, 1997, pp.56-61

⁶¹ Neergaard, P. (1992) 'Environment, Strategy, and Management Accounting,' *Proceedings of the Second European Symposium on Information Systems*, Versailles: HEC.

⁶² Smith, M.J. (2010) 'Intelligence and the Core Executive' *Public Policy and Administration*, 24:1, pp.11-28; Brunatti, A.D. (2013) 'The Architecture of Community: Intelligence Community Management in Australia, Canada, and New Zealand' *Public Policy and Administration*, 28:2, pp.119-143.

⁶³ These committee systems will be explored further in subsequent chapters.

interaction between multiple types of actors and their respective environments, thus opening up room for the type of strategic choice behavior posited by Child and others. However, the methods through which these strategic choices are made must be further examined.

Competition or Cooperation?

Beckert has noted that Powell and DiMaggio's original interpretation of institutional isomorphism tried to steer away from the concept of competition in order to provide an alternative to *market* competition-based models.⁶⁴ Indeed, Powell and DiMaggio posited that *institutional* competition, or competition for legitimacy, was more a driver for organisational homogeneity than market competition.⁶⁵ This said, Beckert's own research illustrates that the debate over the role of competitive forces is still very active by reintroducing the idea of market-driven competition in isomorphic behavior.⁶⁶ Similarly, as Klaas discusses, the origins of contingency theory in open systems analysis inherently suggests competition for environmental resources in order to maintain organisational 'viability.'⁶⁷ Donaldson's work on neo-contingency theory supports Klaas by observing that a higher number of competitors increase the environmental complexity and risk to an organisation.⁶⁸ Interestingly, Donaldson expands on this by identifying the quality of an organisation's competitors as another risk to an organisation's fit; if competitors adapt faster or more inventively, then an organisation will move into misfit, lose productivity, and hence resources.⁶⁹

It is clear that the concept of competition still plays a role in both institutional isomorphism and contingency theory. In fact, the pervasive assumption of competition between organisations is apparent not through what is addressed in each theoretical model, but through what is *not* addressed: active

⁶⁴ Beckert, J. (2010) 'Institutional Isomorphism Revisited: Convergence and Divergence in Institutional Change' *Sociological Theory*, 28:2, p.153

⁶⁵ Powell and DiMaggio, 1983, pp.153-54

⁶⁶ *Ibid*, pp.160-62

⁶⁷ Klaas, P. (2004) 'Towards a Concept of Dynamic Fit in Contingency Theory' *Proceedings of the 22nd Annual Conference of the System Dynamics Society*, p.3

⁶⁸ Donaldson, 2001, p.253

⁶⁹ *Ibid*.

cooperation between organisations. Even institutional isomorphism, which, as stated previously, analyses organisations as parts of sectoral fields rather than individually, approaches horizontal interaction between organisations through the lens of 'normative isomorphism,' emphasising passive interaction through professional associations and social groupings thus leaving the basic assumption of formal competition intact. The inherent assumption within both theoretical models is that organisations compete with each other for market resources, and that the adoption of similar organisational forms or the pursuit of certain markets is meant to best the competition and therefore serve the interests of the organisation as a singular entity.

The inherent assumption of competition within both neoinstitutional and contingency theory frameworks does not hold water when applied to the Australian, Canadian, and New Zealand intelligence communities. Instead, one finds quite the opposite: cooperative burden-sharing. Each of the three states are tied into a series of multilateral treaties which connect them to each other and to larger partners such as the US and UK. Canada's involvement in the North Atlantic Treaty Organization (NATO) and the North American Aerospace Defence Command (NORAD) forms the basis for its defence posture, as does the Australia, New Zealand, United States Security Treaty (ANZUS) and South East Asia Treaty Organization (SEATO) for Australia and New Zealand.

The most applicable of these treaties to intelligence is, of course, the UKUSA Agreement. As Bryden and, more recently, Jensen have illustrated in the case of Canada, there was ongoing consultation between the US, UK, and Canadian governments during the Second World War regarding where Canada's limited SIGINT and cryptographic capabilities could be best applied.⁷⁰ Examination of the allied code-breaking effort against Japan has identified similar trends regarding Australian and New Zealand intelligence capabilities during the

⁷⁰ Bryden, J. (1993) *Best-Kept Secret: Canadian Secret Intelligence in the Second World War*, Toronto: Lester Publishing; Jensen, K. (2008) *Cautious Beginnings: Canadian Foreign Intelligence, 1939-1951*, Vancouver: UBC Press.

Second World War.⁷¹ Australian and New Zealand personnel comprised a large contingent of the Central Bureau, which was the central multilateral cryptographic unit, and Fleet Radio Unit Melbourne (FRUMEL), both operated under General McArthur's Pacific command.⁷² Declassified Australian records show that Canada had approved deployment of approximately 280 service personnel of the Canadian Special Wireless Group to relieve No.51 Australian Wireless Section attached to the Central Bureau in Brisbane to assist in interception and cryptographic efforts in the Pacific war effort.⁷³

The UKUSA Agreement solidified this burden-sharing behavior in the post-war environment. SIGINT collection sites run by Canada, Australia, and New Zealand produce intelligence for national needs and contribute part of that intelligence 'take' to the collective Five Eyes effort. An excellent description of this collaborative dynamic is provided by Cox:

Each Five Eyes partner collects information over a specific area of the globe in accordance with their national priorities, but their collection and analysis activities are orchestrated to the point that they essentially act as one. Precise assignments are not publicly known, but research indicates that Australia monitors South and East Asia emissions. New Zealand covers the South Pacific and Southeast Asia. The UK devotes attention to Europe and Western Russia, while the US monitors the Caribbean, China, Russia, the Middle East and Africa.⁷⁴

In addition to these geographic divides, Cox adds that Canada's northern position, and particularly its SIGINT collection station at Alert at the northernmost point of the country, had great advantage in collecting Russian and Chinese traffic, in part because major Russian naval and air defence facilities were located directly across the north pole.⁷⁵

Cooperation based on common trust and a desire to burden-share extends

⁷¹ Smith, M. (2000) *The Emperor's Codes: The Breaking of Japan's Secret Ciphers*, New York: Arcade Publishing.

⁷² See Smith, 2000; Hager, N. (1996) *Secret Power*, Nelson, NZ: Craig Potton, pp.276-79; Pfennigwerth, I. (2006) *A Man of Intelligence: The Life of Captain Eric Nave, Australian Codebreaker Extraordinary*, Kenthurst, NSW: Rosenberg Publishing.

⁷³ 'Australian Military Forces - Canadian Special W/T [wireless telegraphy] Section - Type A,' NAA: A6923, 16/6/502.

⁷⁴ Cox, J. (2012) *Canada and the Five Eyes Intelligence Community*, Strategic Studies Working Group Papers, Canadian Defence & Foreign Affairs Institute/Canadian International Council, p.6

⁷⁵ Ibid, and Rudner, M. (2001) 'Canada's Communications Security Establishment from Cold War to Globalization' *Intelligence & National Security*, 16:1, 97-128

beyond SIGINT. In geospatial intelligence (GEOINT) and imagery intelligence (IMINT), there is a similar collective approach. The Allied System for Geospatial Intelligence (ASG) is an umbrella network of committees and programmes used to manage the Five Eyes geospatial intelligence effort, building on previous cooperation in areas such as IMINT.⁷⁶ Vice Admiral Robert Murrett, while director of the US National Geospatial Intelligence Agency (NGA), characterised the spirit of the ASG effort stating that, “by working in close coordination with all our international partners, we reduce redundancies, we share the burden of data collection, we leverage regional expertise and ultimately we improve our efficiency and effectiveness in achieving our mission.”⁷⁷ Much as in SIGINT, cooperation in GEOINT, IMINT, and other intelligence disciplines is based on the idea that no single state can gain complete intelligence coverage of its national requirements. The solution is a collaborative effort amongst trusted allies, based on comparative advantage, which multiplies the reach of each national intelligence enterprise.

Contrary to conclusions advocated by writers like Hager,⁷⁸ the cooperation between the Five Eyes intelligence communities can often be characterised by bargaining and trading as opposed to coercion. Michael Herman explains that, “the terms of trade—in information exchanged, manpower provided, analytic assistance, the provision of equipment or occasionally money—depend on who feels the greatest need,” adding that “small powers with significant assets can bargain effectively with big ones who need them badly.”⁷⁹ The larger UK and US partners benefit from having trusted allies who can provide in-theatre or niche support. For example, during the 1982 Falklands War, New Zealand’s GCSB supported British efforts to retake the islands by providing SIGINT coverage of

⁷⁶ Joint Chiefs of Staff (2012) *Joint Publication 2-03: Geospatial Intelligence in Joint Operations*, US Department of Defense: Defence Technical Information Centre, http://www.dtic.mil/doctrine/new_pubs/jp2_03.pdf (Accessed Dec 212), p.II-10; Secretary of the Air Force (2012), *Air Force Instruction 14-132: Geospatial Intelligence (GEOINT)*, US Department of the Air Force, <http://www.fas.org/irp/doddir/usaf/afi14-132.pdf> (Accessed Dec 2012.)

⁷⁷ Murrett, R.B. (2009) ‘Uniting the Global GEOINT Community’ *Pathfinder*, 7:2, http://space-library.com/0903&04NGA_Pathfinder.pdf (Accessed Dec 2012).

⁷⁸ Hager, 1996.

⁷⁹ Herman, M. (1996) *Intelligence Power in Peace and War*, Cambridge: Cambridge University Press, p.209

Argentine military forces, filling gaps in the UK's own intelligence coverage.⁸⁰ Similarly, when the US embassy was closed in Chile in 1971 due to tensions between Washington and the Allende government, thus forcing the closure of the CIA station in Santiago, Australian ASIS officers took over running three CIA HUMINT sources in Chile to ensure they remained operational.⁸¹ Canada greatly assisted the US and UK in the 'embassy collection' programme, running SIGINT collection out of Canadian embassies in several capitals at the request of the US in order to try and plug gaps in military, political and economic intelligence coverage.⁸²

In return for these efforts, the smaller UKUSA partners can draw from a significantly larger pool of intelligence product to support their own national requirements. Additionally, they have privileged access to products from technical systems that they otherwise could not afford to produce indigenously, such as US SIGINT and reconnaissance satellites. John Adams, the former Chief of the Communications Security Establishment Canada (CSEC), stated in parliamentary evidence:

These relationships, particularly with the US National Security Agency, give Canada access to intelligence and technologies it would not normally have and for which it would be prohibitively expensive to generate on its own. These relationships, like all CSE activities, support Canadian priorities...⁸³

The Five Eyes network has also provided a valuable defensive redundancy, with members alerting each other to threats in each other's jurisdictions that have gone undetected. For instance, the provision of US VENONA intelligence to Australia in the early Cold War alerted Australian authorities to Soviet spy networks operating in the Pacific state that had gone undetected.⁸⁴ More recently, FBI counterintelligence agents were responsible for notifying their Canadian

⁸⁰ Hager, 1996, pp.81-82; Richelson and Ball, 1995, p.77

⁸¹ Toohey, B. and Pinwill, W. (1990) *Oyster: The Story of the Australian Secret Intelligence Service*, Melbourne: Mandarin, p.135

⁸² Frost, M. and Gratton, M. (1994) *Spyworld: Inside the Canadian and American Intelligence Establishments*, Toronto: Doubleday, pp.45-76,

⁸³ Adams, J. (April 30, 2007) Evidence to the Standing Senate Committee on National Security and Defence, Issue 15, First Session, 39th Parliament.

⁸⁴ On the VENONA programme, see Ball, D. and Horner, D. (1998) *Breaking the Codes: Australia's KGB Network, 1944-1950*, Sydney: Allen & Unwin.

counterparts that a Canadian naval intelligence officer, Jeffrey Paul Delisle, was believed to be selling Five Eyes secrets to Russian intelligence. The resulting Canadian investigation uncovered that Delisle had been selling secrets undetected for five years.⁸⁵

Finally, the multilateral and trade-based nature of the Five Eyes network has benefitted the smaller parties by making coercive behavior on the part of larger partners a difficult and possibly expensive proposition. Perhaps the best-known example of this dynamic at work is the ANZUS crisis of 1985. The Lange government's decision not to allow nuclear-capable ships to dock in New Zealand's ports greatly angered the United States, who feared that the move would undermine the allied defence posture in the Pacific. In retaliation, the US significantly restricted military and intelligence cooperation with New Zealand. In regard to intelligence, while New Zealand was still considered a party to the UKUSA Agreement, the US stopped passing several types of intelligence to their New Zealand counterparts and restricted the passage of US material to New Zealand through other partners.⁸⁶ However, New Zealand's commonwealth allies were quick to lobby on its behalf, and to ensure that the US restrictions were not crippling. Gerald Hensley, the former Secretary of New Zealand's Department of Prime Minister and Cabinet (NZDPMC), recounts that Sir Antony Duff, Britain's Intelligence Coordinator, flew to Washington in order to lobby New Zealand's case and "Mrs Thatcher herself had stressed to President Reagan the importance of maintaining New Zealand's intelligence flow."⁸⁷ Newly released Australian cabinet documents show that, while not in agreement with New Zealand's policies and careful not to jeopardise their own alliance relationship with Washington, Australia was quick to reaffirm intelligence cooperation with New Zealand and to indicate to the US that Australia-New Zealand cooperation would

⁸⁵ MacCharles, T. and Champion-Smith, B. (2012) 'Russia Used Canadian Spy to Obtain US Secrets, Newly Released Documents Say' *Toronto Star* (Online) <http://www.thestar.com/news/canada/politics/article/1295120--crown-agrees-to-release-navy-spy-case-warrants> (Accessed Dec 2012).

⁸⁶ The nature of the restrictions was alluded to by Hager, 1996, pp.23-25. This was confirmed by leaked US State Department documents, particularly: Memorandum from US Embassy in Wellington (January 6, 2010) 'Corrected Copy—Scenesetter for Secretary Clinton's New Zealand Visit' <http://wikileaks.org/cable/2010/01/10WELLINGTON3.html> (Accessed Dec 2012.)

⁸⁷ Hensley, G. (2006) *Final Approaches: A Memoir*, Auckland: Auckland University Press, p.282

continue regardless of US actions. One memorandum to cabinet stated, “Within the constraints imposed by the United States decision, it is in our interest that New Zealand’s isolation from the broader Western intelligence community be minimised and that our bilateral relationship with New Zealand not be severely inhibited by the United States restrictions.”⁸⁸ An earlier decision by the Cabinet Committee on Security specifically on intelligence-related dimensions of the breakdown reinforced this view by stating that, within long-standing rules regarding intelligence-sharing, Australia would continue sharing Australian intelligence product with New Zealand.⁸⁹ In the case of the ANZUS crisis of 1985, New Zealand was able to leverage the multilateral nature of the alliance through its membership in the ‘commonwealth club’ that composes a majority sub-set of the UKUSA alliance to mitigate the effects of the US restrictions.

Similarly, as indicated by Michael Herman, the bargaining and trade inherent in the alliance can level the playing field between large and small actors, increasing the cost of coercive behavior. In 1973, the Nixon administration became frustrated with the Heath government’s approach to the Anglo-American relationship, which could be characterised as *laissez faire* at best and, at worst, increasingly skeptical. Kissinger and Nixon responded by restricting the flow of US intelligence to Britain. However, the British government responded by restricting US U-2 and SR-71 reconnaissance flights out of UK airbases during the 1973 Yom Kippur War at a time when the US need for overhead imagery of the Middle East was very acute. This strongly indicated that there would be a price for attempted coercion, and the ‘special relationship’ eventually resumed its normal tone.

As these episodes show, the Five Eyes relationship is far from consistently smooth and still rests squarely on a foundation of national self-interest. This said, the underlying driver for the member states is mutual benefit derived through cooperation and burden-sharing. In short, the Five Eyes network represents the manifestation of neoliberal institutionalism in western intelligence. While each

⁸⁸ Cabinet Minute, (March 28, 1985), ‘Cabinet Submission 2635-ANZUS-Arrangements for Handling Relations with the USA and New Zealand-Decision 5164’ NAA: A14039/2635.

⁸⁹ Cabinet Minute (February 26, 1985) ‘Cabinet Memorandum 2161-United States Action Against New Zealand on Intelligence-Decision 5164’, NAA: A14039/2635.

state is committed to their own national interests, they all accept that these interests can be better served through cooperation rather than competition. Unlike the passive inter-organisational interaction and environmental competition implied by institutional isomorphism and contingency theory, the alliance environment in which Australia, Canada, and New Zealand operate *promotes* cooperation and inter-organisational learning. The ICs are encouraged within this context of like-minded and highly trusted ICs to draw lessons from each other regarding both policies and organisational form. Richard Rose has explored 'lesson-drawing' in public policy and identified that it can take several forms.⁹⁰ Rose identifies five processes of lesson-drawing: copying; adaptation; hybridization; synthesis; and inspiration.⁹¹ While Rose's focus was on policy, these concepts can be equally tied to drawing lessons about organisation. While 'copying' in lesson-drawing is most similar to mimetic isomorphism, it is important to note that the majority of Rose's typology consists of lesson-drawing behavior that is in some way tempered by a decision-maker's choice regarding what is feasible or desirable in their own context and what is not.

Based on the preceding analysis, we are left with the hypothesis that, given an environment defined by high trust, cooperation, and burden-sharing rather than competition, institutionalised solutions to organisational problems are not based simply on passive socialisation but on active collective diagnosis.

Rationality, Efficiency, and Legitimacy

Lastly, the competing theoretical perspectives regarding what organisations perceive as 'rational' responses to organisational questions requires further examination. In this instance, the key question is: what is the goal of organisational change? While contingency theorists argue that organisations seek the ultimate rational goal of *efficiency*, neoinstitutionalists have predominantly argued that organisations seek *legitimacy*, which is rationalised but not

⁹⁰ See Rose, R. (1993) *Lesson-Drawing in Public Policy: A Guide to Learning Across Time and Space*, Chatham NJ: Chatham House Publishers.

⁹¹ *Ibid*, p.30

necessarily rational.⁹²

In the context of the Australian, Canadian, and New Zealand ICs, this split between the 'rational' search for efficiency and the 'irrational' search for legitimacy is problematic for two reasons: one is a domestic reason, and the other an alliance reason. Firstly, the idea of contingency theorists that efficiency of production is rationale, and the pursuit of institutional legitimacy is irrational is a very private sector concept. Paul Thomas, writing in 1996 in response to the New Public Management trend, has noted that the common perception that the public sector is less efficient than the private sector and is therefore less effective should be challenged. Thomas noted that, "there is more of a challenge for the public manager than for his private-sector counterpart to balance the conduct of external political relations with numerous outside actors and institutions while still paying sufficient attention to internal management functions."⁹³ Thomas noted that the political nature of the public sector inevitably complicated the environment for public sector organisations; the private sector did not have to maintain democratic legitimacy.⁹⁴ This is an important point *especially* for intelligence organisations given their sensitive nature. Losing legitimacy in the political or national environments can be just as disastrous for intelligence agencies as losing operational capability; just ask the RCMP Security Service, which gradually lost public and political legitimacy until finally it was disbanded in the early 1980s. In fact, it could be argued that more intelligence organisations have met their end because they lost legitimacy than because they were inefficient. Given this, maintaining democratic accountability and legitimacy is an inherently rational pursuit for ICs.

Secondly, all three ICs are in fact *net intelligence importers*. This phrase has been used predominantly in the Canadian context to illustrate that the amount of intelligence Canada can produce through its national capability is smaller than the amount of intelligence it imports from its allies. Margaret Bloodworth, a

⁹² Wooten and Hoffman, 2008, p.132

⁹³ Thomas, P.G. (1996) 'Beyond the Buzzwords: Coping with Change in the Public Sector' *International Review of Administrative Sciences*, 62:1, p.13.

⁹⁴ *Ibid.*

former Canadian National Security Advisor, has stated that Canada “must contribute in order to receive, and this is all the more important given that we are a net importer of intelligence. If we were to try and replicate the benefits of these relationships within our own resources, it would cost tens, if not hundreds of millions of dollars.”⁹⁵ While the concept of a net intelligence importer has been used mostly in the Canadian context, it is just as applicable to Australia and New Zealand. This changes the calculation regarding legitimacy as a rational pursuit. In the previously examined organisational theories, an organisation’s ability to produce was directly linked to its own efficiency. However, for these three ICs as net intelligence importers, their ability to produce is directly linked to legitimacy within the Five Eyes network. The former Director of the Canadian Security Intelligence Service (CSIS), Jim Judd, has stated that, “Canada is very much a net importer of intelligence. *Thus, the collaboration of foreign partners is critical to our capacity to discharge our responsibilities*”(italics added).⁹⁶ As previously shown, access to the larger Five Eyes allies is a ‘force multiplier’, or more accurately in this case a ‘production multiplier’ for the smaller partners, and is gained in part by maintaining institutional legitimacy. Interestingly, Powell and DiMaggio recognise, albeit briefly, the potential of this dynamic:

*[...]we must account for the income-producing effects of legitimacy rather than simply looking at the cost side: it may be highly efficient for a school district to spend a million dollars on ceremonial activities if the resulting legitimacy induces voters to endorse a \$15 million bond issue.*⁹⁷

Because these ICs are net importers instead of net producers, maintaining legitimacy within the Five Eyes network is a rational pursuit because it ensures their ability to produce intelligence products above what would otherwise be possible using their own resources. This means that IC managers must balance between organisational forms that are sensible and efficient within their own national contexts and those that offer interoperability and legitimacy within their

⁹⁵ Bloodworth, M. (March 26, 2007) Evidence to the Standing Senate Committee on National Security and Defence, Issue No. 13, First Session, 39th Parliament.

⁹⁶ Judd, J. (September 28, 2006) ‘Transparency and Intelligence: Notes for Remarks at the Royal Canadian Military Institute (RCMI)’ Speech by the CSIS Director, Royal Canadian Military Institute, Toronto ON. <http://www.csis-scrs.gc.ca/nwsrm/spchs/spch28092006-eng.asp> (Accessed Dec 2012.)

⁹⁷ Powell and DiMaggio, 1991, p.33

alliance contexts, both of which are rational pursuits.

For the three ICs in question, then, the principle goal of organisational design is the pursuit of both operational effectiveness and legitimacy simultaneously. The imperative for those in the core executive is to balance a multitude of operational and institutional demands, many of which may be conflicting. This is the essence of coherence across the national intelligence effort, and it is what the interdepartmental architecture is supposed to enable. With this concept of coherence as the ultimate goal, we can now go on to examine the evolution of both the structures and systems of IC governance. To what extent do these structures and systems allow the core executive to strike the necessary balances and achieve coherence? How do they evolve to take into account environmental shifts driven by either operational considerations, or institutional ones? In short, how well have they organised for coherence?

Part 1

Structures of Intelligence Community Governance: Interdepartmental Committees, Networks, and the Central Coordinating Agencies

Governments, like other large organisations, are prone to fragmentation. This fragmentation is a natural outcome of numerous organisations and actors, all with their own resources, capabilities, and mandates. Martin Smith discussed this tendency towards fragmentation in his analysis of the core executive in the British Westminster system. Smith ultimately posited that there is resource interdependency amongst actors, and that the 'core executive' at the centre of government is where resource exchanges are negotiated between them. R.A.W Rhodes defined the core executive as:

...all those organisations and procedures which coordinate central government policies, and act as final arbiters of conflict between different parts of the government machine. In brief, the 'core executive' is the heart of the machine, covering the complex web of institutions, networks and practices surrounding the prime minister, cabinet, cabinet committees and their official counterparts, less formalised ministerial 'clubs' or meetings, bilateral negotiations and interdepartmental committees. It also includes coordinating departments...¹

In short, the core executive is the machinery of coordination at the executive levels of government. The model was born out of the perceived shortcomings of the traditional Westminster model, which tended to focus exclusively on formal relationships.² It should be noted however that these shortcomings were not inherent in the Westminster model itself, but in the depth of past analysis that had failed to systematically recognise the importance of informal networks supporting formal Westminster conventions. This flawed focus occurred even in the face of senior practitioners pointing out the importance of the more subtle linkages and ad hoc structures underlying formal machinery. For instance, one Canadian deputy minister has stated, "The informal network should not be sneezed at as the old boys' network; it is the arterial system, it is the heart and

¹ Rhodes, R.A.W. (1995) 'From Prime Ministerial Power to Core Executive' in R.A.W Rhodes and Patrick Dunleavy (eds.) *Prime Minister, Cabinet and Core Executive*, London: MacMillan Press, p.12.

² Smith, M. J. (1999) *The Core Executive in Britain*, London: Macmillan Press, pp.9-15

blood of the system, and it is what makes the system work.” To really understand how intelligence communities function, one must understand the interconnections within the core executive as they pertain to intelligence agencies, their parent departments, central agencies, and cabinet ministers.

The idea of the core executive rests on several important principles. The first of these is that power is not found in a single office or handful of offices in government, but is possessed by all actors.³ Directly linked to this (but not synonymous) is that all actors possess ‘resources’ that are the foundation of their power.⁴ Resources are any number of things that can be used by actors or organisations to achieve goals: information, authority, money, legal control, time, access, or people, to name a few. At an operational level, the resources of a single department are designed to meet specific tasks that fall within the remit of that department. For instance, to take an example that is not intelligence-related, the administration of taxes in Canada is the responsibility of the Canada Revenue Agency, and the Canada Revenue Agency’s mandate and resources are tailored towards that administrative goal. This level of specialisation is necessary to master the complexities of specific tasks and was identified as a natural element of bureaucratic structures by Weber’s early writing on organisations.

While some actors may possess more resources overall, or more resources of a particular nature, no one actor has a monopoly on resources.⁵ At a strategic level, a growing number of issues facing society transcend clean vertical lines of responsibility. These issues are interdepartmental in nature and require the collective, coordinated action of multiple actors to reach an optimal outcome. To continue with the same analogy, while the Canada Revenue Agency can administer Canada’s tax system, Canada’s tax system itself is defined by the government’s overall economic policy, the formulation of which relies on the knowledge and skill of officials in the Department of Finance. Given this, a

³ Smith, 1999, Ch.2

⁴ Ibid, pp.1, 31-32. Smith states that resources include any element that can be marshalled by an actor to ‘provide the potential for achieving goals.’ Smith explains that resources are not synonymous with power because resource-rich actors may still have no intent to act, or may be blocked by formal limitations.

⁵ Ibid, p.1

successful revenue policy is dependent on cooperation between the Canada Revenue Agency and the Department of Finance (and several other actors). Given the nature of these issues, resources must be exchanged between different actors in order to achieve national goals that transcend the boundaries of individual organisations.⁶ This creates a web of interdependence between actors that is fluid, but ever-present. Framing these resource exchanges are *structures* (limits to action), *agency* (intent to take action), and *context* (historical and external factors which impact action).⁷

Finally, and importantly, Smith states that in the core executive, the diffusion of resources and responsibilities across all actors makes coordination not only extremely important, but also extremely difficult:

*...policy-making occurs in 'chimneys', with departments having an interest in maintaining control over their policies. Consequently, the core executive has a tendency to fragment.*⁸

This fragmentation occurs when there are not the central processes and structures in place to ensure actors consistently engage in collective policymaking. This fragmentation or lack of coherence, in its extreme, has been referred to as the 'hollow crown.'⁹

The requirement to exchange resources is just as important, and arguably more so, in intelligence communities where organisations are separated both by operational necessity and by democratic design. From an operational perspective, agencies are separated in order to allow for comparative advantages to be exploited. Individual collection agencies have comparative advantage in particular intelligence collection disciplines requiring specialised knowledge and skills, such as HUMINT, SIGINT, or IMINT, while analytic organisations often have comparative advantages in specific subject matters (weapons systems, foreign governments, economic systems, terrorist organisations, etc.)

⁶ Ibid, p.35

⁷ Ibid, pp.30-35

⁸ Smith, 1999, p.144

⁹ Weller, P. and Bakvis, H. (1997) 'The Hollow Crown: Coherence and Capacity in Central Government' in Weller, Bakvis, and Rhodes (eds.) *The Hollow Crown: Countervailing Trends in Core Executives*, London: Macmillan Press, pp.1-15.

Intelligence organisations, particularly collection agencies, have also been separated, in part, to guard against any one agency having a monopoly on intrusive powers and sensitive information.

As Smith pointed out, with this separation inevitably comes the risk of fragmentation. Yet, the most effective use of these expensive capabilities is achieved through the coordinated merger of their specialist resources on questions that are of importance to national decision-makers. As noted in Chapter 1, several significant intelligence reviews have already pointed to the importance of ‘whole-of-government’ coordination in the national intelligence effort to ensure efficiency and effectiveness. When decision-makers are trying to determine how much intelligence capability the government needs, in what form, through which means, and directed at what targets of national importance, the specialist knowledge of many actors must be brought to bear in a coordinated way to identify and weigh options. For instance, the formal and informal machinery at the executive level is the key arena for expenditure decisions on intelligence, as will be discussed in Part 3, and decisions on intelligence requirements and priorities, as will be discussed in Part 2.

Interdepartmental coordination comes at a price, however. In economics, the costs of interdepartmental coordination are often described as ‘transaction costs’ and ‘opportunity costs.’ Opportunity costs represent the forgone benefit of an option not taken. For instance, an hour spent in an interdepartmental meeting is an hour not spent by the attendees administering their own departmental programmes. Transaction costs are the inherent costs incurred in the exchange of resources between organisations. For instance, the process for defining and implementing national intelligence priorities involves several interdepartmental meetings, the drafting and reviewing of agreed documents, and the effort to ensure that departments were following through on their responsibilities. All these efforts take resources away from participating departments.

In summary, as Smith pointed out, government departments are capable of acting independently, but are *ultimately* interdependent. The extent to which

the different actors and organisations recognise their interdependence, and are able to build on it, is a key characteristic that can define management approaches.¹⁰ Ultimately, coordination can mean slower progress but more concrete outcomes; striking the right balance is an important effort in itself, and is very dependent on the machinery of the core executive. In Australia, New Zealand, and Canada, strategic-level coordination of the national intelligence effort centres on the following:

- Certain cabinet ministers, specifically the prime minister and those ministers with intelligence-related responsibilities;
- The groupings of officials and advisors that support these cabinet ministers;
- The formal and ad hoc structures that bring these ministers, officials, and advisors together on intelligence matters.

Equally important, and equally misunderstood, are the central agencies responsible for policy coordination, which support cabinet and the prime minister. These agencies are listed in Figure 1.0.1 as they relate to each of the governments being examined.

| Figure 1.0.1 Central Agencies for Policy Coordination | | |
|---|---|---|
| Country | Central Agency | Deputy Head |
| Australia | Department of Prime Minister and Cabinet (DPMC) | Secretary of the DPMC |
| New Zealand | New Zealand Department of Prime Minister and Cabinet (NZDPMC) | Chief Executive of the NZDPMC |
| Canada | Privy Council Office (PCO) | Clerk of the Privy Council and Secretary to the Cabinet |

The central coordinating agencies are principally responsible for arranging and managing the machinery of coordination at the very highest levels of government and for providing non-partisan advice to the prime minister. While this denotes at least a dual role, it should be noted that the advisory role of the central coordinating agency is still anchored in the prime minister's overall

¹⁰ Davies, 2012, Volumes 1 and 2.

responsibility to coordinate and prioritise government policy; a power that is traditionally derived from the prime minister's role as the chair of cabinet.

The evolution and design of the intelligence-related machinery within the core executive is important for several reasons. Firstly, this machinery brings together the ICs at the *national* level. While some have pointed to particular line departments as coordinating bodies, such as the Canadian Department of Public Safety or the Australian Attorney General's Department (AGD), there are important intelligence organisations that do not fall in the remit of these departments. Additionally, the power of portfolio ministers, such as the Minister of Public Safety or the Attorney General, to coordinate outside of their portfolios is very much dependent on the mandate they receive from the prime minister and cabinet.

Secondly, this machinery represents the ultimate arena for decision-making at the level of cabinet ministers and deputy heads. The formal or ad hoc cabinet committees and committees of deputy heads are where the big issues of intelligence policy are debated and decided: Who will do what? How much money will they get or have to give up? What initiatives should be pursued? What types of activities will the IC engage in on behalf of the country? The design and operation of these structures can tell us much about how these governments view intelligence as a function of the state, and how they have approached the coordination of intelligence activities.

Thirdly, while particular ministers are responsible for elements of the national intelligence communities, the Westminster tradition holds that the prime minister, as *primus inter pares*, is ultimately responsible for national security and the integrity of the state. As Peter Hennessy has explored, in British governance, this prime ministerial responsibility for national security has continued through key defence and intelligence functions, including the control of British nuclear weapons.¹¹ The central role for the prime minister in the

¹¹ Peter Hennessy has traced the PM's responsibilities for national security issues back to the early existence of the British state, stating that war has been an "intensely prime ministerial

overall security of the state and its citizens has continued within the Australian, Canadian, and New Zealand systems, and we can see consistent reminders of this convention across all three jurisdictions. In Canada, PCO guidance to ministers states that, “as head of government, the Prime Minister has *special responsibilities* for national security, federal-provincial-territorial relations and the conduct of international affairs.”¹² In Australia, national security statements, which lay out the government’s overall policy in this area, have consistently been made by the PM.¹³ In November 2014, New Zealand’s Prime Minister, John Key, began a significant speech to at the New Zealand Institute of International Affairs by reminding the audience that as the PM, he has an “overarching responsibility for New Zealand’s national security.”¹⁴ The convention of prime ministerial responsibility for national security can be linked with another unique responsibility of the prime minister in Westminster systems: the responsibility for the machinery of government.

In Westminster conventions, the prime minister also possesses a unique responsibility for the machinery of government. This responsibility is intertwined, in terms of coordination, with the prime minister’s role as the chair of cabinet. The cabinet machinery must be able to meld to the working habits and preferences of its chair, and, for this reason, the prime minister retains responsibility for what form the machinery will take. Nicholas d’Ombraïn, a former Canadian public servant with extensive experience in machinery-of-government matters, has written, “It is sometimes forgotten that the prime minister’s machinery-of-government powers govern the relationships among ministers, between ministers and officials, between the government and Parliament, and between government and the courts.”¹⁵ Given this relationship, perhaps it is unsurprising that Davis *et al*, writing in 1999, found that machinery

activity.” Hennessy, P. (2000) *The Prime Minister: The Office and its Holders since 1945*, London: Allan Lane—The Penguin Press, pp.45-51, 70-71, 83, 88-90, 102-143.

¹² Privy Council Office (2011), *Accountable Government: A Guide for Ministers and Ministers of State*, Ottawa: Privy Council Office, p.53.

¹³ Rudd in 2008, Gillard in 2013, and Abbott in 2015.

¹⁴ Key, J. (November 5, 2014) ‘Speech to the New Zealand Institute of International Affairs’ found at: <https://www.beehive.govt.nz/speech/speech-nz-institute-international-affairs-0> (accessed June 2015).

¹⁵ D’Ombraïn, N. (2007) ‘Ministerial Responsibility and the Machinery of Government’ *Canadian Public Administration*, 50:2, p.203.

of government changes happened more frequently under new prime ministers and after elections and that “change may be motivated by political need, administrative necessity or policy logic,” or, “all these influences might be present simultaneously [...]”¹⁶ This inherently indicates the need for choice, as one organisational form is unlikely to meet the demands of the various forces acting on the core executive, and ministers or prime ministers are unlikely to neatly disaggregate the myriad considerations.¹⁷ While balance may be desirable, the hard reality of the policy world is that balance is not always attainable.

In 1996, Paul Thomas argued that attempts to merge private sector management practices into the public sector downplayed the fundamentally political nature of the public sector, which added complexity.¹⁸ Almost 20 years later, Donald Savoie has quoted one former deputy minister echoing a similar sentiment: “In the private sector, you pursue a few unambiguous goals and you manage privately. In the public sector, you have to accommodate many goals, at times conflicting ones, and you manage publicly.”¹⁹ Thomas’ thesis was that public sector managers increasingly had to manage conflict in order to effectively manage organisational evolution.²⁰ This connects well with Smith’s concept of the core executive. The networks and machinery of the core executive manage resource exchange between actors, and hence manage conflict. The importance of this function has grown with the recognition that complex policy problems require cross-portfolio responses. But how the core executive evolves to manage these policy problems has to take into account particularities of each government’s environment(s). Thomas stated that, “Structural designs and reorganizations within the public sector will always be affected by the clash of values and interests, both inside and outside of government. Therefore, choosing

¹⁶ Davis, G., Weller, P., Craswell, E., and Eggins, S. (1999) ‘What Drives Machinery of Government Change? Australia, Canada and the United Kingdom, 1950-1997’ *Public Administration*, 77:1, pp.7-50.

¹⁷ *Ibid*, pp.42-43.

¹⁸ Thomas, P.G. (1996) ‘Beyond the Buzzwords: Coping with Change in the Public Sector’ *International Review of Administrative Sciences*, 62:1, p.

¹⁹ Savoie, D. (2013) *Whatever Happened to the Music Teacher: How Government Decides and Why*, Montreal & Kingston: McGill-Queen’s University Press, p.132.

²⁰ Thomas, 1996, pp.6, 15-16.

structures is about more than simply enhancing organizational effectiveness; it is also about which interests will dominate.”²¹ The following studies of the interdepartmental intelligence machinery in Australia, New Zealand, and Canada illustrate that the evolution of the machinery is, in each case, determined by actors navigating particular environmental demands in order to effectively manage conflict and exchange resources.

The Essence of Design: What Determines the Interdepartmental Machinery?

When we examine the evolution of the machinery for IC coordination within the core executive, it becomes apparent that there are three overarching considerations that determine its design. These considerations are not mutually exclusive; one may (and often will) link to and influence the others. Each of the considerations also has important elements within it, so it is necessary to spend some time unpacking what each entails. Together, these considerations determine the size and nature of the interdepartmental machinery, what issues are pulled towards or pushed from the core executive, and, to a large extent, the approach to coordination.

Consideration 1: The Government's Policy Priorities

What a government considers its priorities often defines what issues are ‘pulled’ into the centre of government by central agencies and what issues are ‘pushed’ out into line departments. With so many demands pressing into the centre of government, cabinet and prime ministerial priorities become important focus points. Policy priorities can be defined *proactively* through party platforms, strategic cabinet discussions, or, where the issue is limited to a particular portfolio, bilateral discussions between the prime minister and portfolio ministers.

Policy priorities can also be defined *reactively*, driven by unforeseen external events that create an expectation on, or desire by, the government to act. Perhaps the most striking example of a reactive policy priority would be the

²¹ Thomas, 1996, p.17.

adoption of counter-terrorism (CT) as a key priority in all three states following the 9/11 attacks. As a particular policy issue becomes more important to the government, the central coordinating agencies will 'pull' the issue closer to the centre. As the policy issue becomes less of a priority, the central coordinating agencies will 'push' the coordination of the issue back out into line departments. This creates a constant pull-push dynamic within the core executive that is closely managed by the central coordinating agencies.

Consideration 2: The Complexity, Persistence, and Sensitivity of the Policy Issue(s)

Another key determinant of the form and nature of the interdepartmental machinery is the nature of the policy issue itself. Particularly important is the *complexity, persistence, and sensitivity* of the policy issue that is being addressed. If we return to the concept of the core executive, these three concerns can be explained by the nature of the resource exchanges between actors.

2a) How many resources need to be exchanged between how many actors (i.e. complexity)

The number of actors involved in the interdepartmental machinery is very dependent on who possesses the resources (knowledge, authority, capabilities, or endorsement) to produce a credible government response to a policy problem. The more complicated the policy issue, the more actors need to be brought to the table in order to take advantage of particular resources. Ultimately, the goal is to get the right actors to the table with the right resources to have the right type of discussion.

2b) How often resources need to be exchanged between actors (i.e. persistence)

The persistence of a policy problem determines how often actors need to come together to exchange resources. This persistence often defines whether machinery of government is permanent or temporary, and whether actors meet regularly or as required. On-going issues will lead to permanent, formal machinery, while short-term issues will often lead to ad hoc machinery such as task forces. One key factor that must be kept in mind is that persistence is not

static. Often, the understanding of a policy issue's persistence changes as the actors in the core executive gain a better understanding of the problem overall. Connected to this, a government's response to a policy issue may change its persistence.

2c) How operationally or politically sensitive are the resources being exchanged between actors (i.e. sensitivity)

The issue of sensitivity is particularly important for considerations of intelligence coordination and governance. The requirement to protect intelligence sources and the methods involved creates a particular *operational* sensitivity around intelligence efforts. Also, the public perception of the government's use of intrusive powers creates a *political* sensitivity around intelligence. Both the operational and political sensitivity of intelligence can be highly influenced by external environments, and not always coherently. For instance, the Snowden leaks had a significant negative impact on the public perception of intelligence efforts while, at the same time, Russian interference in the Ukraine and the rise of the ISIS terrorist movement heightened government requirements for intelligence in order to make foreign, defence, and (CT) policy decisions.

Consideration 3: The Constraints on Ministers and Senior Officials

Finally, actors are not free to exchange resources at will. There are many formal and informal constraints on resource exchanges that require careful navigation. However, these constraints are a natural part of a Westminster democratic system. As Paul Thomas noted in his comparison of public and private management:

Public managers often have less decision-making autonomy and flexibility owing to both political influences and institutional constraints. [...] But such constraints are not accidental, they are meant to promote such highly-prized political and administrative values as responsiveness, coordination, integrity fairness and accountability in decision-making.²²

²² Thomas, 1996, p.13.

Some constraints are anchored in formal controls, such as constitutional conventions, some are specific to certain disciplines such as intelligence, and still others are inherent in the very practical aspects of running a government. While the following is not a complete list, it represents some of the key constraints that act on the design of the intelligence-related machinery in the core executive.

3a) The Constitutional Balance between Ministers and Officials

The responsibility of ministers for government policy decisions is one of the fundamental tenets of Westminster democracies. Ministers take collective decisions that have strategic or cross-portfolio implications through the cabinet process, and are given individual responsibility for policy decisions within their own portfolios. However, aligning individual accountabilities with collective, horizontal action is not an easy balance. Policy problems that require interdepartmental solutions do not fit easily with demands for individual accountability. Additionally, ministers and officials each have differing claims to legitimacy within the Westminster system, but are dependent on each other. As Thomas has summarised the legitimacy and advantage of the politician in the policymaking arena as follows:

The public sector requires effective collaboration between political and administrative leaders, yet the role of each type of leader is somewhat different. Elected politicians have democratic legitimacy: their main skills consist of reading public opinion and mobilizing support for action; they put their jobs at risk and tend to be short term in perspective; and they think of policy and administration in terms of 'constituencies', defined in terms of both territory and segments of society. By contrast, the legitimate involvement of public servants in policy-making and its implementation is based upon the possession of expert knowledge: they are expected to represent stability and continuity in government, their perspective is supposed to be both historical and future oriented, and they are supposed to think in terms of the overall social good.²³

Stitching these different imperatives together into a coherent system while respecting the constitutional boundaries of each is the role of the formal and informal interdepartmental system, but balance is an ever-moving target. Ultimately, *democratic* authority is a resource that only ministers; officials need

²³ Thomas, 1996, p.14.

the authority of ministers to legitimately take action. Conversely, officials have authority anchored in expertise and capabilities, and ministers require this in order to turn political initiatives into reality. The two types of resource (democratic authority and expertise/capabilities) must be exchanged.

3b) Requirements for Secrecy

Secrecy is an inherent requirement of both cabinet government and intelligence, although how far that secrecy stretches is one of the perennial debates regarding both in the current era. The secrecy surrounding cabinet deliberations ensures that ministers feel they can speak their minds in cabinet meetings without the fear of seeing their views spread across the front page the next day. This allows ministers to disagree with each other, with the prime minister, and sometimes with their own departments. Once a decision is made, however, the convention of collective responsibility applies and all ministers are expected to back the decision. Cabinet secrecy is a universal convention across the Westminster systems being examined here.

Of more direct importance to the intelligence machinery within the core executive is the need to maintain secrecy of the intelligence community's sources and methods. For this reason, discussions of intelligence capabilities and plans are often limited to those who 'need to know.' While a wider range of ministers and senior officials may see intelligence assessments because of their role as intelligence consumers, the circle of those ministers and officials that are privy to discussions of intelligence capabilities and operational plans is often kept much smaller to maintain operational secrecy. Secrecy is, therefore, naturally a constraining factor in the core executive, as it may limit the exchange of resources between actors.

3c) The Separation between Policy and Intelligence

The distinction between policy and intelligence is another important consideration in the design of the interdepartmental machinery. As Sir Percy Cradock, a long-time Chairman of the UK Joint Intelligence Committee, explained:

Ideally, intelligence and policy should be close but distinct. Too distinct and assessments become an in-growing, self-regarding activity, producing little or no work of interest to the decision-makers. [...] Too close a link and policy begins to play back on estimates, producing the answers the policy-makers would like, as happened with Soviet intelligence. The analysts become courtiers, whereas their proper function is to report their findings, almost always unpalatable, without fear or favour. The best arrangement is intelligence and policy in separate but adjoining rooms, with communicating doors and thin partition walls, as in cheap motels.²⁴

If the civil service must give 'frank and fearless' advice, then the intelligence community must give 'frank and fearless' assessments. Cradock's discussion of the nuanced relationship between intelligence and policy points to the complex balance that must be struck in efforts to govern intelligence communities. Intelligence actors must be brought close enough to policymaking in order to gauge what the priorities of decision-makers are, but kept separate enough (sometimes physically, but more often psychologically) to ensure that intelligence assessments are not unduly influenced by politics.

3d) The Constraints of Time

One of the most practical constraints on the machinery of the core executive is that ministers and senior officials have limited time. The prime minister, cabinet ministers, and deputy heads, like everyone else, only have 24 hours in a day, and have dozens of competing demands for that time. For example, a study of Canadian federal deputy ministers (DMs) by Jacques Bourgault for the Canadian Centre for Management Development revealed that a DM's average workweek is 68.6 hours, with some as high as 80 hours.²⁵ While time spent by DMs on horizontal management or coordination was difficult to quantify, Bourgault's study found the average was approximately 20 hours per week, or 29 percent of a DM's workweek.²⁶ Andrew Podger, a former Australian departmental Secretary, paints a roughly similar picture of the demands on his

²⁴ Cradock, P. (2002) *Know Your Enemy: How the Joint Intelligence Committee Saw the World*, London: John Murray, p.296.

²⁵ Bourgault, J. (2003) *The Contemporary Role and Challenges of Deputy Ministers in the Government of Canada*, Ottawa: Canadian Centre for Management Development, pp.19-21.

²⁶ Assuming an average workweek of 69 hours. Bourgault, 2003, p.21.

time while a senior executive. Podger estimated that he spent 50 to 60 hours per week in the office (including meetings), with another 10 to 15 hours per week of work done at home.²⁷ He further indicates that these hours were roughly split between many different types of activities, ranging from supporting the minister, to dealing with external stakeholders.²⁸

The demand on a cabinet minister would be equally high when one considers portfolio, cabinet, caucus, and constituency responsibilities. A study done in 2000 by Marsh *et al*, examining the contemporary roles of UK ministers identified four general roles, encompassing policy, executive, political, and public relations responsibilities.²⁹ These four general roles broke down further into at least 11 more specific roles, many of which were interrelated.³⁰ There is no reason to think that cabinet ministers in Australia, Canada, or New Zealand have lesser demands on their time. In fact, in federal states such as Australia and Canada, the imperatives of regional politics can place an added burden on cabinet ministers who are sometimes selected for their regional ties, or have specific regional responsibilities.

This kind of tempo brings with it inherent opportunity costs. Ministers and senior officials cannot be in more than one place at a time; they have to prioritise their time and choose where it is best spent. Time spent in an interdepartmental meeting focused on coordination is time not spent reading the latest briefing binder or reviewing an email to a colleague on a particularly important policy matter. One DM interviewed for Bourgault's 2003 study stated:

I don't go to meetings whose agenda won't teach me something or allow me an opportunity to provide relevant input, and even then, to be effective, the input must be something only I could contribute; otherwise, another person will go instead. I do not go to a meeting just because I was invited. Even within this department, you have to

²⁷ Podger, A.S. (2009) *The Role of Departmental Secretaries: Personal Reflections on the Breadth of Responsibilities Today*, Canberra: ANU E-Press, p.10.

²⁸ *Ibid.* See particularly Podger's Table 2.2 on p.10.

²⁹ Marsh, D., Richards, D., Smith, M.J. (2000) 'Re-assessing the Role of Departmental Cabinet Ministers,' *Public Administration*, 78:2, pp.305-326.

³⁰ *Ibid.*

*consider the opportunity that each meeting offers. Is there a less costly means of communication?*³¹

Technology has decreased the opportunity and transaction costs associated with coordination at the margins, but it has not supplanted the need for face-to-face interaction. The crush of demands on a senior official's or a minister's office inevitably outstrips the incumbent's ability to satisfy them. Decisions are made about where to most effectively spend time and effort, and senior officials and cabinet ministers are acutely aware of prime ministerial and cabinet priorities when deciding where and how to make these decisions.

Because of time and workload pressures, a significant focus within the core executive is determining where in a particular policy problem ministers need to focus their attention. Analysis by lower-level officials can smooth out contentious points before they get to senior levels, leaving deputy heads or ministers to focus on the most important elements. In essence, a key task of the interdepartmental system is to minimise the opportunity cost for ministers and deputy heads by highlighting the *real* decisions that have to be made.

To summarise, the design of the interdepartmental intelligence machinery within the core executive is dependent on three principal considerations. First, what issues the government considers its policy priorities will determine what issues get pulled into the centre of government. Second, the complexity, persistence, and sensitivity of the policy issue itself will determine the nature and scope of the machinery. Thirdly, the constraints on ministers and senior officials will determine the limitations or parameters of the machinery. Each of these factors has a bearing on how actors within the core executive share resources. As Thomas has pointed out, conflicts will inevitably arise given the competing environmental demands placed on actors. Consistent with Smith's concept of the core executive and Thomas' conclusions about public sector management, the design of the interdepartmental intelligence machinery is meant to allow actors to share resources in a way that effectively manages these conflicts.

³¹ Bourgault, 2003, p.31.

Chapter 3

The Machinery of Intelligence Community Governance in Australia

The interdepartmental machinery that coordinates the Australian intelligence community has evolved consistently over the past 70 years to match Australia's own evolving view of the relationship between intelligence and government. Australia's interdepartmental machinery has tended to be more central and consistent, largely driven by consistent ministerial interest in national security issues.

Into the Cold War: Evolving the Machinery for a New War

During the Second World War, the War Cabinet determined the business of national security. Patrick Weller's examination of the Australian cabinet system notes that the War Cabinet, originally meant to act as an executive subcommittee of the full cabinet, ended up taking precedence.³² In the immediate post-war environment, when the government was making important decisions on the form of the post-war Australian intelligence community, the ministers most involved were the Prime Minister, the Minister of Defence, the Minister of External Affairs, and the Attorney General.³³ These ministers took decisions on the form of the intelligence community, often operating as an *ad hoc* sub-committee of cabinet. A formal articulation of this ad hoc ministerial committee is included in the revised terms of reference of the Joint Intelligence Committee (Melbourne), or JIC(M), in 1958, which states:

*A Committee of Cabinet consisting of the Prime Minister, the Minister for Defence and the Minister for External Affairs (and including the Treasurer when financial matters are involved) should continue to determine broad policy in relation to joint intelligence activities, including the allocation of resources for intelligence.*³⁴

³² Weller, P. (2007) *Cabinet Government in Australia, 1901-2006*, Sydney: UNSW Press, pp.83-84.

³³ It should be noted that during H.V. Evatt's tenure, he held both the External Affairs portfolio and the Attorney General portfolio.

³⁴ Hope, 1976, Report 3, Annex to Appendix 3-E.

The ministers involved often depended on the policy question under discussion. For instance, in setting up the defence joint intelligence organisations, the key ministers involved in decision-making were the PM and the Minister of Defence. The Minister of External Affairs and the Treasurer were also involved, but in a more consultative than formative manner.³⁵

Through the latter half of the 1940s, the interdepartmental machinery for intelligence was dominated by the Department of Defence (DoD). This is largely because of a difference in views between the DoD and DEA over cooperation with Australia's larger allies, specifically the US and UK. While the DoD sought closer ties to the UK through the Commonwealth intelligence arrangements, the DEA was more sceptical of the larger allies.³⁶ The mix of personalities in each department exacerbated this philosophical difference. The Secretary of the DoD, Sir Frederick Shedden, was staunchly in favour of a robust Australian intelligence community that was closely tied to the US and UK.³⁷ The Minister of External Affairs, H.V. Evatt, and the Secretary of the DEA, John Burton, were both cold to the concepts of clandestine intelligence, and viewed security with disdain.³⁸ Burton refused to be indoctrinated into SIGINT and refused to sit on the Australian Joint Intelligence Committee, which meant that only second-tier officials in the DEA could be involved in sensitive intelligence matters such as SIGINT.³⁹ This philosophical and operational approach to intelligence by Evatt

³⁵ Christopher Andrew states that the actual decisions regarding the formation of the joint intelligence organisation were taken by the PM and the Minister of Defence; See Andrew, C. (1989) 'the Growth of the Australian Intelligence Community and the Anglo-American Connection' *Intelligence and National Security*, 4:2, p.224. Archival records, however, indicate that the Treasurer and the Minister of Foreign Affairs were also kept closely informed of the developments, but more from the perspective of determining implementation. See, communications in file: 'Joint Intelligence Organisation-Post War, File No 2 (From Cabinet Decision of July 1946)' NAA: A5954/2363/2.

³⁶ This policy difference between the DoD and DEA played directly into the discussion over the joint intelligence machinery, as seen in a series of letters between Shedden and Burton in 'Correspondence with Dr. Burton Regarding the Joint Intelligence Organisation—Paper No.30' NAA: A5954/848/2.

³⁷ On Shedden, see Horner, D.

³⁸ Horner, D. (2014) *The Spy Catchers: The Official History of ASIO, 1949-1963*, Sydney: Allen & Unwin, pp.35-36.

³⁹ Woodard, G. (2001) 'Enigmatic Variations: The Development of National Intelligence Assessment in Australia' *Intelligence and National Security*, 16:2, pp.1-22.

and Burton effectively surrendered any leadership role by the DEA in intelligence during the years when the Australian IC was being formed.⁴⁰

By the 1950s, the mood had changed in both the DEA and the DoD. Woodard notes that the departure of Shedden was viewed by many in DoD as a chance to bring the Department of External Affairs more fully into defence decision-making, which was viewed as necessary for well-rounded policymaking.⁴¹ Similarly, the departure of Burton was viewed as an opportunity by DEA to become more involved in the intelligence machinery. Through the 1950s, the recognition that defence policy and foreign policy had to compliment each other grew, and the desire to chart an independent course in foreign affairs led to the creation of the Cabinet Committee on Foreign Affairs and Defence (FAD) in 1963.⁴²

Below the cabinet level, Defence officials had dominated the interdepartmental intelligence machinery. The highest body for intelligence policy was the Defence Committee, chaired by the Secretary of the DoD and including the Service chiefs for the Air Force, Army, and Navy. Below the Defence Committee was the Joint Intelligence Committee, which was almost identical in nature to its counterparts in London and Ottawa. Within the Five Eyes at the time, each JIC was identified by its location: JIC(L) for London; JIC(O) for Ottawa; and JIC(M) for Melbourne. In the late 1940s, JIC(M) consisted of a chairman, drawn from DoD, the directors of Air, Navy, and Army intelligence directorates, the Controller of Joint Intelligence (CJI), who was a First Assistant Secretary in DoD, and a representative from the Department of External Affairs. Figure 5 outlines the interdepartmental committee structure that coordinated the Australian IC, as it existed in 1949.

⁴⁰ Ball, D. and Horner, D.M. (1998) *Breaking the Codes: Australia's KGB Network, 1944-1950*, Sydney: Allen & Unwin, pp.149-153; Chilton to Shedden (July 15, 1947) in 'Joint Intelligence Organisation. File No. 3 from Decisions of Cabinet Committee, November 1947' NAA: A5954/2363/3.

⁴¹ Woodard, 2001, pp.3-4.

⁴² Woodard, G. (1998) 'Best Practice in Australia's Foreign Policy: 'Konfrontasi' (1963-66)' *Australian Journal of Political Science*, 33:1, p.89.

Discussion of SIGINT policy presented a problem for the JIC. The VENONA intercepts had revealed significant security breaches in the DEA, resulting in the compromise of important allied weapons intelligence.⁴³ These departmental security problems, coupled with Burton's refusal of SIGINT indoctrination, meant that discussion of SIGINT matters had to be shielded from most DEA officials. Consequently, SIGINT policy was handled in a sub-committee of JIC(M), known as JIC(SIGINT) or simply JIC(S). A member of DEA would sometimes attend JIC(S), but was not able to disclose the source of SIGINT intelligence within his department.⁴⁴

With the change in personalities in the early 1950s, the interdepartmental machinery that coordinated intelligence began a slow evolution into a less Defence-dominated structure. In 1958, the Secretaries of the DEA and DoD reviewed the working of the intelligence machinery, and agreed that the JIC(M) should be free of the control of any one department.⁴⁵ The Committee would remain subordinate to the Defence Committee, but would answer to a committee of cabinet, instead of to the Minister of Defence.⁴⁶ Additionally, while the Secretary of the DEA had been an 'invited' member of the Defence Committee for some time, in 1958 the Secretary of the DEA, the Secretary of the Prime Minister's Department, and the Secretary of the Treasury were made standing members.⁴⁷ In a significant shift, the DEA also took over the chairmanship of JIC(M) in 1958.⁴⁸

⁴³ For the story of VENONA and Australian intelligence, see Ball, D. and Horner, D.M. (1998) *Breaking the Codes: Australia's KGB Network, 1944-1950*, Sydney: Allen & Unwin.

⁴⁴ Andrew, 1989, p.225.

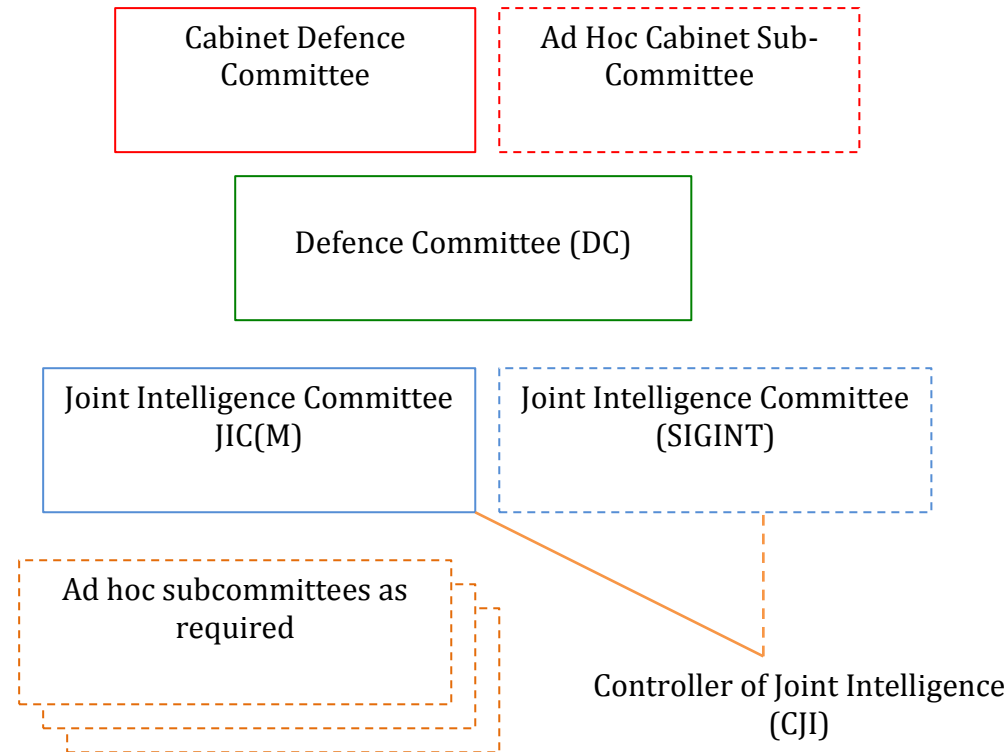
⁴⁵ Hope, R.M. (1977) Report 3, Appendix 3-E, pp.200-209.

⁴⁶ Ibid

⁴⁷ Tange, A. (2008) *Defence Policy-Making: A Close-Up View, 1950-1980*, (Peter Edwards ed.) Canberra: ANU E-Press, p.10.

⁴⁸ Woodard, 2001, pp.7-8.

Figure 1.3.1: Australian Committee Structure related to the Management of the IC⁴⁹
--circa 1949--



⁴⁹ The organisational charts shown in these chapters are compiled from the sources cited throughout the chapters. Red outlines indicate a ministerial committee; Green outlines represent committees chaired by permanent heads; Blue outlines represent committees chaired at the assistant permanent head level (ADM, Dep Sec, or Dep Chief Executive) level; Orange outlines represent committees operating at levels below assistant permanent head (DG, First Assistant Secretary, or equivalents).

The First Steps Towards a 'National' Intelligence Community

By the middle of the 1960s, Australia had become militarily committed in Vietnam. Being directly involved in a regional conflict involving the world's great powers, and having Australian soldiers on the front lines, required substantial intelligence support to decision-makers. In 1968, an *ad hoc* committee was set up under the chairmanship of General John Wilton, the Chairman of the Chiefs of Staff Committee, to review the Australian intelligence machinery, which was still closely tied to the Defence machinery. The final report of the Special Committee on Intelligence Matters, known as the Wilton Report, recommended a substantial restructuring of the defence intelligence machinery to reflect its increasingly 'national' nature, and the increasing intelligence needs of Australian decision-makers. The Wilton Report stated:

The Cold War, increasing communist activity in nearby countries, the emergence of new powers, and not least the growth of Australia and her national responsibilities, have created a situation on which our intelligence organization like counterpart organizations abroad, has had to meet a growing demand for current intelligence and for assessments of broad national interest as a basis for the formulation of national and international policies and plans. The urgency of production has increased, as has the need to blend the many components of intelligence in order to produce the assessments now required.⁵⁰

In response to these environmental drivers, the Wilton Report recommended significant reforms to the Australian intelligence machinery. The Service intelligence directorates (Army, Naval, and Air intelligence) were amalgamated with the JIB, which was restyled the Joint Intelligence Organisation (JIO). The JIO encompassed three principal functions. Firstly, drawing on the knowledge that had been imported from the Service intelligence directorates, JIO produced operational intelligence for military use. In this regard, the Services were JIO's primary customers. Secondly, JIO encompassed a strong Office of Current Intelligence (OCI), which was managed by a DEA officer and had both military and civilian analysts. The role of the OCI was to produce current

⁵⁰ Quoted in Hope, 1977, Third Report, p.28.

intelligence reporting for a wider range of government departments, including the DEA, Department of Prime Minister and Cabinet (DPMC), the Department of Overseas Trade, and the Treasury. Finally, the JIO encompassed a small National Assessments Staff (NAS) of 7 analysts and 5 support staff, which were tasked with coordinating the production of national intelligence assessments for senior government decision-makers.⁵¹ NAS analysts were not *writers* of national assessments, but *collators* and *coordinators* of draft material that was produced by the specialist areas within JIO and other parts of the IC.

While the NAS was housed in JIO, its work programme was determined by a new high-level interdepartmental committee that replaced the JIC(M). This new committee, the National Intelligence Committee (NIC), was designed to oversee the Australian intelligence effort from a national standpoint, act as a 'board of management' for the JIO, and determine the programme for national intelligence assessment. NAS acted as the secretariat for the NIC, drawing together relevant papers and articulating overarching viewpoints. The NIC was chaired by the Director of JIO and included first assistant secretaries (FASs) from DoD, DEA, and DPMC. The heads of ASIO, ASIS, and DSD attended as observers.⁵²

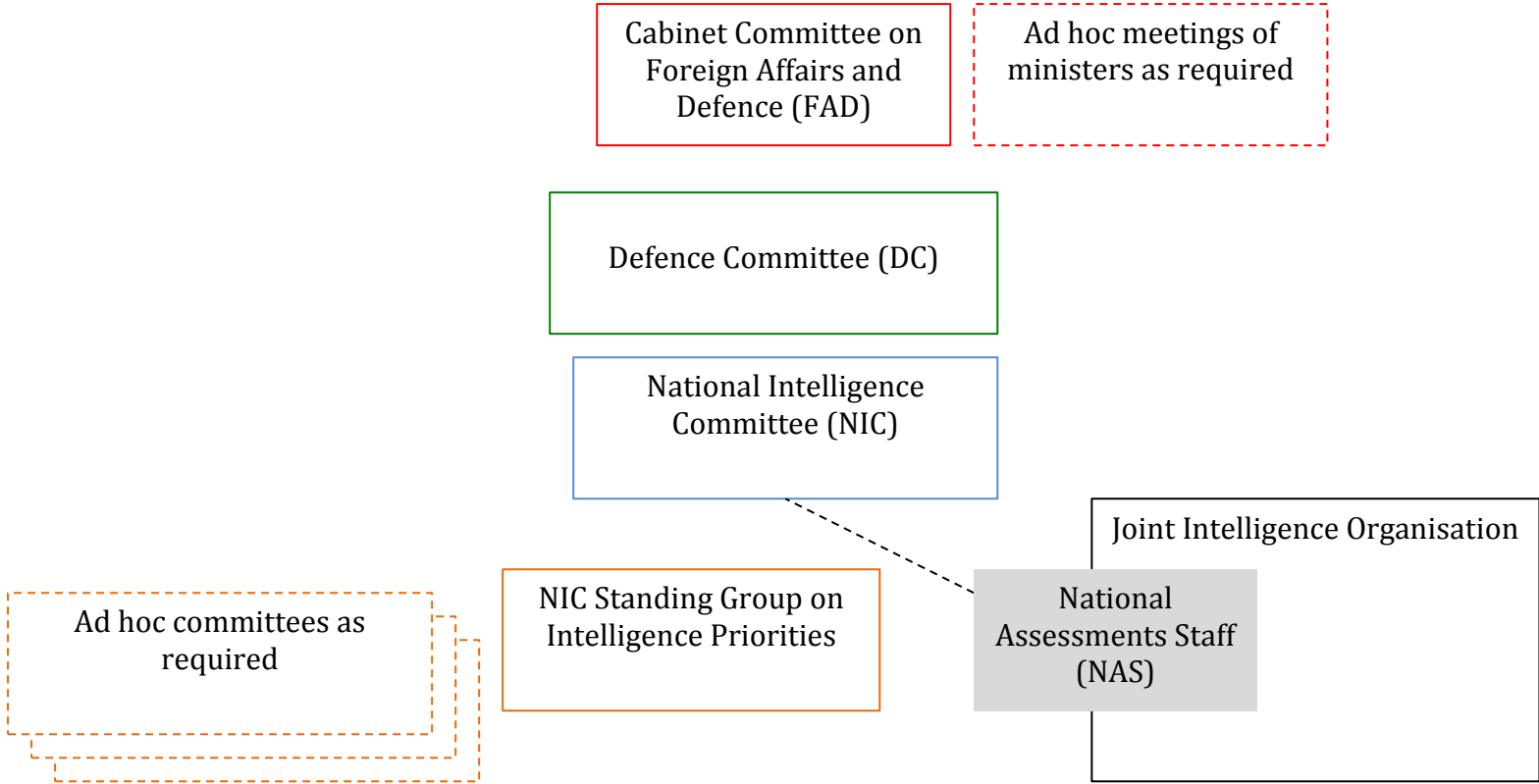
Below the NIC sat at least one sub-committee, known as the Standing Group on Intelligence Priorities. This working group was formed in 1971 after initial attempts to provide an all-encompassing statement of Australian IC priorities ran into difficulties. The consensus was that the NIC would set broad requirements, while the Standing Group on Intelligence Priorities would bring the intelligence producers and intelligence consumers together on a more regular basis to maintain a running dialogue on intelligence priorities.⁵³ Figure 1.3.2 illustrates the interdepartmental intelligence machinery through the 1970s, following the Wilton Report and the formation of the NIC.

⁵¹ For an overview of these changes, see Hope, 1977, Report 3, Appendix 3-E.

⁵² Hope, 1977, Report 3, Appendix 3-F.

⁵³ 'JIO File NAS 401, Part 1', NAA: A12381/4/14.

Figure 1.3.2: Australian Committee Structure related to Management of the IC
--circa 1975--



In the reforms following the Wilton Report, one can see an attempt to make the interdepartmental machinery more 'national' in nature. While the attempt was limited, and the machinery continued to be dominated by the Department of Defence, the general consensus amongst the key actors was that the complexity of the environment required more consistent interaction between those involved in defence policy, foreign policy, and security policy. This, in turn, drove a similar move within the intelligence community.

The Early Secretariat Function: A Light Touch at the Centre of Government

Intelligence was not an alien activity to the Prime Minister's Department (PMD).⁵⁴ The First World War had made Australian decision-makers aware of the regional ramifications of global instability. Particularly, the outcome of the war had not decreased Australia's regional anxieties, and in some cases had exacerbated them. Australian leadership considered that British strength was stretched in the Pacific, and that Australia's regional neighbours, particularly Japan, had not been weakened by the outcome of the war. In response to this environmental complexity, in the Spring of 1919 the Pacific Branch was established within the PMD under the leadership of E.L. Piesse.⁵⁵ The mandate of the Pacific Branch, approved by the Acting Prime Minister William Watt in June 1919, would be recognisable to those in modern-day intelligence assessment staffs.⁵⁶ The Pacific Branch illustrates that there was a precedent for intelligence responsibilities within the central coordinating agency of the Australian government, and that its creation was driven by Australian decision-makers' need to have a better understanding of their regional and international environments.

⁵⁴ PMD was the predecessor of the Department of Prime Minister and Cabinet.

⁵⁵ Meaney, N. (1996) *Fears and Phobias: E.L. Piesse and the Problem of Japan, 1909-1939*, Canberra: National Library of Australia, pp.21-22.

⁵⁶ Memorandum from the Prime Minister (circa June 1919) 'The Pacific Branch of the Prime Minister's Department: Objects and Duties' NAA: A1/1919/8756.

During the Second World War, the secretariat functions supporting intelligence work had shifted into the Department of Defence, and largely remained there from the 1940s to the late 1970s. This shift is directly tied to movements in Cabinet. As noted earlier, the War Cabinet had taken precedence over Cabinet itself and was better serviced directly by the DoD officials. Because of this dynamic, the Prime Minister's Department (PMD) had very little active involvement in coordinating the intelligence community in the years following the Second World War. The secretariat functions for the principal committees, namely the Defence Committee, the JIC(M), and later the NIC, were carried out by DoD officials or Service officers. This was reinforced by the close relationship that Sir Frederick Shedden, the long-serving Secretary of the DoD, had with the wartime prime ministers, specifically Ben Chifley and Robert Menzies. The Department of External Affairs, namely the Defence Division, grew to play a greater role through its chairmanship of JIC(M) and its management of the JIO Office of Current Intelligence, however the DEA's coordinating role was very limited. This situation would continue until two royal commissions, led by Justice Robert Marsden Hope, brought intelligence back into the centre of government

The Royal Commission on Intelligence and Security: Bringing Intelligence into the Centre of Government

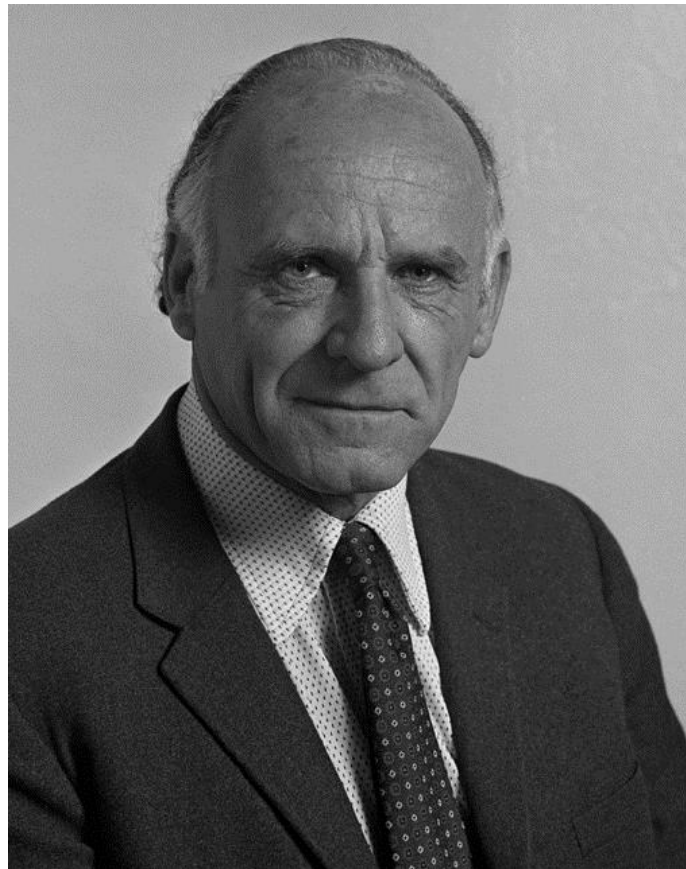
By the early 1970s, intelligence had become a controversial topic in Australia. ASIO's monitoring of anti-war activists led to people questioning whether the balance between security and civil liberties was adequate and whether the IC was properly controlled. The election of the Labour government in 1972 brought suspicion of the Australian IC into the halls of power in Canberra. In a debacle that would exemplify Labour's suspicions towards the IC, and particularly ASIO, the new Attorney General, Lionel Murphy, believing that ASIO had been withholding information on right-wing extremists from him, had used the Australian Federal Police (AFP) to raid ASIO offices.⁵⁷ In short,

⁵⁷ This mood was well summarised in Gaetano, J.I. (2001) 'The Whitlam Government's 1973 Clash with Australian Intelligence' *International Journal of Intelligence and Counter-Intelligence*, 14:1, pp.62-88 and Edwards, P. (2011) *Robert Marsden Hope and Australian Public Policy*, Canberra: Office of National Assessments, pp.11-12.

intelligence was becoming a highly sensitive policy priority for the government. To address the growing political questions around the efficacy of the Australian intelligence community, Prime Minister Gough Whitlam appointed a senior judge, Justice Robert Marsden Hope, to lead the Royal Commission on Intelligence and Security (RCIS), which began work in 1974. RCIS examined, in great detail, the workings of the entire Australian intelligence community, ranging from sensitive operational matters in SIGINT and HUMINT collection to the interdepartmental machinery for policy coordination.

When Hope reported his findings in 1976, he stated clearly that he believed Australia's intelligence community was growing, not lessening, in importance. He cited Australia's regional and international interests as requiring a robust intelligence capability to support decision-makers.⁵⁸

Figure 1.3.3: Justice Robert M. Hope⁵⁹



⁵⁸ Hope, 1976, RCIS, Third Report, p.146

⁵⁹ Photo: National Archives of Australia.

The Third Report of the RCIS dealt with coordination. Hope found that the coordination of the IC needed substantial attention, stating that that, “The Australian intelligence community is fragmented, poorly co-ordinated and organized. The agencies lack proper guidance, direction and control.”⁶⁰ This finding has been cited as a damning conclusion on the intelligence agencies, but there is an alternative explanation: that the overall coordination of government was problematic, and that the physical and cultural separation of the IC from the rest of government only exacerbated a larger problem in policy coordination. Patrick Weller’s examination of the Australian cabinet system found that the Whitlam government had a particularly dysfunctional cabinet, which was made even more chaotic by the external crises of the 1970s. Weller states that, “The most notable feature of the Whitlam government was its lack of coherence,” and that “cabinet became a battleground precisely because many ministers were concerned only with their own portfolios.”⁶¹ Weller also places the responsibility for this failure with the one person ultimately responsible for the cabinet machine: the prime minister. Weller finds that Whitlam did little to smooth the workings of cabinet, concluding that, “the prime minister alone could provide coherence; too often Whitlam failed to do so, and the inevitable failings of any cabinet became more pronounced.”⁶² Ultimately, the problems that Whitlam saw in the intelligence community, specifically a failure to adhere to government direction and control, were partly based in the government’s own inability to produce coherent policy direction or mechanisms for control. This is reflected in the recommendations that Hope made on the machinery of intelligence coordination.

Hope argued that the intelligence community needed to be coordinated from the centre of government, close to the Cabinet as the highest decision-making body. While recognising that both DoD and DEA were principal customers of the intelligence community, he eschewed the idea that coordination

⁶⁰ Hope, 1976, RCIS, Third Report, p.146.

⁶¹ Weller, P. (2007) *Cabinet Government in Australia, 1901-2006*, Sydney: UNSW Press, pp.133-134.

⁶² *Ibid*, p.134.

could come from any single line department (as it had from DoD until 1958) or from a single 'sector' (as it had from DoD and DEA from 1958 onwards).

Three of Hope's recommendations formed the core of his vision for a more effectively coordinated IC. The first, and most often cited, recommendation was the formation of the Office of National Assessments (ONA), which would produce national intelligence assessments and coordinate the foreign intelligence collection organisations (specifically DSD, ASIS, and elements of DEA). ONA replaced most of the 'national' elements of the JIO, including the NAS and the bulk of the OCI. Hope concluded that the previous system of producing assessments by committee (referring principally to the JIC(M) machinery) was unsatisfactory, as the ultimate product was one of the lowest common denominator. The formation of ONA was, to some extent, drawing on American experience of the Central Intelligence Agency as a central assessment and coordinating body. In essence, Hope saw ONA being what the CIA was *originally* meant to be: a national coordinating and assessment body.

The two less-cited recommendations made by Hope effectively mixed ONA's American heritage with Westminster tradition. Hope recommended, "that consideration be given to the establishment of a special ministerial committee, somewhat separate from the regular Cabinet machinery and chaired by the Prime Minister[...]"⁶³ The cabinet committee would provide broad governance for the IC, which included approving annual priorities, deciding policy and expenditure questions, assessing performance of the agencies, deciding any jurisdictional disputes between the agencies, and providing broad direction on the IC's interactions with international allies.⁶⁴

Hope also recommended that there should be a committee of deputy heads (or 'permanent heads' in Australian parlance) established, chaired by the Secretary of the DPMC. This officials' committee would support the work of the cabinet committee, and bring together the departmental Secretaries most closely

⁶³ Hope, 1976, RCIS, Third Report, p.159.

⁶⁴ Hope, 1976, RCIS, Third Report, pp.159-160.

involved in intelligence policy. Additionally, to provide added flexibility, Hope recommended that the committee should co-opt other deputy heads who were not standing members as required by the policy issues being discussed. Also, Hope stated that the committee should make use of working groups of less senior officials to study particular topics as required.

The government adopted many of Hope's recommendations with very few alterations, particularly in regard to the committee structures, and in the face of some hesitation by the Department of Defence. An ad hoc committee of permanent heads, set up to review the recommendations stemming from the RCIS, recommended to ministers on FAD that both the cabinet committee and the permanent heads' committee should be set up along the same lines recommended by Hope.⁶⁵ This led to the creation of the Cabinet Committee on Intelligence and Security (referred to in cabinet papers simply as 'I&S') and the Permanent Heads' Committee on Intelligence & Security (PHCIS), which was approved by FAD on April 5, 1977.⁶⁶ One of the key elements of these changes, which should not be overlooked, is that the chairmanship of I&S was held by the Prime Minister and the chairmanship of PHCIS was held by the Secretary of DPMC. These roles effectively made DPMC the central player in IC coordination.

Sitting below I&S and PHCIS, several other new committees sprang from the changes introduced following the RCIS. The passage of the *Office of National Assessments Act, 1977* brought into existence the National Assessments Board (NAB) and the Economic Assessments Board (EAB), which were interdepartmental committees that reviewed draft national intelligence assessments prepared by ONA analysts. These boards were meant to act as miniature JICs, providing whole-of-community input on national intelligence assessments. While Hope was influenced by the American tradition in the creation of ONA, he recognised the utility of committees in bringing intelligence producers and consumers to the same table. Additionally, to help operationalise

⁶⁵ Cabinet Minute (April 5, 1977) Foreign Affairs and Defence Committee, Decision No.2485(FAD) re: Submission No.1142 'Royal Commission on Intelligence and Security – Implementation of Third Report', NAA: 12909/1142.

⁶⁶ Ibid.

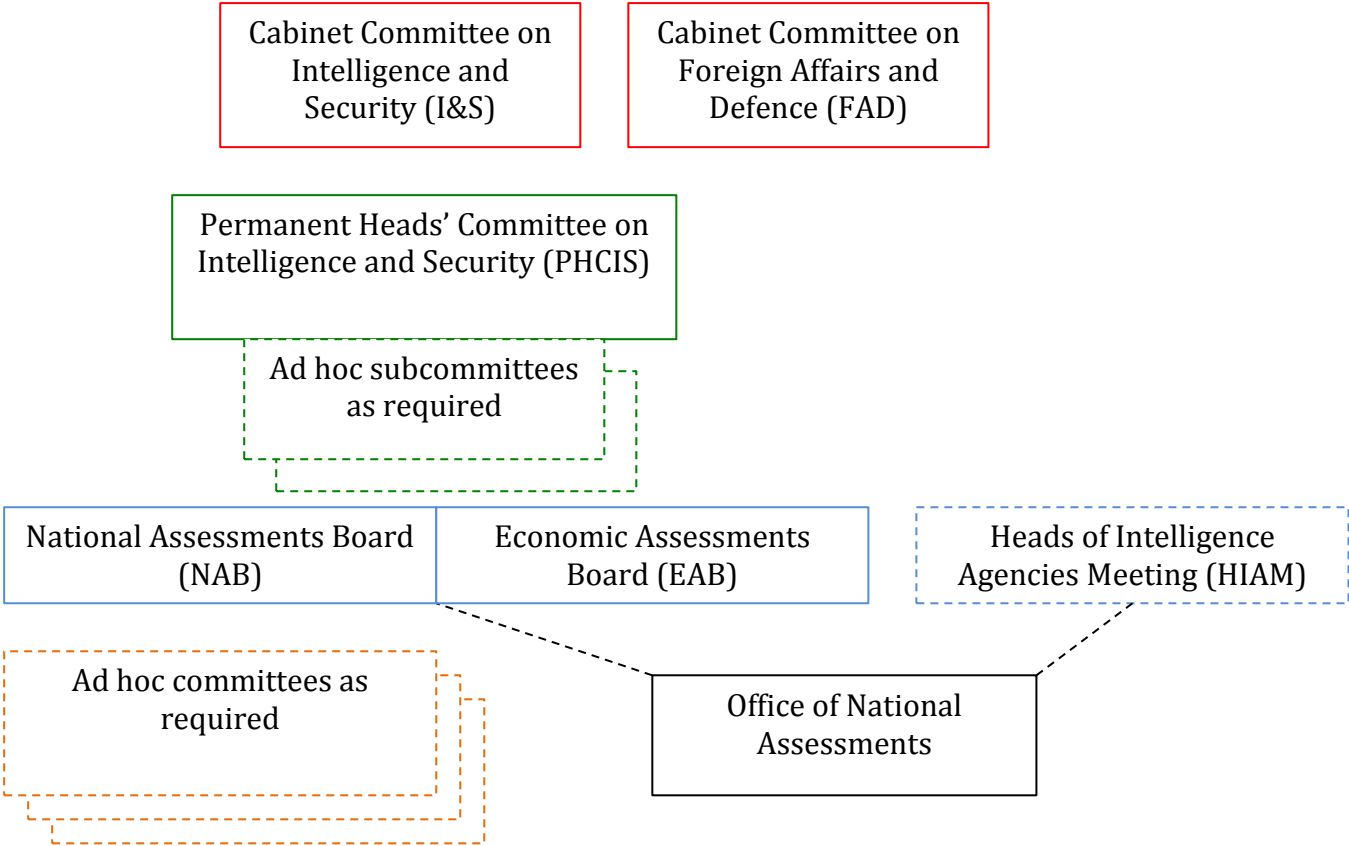
ONA's foreign intelligence coordination role, the Director General of ONA established the informal Heads of Intelligence Agencies Meeting (HIAM), which met monthly and provided a forum for the heads of agencies to discuss matters of mutual concern and address pressure points before they worked into the formal committee structures. The reorganisation following the RCIS effectively brought intelligence coordination into the centre of government. The committee structures, often overlooked in favour of the birth of ONA, were the key part of this evolution because they kept the relevant departments 'on side'. Figure 1.3.4 shows the interdepartmental machinery that resulted from the recommendations of the RCIS, as it existed around 1980.

With hindsight, if a criticism could be levelled at the post-RCIS committee machinery, it would be that it was still focused predominantly on foreign intelligence. While ONA coordinated Australia's foreign intelligence effort, and provided the DPMC portfolio with critical mass in this regard, it provided little direct oversight of ASIO. The standing members of PHCIS were the Secretaries of DPMC, DoD, the Department of Foreign Affairs,⁶⁷ the Chief of the Defence Force, the Secretary of the Treasury, and the DG of ONA. Interestingly, the Secretary of the DoD put forward the argument that, because PHCIS was meant to be a policy committee, heads of intelligence agencies (such as the DG of ASIO and the DG of ONA) should not be standing members of the committee, but observers only. The PM's submission to Cabinet on the new intelligence machinery rejected this viewpoint, and maintained that the DG of ONA should be a full member of PHCIS. Interestingly, however, the DG of ASIO and the Secretary of the Attorney General's Department were not made standing members, but were co-opted for items that were within ASIO's purview, thus reinforcing the view that PHCIS was focused more on policy coordination of the *foreign* intelligence effort.⁶⁸

⁶⁷ Formerly the Department of External Affairs.

⁶⁸ Cabinet Minute (April 5, 1977) Foreign Affairs and Defence Committee, Decision No.2485(FAD) re: Submission No.1142 'Royal Commission on Intelligence and Security – Implementation of Third Report', NAA: 12909/1142.

Figure 1.3.4: Australian Committee Structure related to Management of the IC
--circa 1980--



The creation of I&S was meant to provide a ministerial committee for intelligence issues, but this is not say that intelligence issues only touched Cabinet through I&S. In reality, I&S and FAD were used in tandem. In terms of intelligence reporting, FAD was a principal consumer of ONA assessments in its foreign and defence policy decisions. In terms of intelligence policy, issues such as international terrorism began to blur the lines between foreign and defence policy-making and intelligence policy-making. For instance, both I&S and FAD were both involved in decision-making related to Australia's CT policy and capabilities through the early 1980s.⁶⁹

In the late 1970s and early 1980s, the Fraser government conducted internal reviews of cabinet machinery with the intent of streamlining cabinet business. A news release from the Prime Minister's Office in December 1981, announcing the outcome of one of the reviews, states that, while the cabinet system had generally worked well, "Ministers in Australia, as in other countries, are under intense and increasing pressures" and that:

*The workload on Federal Ministers is considerable, especially when their parliamentary, electorate and community responsibilities are taken into account. The changes that are now being made should help Ministers in handling the substantial burden of ministerial office.*⁷⁰

Changes were made to streamline cabinet papers, including the introduction of a 'consolidation rule' for cabinet submissions.⁷¹ Also, there was a progressive move to consolidate cabinet committees.⁷²

When the Hawke government was elected in 1983, the cabinet committees encompassing foreign, defence, and intelligence policy were partially consolidated to take into account the growth of policy issues that encompassed

⁶⁹ For instance, see Cabinet Minute (March 18, 1980) Decision No.10921(IS) Submission No.3810 - Review of Policy and Organisation in Relation to Counter Terrorism' NAA: 12909/3810 and Cabinet Minute (July 22, 1981) Decision No.16438(FAD) Submission No.4844 - Counter Terrorism Policy and Organisation, NAA: 12909/4844.

⁷⁰ Prime Minister's Office (December 15, 1981) 'Review of Cabinet Procedures.'

⁷¹ Cabinet Minute (July 7, 1980) Ad Hoc Committee, Decision No.12097(Ad Hoc), Without Submission - Cabinet Procedures - Consolidation of Submissions and Memoranda, NAA: A13075/12097/ADHOC.

⁷² One such move was the amalgamation of the General Policy Committee and the Industry Policy Committee; see Prime Minister's Office (December 15, 1981) 'Review of Cabinet Procedures.'

both I&S and FAD. One overarching cabinet committee was formed, the Defence and External Relations Committee of Cabinet (DER), to handle all policy matters related to defence and foreign policy. This committee would have a sub-committee, known as the National and International Security Sub-Committee (NISC), which would address more sensitive matters of security and intelligence.⁷³ However, while technically a sub-committee of DER, NISC could report to DER, the full Cabinet, or the PM, as required, based on the fact that the membership of NISC was also the core membership of DER. These factors made NISC essentially a stand-alone cabinet committee, regardless of its 'sub-committee' name. PHCIS, in what amounted to a change of name only, became the Secretaries' Committee on Intelligence and Security, or SCIS.⁷⁴ While the creation of NISC was among Hawke's first decisions in government, taking place the same day as his government took power, he intended to bring Justice Hope back for another look at the intelligence community.

The Royal Commission on Australia's Security and Intelligence Agencies: Refining Intelligence at the Centre of Government

In 1984, Prime Minister Hawke appointed Hope to conduct a second inquiry, named the Royal Commission on Australia's Security and Intelligence Agencies (RCASIA), which was meant to examine the implementation of the RCIS recommendations.⁷⁵ The recommendations stemming from RCASIA, while not as sweeping as those of the RCIS, refined the interdepartmental machinery to reflect the lessening divides between foreign policy, security policy, and economic policy. These refinements were particularly important in a period defined by the growth of international terrorism, international trade, and shifting economic power in the Pacific region.

The RCASIA report on the ONA and JIO, which included discussion of intelligence coordination, recommended several adjustments to the committee

⁷³ Cabinet Minute (March 11, 1983) Decision No.26(M) 'Without Submission – Intelligence – Greater Accountability and Co-ordination' NAA: A13979/26M; Prime Minister's Office (March 16, 1983) 'Ministerial Committees'.

⁷⁴ Ibid.

⁷⁵ Edwards, 2011, p.34.

structures. Firstly, the RCASIA endorsed the formation of NISC at the ministerial level, and the support of SCIS.⁷⁶ However, Hope recommended that SCIS be expanded to include the Secretary of the Attorney General's Department (AGD) and the Secretary of the Department of the Special Minister of State (DSMOS).⁷⁷ In its review of Hope's recommendations however, SCIS laid out several considerations for ministers. On one hand, the committee did not want its membership to grow too large, and preferred to retain a flexible and informal character. The Secretaries' comment to ministers was that:

*SCIS considers it important to continue as a compact working group, not as a larger interdepartmental committee. SCIS has a very flexible system of co-opting departments/agencies for items of business, and ensures co-optees have full rights in relation to those items. SCIS would have no objection to circulating its agenda to Attorney-General's Department (or to DSMOS) and would take a flexible attitude to requests for attendance.*⁷⁸

On the other hand, SCIS noted that the Attorney General's Department had argued strongly for its permanent inclusion on SCIS, based on the fact that AGD had been heavily involved in major national security events (such as the Combe/Ivanov affair the Sheraton Hotel incident), the transfer of ASIO to Canberra, and broader intelligence governance discussions.⁷⁹ The PM's cabinet submission agreed with SCIS' views that its membership should be limited. Ultimately, however, after the matter was discussed in cabinet committee, the Secretaries of the AGD and DSMOS were added to the permanent membership of SCIS.⁸⁰

⁷⁶ Hope, R.M (1985) *Report on the Office of National Assessments and the Joint Intelligence Organization*, Royal Commission on Australia's Security and Intelligence Agencies, Canberra: Commonwealth Government Printer, pp.107-120.

⁷⁷ The Special Minister of State was responsible for the Protective Security Coordination Centre, which was closely involved in Australia's counter-terrorism arrangements.

⁷⁸ Cabinet Minute (May 7, 1985) Security Committee, Decision No.5605(SEC), Submission No.2754 – Government Response to the Final Reports of the Royal Commission on Australia's Security and Intelligence Agencies (RCASIA), CONFIDENTIAL, Attachment A 'RCASIA Recommendations/Observations Addressed in Submission.

⁷⁹ Ibid.

⁸⁰ Cabinet Minute (May 7, 1985) Security Committee, Decision No.5605(SEC), Submission No.2754 – Government Response to the Final Reports of the Royal Commission on Australia's Security and Intelligence Agencies (RCASIA).

In terms of the machinery for intelligence assessment, Hope noted that, while ONA had accomplished a significant amount towards the production of national intelligence assessments, the regular involvement of intelligence consumers in ONA's assessment programme was lacking. Hope's review had found that the involvement of economic departments, such as the Treasury, the Department of Trade, and the Department of Industry and Commerce was particularly lacking even though Hope saw economic policy as a key area where intelligence could add value.⁸¹ Hope felt that the NAB and EAB allowed too much separation between intelligence consumers, and therefore did not promote a 'whole-of-government' programme for ONA's assessments; he ultimately recommended their abolishment.⁸²

To address the shortcomings in the NAB and EAB, Hope recommended that the Boards be disbanded and replaced by the creation of a National Intelligence Committee (NIC), which would be chaired by the DG of ONA. The NIC would include representation at the FAS level from DPMC, DEA, DoD (both policy and JIO), the Treasury, Trade, and Energy and Resources. Also, the heads of DSD and ASIS, and possibly ASIO would attend as observers.⁸³ To an extent, Hope was recreating the NIC that had existed through much of the 1970s to oversee the 'national' intelligence work of JIO (specifically NAS and OCI). However, the NIC created by the RCASIA was higher-powered and led from the centre, rather than being 'owned' by a particular department. While identical in name, the two committees were different beasts.

Interestingly, the NIC that Hope proposed in 1984 bears significant similarities to the UK model of the Joint Intelligence Committee. The NIC would have a mandate to both review draft ONA assessments and provide oversight of the national intelligence effort on behalf of NISC and SCIS. In effect, Hope was advocating a shift from system centred on a US-styled central intelligence organisation, to a system centred on a UK-styled interdepartmental committee.

⁸¹ Ibid.

⁸² Hope, 1985, pp.107-120.

⁸³ Ibid.

In reviewing the recommendations of the RCASIA, SCIS agreed that the NIC should be created, but disagreed with Hope's recommendation to do away with the Assessment Boards and allow NIC to perform the same function. SCIS found that the Assessment Boards should still retain their role in regard to ONA intelligence assessments, and recommended to ministers that the role of NIC should be advisory in nature. SCIS' argument centred around the fact that the JIC(M) model had been inadequate, as determined by Hope's first royal commission, and that "a return to a discredited system would not be an advance, and would be open to deserved criticism on that ground alone."⁸⁴ This view was adopted by the PM and by cabinet ministers; the Assessment Boards would continue, and NIC would have general programme oversight of ONA but no direct involvement in the production of intelligence assessments.⁸⁵

The RCASIA also endorsed the ONA's creation, in 1983, of the National Intelligence Collection Requirements Committee (NICRC) as part of its coordination efforts.⁸⁶ The RCASIA quoted the description of NICRC from ONA's submission, stating that NICRC was meant to:

*...[bring] together the intelligence community with the aim of defining key intelligence question; elaborating national intelligence collection requirements and priorities; assessing intelligence collection targeting; and, on this basis, allocating effort appropriately.*⁸⁷

While ONA worked with partner departments and agencies to draft the National Intelligence Assessment Priorities (NIAPs), which were approved through SCIS and NISC, these were strategic-level priorities. NICRC was meant to bring together the core intelligence collectors and consumers and refine the NIAPs into more specific, operationally oriented priorities for intelligence collection.

⁸⁴ Cabinet Minute (May 7, 1985) Security Committee, Decision No.5605(SEC), Submission No.2754 – Government Response to the Final Reports of the Royal Commission on Australia's Security and Intelligence Agencies (RCASIA), CONFIDENTIAL, Attachment A 'RCASIA Recommendations/Observations Addressed in Submission.

⁸⁵ Ibid.

⁸⁶ Ibid, p.108, 114.

⁸⁷ Ibid, p.114. The NIAPs are referred to in RCASIA simply as 'National Assessment Priorities, or NAPs. However, the ONA Annual Report for 1988-89 states the name as 'National Intelligence Assessment Priorities.' This report uses the latter name as it is found in official documentation.

Following the completion of the RCASIA, NISC was renamed yet again, this time becoming simply the Security Committee of Cabinet, or SEC. Instead of a sub-committee, SEC was a stand-alone cabinet committee sitting on par with the International and Defence Committee of Cabinet.⁸⁸ Figure 1.3.5 illustrates the higher intelligence machinery as it existed in 1983 prior to the RCASIA, and Figure 1.3.6 shows the same machinery following the completion of the RCASIA and subsequent machinery changes in 1985. One of the last changes stemming from Hope's recommendations in the RCASIA was the creation of a National SIGINT Committee, on a one-year trial basis, which met for the first time in March 1989. The National SIGINT Committee would meet twice a year, and was chaired by the DoD's Deputy Secretary for Strategy and Intelligence (DepSec S&I). It included representatives from DoD, DPMC, DFAT, ONA, and the Australian Defence Forces (ADF), and was mandated with providing strategic governance of the national SIGINT effort.⁸⁹

⁸⁸ Prime Minister's Office, Press Release on Cabinet Committees, December 14, 1984; Hawke, R. (May 22, 1985) Ministerial Statement on the Royal Commission on Australia's Security and Intelligence Agencies, House Hansard, Canberra: Parliament of Australia.

⁸⁹ Cabinet Minute (October 30, 1989) Security Committee, No.13284(SEC), Memorandum No.6824 – SCIS Report to Ministers on the Activities of the Intelligence and Security Agencies in 1988-89, NAA: A14039/6824.

Figure 1.3.5: Australian Committee Structure related to Management of the IC
--circa 1983--

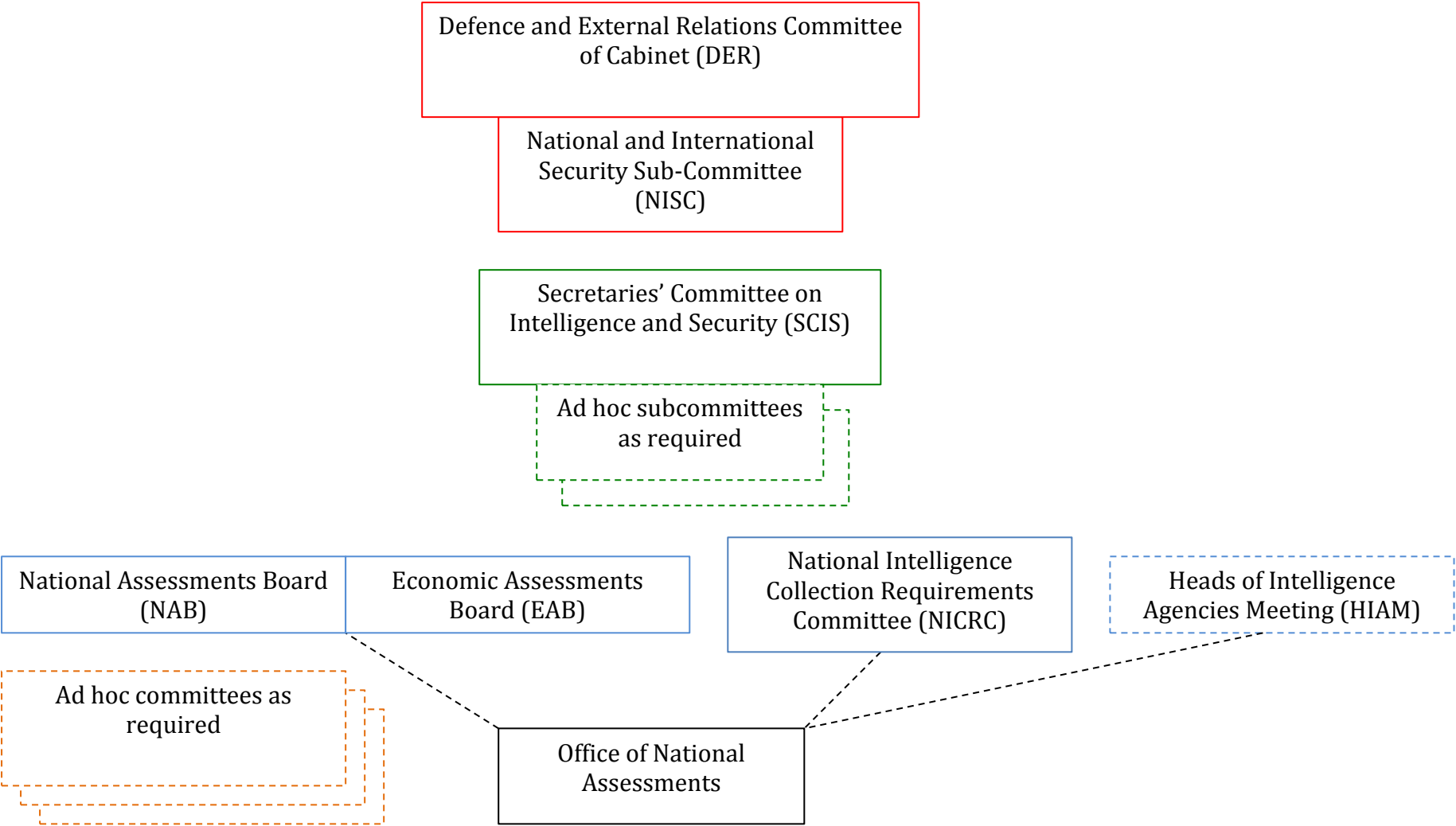
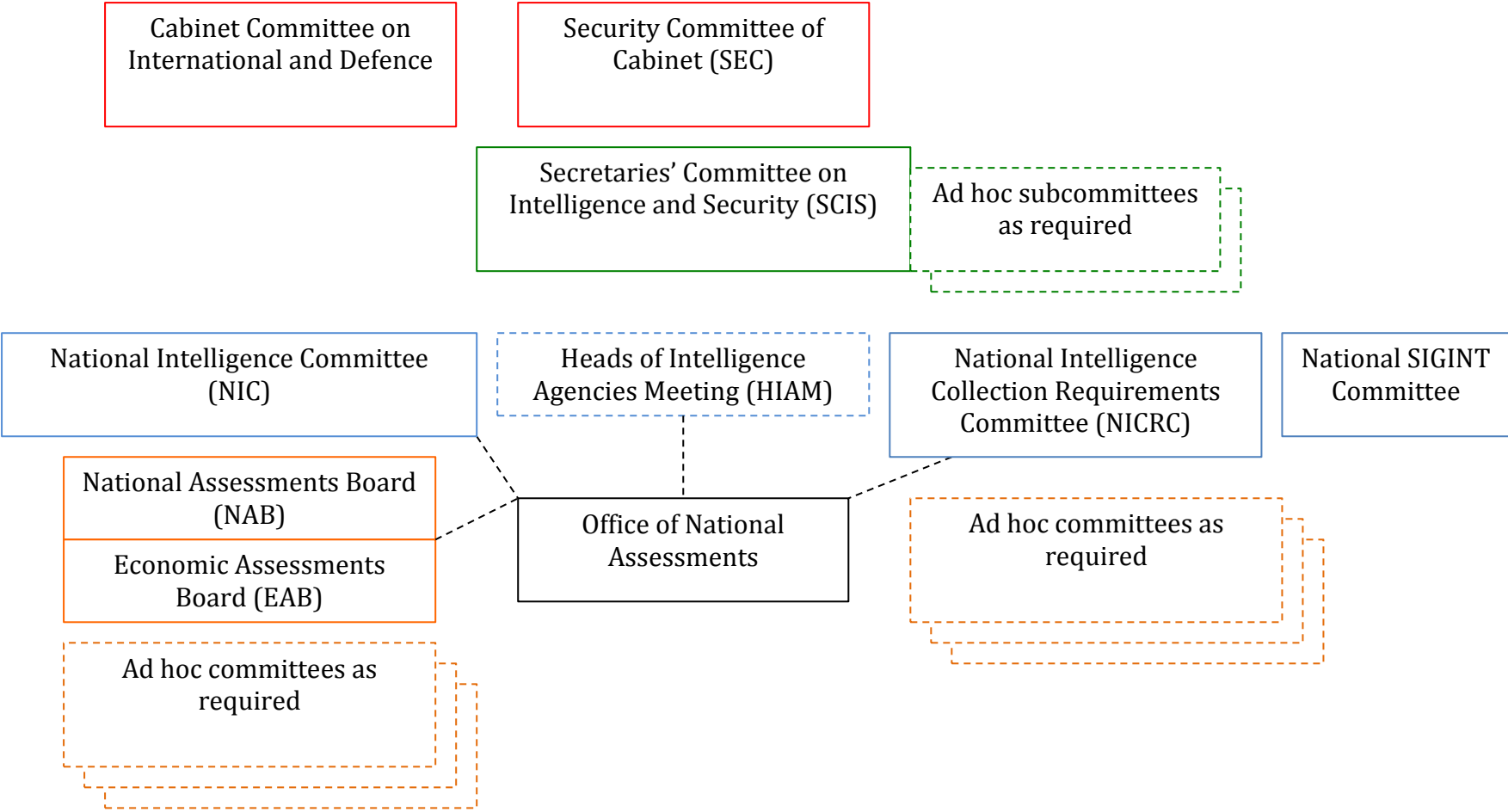


Figure 1.3.6: Australian Committee Structure related to Management of the IC
--circa 1985--



Declassified cabinet papers discussing the threat posed by Libyan state-sponsored terrorism to Australian interests in the South Pacific illustrate how security and foreign intelligence flowed into the SEC/SCIS machinery during the latter half of the 1980s to inform policy decisions. In January 1986, following increasing support to terrorism abroad by the Libyan government, Prime Minister Hawke received a message from President Reagan seeking Australia's help in limiting or disrupting Libyan influence in the Pacific.⁹⁰ The Australian government had already been closely watching Libyan activities in Vanuatu and New Caledonia, and the Minister of Foreign Affairs put forward several recommendations to Cabinet, including the closure of the Libyan embassy in Canberra. However, the cabinet submission notes that there was not agreement on some of the measures, including the closing of the embassy.⁹¹

In early 1987, the Minister of Foreign Affairs requested an assessment of possible Libyan retaliation if the government decided to expel the Libyan embassy or challenge Libyan activities in the South Pacific.⁹² SCIS asked ASIO to prepare an assessment, examining the risk to Australian interests if the government decided to expel the Libyan embassy in Canberra or challenge Libyan activities in the Pacific. ASIO produced an assessment, classified TOP SECRET, entitled 'The Libyan People's Bureau in Canberra - Security Significance' in April 1987 that examined these questions.

The assessment showed that ASIO had important sources of intelligence within the Libyan presence in Australia, although whether these were technical or human sources is not clear.⁹³ The report assessed that the expulsion of the

⁹⁰ Cabinet Minute (20 January 1986) Decision No.7039, Submission No.3511 - Libya: Response to President Reagan's Message, NAA: A14039/3511. December 1985 saw the attacks on the Rome and Vienna airports by gunmen of the Abu Nidal Organisation, which were supported by Libyan logistics. See Department of State (1986) *Patterns of Global Terrorism: 1985*, Washington: US Government.

⁹¹ Cabinet Minute, Decision No.7039, Submission No.3511 - Libya: Response to President Reagan's Message' 20 January 1986, NAA: A14039/3511.

⁹² Cabinet Minute, Security Committee, Amended Decision No.9351(SEC), Memorandum No.4831 - Possible Action Against Libya: Risk Assessment, TOP SECRET, NAA: A14039/4831.

⁹³ Cabinet Minute (April 29, 1987) Security Committee, Amended Decision No.9351(SEC), Memorandum No.4831 - Possible Action Against Libya: Risk Assessment, April 29, 1987, TOP

Libyan embassy in Canberra was unlikely to cause a violent response, but was also unlikely to significantly degrade Libya's activities in the Pacific. Interestingly, for two reasons, ASIO also judged that the Libyan embassy was more useful to Australia if it was open. Firstly, the Libyan ambassador was a quietening influence on more radical factions and would likely caution his masters against violence in Australia. Secondly, the closure of the embassy would risk valuable intelligence sources that ASIO used to maintain a watch on Libyan activities. Ultimately, ASIO's conclusion was that any Libyan retaliation would most likely come in the Middle East or Europe, and would be more likely if Australia's actions were seen as a sustained effort, in concert with other Western powers, against Libya.⁹⁴

SCIS, after considering the ASIO intelligence assessment, produced its own brief memorandum to SEC ministers that endorsed the ASIO report and made several policy-related comments. Specifically, SCIS commented that "implementation of the options for policy challenge or interdiction in the South Pacific region canvassed by the Minister for Foreign Affairs might be perceived as a sustained affront to Libyan interests, perhaps more so if coupled with the closure of the LPB [Libyan People's Bureau]."⁹⁵ This comment by SCIS represented a subtle note of caution to SEC ministers, indicating that the options put forward by the Minister of Foreign Affairs could, based on ASIO's assessment, increase the threat to Australian interests. The SCIS memorandum, with the ASIO assessment appended, was then submitted to SEC for consideration.

SEC ministers, on reviewing the submission from SCIS, ultimately decided against closing the Libyan embassy. They also decided to maintain a selective, rather than a blanket, interdiction programme targeting Libyan travel, shipping, and funding. Ministers did opt for a sustain campaign of 'soft' measures including increased visits by Australian dignitaries to smaller Pacific states, avoiding any

SECRET, NAA: A14039/4831. The first page of the ASIO report has a caveat reading, "This paper provides evidence of the existence of extremely sensitive ASIO sources against the Libyan presence in Australia, exposure of which could be detrimental to Australia's security and the safety of individuals, and would degrade the basis of the assessments herein."

⁹⁴ Ibid.

⁹⁵ Ibid.

cuts to regional aid money, and examining options for increasing Australia's 'voice' in the region (through press and television broadcasts).⁹⁶In a partially redacted section, the cabinet decision also directs that "efforts to cover Libyan activities in the region in the greatest possible detail be maintained and developed."⁹⁷ These directions, almost certainly focused at Australia's intelligence agencies, would have provided guidance to the departments and agencies on intelligence requirements and priorities.

The conclusion by SEC not to close the Libyan embassy was short-lived however. In late May, citing increased Libyan interference within Australia and the region, the decision was made by SEC ministers to order Libyan embassy personnel out of Australia.⁹⁸ However, this led to the inevitable question: would Libya respond and, if so, how? To address this question, in August 1987 SEC requested regular updates from ONA on Libyan activity in the South Pacific, following the closure of the embassy in Canberra.⁹⁹ Archival records indicate that ONA updated SEC ministers three times on Libya between August 1987 and March 1988.¹⁰⁰ The third update by ONA for SCIS ministers found that Libya remained cautious in the Pacific, particularly after the closure of its Australian embassy, but was still active in New Caledonia and Vanuatu. Of particular interest was Libya's flirtations with Australian and New Zealand aboriginal groups, however ONA concluded that Libya lacked a coherent strategy to exploit opportunities within the aboriginal communities.¹⁰¹ Unlike the ASIO paper, the ONA updates were not accompanied by a SCIS covering memo, because they were meant to be informative only. These declassified cabinet papers illustrate the inclusion of both security and foreign intelligence in cabinet decision-

⁹⁶ Cabinet Minute, Security Committee, Amended Decision No.9351(SEC), Memorandum No.4831 – Possible Action Against Libya: Risk Assessment, April 29, 1987, TOP SECRET, NAA: A14039/4831.

⁹⁷ Ibid.

⁹⁸ Cabinet Minute (May 18, 1987) Security Committee, Decision No.8583(SEC), Without Submission – Expulsion of Libyan People's Bureau in Canberra, NAA: A13979/9583/SEC.

⁹⁹ Cabinet Memorandum No.5551 (March 11, 1988) Security Committee, 'Libya: South Pacific Update III,' NAAA14039/5551.

¹⁰⁰ Ibid. Presumably the first update was just after the request in August or early September 1987. The second update was November 1987, and the third in March 1988.

¹⁰¹ Ibid.

making, and show the flow of intelligence material through the interdepartmental machinery at the deputy head and ministerial levels.

Changes in DPMC: Permanent Cabinet Interest leads to Permanent Support

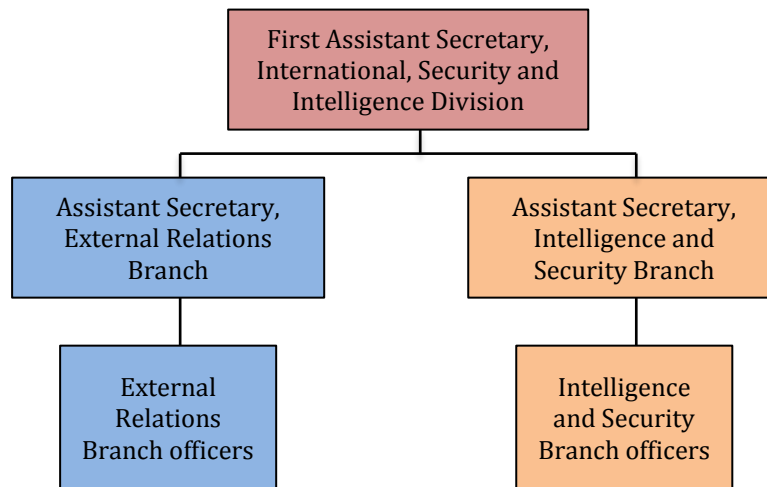
The two royal commissions led by Justice Hope were not just a turning point for the committee structures, but also for the organisation supporting the Prime Minister and Cabinet. The Department of Prime Minister and Cabinet's role in managing the intelligence community grew, as the committees became permanent fixtures of the cabinet system.

Following the creation of I&S and PHCIS, it became apparent that the DPMC would need a greater ability to staff the new committees. DPMC's structure was comprised of several divisions mirroring the major policy sectors. The division of DPMC that had most consistently been involved with the IC was the International Division, which comprised an External Relations Branch. Following the RCIS, the International Division was expanded to include an Intelligence and Security Branch, and was renamed the International, Security and Intelligence Division.¹⁰² Together, these units enabled the International Division to coordinate the defence, foreign, intelligence and security policy processes. Figure 1.3.7 illustrates DPMC's International Division in 1977.

The DPMC was a somewhat divided entity. In the late 1970s, as now, the Cabinet Division was responsible for providing secretariat services to the network of cabinet committees. The policy divisions, on the other hand, were focused principally on policy coordination amongst departments.

¹⁰² Gavin, S. (July 12, 2012) Oral History Transcript, Museum of Australian Democracy. Archival files indicate that for a short time the International Division was renamed as the International, Security and Intelligence Division to reflect this additional role, however this appears to have been a short-lived change.

Figure 1.3.7: International Division of DPMC, 1977



The two functions would overlap, but they present differing points of emphasis within the department. The Secretary of the DPMC in 1979, Sir Geoffrey Yeend, commenting on the department's internal workings, stated:

It would be a mistake, I believe, to tie our policy divisions as formally to Cabinet secretariat work as the [Royal Commission on Australian Government Administration] report seems to suggest. Our divisions have the responsibility of advising on policy contained in Cabinet proposals and where it is appropriate to involve key officers in Cabinet secretariat work for particular issues, then this is done and has been done for some time. But policy issues dealt with by the Government go much wider than what is actually handled in Cabinet and we have to cope with the full range.¹⁰³

This distinction between policy coordination and advice, and cabinet secretariat support meant that the Intelligence and Security Branch of the International Division was focused on policy coordination rather than on crafting and supporting an on-going agenda for the relevant cabinet committee and secretaries' committee.

Following the RCASIA reports, it became apparent that the national security environment, and the intelligence community itself, was becoming more complex. The government had accepted Hope's recommendation to create the Inspector General of Intelligence and Security (IGIS), which would be the first

¹⁰³ Yeend, G.J. (1979) 'The Department of Prime Minister and Cabinet in Perspective' *Australian Journal of Public Administration*, 38:2, p.144.

independent office for oversight of the Australian IC and would require stand-alone legislation. In a similar vein, the Security Appeals Tribunal (SAT) was to be established to allow an appeal mechanism in ASIO's security screening process. Legislative amendments were required to the *ASIO Act*, the *Telecommunications (Interception) Act*, and the *Audit Act*. Also, the cabinet was set to examine several important operational questions relating to the IC, including the collection of foreign intelligence within Australia and the expansion of Australia's national SIGINT capability.

The creation of the Security Committee of Cabinet was meant to address the increasing complexity of the national security community and the international environment by creating a more regular cabinet committee that could address the range of national security issues facing Australia. As Prime Minister Hawke put it in 1985, "with the material contained in comprehensive reports before it and with other matters held in abeyance for the period of the Royal Commission, the [Security] Committee confronts a significant and challenging work load."¹⁰⁴ More regular cabinet committee meetings and a heavier agenda, supported by regular meetings of Secretaries in SCIS, meant there was a need for more formal secretariat support. To this end, on May 7, 1985, SEC agreed that "there be created within the Department of the Prime Minister and Cabinet, a secretariat to service the Committee and to implement a regular and continuing program of meetings for it."¹⁰⁵ The secretariat that was created as a result was named the Office of Security and Intelligence Coordination, or OSIC, and replaced the Intelligence and Security Branch within DPMC. While similar in shape and form to its predecessor, Prime Minister Hawke's statement to Parliament clearly indicated that OSIC was equally focused on providing secretariat support to SEC and SCIS, *as well* as policy coordination and advice on intelligence and security matters.¹⁰⁶ Declassified records from

¹⁰⁴ Hawke, May 22, 1985, Ministerial Statement on the Royal Commission on Australia's Security and Intelligence Agencies.

¹⁰⁵ Cabinet Minute, Security Committee, Decision No.5605(SEC), Submission No.2754 – Government Response to the Final Reports of the Royal Commission on Australia's Security and Intelligence Agencies (RCASIA), May 7, 1985, CONFIDENTIAL, NAA: A14039/2754.

¹⁰⁶ Hawke, May 22, 1985, Ministerial Statement on the Royal Commission on Australia's Security and Intelligence Agencies.

1985-1986 include the first indicative forward agendas for SEC and SCIS as devised by OSIC, illustrating the range of submissions to be addressed. Figure 1.3.8 shows the forward SCIS/SEC agenda from December 1985 to June 1986, and Figure 1.3.9 shows the agenda from July 1986-December 1986.¹⁰⁷

The royal commissions carried out by Justice Hope through the late 1970s and early 1980s brought intelligence decidedly into the centre of government. By 1985, dedicated interdepartmental structures existed to coordinate the national intelligence effort, starting at the level of cabinet ministers and extending down to assistant secretaries. The highest of these, the cabinet and secretaries' committees, were supported by a permanent secretariat within the DPMC, dedicated to coordinating security and intelligence policy issues and helping to drive the higher intelligence machinery. The growth of intelligence at the centre was one facet of a general trend however. The centre of government, and particularly the Department of Prime Minister and Cabinet, had steadily grown in power through the 1960s and 1970s.

¹⁰⁷ Cabinet Memorandum No.3384 (November 29, 1985) Indicative Work Program for the Security Committee (December 1985-June 1986), Office of Security and Intelligence Coordination, CONFIDENTIAL, NAA: A14039/3394; Cabinet Minute (June 30, 1986) Security Committee, Decision No.7847(SEC), Memorandum No.4025 – OSIC Information Paper and Indicative Work Program for the Security Committee for the Period July-December 1986, SECRET, NAA: A14035/4025.

Figure 1.3.8: SCIS/SEC Forward Agenda, December 1985-June 1986

CABINET-IN-CONFIDENCE

CONFIDENTIAL 2

INDICATIVE WORK PROGRAM FOR THE SECURITY COMMITTEE
 (December 1985 - June 1986)

| SUBJECT | SCIS | ORIGINATOR | SECURITY COMMITTEE |
|---|---------------------------------|-----------------------------------|---|
| RELOCATION OF ASIO | | Attorney-General | timing to be determined by Attorney-General |
| JOINT PARLIAMENTARY COMMITTEE ON ASIO | considered on 23 August 1985 | Prime Minister / Attorney-General | late Feb 1986 |
| ASIA RECOMMENDATIONS CONCERNING SECURITY APPEALS TRIBUNAL | considered on 27 September 1985 | Attorney-General | late Feb 1986 |
| REMAINING RECOMMENDATIONS OF RCASIA REPORT ON ASIO | Feb 1986 | Attorney-General | late Feb 1986 |
| AUSTRALIAN INTELLIGENCE COMMUNITY: SECURITY CHECKING | Feb 1986 | SCIS | late Feb 1986 |
| INITIAL BIDS AND EXPENDITURE TARGETS FOR AGENCIES FOR 1986/87 | Feb 1986 | Finance/Agencies | late Feb 1986 |
| CONTACT REPORTING SCHEME | to be finalised out-of-session | SCIS | late Feb 1986 |
| AUSTRALIAN PROTECTIVE SERVICE FUNCTIONS | Feb 1986 | LGAS Minister | late Feb 1986 |

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CABINET-IN-CONFIDENCE

CONFIDENTIAL 3

| SUBJECT | SCIS | ORIGINATOR | SECURITY COMMITTEE |
|---|------------|----------------------------------|--------------------|
| BUDGET ESTIMATES OF INTELLIGENCE AND SECURITY AGENCIES FOR 1986/87 | April 1986 | Finance/Agencies | May 1986 |
| RCASIA RECOMMENDATIONS CONCERNING PROTECTIVE SECURITY AND ROLE OF PCC | April 1986 | Prime Minister | May 1986 |
| COUNTER-TERRORISM REVIEW | April 1986 | SMOS | May 1986 |
| SECOND READING SPEECHES ON LEGISLATIVE PACKAGE ON RCASIA | April 1986 | Attorney-General/ Prime Minister | May 1986 |

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Figure 1.3.9: SCIS/SEC Forward Agenda, July 1986-December 1986

6. ATTACHMENT A

SECRET-CABINET-IN-CONFIDENCE

INDICATIVE WORK PROGRAM FOR THE SECURITY COMMITTEE
 (July-December 1986)

| SUBJECT | SCIS | ORIGINATOR | SECURITY COMMITTEE |
|--|---|---------------------------|--------------------|
| AUSTRALIAN PROTECTIVE SERVICE FUNCTIONS | 14 February 1986 | Minister for LGAS | 14 July 1986 |
| AUSTRALIAN COMMUNICATIONS AND ELECTRONIC SECURITY INSTRUCTIONS | 18 June 1986 | Minister for Defence | 14 July 1986 |
| CONTACT REPORTING SCHEME | finalised out-of-session | SCIS | 14 July 1986 |
| COBHI VISIT | to be considered out-of-session | Special Minister of State | 14 July 1986 |
| NEW DSD PROJECT | 18 June 1986 | Minister for Defence | August 1986 |
| COUNTER-TERRORISM REVIEW | to be considered out-of-session | Special Minister of State | August 1986 |
| AUSTRALIAN INTELLIGENCE COMMUNITY SECURITY CHECKING | 14 February 1986 (to be finalised out-of-session) | SCIS | August 1986 |
| WCASIA REPORT ON DSD - COMPUTER SECURITY | 14 February 1986 (to be finalised out-of-session) | Minister for Defence | August 1986 |
| INTELLIGENCE AND SECURITY ANNUAL REPORTS | 19 September 1986 | SCIS | - |
| AUSTRALIAN NATIONAL SIGINT COMMITTEE | 19 September 1986 | Minister for Defence | October 1986 |

SECRET-CABINET-IN-CONFIDENCE

7. ATTACHMENT A

SECRET-CABINET-IN-CONFIDENCE

| SUBJECT | SCIS | ORIGINATOR | SECURITY COMMITTEE |
|--|-----------------|----------------------|--------------------|
| SCIS REPORT TO MINISTERS | 24 October 1986 | SCIS | November 1986 |
| GUIDELINES ON SIGINT AND AUSTRALIAN NATIONALS (INCORPORATING DSD'S ROLE IN SUPPORT OF LAW ENFORCEMENT AGENCIES IN AUSTRALIA) | 24 October 1986 | Minister for Defence | November 1986 |

SECRET-CABINET-IN-CONFIDENCE

This was not empire-building, but a response to political demands for greater policy coordination. As Weller has observed of the DPMC and its Secretaries:

By the 1960s, [Sir John] Bunting had his finger in all parts of the administration, prodding here, pushing there. The Prime Minister's Department became more activist under Hewitt and a powerhouse under [Alan] Carmody and [Geoffrey] Yeend, as they sought to provide the all-encompassing service that Fraser demanded—in that it reflected its masters. The department was interested in whatever the prime minister wanted to be interested in. Where he demanded answers it sought them out. If he wanted the capacity to provide a running critique on, and alternatives to, the Treasury's economic advice, the department was expected to provide it.¹⁰⁸

Indeed the growth of the centre mirrored a growth in the types of issues that required horizontal consultation and coordination, or prime ministerial leadership. In this light, intelligence was just one of the several types of government business that grew to need greater coordination as the global and national environments evolved.

All at the Table: A New Government and New National Security Machinery

The machinery that resulted from Hope's royal commissions lasted well into the 1990s, through the end of the Cold War and the Iraqi invasion of Kuwait. The most significant internal reviews of the intelligence community through the 1990s, the Richardson and Hollway reports of 1992, largely endorsed the higher intelligence machinery as it existed.¹⁰⁹ This endorsement was echoed by the most significant external review of the 1990s, the Commission of Inquiry into the Australian Secret Intelligence Service (commonly referred to as the Samuels and Codd Report), completed in 1995.¹¹⁰ The most significant discussion arising from the Commission of Inquiry was whether the membership of SCIS should be expanded to include the DG of ASIS as a standing member. There were compelling arguments for and against this measure.

¹⁰⁸ Weller, 2007, p.227.

¹⁰⁹ Samuels, G.J. and Codd, M.H. (1995) *Report on the Australian Secret Intelligence Service: Public Edition*, Commission of Inquiry into the Australian Secret Intelligence Service, Canberra: Australian Government Publishing Service, pp.4-5, 78-79.

¹¹⁰ *Ibid*, pp.78-79.

On one hand, SCIS was a policy body. The inclusion of the DG of ONA and the DG of ASIO on SCIS as full members reflected the ONA's coordination mandate and ASIO's mandate to advise government on security threats, which were both policy *advisory* roles. ASIS, like DSD, was purely an intelligence collection organisation and therefore, some argued, it was inappropriate to have ASIS sitting at a policy table. However, Samuels and Codd, like Justice Hope before them, were unconvinced by this argument, stating that the inclusion of ASIS at SCIS as a full member would ensure SCIS was fully informed of options when advising cabinet ministers. Samuels and Codd also felt that, while the Secretary of the DoD and the Chief of Defence Force adequately represented DSD and the Defence Intelligence Organisation (DIO) on SCIS, the Secretary of DFAT or the DG of ONA could not adequately represent ASIS, as neither had line responsibility for the Service.¹¹¹ The Commission of Inquiry recommended, and the government subsequently accepted, that the DG of ASIS should be a full member of SCIS.¹¹² The report by Samuels and Codd does allow for a good snapshot of the higher intelligence machinery, as it existed in mid-1995. Figure 1.3.10 illustrates the composition and role of SCIS, as it existed just after the Commission of Inquiry into ASIS, including the inclusion of the DG of ASIS as a full member. As can be seen, the key role of SCIS was, like its predecessor committees, to coordinate and 'queue up' the policy work of the Security Committee.

¹¹¹ Ibid, pp.79-81. It is necessary to note that while the Secretary of DoD and the Chief of Defence Force shared line responsibility for DSD and DIO, the Secretary of DFAT did not share the same line responsibility for ASIS. Instead, the DG of ASIS reported directly to the Minister of Foreign Affairs.

¹¹² Ibid, and Evans, G. (June 1, 1995) 'Ministerial Statement on the Australian Secret Intelligence Service', Senate Hansard, Canberra: Parliament of Australia.

| Figure 1.3.10: Secretaries' Committee on Intelligence and Security, June 1995¹¹³ | |
|---|--|
| Membership | |
| Secretary, DPMC (Chair) Secretary, DFAT Secretary, DoD Secretary, AGD Chief of Defence Force Secretary, Department of Finance DG, ONA DG, ASIO DG, ASIS | |
| Secretariat Support | |
| Office of Security and Intelligence Coordination (OSIC) in the Department of Prime Minister and Cabinet | |
| Responsibilities Regarding the Australian Intelligence Community | |
| <ul style="list-style-type: none"> • Institute a regular cycle for examination of, and reporting to the Security Committee on, annual reports, forward estimates and budget estimates relating to the intelligence and security agencies. • Report regularly to the Security Committee on all relevant intelligence and security matters as required by the Prime Minister or the Security Committee, or otherwise as agreed necessary by SCIS. • Subject to control and oversight by the Security Committee, provide guidance to the intelligence and security authorities constituting the total national intelligence and security effort, external and internal, including on questions of access to information and distribution of reports that may arise. • Subject to control and oversight by the Security Committee in respect of targets and priorities: <ul style="list-style-type: none"> ○ Recommend the national assessment priorities and provide guidance, as necessary, in respect of the national intelligence collection requirements; and ○ Consider any requests from Departmental Secretaries or heads of statutory authorities or intelligence agencies to have a priority determined. | |

Figure 1.3.11 illustrates the composition and role of the Security Committee, showing both its general mandate to oversee the policy of the Australian IC, as well as its more specific recurring activities as they existed at the time. Apart from this slight change to the membership of SCIS, the machinery stayed

¹¹³ Information in Figure 1.3.10 is drawn from Samuels and Codd, 1995, pp.73-74.

relatively stable until the election of the Liberal/National Coalition government under John Howard in 1996.

| Figure 1.3.11: Security Committee of Cabinet (SCOC), June 1995¹¹⁴ | |
|--|--|
| Membership | |
| Prime Minister (Chair) Minister of Foreign Affairs (Deputy Chair) Minister of Defence Attorney General Treasurer Minister of Finance Minister of Trade (alternate member for Minister of Foreign Affairs) | |
| Secretariat Support | |
| Office of Security and Intelligence Coordination (OSIC) in the Department of Prime Minister and Cabinet | |
| Responsibilities Regarding the Australian Intelligence Community | |
| <i>General Responsibilities</i> | |
| <ul style="list-style-type: none"> • Setting of broad intelligence priorities • Consideration of the budgets of the intelligence agencies • Approval of significant changes in the intelligence effort • Approval of broad guidelines for the operation of intelligence agencies | |
| <i>Key Recurring Responsibilities</i> | |
| <ul style="list-style-type: none"> • Consideration of an annual report from SCIS on the activities of the intelligence and security agencies, based on the annual reports of the agencies. • Consideration of Part Two of the ONA Annual Report, containing an assessment of the performance of each agency. • Consideration of a Department of Finance report on the budgets and forward estimates of the agencies, including any new policy proposals, as part of the budget process. • Endorsement of the National Foreign Intelligence Assessment Priorities, usually every two to three years. • Every three years, from 1994, endorsement of a Foreign Intelligence Planning Document prescribing longer-term strategic directions. | |

By the time of the Commission of Inquiry into ASIS in 1995, the Security Committee was meeting three to six times a year.¹¹⁵ Keating had earlier done away with a wider cabinet committee on foreign affairs and defence, leaving SEC

¹¹⁴ Information in Figure 1.3.11 is drawn from Samuels and Codd, 1995, pp.71-73.

¹¹⁵ Samuels and Codd, 1995, p.71.

the only cabinet committee dedicated to national security questions. Yet, analysis within the government indicated that changes were needed to the machinery for national security coordination. The 1994 Defence White Paper recognised the decreasing risk of war between the superpowers, but also the complexity of the new environment. The White Paper concluded that:

The end of the Cold War means the passing of the structures which have shaped the regional strategic environment. Previously, our defence planning has been able to assume a degree of predictability in our strategic circumstances. Now, we need to take account of a more complex and changeable strategic environment. Australia's ability to help shape that environment will become more important to our security, and our policies will need to encompass a wider range of possible outcomes than the more predictable decades of the Cold War.¹¹⁶

Australia's security was intertwined with not just military and alliance dynamics, but also regional economic competition and political evolution that could be orderly or chaotic.¹¹⁷ In short, decision-making on national security needed to encompass a wider range of considerations simultaneously. The narrow remit of the Security Committee of Cabinet, and the lack of a dedicated body for foreign and defence policy outside of the full Cabinet left the existing machinery unable to address this new external environment.

It is clear that, while some governments saw the post-Cold War era as a time of 'peace dividends,' the Australian government was coming to see global, and particularly regional, uncertainty. Drawing on the findings of the 1994 Defence White Paper, the opposition Liberal/National Coalition, led by John Howard, took a wide view of security, pointing directly to global and regional uncertainties. The Coalition's defence platform stated that, "while the current outlook for Australia's security is not threatening, the security uncertainties of the post-Cold War world require a dynamic rather than static understanding of our geo-strategic and geo-political environment" and that "an effective synthesis of foreign, economic and defence objectives must be achieved to develop a

¹¹⁶ Department of Defence (1994), *Defending Australia: Defence White Paper, 1994*, Canberra: Australian Government Publishing Service, p.10-11.

¹¹⁷ *Ibid*, pp.7-11.

cohesive security policy.”¹¹⁸ To achieve this synthesis and provide more regular policy guidance, the Coalition promised, if elected, to replace SEC with a National Security Committee of Cabinet and, correspondingly, a Secretaries’ Committee on National Security would replace SCIS.¹¹⁹

With Howard’s election in 1996, the machinery for intelligence coordination changed to reflect the earlier policy commitment in the Coalition’s platform. The National Security Committee of Cabinet (NSC) was announced on March 17, 1996, six days after the new government took office.¹²⁰ Correspondingly, the Secretaries Committee on National Security (SCNS) was formed, encompassing SCIS’ more narrow remit.¹²¹ Given that these two bodies have become the central forum for national security (including intelligence) policymaking in the Australian government, a dedicated discussion of both is useful.

The Powerhouse at the Centre: The National Security Committee of Cabinet

Apart from a wider mandate, perhaps the most striking change in the new NSC machinery was the direct interaction between ministers and officials. While the March 17th press release announcing the cabinet committees listed a small membership of five ministers on the NSC, the reality has become more complex. The NSC has come to be comprised of essentially two tiers: the first tier was the ministers who took policy decisions; the second tier was the senior officials who would often attend to provide direct advice to NSC ministers.¹²² The regular attendance of senior officials at NSC became normal through the East Timor crisis of 1999, and has persisted into a permanent model.¹²³ Patrick Weller explains that, “Senior officials [...] attend all meetings; the ministers sit on one

¹¹⁸ Liberal Party of Australia (1996) *Defence Policy*, Federal Coalition Policies, Canberra: Liberal Party of Australia, p.3-4.

¹¹⁹ Liberal Party of Australia, 1996, p.4.

¹²⁰ Prime Minister’s Office (March 17, 1996) ‘Cabinet Committees, Parliamentary Sitings, and Ministerial Duties’ Press Release.

¹²¹ SCNS is also interchangeably referred to as ‘SCONS.’ For the purposes of this work, SCNS is used as this is the abbreviation used in official documentation.

¹²² Connery, D. (2010) *Crisis Policymaking: Australia and the East Timor Crisis of 1999*, Canberra: ANU E-Press, p.7-9.

¹²³ *Ibid*, p.8.

side of the table, the officials on the other. [...] The proceedings are informal; everyone can participate and officials do not have to wait to be asked if they have something to say.”¹²⁴ Officials are not ‘voting’ members of the NSC; in keeping with Westminster and constitutional requirements, policy decisions are the domain of the ministers on the NSC. The attendance of senior officials at NSC provides two benefits. Firstly, officials can directly support the debate and discussion amongst ministers by offering subject-matter knowledge and clarifications where needed. Secondly, officials are better informed of the NSC discussions, including the dynamics between ministers and any follow-up activities required after an NSC meeting.¹²⁵

Senior officials’ participation in, and understanding of, the discussion at NSC is particularly important because NSC decisions are not referred to full Cabinet, as most other cabinet committee decisions are. By virtue of the fact that the NSC includes the PM and other senior ministers, and because of the highly sensitive (and often highly classified) nature of its agenda items, decisions of the NSC are considered final unless decided otherwise by the PM.¹²⁶ In instances where NSC decisions have wider implications, the PM can decide to have the full Cabinet ratify the NSC decision; John Howard has recounted doing this over the decision to participate in the 2003 invasion of Iraq, and the deployment of Australian troops in Al Muthanna province in Iraq.¹²⁷ However, referral of policy decisions to full Cabinet has been the exception; the NSC became the powerhouse of national security decision-making, including in intelligence. Figure 1.3.12 contains the key points of the NSC as it existed in 1999 at the time of the East Timor crisis.

¹²⁴ Weller, 2007, p.183.

¹²⁵ Connery, 2010, p.7-9 provides an excellent discussion of the NSC process.

¹²⁶ Oatley, C. (2000) *Australia’s National Security Framework: A Look to the Future*, Working Paper No.61, Australian Defence Studies Centre, p.24. This status of the NSC continues today, see Australian Government Online Directory (2013) ‘Cabinet Committees: National Security Committee’

http://www.directory.gov.au/directory?ea0_lf99_120.&organizationalUnit&e3c454c6-f964-4da6-ab46-2f4ece27fc25 (accessed June 2015).

¹²⁷ Sheridan, G. (2006) *The Partnership: The Inside Story of the US-Australian Alliance under Bush and Howard*, Sydney: UNSW Press, pp.231-232

| Figure 1.3.12: National Security Committee of Cabinet (NSC), circa 1999¹²⁸ | |
|--|--|
| Membership | Attending Officials |
| <p style="text-align: center;">Prime Minister (Chair)</p> <p style="text-align: center;">Deputy Prime Minister (Deputy Chair)</p> <p style="text-align: center;">Minister of Foreign Affairs</p> <p style="text-align: center;">Minister of Defence</p> <p style="text-align: center;">Attorney General</p> <p style="text-align: center;">Treasurer</p> <p>*Other ministers were co-opted as necessary, such as the Minister of Finance for expenditure discussions.</p> | <p style="text-align: center;">Secretary, DPMC</p> <p style="text-align: center;">Secretary, DFAT</p> <p style="text-align: center;">Secretary, DoD</p> <p style="text-align: center;">Chief of Defence Force</p> <p style="text-align: center;">DG of ONA</p> <p>*Other officials were co-opted as necessary, such as the DG of ASIO, the Commissioner of the Australian Federal Police, the Secretary of the Treasury or the Secretary of the Department of Finance.</p> |
| Secretariat Support | |
| Cabinet Division and International Division within Department of Prime Minister and Cabinet, including OSIC for intelligence-related items. | |
| Responsibilities relating to Intelligence Community | |
| <p><i>General Responsibilities</i></p> <ul style="list-style-type: none"> • NSC shall be the focus for discussion on major issues, including strategic developments, of relevance to Australia’s national security interests; • NSC [shall] also consider policy issues in relation to: <ul style="list-style-type: none"> ○ Intelligence and domestic security matters; and ○ Law enforcement matters which involve security aspects or major strategic issues¹²⁹ <p><i>Key Recurring Responsibilities</i></p> <ul style="list-style-type: none"> • Consideration of an annual report from SCNS on the activities of the intelligence and security agencies, based on the annual reports of the agencies. • Consideration of Part Two of the ONA Annual Report, containing an assessment of the performance of each agency. • Consideration of a Department of Finance report on the budgets and forward estimates of the agencies, including any new policy proposals, as part of the budget process. • Endorsement of the National Foreign Intelligence Assessment Priorities, usually every two to three years. • Endorsement of a Foreign Intelligence Planning Document prescribing longer-term strategic directions.¹³⁰ | |

¹²⁸ Information in Figure 1.3.12 is drawn from Oatley (2000) and Connery (2010) who both discuss the NSC/SCNS machinery around 1999-2000.

¹²⁹ These points drawn from the 1994 *Cabinet Handbook* and quoted in Oatley, 2000, p.23-24.

¹³⁰ The recurring activities of the cabinet committee in relation to intelligence changed very little in the move from SEC to NSC.

The Secretaries' Committee on National Security

The SCNS represented an evolution of, rather than a break from, its predecessor, the Secretaries' Committee on Intelligence and Security. Like other deputy heads' committees that support cabinet, the membership and tempo of SCNS closely mirrored that of the NSC. Each would generally meet monthly, unless events called for more regular meetings.¹³¹ SCNS would meet prior to the NSC meeting in order to review submissions and ensure coordinated advice to NSC ministers. Figure 17 outlines the SCNS as it existed around the time of the East Timor crisis in 1999.

| Figure 1.3.13: Secretaries' Committee on National Security, Circa 1999¹³² |
|---|
| Membership |
| Secretary, DPMC (Chair) Secretary, DFAT Secretary, DoD Secretary, AGD Chief of Defence Force Secretary, Treasury DG, ONA Other Secretaries and heads of agencies would attend as required, including: DG, ASIO DG, ASIS Director, DSD Secretary, Department of Finance Secretary, Customs |
| Secretariat Support |
| Cabinet Division and International Division within Department of Prime Minister and Cabinet, including OSIC for intelligence-related items. |
| Responsibilities Regarding the Australian Intelligence Community |
| <i>Terms of Reference:</i> ¹³³ <ul style="list-style-type: none"> • To provide coordinated advice to the NSC on national security policy, including |

¹³¹ Connery, 2010, pp.7-11.

¹³² Information in Figure 1.3.13 is drawn from Connery, 2010, pp.9-11 and Oatley, 2000, p.25.

¹³³ SCNS terms of reference at the time are quoted in Oatley, 2000, p.25.

approaches to international strategic developments and major issues of long term relevance to Australia's economic, political, trade and defence interests, particularly where those interests interact.

- To provide coordinated advice other NSC on the activities of departments and agencies in connection with intelligence and domestic security matters, including:
 - resources, staffing policies and cost effectiveness;
 - priorities;
 - national interest considerations; and
 - propriety.
- Consistent with the policy directions of the National Security Committee to:
 - coordinate and oversee the implementation of policies and programs relevant to national security policy; and
 - coordinate and provide guidance to departments and agencies involved in intelligence and domestic security.

SCNS combines one part strategic thinking, one part cabinet support, and one part policy coordination; these roles are equally important, and closely intertwined. As Connery has pointed out in his study of the Australian national security system:

Its agenda varied, but generally SCNS considered important, long-term issues with broad impacts on national security and the government. [...] Thus SCNS played a major role in determining spending priorities and highlighting the impact of policy options across portfolio areas. SCNS also became a rehearsal for the [NSC], as its members reviewed items going forward to the ministerial group.¹³⁴

SCNS' role in strategic thinking means that it commissions and reviews submissions from the major national security organisations on particular policy issues that may be of broad importance to the national security community. For instance, SCNS made a major push into cyber-security in the late 1990s, when it identified a major report being prepared by the DSD on information infrastructure vulnerabilities. SCNS' review of the intelligence agencies' annual reports at the end of 1996 brought to the committee's attention a significant report being prepared by DSD, examining the evolution of the cyber threat environment.¹³⁵ The DSD report, *Australia's National Information Infrastructure:*

¹³⁴ Ibid, p.10-11.

¹³⁵ Report of the Interdepartmental Committee on Protection of the National Information Infrastructure, (December 1998) *Protecting Australia's National Information Infrastructure*,

Threats and Vulnerabilities, examined the extent to which the Australian information infrastructure was vulnerable to disruption. The DSD report found that the information revolution was leading to greater dependency on the information infrastructure, and hence greater vulnerabilities. It also concluded that too little was known about potential threats, and there was no adequate national effort to coordinate protection of the information infrastructure.¹³⁶ The DSD report was reviewed by SCNS on August 18, 1997, and SCNS subsequently tasked the Attorney-General's Department (AGD) to lead an interdepartmental committee that would examine the policy and coordination implications of the DSD report's recommendations, and determine the best way to move forward.¹³⁷ The interdepartmental committee brought a major report back to SCNS in December 1998, endorsing the recommendations of the earlier DSD report, and outlining the programme elements and structures for a major information infrastructure protection programme.¹³⁸ The interdepartmental committee's report included estimated expenditures for new and expanded effort in DSD, DoD, AGD, ASIO, and AFP, and set the framework that would evolve into Australia's current cyber-security effort.¹³⁹ In this case, SCNS exercised its strategic policy function, in that the committee identified a significant issue with broad implications, commissioned and oversaw the necessary policy work across multiple departments and agencies, and identified options to go to NSC ministers for future decision and implementation.

The focus of SCNS' cabinet support role is to ensure that a coherent picture of a policy issue is put to ministers on the NSC. This includes agreeing as many points as possible before an issue reaches ministers, thus ensuring that

Canberra: Attorney General's Department, Attachment A—*Australia's National Information Infrastructure: Threats and Vulnerabilities* (DSD Report).

¹³⁶ Report of the Interdepartmental Committee on Protection of the National Information Infrastructure, (December 1998), Attachment A—*Australia's National Information Infrastructure: Threats and Vulnerabilities* (DSD Report).

¹³⁷ *Ibid*, Attachment B—Interdepartmental Committee on the Protection of the National Information Infrastructure, Terms of Reference.

¹³⁸ Report of the Interdepartmental Committee on Protection of the National Information Infrastructure, (December 1998).

¹³⁹ *Ibid*. The 1998 report's recommendations can be seen as the initial foundation for what has become the Australian Cyber Security Centre.

points of decision are clearly articulated.¹⁴⁰ In terms of cabinet process, the successive iterations of the *Cabinet Handbook* have laid out what is expected of departments in terms of coordination during the cabinet submission process. Each submission is required to be circulated to concerned departments well in advance of its formal submission to ministers. The *Cabinet Handbook* and other sources outline that cabinet submissions go through three formal stages of coordination:

Stage 1--Exposure Drafts: Exposure drafts are early complete drafts of a cabinet submission. They are circulated to concerned departments for comment well in advance of the more formal stages of the process (the 2009 Handbook indicates that exposure drafts should be circulated at least ten days prior to seeking coordination comments.)¹⁴¹

Stage 2--Coordination Comments: Once the drafting department has integrated as many comments as possible from other concerned departments, a formal draft is circulated for coordination comments (known as 'co-ords').¹⁴² Departments have the opportunity to record their formal views on a submission, which are then included in the complete submission package to the relevant Secretaries' committee and cabinet committee. DPMC has stressed that co-ords are:

- impartial advice to ministers by public service departments;
- not for raising matters that should be handled between departments, but a mechanism for bringing up items that require ministerial agreement or discussion at the cabinet table; and

¹⁴⁰ Connery, 2010, p.9.

¹⁴¹ Department of Prime Minister and Cabinet (2012) *Cabinet Handbook, 7th Edition*, Canberra: Commonwealth of Australia, p.32; Department of Prime Minister and Cabinet (2009) *Cabinet Handbook, 6th Edition*, Canberra: Commonwealth of Australia, pp.20-21.

¹⁴² Tiernan, A. and Weller, P. (2010) *Learning to be a Minister: Heroic Expectations, Practical Realities*, Carlton, Victoria: Melbourne University Press, pp.165-166.

- a necessary part of the process. DPMC does not release submissions until coordination comments are received from all relevant departments. This ensures that everyone has the chance to be heard.¹⁴³

Stage 3--Final Draft Submissions: Final submissions are lodged with the Cabinet Division in DPMC, in consultation with the relevant policy division in DPMC, where they are securely stored.¹⁴⁴ Secretaries on SCNS usually discuss NSC submissions before the submission formally goes to ministers.

Andrew Podger, a former Secretary, has written that, “Informed discussion in cabinet [...] is enhanced when secretaries discuss important coordination comments in submissions before they are finalised.”¹⁴⁵ Podger also alludes to the importance of informal discussions, stating that, “Informal meetings among secretaries are important for cutting through the issues and clarifying remaining differences for ministers to settle. They also help understanding of political factors that are not always reflected in the papers.”¹⁴⁶ Connery has noted that the NSC/SCNS machinery operates in very much the same way as the rest of the cabinet system. Coordination comments are sought and discussed and the mantra of ‘no-surprises’ reinforces a culture of coordination.¹⁴⁷ Reinforcing Connery’s statement, in terms of the processes for drafting and coordinating submissions, the *Cabinet Handbook* does not outline separate processes for the NSC/SCNS machinery.¹⁴⁸

¹⁴³ Department of Prime Minister and Cabinet (2012) *Cabinet Handbook, 7th Edition*, Canberra: Commonwealth of Australia, pp.32-33; Department of Prime Minister and Cabinet (2009) *Cabinet Handbook, 6th Edition*, Canberra: Commonwealth of Australia, pp.20-22.

¹⁴⁴ Department of Prime Minister and Cabinet (2012) *Cabinet Handbook, 7th Edition*, Canberra: Commonwealth of Australia, p.31; Department of Prime Minister and Cabinet (2009) *Cabinet Handbook, 6th Edition*, Canberra: Commonwealth of Australia, p.46.

¹⁴⁵ Podger, A. (2009) *The Role of Departmental Secretaries: Personal Reflections on the Breadth of Responsibilities Today*, Canberra: ANU E-Press, p.51.

¹⁴⁶ Ibid.

¹⁴⁷ Connery, 2010, p.9.

¹⁴⁸ The different iterations of the *Cabinet Handbook* have generally only draw distinctions between the NSC/SCNS process and other cabinet processes in two areas: 1) processes for defence procurement submissions, and 2) secrecy and security of cabinet documents. The process for drafting and coordinating submissions is unchanged.

The Strategic Policy Coordination Group and Defence Intelligence Board

Deputy heads' committees are not meant to be operational in nature, but are meant to provide high-level, strategic oversight to the policy process on behalf of ministers. Because of the demands on deputy heads, more consistent discussion and coordination of complex policy issues has been done by second and third tier senior executives, which in Australia are deputy secretaries and first assistant secretaries (DepSecs and FAS).

As Connery has noted, there was a need for a more informal body to coordinate responses to crises and have on-going discussions about complex national security policy issues. At the same time, however, members still needed to be senior enough to speak for their department. This need led to the creation of the Strategic Policy Coordination Group, or SPCG, in 1988.¹⁴⁹ SPCG operates at the level of deputy secretaries and first assistant secretaries, and was meant to be an informal group where deputy and first assistant secretaries from the key international and national security policy departments could meet and discuss policy issues in support of SCNS and NSC. By 1999, in times of crises when secretaries were already heavily committed in the NSC, SPCG could provide senior-level coordination that was more operationally oriented.¹⁵⁰ Figure 1.3.14 outlines the membership of SPCG. Because of its informal nature, one senior official referred to it as, "more like a community than a committee."¹⁵¹ The key role of the SPCG is coordination and integration, "assessing the interactions between military, diplomatic, covert intelligence, economic, social and political variables on a regional and global scale and trying to fit them into policy responses for a range of future possibilities."¹⁵² While SCNS was meant to directly support ministers on NSC, SPCG was meant to directly support secretaries on SCNS, but also provide an senior-level operational coordination function when required.

¹⁴⁹ Connery, 2010, pp.11-13.

¹⁵⁰ Ibid, pp.11-13, 137-138.

¹⁵¹ Quoted in Connery, 2010, p.12.

¹⁵² Barker, G. (February 1999) 'Smoke on the Horizon: Keeping Watch on our Future Security' *Australian Financial Review Magazine*, p.38.

| Figure 1.3.14: Strategic Policy Coordination Group¹⁵³ |
|---|
| Deputy Secretary and/or First Assistant Secretary, International Division, DPMC |
| Deputy Secretary and/or First Assistant Secretary, DFAT |
| Deputy Secretary, Strategy and Intelligence and/or First Assistant Secretary, DoD |
| Vice Chief of the Defence Force |

The informality of the SPCG made it similar in nature to the other already-existing body that played an important role in intelligence coordination: the Heads of Intelligence Agencies Meeting (HIAM). HIAM continued through the 1990s, and, along with the National Intelligence Committee, remained relatively unchanged through the introduction of the NSC/SCNS machinery.

One later addition to the interdepartmental intelligence machinery was the formation of the Defence Intelligence Board (DIB). In 1997, the Minister of Defence published a policy paper entitled *Australia's Strategic Policy 1997* (ASP97), which, for all intents and purposes, was an interim defence white paper. In it, the government highlighted that its decisions around force structure would be based on four priorities. The highest of the four priorities was identified as maintaining and expanding Australia's 'knowledge edge' and was heavily dependent on intelligence. ASP97 stated:

The huge areas covered by our territory and maritime approaches make surveillance particularly important for our defence. If they could be made transparent to us by continuous, effective, real-time surveillance, those huge areas would provide us with great strategic depth; if they are opaque to us they are a distinct strategic liability. The information revolution in warfare offers us the prospect of surveillance capabilities, which, if realised, could make our approaches more transparent than they have ever been.¹⁵⁴

¹⁵³ Figure 1.3.14 is derived from Connery, 2010, p.12, and also draws on Andrews, E. (2001) *The Department of Defence*, The Australian Centenary History of Defence, Volume V, Oxford: Oxford University Press, p.261; Swinsberg, P.R. (2001) *The Strategic Planning Process and the Need for Grand Strategy*, Monograph for the School of Advanced Military Studies, Fort Leavenworth: United States Army Command and General Staff College, pp.13-14
<http://www.dtic.mil/dtic/tr/fulltext/u2/a391156.pdf> (accessed June 2015).

¹⁵⁴ Department of Defence (1997) *Australia's Strategic Policy*, Canberra: Commonwealth of Australia, pp.56-57.

In ASP97, the Australian government committed to maintaining and enhancing its intelligence and surveillance capabilities within the defence portfolio, in order to maintain this 'knowledge edge.'¹⁵⁵ Related to these policy commitments, and because of technological growth in imagery intelligence and geospatial intelligence (IMINT and GEOINT), the government embarked on an effort to expand Australia's IMINT and GEOINT capability.¹⁵⁶ As a result, in 1998, the Imagery Branch of the Defence Intelligence Organisation (DIO) was separated to become a stand-alone agency named the Australian Imagery Organisation (AIO).¹⁵⁷ This move was in line with similar organisational reforms by Australia's major allies, specifically the US who had progressively centralised its IMINT and GEOINT capabilities through the 1990s.¹⁵⁸ The creation of AIO added organisational complexity to the intelligence group within the DoD portfolio. Additionally, the DoD was embarking on complex projects to increase technical capacity in intelligence, such as the \$15 million Phase 2 expansion of the ADF Joint Intelligence Support Environment.¹⁵⁹

Because of this growing complexity, the Defence Intelligence Board (DIB) was formed on October 28, 1999 to provide stronger strategic governance to the intelligence agencies within the defence portfolio (referred to as the 'Defence Intelligence Group').¹⁶⁰ The DIB was chaired by a deputy secretary in DoD, and consisted of representatives from the defence intelligence agencies, the ADF, the Defence Science and Technology Organisation, and the ONA.¹⁶¹

¹⁵⁵ Ibid, p.57. The particular commitments were to enhance expertise in intelligence assessment and analysis on defence and strategic issues, enhance collection capabilities, and develop all-source fusion and delivery to ADF consumers.

¹⁵⁶ Flood, P. (2004) *Report of the Inquiry into the Australian Intelligence Agencies*, Canberra: Commonwealth of Australia, pp.139-140.

¹⁵⁷ Ibid and Minister of Defence (October 28, 1999) 'New Defence Intelligence Arrangements' Press Release MIN 321/99, Canberra: Department of Defence. AIO would become the Defence Imagery and Geospatial Organisation (DIGO) in 2000, when the AIO also absorbed the defence topographical and mapping functions.

¹⁵⁸ The US had created the Central Imagery Office in 1992 and the National Imagery and Mapping Agency in 1996.

¹⁵⁹ Department of Defence (September 28, 1998) 'Defence Intelligence Computing Network' Press Release, DPAO 189/98, Canberra.

¹⁶⁰ Minister of Defence (October 28, 1999) 'New Defence Intelligence Arrangements' Press Release, MIN 321/99, Canberra: Department of Defence. The Defence Intelligence Group consisted of DSD, DIO, AIO, and, as of 2001, the Defence Security Authority (DSA).

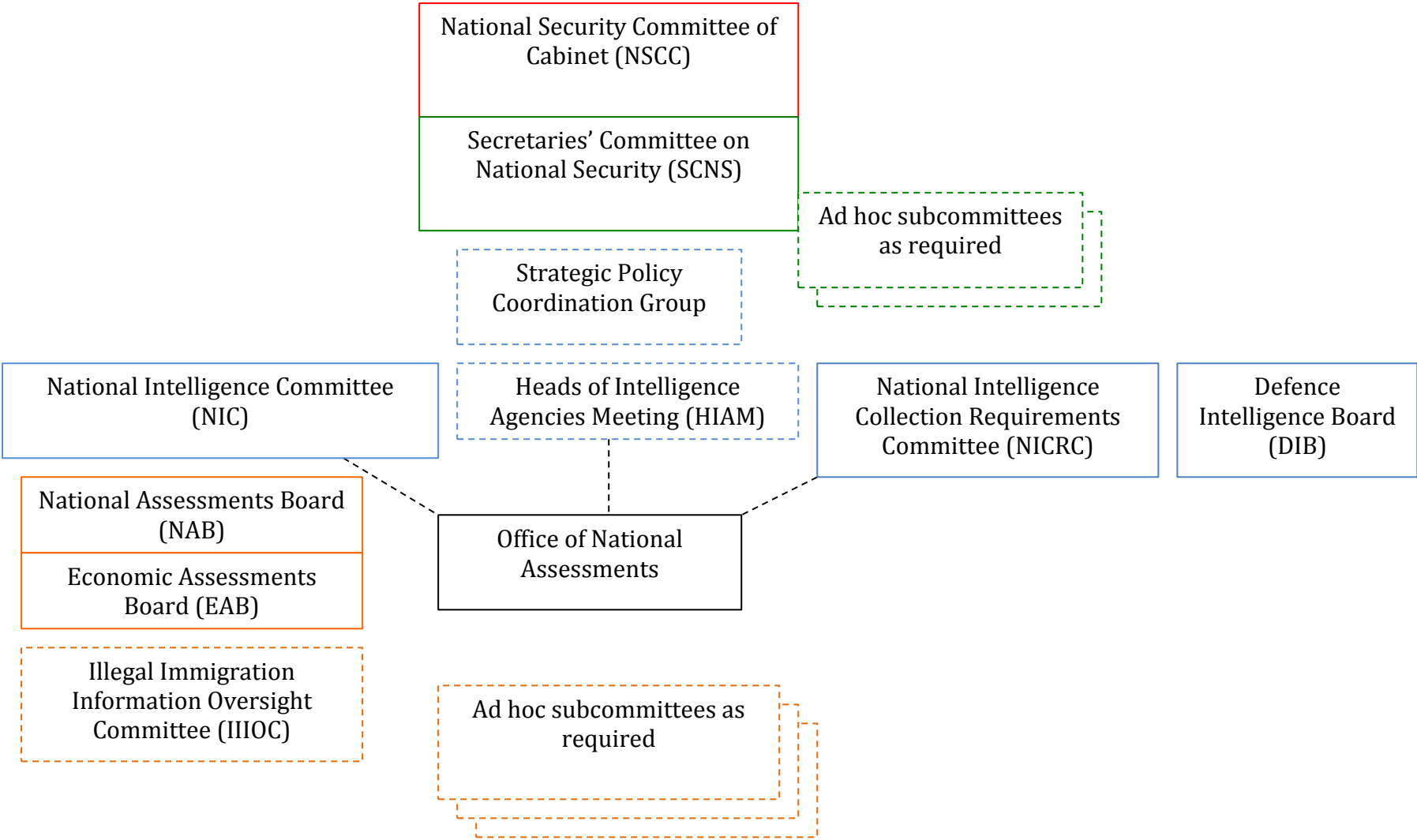
¹⁶¹ Ibid.

The creation of the DIB coincided with an organisational shift within the DoD itself. Historically, defence intelligence had fallen under the remit of the DepSec for Strategy and Intelligence, who was also responsible for the department's strategic policy function. In 1999, this role was split, and the Chair of DIB became singularly responsible within DoD for the resources and management of the overall defence intelligence effort.¹⁶²

In conjunction with the NSC and SCNS, the SPCG and the DIB rounded out the senior-level committees that were responsible for the coordination of Australia's national intelligence effort through the later half of the 1990s. As described, Australia spent much of the 1990s strengthening its interdepartmental machinery for intelligence coordination in order to effectively manage what was seen as an increasingly complex global and regional environment. Figure 1.3.15 illustrates the Australian committee structures as they existed around 1999, following the creation of the NSC/SCNS and DIB machinery.

¹⁶² Ibid, and Department of Defence (2000) *Defence Annual Report 1999-2000*, Canberra: Commonwealth of Australia, p.59 for organisational chart.

Figure 1.3.15: Australian Committee Structure related to Management of the IC
--circa 1999--



Growth in DPMC: The International Division

With the formation of the NSC/SCNS machinery in the 1990s, the tempo of DPMC business related to the NSC/SCNS structure increased. By one account, the SCOC/SCIS machinery had handled 211 decisions over 11 years; in comparison, the NSC/SCNS machinery handled 418 decisions between May 1996 and October 2001.¹⁶³ This was in line with a general increase in DPMC international policy business, including work related prime ministerial 'summitry.' As a result, the International Division within DPMC grew, but retained the basic functions in regard to intelligence that it had through the late 1980s and early 1990s.

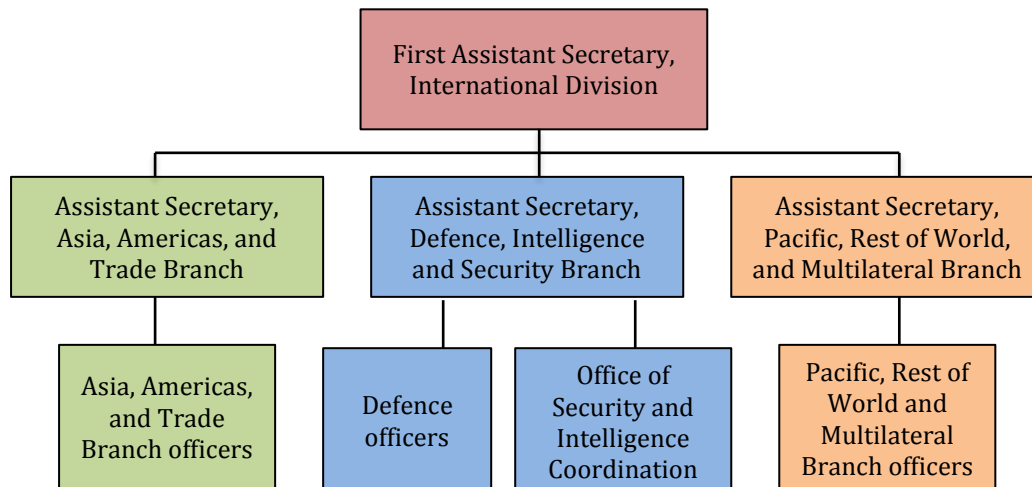
The Defence, Intelligence and Security Branch (DI&S Branch) was the central point within DPMC for intelligence-related policy coordination, housing both a defence section and the OSIC. OSIC retained responsibility for the management and coordination of NSC/SCNS business, but grew slightly with the increased tempo of work. DPMC evidence to the Senate Finance and Public Administration Legislation Committee in 1996 indicated that OSIC consisted of six officers in total, of which one had been added to help service the NSC/SCNS machinery upon its creation.¹⁶⁴ Figure 1.3.16 illustrates the International Division as it existed in 2000.

The assistant secretary in charge of the DI&S Branch from 1999-2002 was Brendon Hammer, a DFAT officer who would go on to be Deputy DG of ONA. Hammer's description of the DI&S Branch to a Senate Select Committee in 2002 is worth quoting at length, as it is one of the few descriptions of the Branch's work from one of its own officers.

¹⁶³ Reith, P. (October 15, 2001) 'Kim Beazley and his 'National Security Committee' Claims,' Office of the Minister of Defence, Press Release 427/01.

¹⁶⁴ Wood, G. (September 16, 1996) Evidence to the Senate Standing Committee on Finance and Public Administration--Legislation, Canberra: Parliament of Australia.

Figure 1.3.16: International Division of DPMC, 2000



On the Branch's breadth, Hammer stated:

The branch essentially had responsibility for briefing the Prime Minister and the secretary of the department across all issues [...] within the Defence portfolio. So that includes the Defence organisation, ADF, DSTO and Veteran's Affairs. We also had all of the intelligence agencies, those within Defence and outside Defence, and, in a sense, all domestic and international security matters. So we had, for example, a role in security for the Olympics and [Commonwealth Heads of Government Meeting]—although we were not central on that—the police forces and areas of the Attorney-General's Department, including the Protective Security Coordination Centre in that department.¹⁶⁵

Hammer continued by describing the Branch's role in regard to the cabinet system:

We also had another specific role, and that was to develop agendas and briefing for the Secretary and the Prime Minister in relation to meetings of the Secretaries Committee on National Security, which met roughly once a month, and also for the National Security Committee of Cabinet.¹⁶⁶

He continued by describing the branch's post-9/11 work with AGD:

The Attorney-General's Department, in particular, was working day and night to develop a series of rolling submissions to the Secretaries Committee on National Security and the National Security Committee of Cabinet with proposals for how to strengthen security here, there and right across the borders of Australia. From a policy development side,

¹⁶⁵ Hammer, B. (June 13, 2002) Evidence to the Senate Select Committee on a Certain Maritime Incident, Official Committee Hansard, Canberra: Parliament of Australia, p.1816.

¹⁶⁶ Ibid.

rather than from a briefing side, I played quite a strong role in that process. In fact, I had a considerable number of conversations, for example, over the telephone with the Secretary of the Attorney-General's Department about the way the policy development process was evolving. It was a very intense period in that respect, Senator Brandis.¹⁶⁷

Later in his evidence, Hammer described the intensity of work around NSC meetings, particularly the Branch's work preparing the PM as chair of the committee:

Preparation within my branch for those meetings is very intense in the couple of days leading up to them because we have to prepare a big briefing pack for the Prime Minister, briefing him on a range of issues coming before the meeting, and sometimes the submissions would come in late. The days immediately before a NSC meeting were usually completely blocked out with attempting to finalise the briefing pack[...]¹⁶⁸

In conjunction with managing the flow of NSC/SCNS business, and providing advice and briefings to the PM, the DI&S Branch became heavily involved in several ad hoc task forces used to manage particular complex policy issues.

Growth in DPMC: The Use of Ad Hoc Task Forces

Through the 1990s, in addition to the NSC/SCNS machinery, the use of ad hoc task forces grew. This growth in task forces was largely in response to two drivers: firstly, the need to coordinate a greater number of major policy files from the centre of government; secondly, the preference of prime ministers towards less formal structures. As has been noted in the official history of DPMC, the use of task forces became normal under John Howard, and continued with Howard's successors.¹⁶⁹ One former DPMC official explained that the task forces were a way of pulling a complex policy problem to the centre to ensure horizontal examination or coordination of the issue, while at the same time minimising the burden on any one minister or department.¹⁷⁰ A task force would

¹⁶⁷ Ibid, pp.1816-1817.

¹⁶⁸ Hammer, B. (June 13, 2002) Evidence to the Senate Select Committee on a Certain Maritime Incident, p.1822.

¹⁶⁹ Weller, P., Scott, J., Stevens, B. (2011) *From Postbox to Powerhouse: A Centenary History of the Department of the Prime Minister and Cabinet*, Sydney: Allen & Unwin, pp.135-136, 141-142.

¹⁷⁰ Ibid, p.142.

often be led by a deputy secretary from the lead department, would include officers from DPMC and other concerned departments or agencies, and would have a “loose reporting mechanism” to the relevant deputy secretary in DPMC or the Secretary of DPMC.¹⁷¹ This is a lax model however, and the level and functioning of the task force is often defined by the sensitivity and dynamics of the issue itself. At first glance, it is difficult to tell the difference between a ‘task force’ and other interdepartmental committees within government. Indeed, the nature of a task force can fluctuate, from a point where there is very little difference with other formal interdepartmental committees, to a point where there is a substantial difference. Generally, the key difference seems to be one of operating style: ad hoc task forces are *less formal* and more *action-oriented*. The nature of a formal deputy heads’ committee (such as SCNS) is more akin to oversight of the policy process. The activities of a task force, well not *operational* in the strict sense of the word, may be characterised as *operational coordination* within the policy village.

The Australian government’s efforts to manage illegal people smuggling in the late 1990s and early 2000s is a particularly useful study of how ad hoc task forces have been used to manage a particularly complex policy issue that had significant national security and intelligence implications. Beginning in 1998-1999, there was a significant surge in asylum-seekers reaching Australian territory with the help of people smuggling networks in Southeast Asia. Many of these asylum-seekers arrived by sea; one analysis found that the number of boats carrying asylum-seekers jumped from 17 in 1998, carrying around 200 people, to 86 in 1999, carrying almost 4,000 people.¹⁷² Additionally, there had been a steady growth in illegal arrivals by air as well (rising from 485 in 1994-95 to 1,941 in 1998-99).¹⁷³

¹⁷¹ Ibid.

¹⁷² Phillips, J. and Spinks, H. (2013) *Boat Arrivals in Australia since 1976*, Research Paper, Canberra: Department of Parliamentary Services, p.22.

¹⁷³ Department of Prime Minister and Cabinet (June 1999) *Prime Minister’s Coastal Surveillance Task Force Report*, Canberra: Department of Prime Minister and Cabinet, Appendix B-1.

After two vessels carrying illegal migrants landed undetected on Australian territory in 1998 and 1999, the Prime Minister's Coastal Surveillance Task Force was created to "make recommendations on the coastal surveillance procedures and systems."¹⁷⁴ The Secretary of DPMC chaired the task force, and its membership included the secretaries and agency heads from AGD, AFP, DoD, DFAT, Department of Immigration, Multicultural, and Indigenous Affairs (DIMIA), Australian Customs Service, and ONA. One of the principal recommendations of the Coastal Surveillance Task Force was that ONA should take a lead role in coordinating strategic intelligence related to people smuggling through the formation of an Information Oversight Committee.¹⁷⁵ ONA subsequently formed and chaired the Illegal Immigration Information Operations Committee in order to coordinate strategic intelligence and manage regional intelligence relationships relevant to people smuggling.¹⁷⁶ Additionally DIMIA formed the Operations Coordination Committee, which coordinated operational intelligence on people smuggling.¹⁷⁷

The Coastal Surveillance Task Force was closer to a classic interdepartmental committee in that it was formed to produce a specific report outlining options and recommendations for SCNS and NSC; when this task was complete the task force became dormant. The Unauthorised Arrivals Task Force soon followed the Coastal Surveillance Task Force in late 1999. Jane Halton, at the time a Deputy Secretary in DPMC, described these bodies to a Senate Select Committee by stating:

In late 1999 there was established [...] something called the Unauthorised Arrivals Task Force. We could probably have acronym salad here if we kept going, but it followed something called the Coastal Surveillance Task Force. What it did, in a similar way to the Coastal Surveillance Task Force but probably at a more operational level, was consider all of the information about unauthorised arrivals, consider current policy and look at a range of issues; ultimately, it provided advice and a report that resulted in an allocation in the 2000-01 budget in respect of particular initiatives. So it was your classic

¹⁷⁴ Department of Prime Minister and Cabinet (June 1999) *Prime Minister's Coastal Surveillance Task Force Report*, Canberra: Department of Prime Minister and Cabinet, p.2.

¹⁷⁵ *Ibid*, p.4.

¹⁷⁶ SSC-CMI, 2002, pp.20-21.

¹⁷⁷ *Ibid*.

*[interdepartmental committee] basically: come up with a range of options, come up with a report, which will be considered in the budget process, and allocations will be made in a number of areas.*¹⁷⁸

Halton stated that in February 2000, once the task of lining up initiatives for the 2000-2001 budget had been completed, the Unauthorised Arrivals Task Force became dormant as well.¹⁷⁹

However, by the middle of 2001, external occurrences had again brought maritime people smuggling to the forefront in Australian politics. In August 2001, the Norwegian cargo tanker *MV Tampa* rescued 433 Afghan asylum seekers at sea. After a decision by the NSC, Australian authorities refused the *Tampa* entry into Australian waters.¹⁸⁰ The ensuing standoff brought significant international criticism of Australian asylum policy (even though polling indicated overall domestic support for the government's stance), and raised questions about Australia's response. The government had only reached an end to the *Tampa* incident through ad hoc means; the asylum-seekers were processed in Nauru and New Zealand, instead of Australia. The policy solution was temporary and fragile at best, and the government knew further boats were imminent.¹⁸¹

In response to the *MV Tampa* incident, the government devised a new border protection policy, which included:

- The exclusion of certain territories from the Australian migration zone (such as Christmas Island and Ashmore Reef);
- The use of offshore detention and processing centres;
- Agreements with other Pacific countries to transfer to, and process asylum-seekers on, their territory.
- Increased disruption efforts, including military, law enforcement, and intelligence activities aimed at people-smuggling networks.¹⁸²

¹⁷⁸ Halton, J. (April 16, 2002) Evidence to the Senate Select Committee on a Certain Maritime Incident, Official Committee Hansard, Canberra: Parliament of Australia, p.924.

¹⁷⁹ Ibid.

¹⁸⁰ Costello, P. (2009) *The Costello Memoirs*, Melbourne: Melbourne University Press, pp.161-162.

¹⁸¹ For a full overview of the *MV Tampa* Affair, see SSC-CMI, 2002, *Final Report*, pp.1-4.

¹⁸² Minister for Immigration and Multiculturalism (September 2001) *Background Paper on Unauthorised Arrivals Strategy*, Canberra: Department of Immigration Multicultural, and Indigenous Affairs; SSC-CMI, 2002, *Final Report*, pp.3-12.

This proactive strategy required on-going high-level coordination. To address this, the People Smuggling Task Force (PSTF), which was formed initially to address the *MV Tampa* standoff in August 2001, took on a continuing coordination role. The PSTF was chaired by Jane Halton, the DepSec in DPMC responsible for the Social Policy Division.¹⁸³ PSTF reported to the Secretary of DPMC and the Prime Minister, and included high-level representatives from many departments and agencies, including DPMC, DIMIA, ADF, AFP, ASIO, Australian Customs Service, and DFAT.¹⁸⁴ The PSTF had no terms of reference, indicating its ad hoc and informal nature. Halton's own description of the PSTF speaks to the mandate and nature of the group:

The PST was set up and run on the basis that it provided advice on policy and operational issues as they arose. One of the group's key jobs was information exchange to ensure that all agencies were kept aware of relevant and emerging facts. It is important to understand that the role of the PST was not to insert itself into the chain of command within departments or the military.

My habit as chair was to start every meeting with a roundtable update from every agency. I always asked those attending to update the group, to raise any issues that they wish discussed or considered and to ensure that all members were fully informed. The need to ensure we were kept fully informed was reinforced on many occasions.¹⁸⁵

This new strategy rested heavily on intelligence providing both strategic understanding of the people-smuggling networks and illegal migration trends, as well as operational warning of incoming vessels. While the PSTF was not directly involved in setting intelligence requirements, the members on the task force from DPMC's DS&I Branch, the ADF, ASIO, DFAT, and other departments or agencies would feed into the intelligence process through the existing machinery (NIC, NAB, and ONA's IIIOC). The overlapping networks between the PSTF and the intelligence machinery ensured an amount of 'institutional osmosis' that would inform the collection work of the intelligence agencies. For instance,

¹⁸³ At this time, the mandate of the Social Policy Division in DPMC included coordination of immigration policy.

¹⁸⁴ For a full list of participating departments and agencies, see SSC-CMI, 2002, *Final Report*, pp.7-8.

¹⁸⁵ Halton quoted in SSC-CMI, 2002, *Final Report*, p.161.

intelligence on people smuggling to Australia was included in the most important tier of the National Foreign Intelligence Assessment Priorities (NFIAPs), which provided overarching guidance to collection agencies.¹⁸⁶ Intelligence reporting from DSD, AFP, and others would be distributed to DIMIA's Intelligence Analysis Section. DIMIA analysts would produce all-source reports that would then be distributed to consumers across government, including the PSTF.¹⁸⁷

Notes taken at the time of PSTF meetings in October 2001 show the high-level coordinating nature of the task force, and also the fact that it was receiving regular intelligence briefings on the movement of 'suspected illegal entry vessels' (SIEVs) from DIMIA. Figure 1.3.17 is a copy of PSTF notes from October 18, 2001, illustrating the type of discussion at the task force.¹⁸⁸ The first item in the notes records that intelligence briefed to PSTF indicated imminent SIEV arrivals. The second point discusses the fact that, while coastal surveillance had no SIEV sightings, the intelligence comes from multiple sources with a "high confidence level." Further discussion at the PSTF meeting focused on how to cope with new asylum-seekers. The PSTF would use the intelligence provided through DIMIA and other task force members to keep the PM apprised of the overall effort, and inform recommendations and advice to the PM and Cabinet on further actions. This is illustrated in the October 18 notes by the single succinct point at the end: "status report to be prepared for PM on above issues (copy attached)." In line with the pull-push dynamic of central coordinating agencies, once the PSTF was established and operating smoothly and the sensitivity of the policy issue had lessened, the chairmanship of the task force was handed off to DIMIA, who became the lead coordinating agency.¹⁸⁹

¹⁸⁶ Wilkie, A. (2004) *Axis of Deceit: The Extraordinary Story of an Australian Whistleblower*, Collingwood, Australia: Black Inc., p.59.

¹⁸⁷ See SSC-CMI, 2002, *Final Report*, Chapter 8, specifically pp.199-200.

¹⁸⁸ Notes from the PSTF were released to the SSC-CMI, and can be found online at: <http://sievx.com/testimony/PSTMinutes.html> (accessed June 2015). It should be noted that these were original characterised as 'minutes', however clarifications by the government insisted that they be referred to as 'notes' as they were not considered formal minutes.

¹⁸⁹ Following Jane Halton of DPMC, Andrew Metcalf and Ed Killestyn of DIMIA chaired the task force, and DIMIA provided support to its meetings. See Zanker, A. (August 19, 2002) Evidence to the Senate Legal and Constitutional References Committee, Canberra: Parliament of Australia, p.156.

Figure 1.3.17: Notes from the October 18, 2001 Meeting of the People Smuggling Task Force¹⁹⁰


PEOPLE SMUGGLING TASKFORCE - HIGH LEVEL SUBGROUP
THURSDAY, 18 OCTOBER 2001

Attendees: Geoff Raby (DFAT)
Ed Killesteyn (DIMA)
Bill Campbell (A-Gs)
AVM Al Titheridge (Defence)
Dr Paul Toloni (Defence)
Jane Halton (PM&C)
Jenny Bryant (PM&C)

The meeting discussed:

Further Prospective Arrivals

- Intelligence re 2 boats with total 600 PUAs expected at Christmas, with one possibly arriving today, a further 3 boats with total 600 expected at Ashmore, with earliest arriving Monday. Some risk of vessels in poor condition and rescue at sea.
- No confirmed sightings by Coastwatch, but multisource information with high confidence level
- HMAS Arunta off Christmas, 2 patrol boats at Ashmore
- Warning off efforts to continue
- Need to effect transfer of existing PUAs at Christmas to Manus asap- charters problematic as can't start until next week -- exploring availability of C130s
- DIMA also exploring scope to expand Manus quickly
- Ashmore arrivals may need to be held on boats in lagoon till options identified -- Customs to arrange reprovisioning.

 B

Status report to be prepared for PM on above issues (copy attached)

The growth in task forces and interdepartmental committees in response to the complexity of the environment increased the workload for DPMC. For instance, by 2005-2006 there were 36 committees or task forces chaired by DPMC, and its staff participated in another 121 committees or task forces run by other departments or agencies.¹⁹¹ Interestingly, the impact of the September 11 attacks on the United States had relatively little impact on the formal national

¹⁹⁰ Department of Prime Minister and Cabinet, (October 18, 2001) 'Notes from People Smuggling Taskforce—High-level Sub-Group', Sievx.com, <http://sievx.com/testimony/PSTMinutes.html> (Accessed Feb 2015).

¹⁹¹ Department of Prime Minister and Cabinet, (November 30, 2006) Answer to Question on Notice PM31—Amended, Senate Standing Committee on Finance and Public Administration--Legislation, Canberra: Parliament of Australia.

security machinery, such as the NSC and SCNS. However, the attacks did have substantial impact on the DPMC.

Tweaking the System: The Intelligence Machinery, Transnational Terrorism and the Flood Report

The reforms of the interdepartmental machinery through the 1980s and 1990s mean that when terrorists struck the US homeland on September 11, 2001, sparking a massive international CT effort, Australia's decision-making structures were relatively well prepared. In fact, in 2000, the Parliamentary Joint Standing Committee on Foreign Affairs, Defence and Trade had recommended the creation of a US-styled national security council, but the government rejected the recommendation, citing the effectiveness of the NSC/SCNS machinery and its compatibility with Australia's "constitutional system."¹⁹² The NSC had met frequently through the *Tampa* Affair in August 2001, and did the same only a few weeks later in the days following 9/11.¹⁹³ There was, predictably, a significant spike in NSC meetings through 2002-2003 due to the invasion of Iraq. Figure 22 shows the frequency of NSC meetings over the last fifteen years, spanning the *Tampa* Affair, 9/11, and the wars in Afghanistan, Iraq, and the Arab Spring. While the frequency of meetings has ebbed and flowed based on global events, the trend indicates a steady increase in committee business, particularly for the NSC.

¹⁹² Joint Standing Committee on Foreign Affairs, Defence and Trade (2000) *From Phantom to Force: Towards a More Efficient and Effective Army*, Canberra: Commonwealth Parliament of Australia, p.181; Department of Defence (2003) 'Government Response to the Joint Standing Committee on Foreign Affairs, Defence and Trade Report *From Phantom to Force: Towards a More Efficient and Effective Army*, and subsequent report, *A Model for a New Army: Community Comments on 'From Phantom to Force' Parliamentary Report into the Army*, Canberra: Department of Defence, pp.1-2.

¹⁹³ Costello, 2009, pp.161-162, 191.

Figure 22: NSC and SCNS Meetings from 2000-01 to 2010-11¹⁹⁴

| National Security Committee of Cabinet | | | | | | | | | | | | | | |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| 2000-2001 | 2001-2002 | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006 | 2006-2007 | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 | 2012-2013 | 2013-2014 | 2014-2015 |
| 10 | 16 | 36 | 16 | 10 | 23 | 18 | 13 | 34 | 30 | 20 | 27 | 19 | 43 | 57 |
| Secretaries Committee on National Security | | | | | | | | | | | | | | |
| 2000-2001 | 2001-2002 | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006 | 2006-2007 | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 | 2012-2013 | 2013-2014 | 2014-2015 |
| 15 | 16 | 20 | 15 | 11 | 11 | 10 | 9 | 14 | 14 | 12 | 19 | 18 | 24 | 16 |

¹⁹⁴ Figures are compiled using reporting from the DPMC annual reports from 2000-2001 to 2014-2015.

The 9/11 attacks were followed by a series of events that struck much closer to home for Australians. In December 2001, only months after the US attacks, Singaporean authorities broke up a major plot by Jemaah Islamiyah (JI) cells to bomb multiple targets across the city, including the Australian consulate. Under a year later, the truck bombing of the Kuta tourist district in Bali killed 88 Australian tourists. Foreign Minister Alex Downer stated later:

*The threat Australia now faces—and most directly experienced through the tragedy of the 2002 Bali bombings—is transnational. It is terrorism of a previously unknown scale. It is a different kind of conflict, perpetrated in the name of a Muslim extremist cause. We must understand it if we are to defeat it.*¹⁹⁵

There was recognition that the threat posed to Australian by al Qaeda affiliates in Southeast Asia was different in magnitude and sophistication than previous terrorist threats and would require a more robust approach. In short, Bali made the policy problem clear: Australians could be attacked, and the Australian government needed a more robust CT response to keep its citizens secure at home and in the region.

While the NSC and SCNS remained the senior policy committees for national security, a dedicated structure was needed to handle the volume of CT work following the 9/11 and Bali attacks. However, the federal nature of Australia meant that the state and territorial authorities ultimately led the response to any terrorist incident. The need to coordinate more closely with the states and territories led to the creation of the National Counter Terrorism Committee (NCTC) and its supporting NCTC Executive Committee that was made up of officials from the federal, state, and territorial level. The NCTC met to agree major policy matters such as the National Counter-Terrorism Plan and the schedule of CT exercises, and more often if in response to particular domestic or international incidents.¹⁹⁶

¹⁹⁵ Government of Australia (2004) *Transnational Terrorism: The Threat to Australia*, Canberra: Department of Foreign Affairs and Trade / Commonwealth of Australia, p.v.

¹⁹⁶ For a detailed analysis of these mechanisms, see Auditor General (2005) *Review of the Evaluation Methods and Continuous Improvement Processes for Australia's National Counter-*

In terms of coordination at the federal level, there were two interdepartmental committees created, one to address policy coordination, and the other to address operational coordination of threat levels and protective security. The policy committee was the Australian Government Counter-Terrorism Policy Committee (AGCTPC) and the operational committee was the Australian Government Counter-Terrorism Committee (AGCTC).¹⁹⁷ The AGCTPC was chaired by the Deputy Secretary of DPMC and had met for the first time in October 2002, just after the bombing in Bali. It subsequently met approximately once every two months and was responsible for providing coordinated policy advice on CT to the SCNS and NSC.¹⁹⁸ The AGCTC was chaired by the Executive Director of the Protective Security Coordination Centre, and was focused on coordination that was more operational, particularly around schedules for CT exercises and setting the national alert level in conjunction with the National Threat Assessment Centre (NTAC).¹⁹⁹

These changes created parallel interdepartmental machinery dedicated to CT coordination, which sat alongside the interdepartmental intelligence machinery. The major intelligence and security organisations that were represented on the intelligence committees were also represented on the CT committees. While it would seem that there was room for disconnects, the common memberships across the committees ensured consistent interaction and 'institutional osmosis.'²⁰⁰

The first significant review of the Australian IC following 9/11 and the Bali bombing did not occur until 2004. Following questions about the IC's

Terrorism Coordination Arrangements, Canberra: Australian National Audit Office and Clark, M.J. (2008) *Report of the Inquiry into the Case of Dr. Mohamed Haneef: Volume 1*, Clarke Inquiry into the Case of Dr. Mohamed Haneef, Canberra: Commonwealth of Australia.

¹⁹⁷ Ibid. These bodies are also referred to in some documents as the Commonwealth Counter-Terrorism Policy Committee and the Commonwealth Counter-Terrorism Committee.

¹⁹⁸ Auditor General, 2005, pp.40, 44.

¹⁹⁹ Ibid, pp.45,

²⁰⁰ See Auditor General, 2005, p.43, which illustrates the memberships of the federal and national counter-terrorism committees.

performance following the October 2002 bombing in Bali and the lead-up to the March 2003 invasion of Iraq, the government asked Philip Flood, a former DG of ONA and Secretary of DFAT, to inquire into the overall health of the IC in late 2003. Unlike Hope's royal commissions of the 1970s and 1980s however, Flood's final report did not recommend revolutionary changes to the IC. Instead, Flood found that the current form of the IC was relatively effective, and recommended targeted changes rather than wholesale reform.²⁰¹

The *Report of the Inquiry into Australian Intelligence Agencies*, commonly referred to simply as 'the Flood Report', summarised its overall findings by stating:

While the structures supporting the community are fundamentally sound, the Australian intelligence community needs stronger coordination, especially in the areas of priority setting, assigning of resources and collection management. Accountability mechanisms need to be tightened and made more transparent, recognising both the increased importance of intelligence, and the public interest in it. The division of effort between the assessment agencies needs refinement, and contestability needs to be better managed. While most agencies are appropriately resourced, ONA needs to be strengthened significantly.²⁰²

One of Flood's concerns was that the heavy workload for NSC in the early 2000s had resulted in some matters related to intelligence being pushed off the agenda because of time constraints. In this vein, he highlighted that the annual performance reports for the national agencies had not been reviewed by the NSC for two years.²⁰³

Flood also found that ONA's foreign intelligence coordination role was exercised very much through HIAM, which was an ad hoc committee. While he found that HIAM was an effective body, Flood recommended that much of its growing workload for IC coordination be shifted to a new standing interdepartmental committee that would be called the Foreign Intelligence

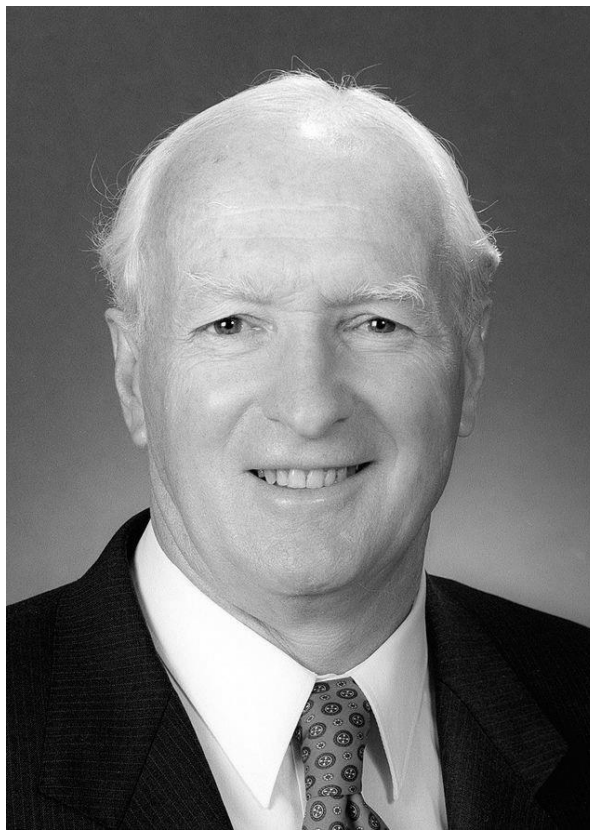
²⁰¹ Flood, P. (2004) *Report of the Inquiry into Australian Intelligence Agencies*, Canberra: Commonwealth of Australia, pp.83, 164.

²⁰² Flood, 2004, p.164.

²⁰³ Ibid, p.53.

Coordination Committee (FICC). Flood laid out the mandate for the committee by stating that the FICC should “assist the Director-General of ONA in his coordinating, monitoring and reporting function. The Committee should also consider cross-community issues including intelligence policy, capability development and resources.”²⁰⁴ The FICC would be chaired by the DG of ONA, include the heads of the major national intelligence agencies (ASIO, ASIS, DSD, DIGO) as well as the Commissioner of the AFP, and Deputy Secretaries from DPMC, DoD, and DFAT.²⁰⁵

Figure 1.3.18: Philip O. Flood²⁰⁶



In conjunction with the creation of the FICC, Flood also recommended the end of one committee. The Economic Assessments Board, first created in the *ONA Act* in 1977, had become redundant. In reality, since 1998 the Treasury representative had been invited to attend meetings of the National Assessments Board (NAB), and economic assessments were reviewed within that forum.²⁰⁷

²⁰⁴ Flood, 2004, pp.60-61.

²⁰⁵ Flood, 2004, pp.60-61.

²⁰⁶ Photo from Department of Foreign Affairs and Trade.

²⁰⁷ Flood, 2004, p.88.

Because of this, Flood recommended that the *ONA Act* be amended to formally disband the EAB and leave the NAB the only statutory assessments board; this was done with the passage of the *Intelligence Services Legislation Amendment Act 2005*.²⁰⁸

Additionally, Flood recommended a more unified collection management structure, led by ONA through the new FICC. The report concluded that, “a more systematic and formal approach to community-wide collection management is needed to ensure that the community operates to maximum value.”²⁰⁹ Particularly, Flood found that the separation between ‘national’ intelligence priorities and defence intelligence priorities was problematic, and that ONA needed to take a more direct role in a cross-community collection management effort.²¹⁰ Because of this renewed effort towards IC-wide collection management, the NICRC was renamed the National Intelligence Collection Management Committee (NICMC). Figure 1.3.19 shows the changes to the interdepartmental intelligence machinery resulting from Flood’s review.

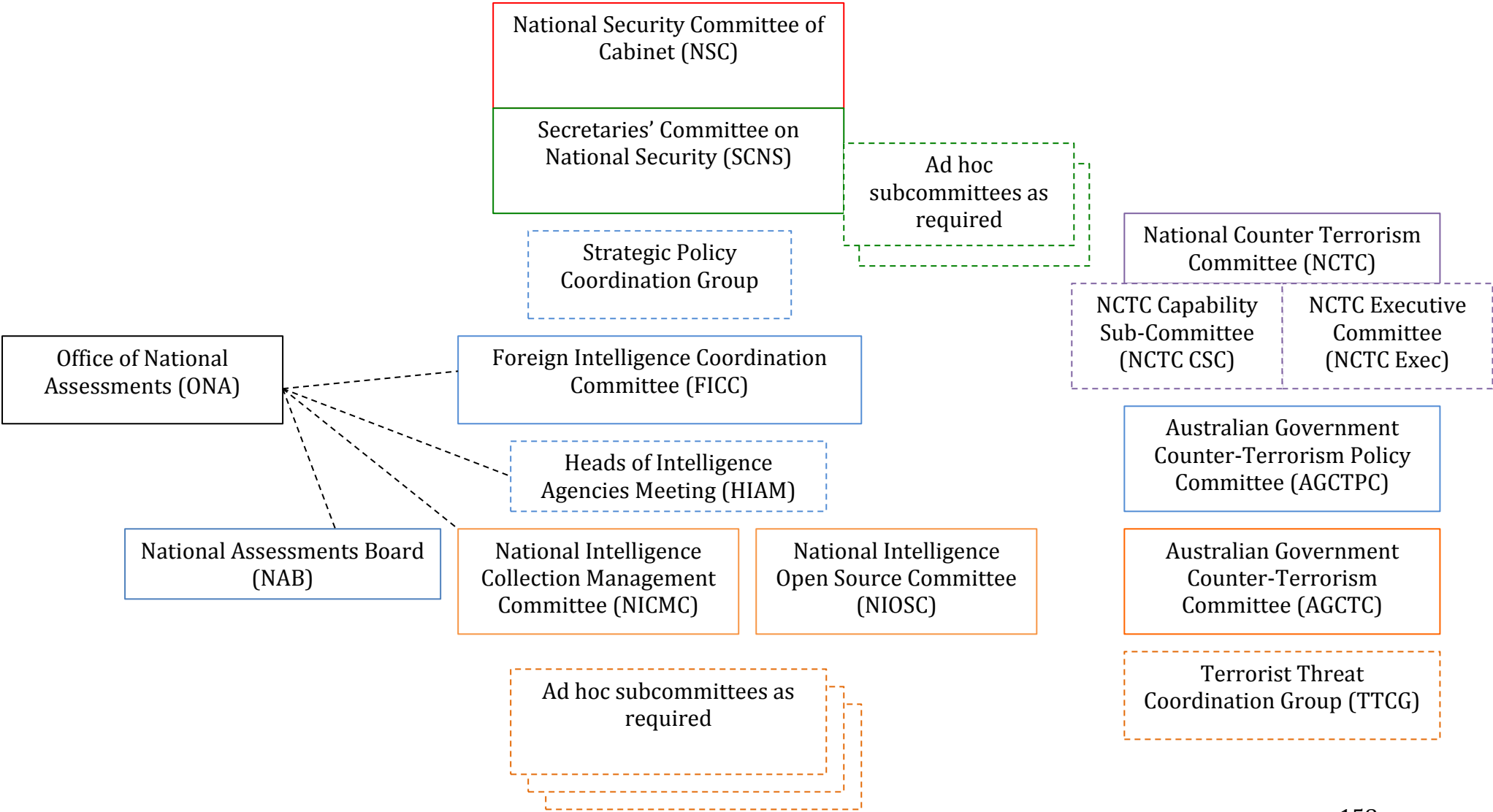
While the fate of the EAB is well known, the Defence Intelligence Board seems to have only lasted for a few years until it melted away with little fanfare or explanation. While the exact fate of the DIB is unclear, it was most likely made redundant by a combination of defence headquarters reforms through the early 2000s and the IC reforms brought about by the Flood Report.

²⁰⁸ Ibid and Schedule 3 of the *Intelligence Services Legislation Amendment Act 2005*.

²⁰⁹ Ibid, p.110.

²¹⁰ Ibid, p.63-64. The overall system for requirements and priorities will be discussed in Chapter 6.

Figure 1.3.19: Australian Committee Structure related to Management of the IC
 --circa 2005--



Supporting the PM and Cabinet in a New National Security Environment: The Creation of the National Security Division in the DPMC

The 9/11 attacks were the beginning of a period of significant change within the DPMC. As shown earlier, the number of NSC and SCNS meetings was growing. Additionally, the issues at hand were growing more varied. Within only a few short weeks, DPMC staff had coordinated the government's response to a complex crisis involving people smuggling (the *Tampa* Affair) and then were faced with coordinating the government's response to the 9/11 attacks. Each of these events sparked major policy initiatives by the government that were complex and multi-faceted, leading to an increasing workload for the NSC machinery.

As a response to the growing focus by ministers on national security issues, including intelligence, in 2003 the Secretary of DPMC, Peter Shergold, announced the creation of a new National Security Division (NS Division) that would sit alongside the International Division within DPMC. The new NS Division would take over the defence and intelligence work previously done within the International Division, and the domestic security work that had fallen to the Government Division.²¹¹

By the time of the Flood Report in 2004, the NS Division had two branches: the Defence and Intelligence Branch and the Domestic Security Branch, which were further broken down into several specialist units.²¹² As of June 2004, the Division comprised 41 people; 14 of these were secondees from other organisations, including two from ASIO and five from the DoD.²¹³ Following the Flood Report, the intelligence policy team in the NS Division was strengthened by the creation of the Intelligence Projects Unit, which was

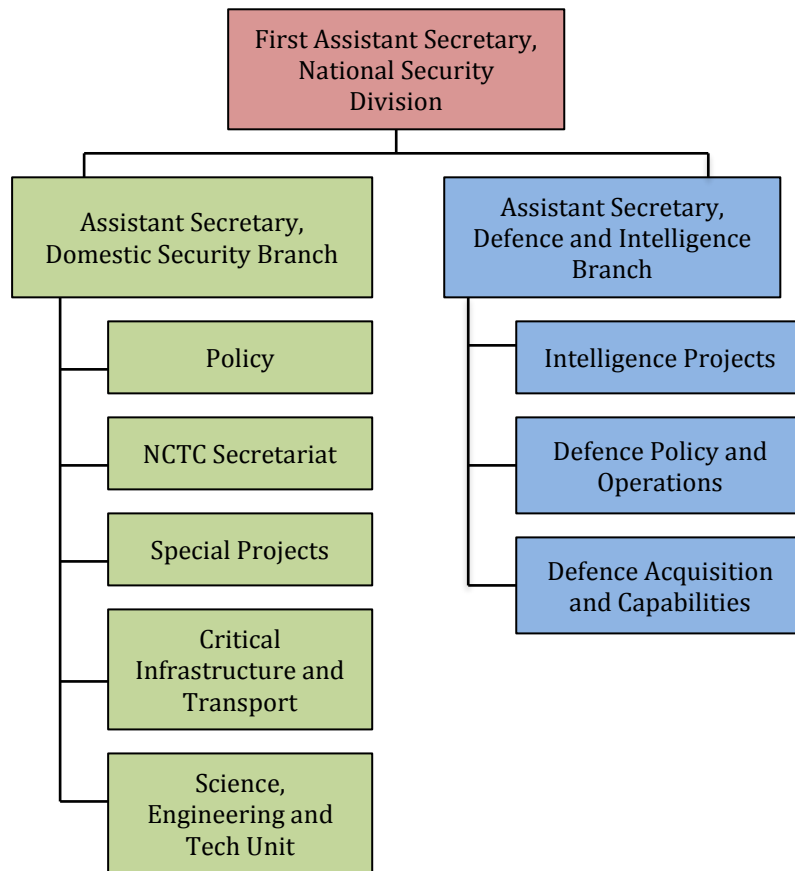
²¹¹ Shergold, P. (May 23, 2003) 'Organisational Restructure of the Department of the Prime Minister and Cabinet' Canberra: Department of Prime Minister and Cabinet.

²¹² Department of Prime Minister and Cabinet (2005) *Annual Report 2004-2005*, Canberra: Commonwealth of Australia, pp.50-56.

²¹³ Department of Prime Minister and Cabinet (August 4, 2004) Answer to Question on Notice 'National Security Division: Staffing and Expenditure,' Question 3489, House of Representatives, Canberra: Commonwealth of Australia.

particularly responsible for working with ONA and the FICC on the governance framework for the IC.²¹⁴ Figure 1.3.20 shows the structure of the NS Division as it existed in 2005.

Figure 1.3.20:
National Security Division of the DPMC, 2005



In his all-staff address in May of 2003, as Shergold announced his intention to create the NS Division, he also announced the creation of a new Cabinet Division that would absorb and strengthen the Cabinet Secretariat.²¹⁵ Shergold told DPMC staff that the Cabinet Secretariat Branch would “now take on an expanded role of serving the National Security Committee as well as the other Cabinet Committees. I think that will improve the NSC processes by bringing

²¹⁴ Department of Prime Minister and Cabinet (2005) *Annual Report 2004-2005*, Canberra: Commonwealth of Australia, pp.50-56.

²¹⁵ Senate Standing Committee on Finance and Public Administration—Legislation, (June 2003) *Budget Estimates 2003-04*, Canberra: Commonwealth of Australia, p.35.

them closer to Cabinet. I also anticipate that it will free up policy resources in the International Division.”²¹⁶

Myra Croke, the Assistant Secretary in charge of the Cabinet Secretariat Branch, managed the creation of the NSC Secretariat from 2003 to 2009. Although there is little information available on the Secretariat, pertinent details can be gleaned from official sources that help build a picture of the group. Firstly, when Myra Croke moved to a new position in 2009, the job advertisement for a new Assistant Secretary, Cabinet Secretariat indicated that the position had “a particular responsibility for the National Security Committee of Cabinet and the Border Protection Committee of Cabinet” and required a Top Secret (Positive Vet) security clearance.²¹⁷ More telling is the job advertisement for the NSC Secretariat Liaison Officer. The document states that the Liaison Officer supports an Advisor and Senior Advisor in managing the NSC and SCNS processes. The position is specifically responsible for “liaising with ministers’ offices, departments and agencies to provide specialist advice on Cabinet systems, processes and policies,” as well as engaging in the general secretariat business of managing forward agendas, submissions, and meeting minutes.²¹⁸ Additionally, the shift of NSC support to the Cabinet Secretariat Branch meant that NSC and SCNS papers would now be stored on the CABNET computer system. This was reflected in the sixth edition of the *Cabinet Manual*, published in July 2009, which recorded that the Cabinet Secretariat kept three separate databases on the CABNET system: one for cabinet and cabinet committee papers, one for NSC papers, and one for SCNS papers.²¹⁹

In 2010, Croke was awarded the Public Service Medal for her work managing the creation of the NSC Secretariat within the Cabinet Secretariat

²¹⁶ Shergold, P. (May 14, 2003) ‘Secretary’s All Staff Address,’ Canberra: Department of Prime Minister and Cabinet.

²¹⁷ Department of Prime Minister and Cabinet (2009b), ‘Job Description: Assistant Secretary, Cabinet Secretariat,’ www.apsjobs.gov.au (accessed February 2015). More will be said on the Border Protection Committee of Cabinet shortly.

²¹⁸ Department of Prime Minister and Cabinet (2012), ‘Job Description: National Security Committee Secretariat Liaison Officer,’ www.apsjobs.gov.au (accessed February 2015).

²¹⁹ Cabinet Division (July 2009) *Cabinet Manual, 6th Edition*, Canberra: Department of Prime Minister and Cabinet, p.2.

Branch. The short profile in the DPMC annual report for 2009-10 states that she, “[brought] the arrangements for the National Security Committee into line with the arrangements established for Cabinet, and then maintained strong support for the committee’s operations in a period of intense activity.”²²⁰ The period of intense activity that was referred to was, in large part, due to another significant review of national security machinery in 2008.

Evolving the System: The Intelligence Machinery and the Smith Review

Beginning in 2008, there was a resurgence of illegal maritime migration, which had serious policy and resource implications. The Minister for Immigration and Citizenship, Senator Chris Evans, stated that, “the worsening situations in Afghanistan, Pakistan and Sri Lanka as well as ongoing problems in Iraq have forced millions of desperate people to flee their own countries and seek safety elsewhere around the world.”²²¹ The number of SIEVs jumped from three in 2007-08, to 23 in 2008-09, and to 117 in 2009-10.²²² Figure 1.3.21 illustrates the dramatic increase in illegal maritime arrivals. Because of this trend, and because of the significant resources already put into CT, the government commissioned a former Secretary of the DoD, Richard ‘Ric’ Smith, to conduct a review of the national security system in Australia, particularly with a view to homeland security and border control. The final report of the *Review of Homeland and Border Security*, known as the Smith Review, largely endorsed the overall national security system, but recommended stronger central coordination by a National Security Advisor and greater overall cohesion between responses to foreign and domestic threats.²²³ Smith also concluded that the government needed to increase focus on threat areas other than terrorism, singling out serious organized crime and cyber-attacks.²²⁴

²²⁰ Department of Prime Minister and Cabinet (2010) *Annual Report 2009-10*, Canberra: Commonwealth of Australia, p.126.

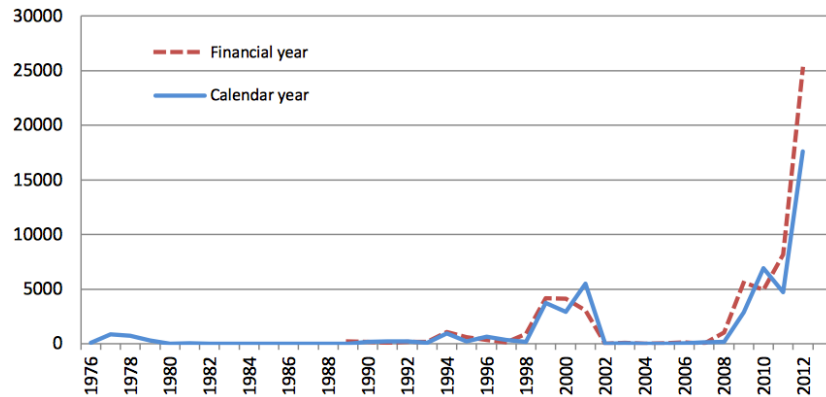
²²¹ Hudson, P. (May 14, 2009) ‘Re-fashioned Response to Smuggling Threat’ *The Sydney Morning Herald*, <http://www.smh.com.au/business/refashioned-response-to-smuggling-threat-20090513-b3ez.html> (Accessed February 2015).

²²² Phillips, J. and Spinks, H. (updated 2013) *Boat Arrivals in Australia since 1976*, Canberra: Parliamentary Library, p.23

²²³ Smith, R. (2008) *Review of Homeland and Border Security: Summary and Conclusions*, Canberra: Commonwealth of Australia.

²²⁴ Smith, 2008.

Figure 1.3.21: Illegal Maritime Arrivals to Australia ²²⁵



The Smith Review had significant implications for the Australian IC. Prime Minister Kevin Rudd's 2008 National Security Statement, which followed the recommendations of the Smith Review, maintained the NSC/SCNS machinery, but widened their mandate and membership in order to more effectively merge the management of domestic and international security issues.²²⁶

Figure 1.3.22: Richard 'Ric' Smith²²⁷



Correspondingly, the FICC was widened to become the National Intelligence Coordinating Committee (NICC), and came to include departments

²²⁵ Ibid, p.25.

²²⁶ Rudd, K. (2008) *The First National Security Statement to the Australian Parliament*, Address by the Prime Minister of Australia, Canberra: Commonwealth of Australia.

²²⁷ Photo: Lowy Institute, <http://www.lowyinstitute.org/people/richard-c-smith-ao-psm> (accessed June 2015).

and agencies not only involved in foreign intelligence, but also security and criminal intelligence.²²⁸ The NICC included the ‘usual suspects’ (ONA, ASIO, DSD, ASIS, DoD, DFAT, AGD, and DPMC) as already found on the FICC, as well as the Australian Federal Police, the Australian Crime Commission, and the Australian Customs and Border Protection Service, and the Department of Immigration and Citizenship.²²⁹ In a subtle, yet important shift, when the FICC became the NICC the chairmanship also switched from the DG of ONA to the newly created position of National Security Advisor (NSA) in DPMC. Figure 1.3.23 outlines the NICC as it existed in 2010.

| Figure 1.3.23: National Intelligence Coordination Committee, 2010 | |
|--|--|
| Membership ²³⁰ | |
| <p>National Security Advisor (Chair)</p> <p>DepSec, Department of Defence</p> <p>DepSec, Department of Foreign Affairs and Trade</p> <p>DepSec, Department of Immigration and Citizenship</p> <p>DepSec, Attorney-General’s Department</p> <p>DepSec, Australian Customs and Border Protection Service</p> <p>Director-General, Office of National Assessments</p> <p>Director-General, Australian Security Intelligence Organisation</p> <p>Director-General, Australian Secret Intelligence Service</p> <p>Director, Defence Intelligence Organisation</p> <p>Director, Defence Signals Directorate</p> <p>Director, Defence Imagery and Geospatial Intelligence Organisation</p> <p>Commissioner, Australian Federal Police</p> <p>Chief Executive Officer, Australian Crime Commission</p> | |
| Secretariat Support ²³¹ | |
| Intelligence Policy Section of the Defence, Intelligence, and Research Coordination Division | |

²²⁸ Ibid, and for further discussion, see Gyngell, A. (May 24, 2010) Evidence to the Senate Standing Committee on Finance and Public Administration--Legislation, Prime Minister and Cabinet Portfolio Estimates, Canberra: Parliament of Australia.

²²⁹ Lewis, D. (2010) ‘Australia’s National Security Framework,’ http://www.ona.gov.au/media/3731/lewis_nsa_aust-national-security-framework_25-mar-10.doc (accessed March 2010).

²³⁰ Membership for the NICC was outlined in Lewis, 2010 and Parliamentary Joint Committee on Intelligence and Security (March 2012), *Review of Administration and Expenditure: No.9—Australian Intelligence Agencies*, Canberra: Parliament of the Commonwealth of Australia, p.36.

²³¹ DPMC (2012) *Annual Report 2011-12*, Canberra: Department of Prime Minister and Cabinet, p.35.

| |
|---|
| within DPMC |
| Responsibilities Regarding the Australian Intelligence Community |
| “The role of the NICC is to ensure that Australia’s foreign, security, and law enforcement intelligence activities are closely aligned and consistent with our national security priorities, and that the national intelligence effort is effectively integrated.” ²³² |

However, as the number of SIEVs entering the Australian maritime zone increased, the issue grew more and more sensitive for the Rudd government. On April 16, 2009, SIEV 36, carrying 47 asylum-seekers was being towed by the HMAS Albany when it exploded and sank, killing 5 and wounding dozens more. The SIEV 36 incident, and the resulting controversy, were seen as a political tipping point. In the 2009-10 budget, the Rudd government announced the creation of a Border Protection Committee of Cabinet (BPC).²³³

The creation of the BPC was recognition that a separate body was needed because the NSC had a full agenda handling defence, intelligence, counter-terrorism, and international security items. The BPC was a way of pulling the management of border protection and people smuggling into the centre without further burdening the NSC process. In reality, the ‘look and feel’ of the BPC and its supporting machinery was testament to how well ministers felt the NSC model functioned. As in the NSC, senior officials attended meetings of the BPC to provide direct support to cabinet ministers.

BPC, as a committee, was supported by the secretary-level Border Protection Task Force (BPTF), which performed similar functions for BPC as the SCNS did for the NSC. The BPTF was chaired by the new National Security Advisor, with the Chief Executive Officer of the Australian Customs and Border Protection Service as the deputy chair.

²³² Lewis, 2010.

²³³ Commonwealth Budget 2009-10, *Budget Paper No.2—Expenditure Measures* (Department of Prime Minister and Cabinet).

Whereas the SPCG was tailored to coordinating foreign and defence issues at the FAS level, the group would become large and unwieldy trying to coordinate CT and border protection issues as well. However, the overall success of the SPCG model led to the creation of two new bodies that mimicked its concept: the Homeland and Border Security Policy Coordination Group (HPCG) and the National Security Policy Coordination Group (NSPCG). These two new groups were chaired by the Deputy National Security Advisor, which mirrored the fact that the National Security Advisor chaired the BPTF and had become the deputy chair of SCNS. Figure 1.3.24 illustrates the committee structure that evolved following the Smith Review, as it existed in 2012.

Part of the cascading nature of coordination in these interdepartmental committees was regular debriefs on the business of the more senior committees. These debriefs were meant to keep member organisations informed of discussions and concerns at the level of secretaries and ministers. A 2005 review of CT coordination by the Australian National Audit Office found that a significant amount of time in the AGCTPC was spent with the coordinating organisations (DPMC and AGD) briefing out to the other line departments and agencies. DPMC confirmed that a principal function of the policy committee was to debrief other organisations on the deliberations and decisions from the NSC and SCNS, and to “[share] policy information across the member agencies for the respective portfolios to factor into their own policy initiatives or to follow up on any identified linkages or synergies.”²³⁴ Declassified minutes of the HPCG from November 2010 show a similar mix of briefings and debriefings on major horizontal policy issues. The minutes show the major agenda items as:²³⁵

- Information Sharing and Cyber Policy (Agency Responsible: DPMC)
 - Current status of National Security Information Environment Roadmap
 - Cyber Policy Coordinator—Roles and Responsibilities

²³⁴ Auditor General, 2005, p.49.

²³⁵ The list of HPCG agenda items is drawn from ‘Homeland and Border Security Policy Coordination Group Meeting, 2:00-4:00pm, Thursday 18 November 2010,’ formerly classified SECURITY-IN-CONFIDENCE, released by the Attorney-General’s Department under the FOIA. It should be noted that one item was not included in this list as it was fully redacted from the minutes.

- Information Management Progress Report
- Area or Facility of National Security Significance [Redacted Item] (Agency Responsible: AGD)
- HPCG Business (Agency Responsible: DPMC/All)
 - HPCG Evaluation
 - Outcomes Register—Members' Updates
- Other Business
 - National Security Capability Plan (Responsible Agency: AGD)
 - Homeland and Border Security Review (Smith) Implementation Update (Responsible Agency: All)
 - Update—Business of Secretaries' Committee for National Security (SCNS)
 - NCTC Pre-brief
 - Other Business

The links between committees are demonstrated by the pre-brief on NCTC business and the update on SCNS business at the level of deputy heads. These items are indicative of the continuous flow of information horizontally and vertically between the different committees.

Supporting the New Homeland and Border Security Machinery: The National Security Advisor

Following the Smith Review, the government pulled homeland and border security policy into the centre of government through the creation of the Border Protection Committee of Cabinet and its associated officials' committees. Recognising that cross-portfolio coordination would be key to success, Smith recommended the strengthening of the DPMC. Specifically, he recommended the creation of a National Security Advisor (NSA) and a Deputy National Security Advisor (Deputy NSA) to, "provide a new level of leadership and help ensure that agencies are properly joined up." Smith expanded on this by stating that the NSA's role, "would go beyond coordination and committees—which could in fact be streamlined—to promote a cohesive national security community culture,

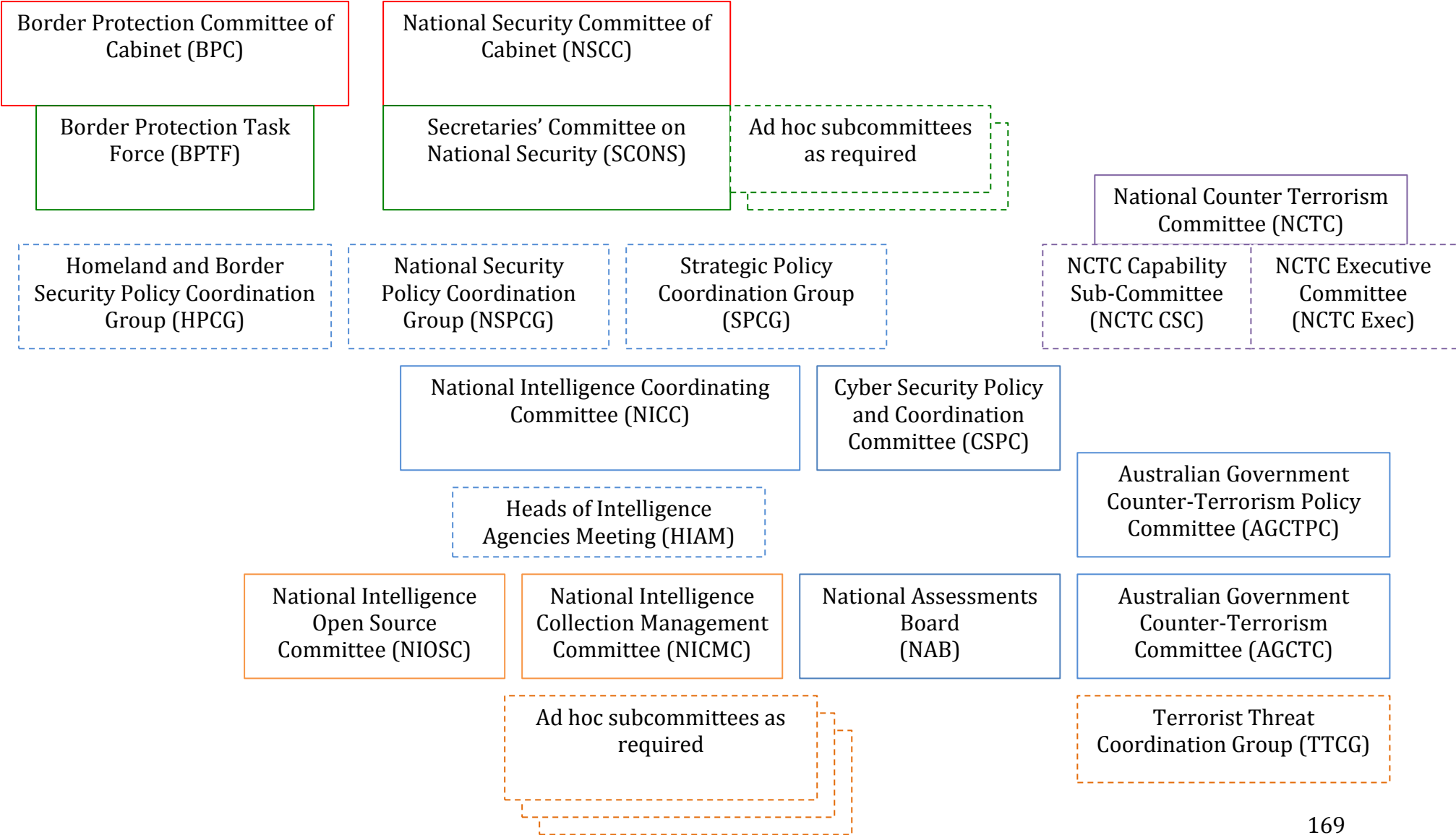
including through training, secondments and joint units.”²³⁶ Duncan Lewis, who had been the Deputy Secretary overseeing the NSD and the International Division, was appointed the first NSA, with Angus Campbell as the Deputy NSA. Lewis was a veteran of the ADF, having served as commander of Australian Special Forces prior to becoming a senior official in the DPMC. Similarly, Campbell had come from the ADF where he had served as chief of staff to two former Chiefs of the Defence Force.

The new NSA position was at the level of associate secretary, making it a junior deputy head position equivalent to many heads of agencies and second only to the Secretary within the DPMC itself. Correspondingly, the Deputy NSA was a deputy secretary appointment. These increases in rank were not bureaucratic empire-building however. Instead, the higher positions were recognition that the NSA and Deputy NSA had larger management roles within DPMC, would both play larger roles in national security coordination, and have significantly expanded responsibilities. The NSA became chair of the NICC and the BPTF, as well as having overall responsibility for the new national security framework, which incorporated the Coordinated National Security Budget (CNSB) and National Intelligence Priorities (NIPs) exercises.²³⁷ The Deputy NSA chaired the NSPCG, the SPCG, and the HPCG in support of the secretary-level committees.

²³⁶ Smith, 2008, p.2.

²³⁷ See Lewis, 2010. The CNSB is discussed in more detail in Ch.9 and the NIPs process is discussed in Ch.6.

Figure 1.3.24: Australian Committee Structure related to Management of the IC
 --circa 2012--



Supporting the New Homeland and Border Security Machinery: Reorganising the DPMC

The NSA and Deputy NSA also had a larger organisation within the DPMC to look after. The creation of the Border Protection Committee of Cabinet and its associated interdepartmental machinery required greater support from DPMC. In response, the NSD's Domestic Security Branch was separated to form the hub of the new Homeland and Border Security Division (HBSD). The remaining elements of the NSD became the Defence, Intelligence, and Research Coordination Division (DIRCD). These two divisions, along with the International Division and a new Chief Information Office (CIO), came to form the expanded National Security and International Policy Group (NSIP) within DPMC, which was headed by the NSA and Deputy NSA.

While the plethora of 'groups,' 'divisions,' and 'branches' sounds like a grand organisation, central agencies are, in reality, often smaller than they sound. In evidence to the Senate Finance and Public Administration Legislation Committee in 2009, the Deputy NSA stated that, in total, the NSIP Group consisted of 124 positions, broken down as shown in Figure 1.3.25.

| Figure 1.3.25: Breakdown of Personnel within the National Security and International Policy Group of DPMC, as at 2009²³⁸ | |
|--|----------------|
| Division/Section | Number of FTEs |
| Defence, Intelligence, and Research Coordination Division | 39 |
| Homeland and Border Security Division | 36 |
| International Division | 30 |
| NSA's Executive Group | 9 |
| National Security Chief Information Officer's Office | 3 |
| Border Protection Working Group | 7 |

In addition to the three divisions and the office of the Chief Information Officer, the NSA's Executive Group provided direct support to the NSA on the Coordinated National Security Budget. There was also an ad hoc Border

²³⁸ Campbell, A. (May 25, 2009) Evidence to the Senate Standing Committee on Finance and Public Administration--Legislation, Official Committee Hansard, Canberra: Parliament of Australia, pp.152-153.

Protection Working Group (BPWG), which acted as the secretariat for the BPTF.²³⁹

Importantly for the Australian IC, the new organisation within DPMC significantly expanded the Department's intelligence coordination capability. Under the previous National Security Division, there was only a small intelligence section (previously known as the Intelligence Projects Unit) within the Defence and Intelligence Branch. This was because the ONA, rather than DPMC, played the central role in intelligence coordination through providing secretariat support to the Foreign Intelligence Coordination Committee. However, after the Smith Review, the NSA became chair of the expanded NICC and the secretariat support for the NICC moved to DPMC.²⁴⁰ With this shift, and the substantially larger role being played by the NSA in coordinating intelligence priority-setting at the strategic level (discussed further in Ch.6), there was a need to enhance the DPMC's intelligence policy capacity. Part of the reorganisation of the NSIP Group included the creation of the Intelligence Policy Branch (IP Branch) to manage the DPMC's increased intelligence coordination and governance responsibilities. The Deputy NSA summed up the changes for a Senate standing committee by stating:

It is a matter of brining together, through committee processes, consideration of the way in which appropriate interaction occurs between the management of foreign, security, law enforcement and border and immigration intelligence information. Until these processes were put together under the recommendation of Smith, we had a very effective foreign intelligence coordination arrangement but we were not so effective managing the interaction between the other forms of intelligence I have just mentioned. This leads to a committee process that is chaired by the National Security Advisor, meeting on a second monthly basis, titled the National Intelligence Coordination Committee and supported through the Intelligence Policy Branch of the Department of the Prime Minister and Cabinet, which works for the National Security Advisor inside the Defence, Intelligence and Research Coordination Division.²⁴¹

²³⁹ Ibid, pp.149-153.

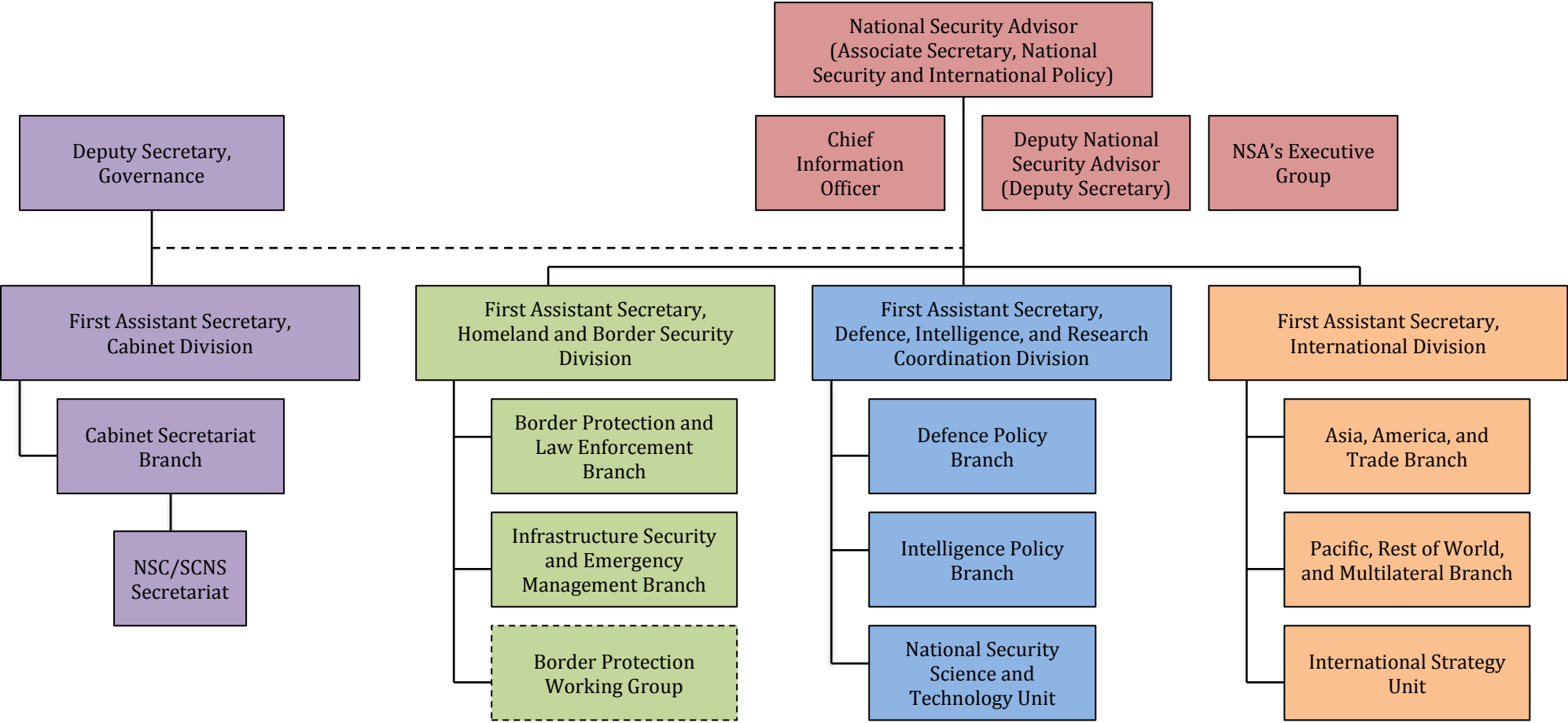
²⁴⁰ Gyngell, A. (May 25, 2010) Letter to Senate Standing Committee on Finance and Public Administration—Legislation Re: May 24, 2010: Questions from Senator Trood. Also see, Gyngell, A. (May 24, 2010) Evidence to the Senate Standing Committee on Finance and Public Administration--Legislation, Prime Minister and Cabinet Portfolio Estimates, Canberra: Parliament of Australia.

²⁴¹ Campbell, May 25, 2009, pp.156-157.

The role played by the IP Branch is outlined in the DPMC's programme deliverables, as found in the Department's portfolio budget statements for 2011-2012. One of the NSIP Group's deliverables, managed by the IP Branch, is the effective coordination and leadership of the Australian IC. In particular, the budget statements outline that this is accomplished, "through the support for the [NSA's] chairing of the [NICC] and its subordinate processes, including secretariat support, collection management, and intelligence policy advice."²⁴² Figure 31 shows the organisation of the NSIP Group in DPMC as of 2009, following the reorganisation stemming from the Smith Review. Figure 1.3.26 also shows the NSC/SCNS Secretariat relocated within Cabinet Division.

²⁴² Department of Prime Minister and Cabinet (2011) *Portfolio Budget Statements, 2011-12*, Budget Related Paper No.1.15A, Prime Minister and Cabinet Portfolio, Canberra: Department of Prime Minister and Cabinet, p.40.

Figure 1.3.26: National Security and International Policy Group, circa 2009
 (Also showing the NSC/SCNS Secretariat within the Cabinet Division)



Pushing Out: From the Centre of Government to Multi-Organisation Structures

As discussed earlier, there is a pull-push dynamic within the core executive. Complex policy problems that are considered priorities by the government are pulled into the core executive by the central agencies. However, if the policy issue becomes more manageable, it will be pushed back out into line departments and agencies. This push could happen for several reasons, including any one of, or a combination of, the following:

- The issue is no longer viewed as a policy priority by the government (either because the government has changed priorities or because a policy direction has been determined on the issue);
- The coordinating mechanisms between different actors have been established and can be managed by line departments or agencies;
- The issue's political or operational sensitivity has been reduced;

In Australia, border protection, counter-terrorism, and cyber security have all presented complex policy problems that have been pulled into the centre. Dedicated interdepartmental machinery has been established for each of these issues that intersects and compliments the standing intelligence machinery. However, all of these issues have gradually been pushed out of the centre once a policy direction has been determined. Understanding how this has occurred helps to understand the pull-push dynamic within the Australian core executive, and the evolution of the national security architecture as it relates to intelligence.

As described in the preceding pages, significant interdepartmental machinery was created within the core executive to manage the government's policy approach to counter-terrorism, people smuggling, and cyber-security. However the government of Rudd's successor, Julia Gillard, did not place the same focus on national security policy. Peter Jennings, a former DepSec of Strategy in the DoD, has written that Gillard's government progressively moved away from the significant defence expenditures promised in Rudd's 2009 Defence White Paper, and set a tone for expenditure reductions by pushing a

positive view of regional security following the '9/11 decade.'²⁴³ As Jennings notes, "Julia Gillard made it clear that her focus would be on social issues. Her spending priorities were elsewhere."²⁴⁴ Significant cuts were introduced in the defence establishment as part of a larger effort to improve the government's fiscal situation and allow for a refocus to other policy priorities.²⁴⁵ The machinery within the core executive reflected this shift in priorities. The BPC and its associated machinery ceased to exist, and following the announcement that Duncan Lewis would move to become Secretary of the DoD, a new NSA was not appointed for six months.²⁴⁶ With the government's shift in focus away from national security, and a sense that previous policy commitments were enough (or, in the case of Defence, too much), the Gillard government formed numerous multi-agency centres to push coordination down to the operational level. However, unlike previously, the formation of these centres came without significant expenditure commitments.

The 2009 Counter-Terrorism White Paper announced the creation of the multi-agency Counter-Terrorism Control Centre (CCTC), hosted within ASIO, to "set and manage counter-terrorism priorities, identify intelligence requirements, and ensure that the processes of collecting and distributing counter-terrorism information are fully harmonised and effective..."²⁴⁷ In 2011, ASIO Director-General David Irvine stated that the CTCC had two roles. First, the CTCC would be responsible for ensuring proper coordination between the many departments and agencies, particularly in regard to intelligence and investigations. Secondly, Irvine stated that the CTCC would "establish the priorities for [Australia's] counter-terrorism effort both at a strategic level and at what I will call a granular level in terms of individual investigations..."²⁴⁸ In keeping with the government's

²⁴³ Jennings, P. (2013) 'The Politics of Defence White Papers' *Security Challenges*, 9:2, pp.9-14.

²⁴⁴ Ibid, p.10.

²⁴⁵ Ibid, pp.9-14.

²⁴⁶ In February 2012, Deputy NSA Margot McCarthy was appointed to the NSA position; see Flitton, D. (February 6, 2012) 'Little Fanfare for Top Security Role Leaves Officials Puzzled' *Sydney Morning Herald*, <http://www.smh.com.au/federal-politics/political-news/little-fanfare-for-top-security-role-leaves-officials-puzzled-20120205-1r0dp.html> (Accessed Feb 2015).

²⁴⁷ Department of Prime Minister and Cabinet (2010) *Counter-Terrorism White Paper: Security Australia, Protecting Our Community*, Canberra: DPMC, p.28.

²⁴⁸ Senate Standing Committee on Legal and Constitutional Affairs—Legislation, *Budget Estimates 2011-12*, Canberra: Parliament of Australia, p.14.

priority of fiscal reductions in national security, the CCTC was funded from reallocated money instead of new expenditure.²⁴⁹

Additionally, Gillard announced the creation of the Australian Cyber Security Centre (ACSC) on January 24, 2013, which would also be housed in the new ASIO headquarters. The ACSC would combine multiple agencies (DSD, ASIO, DIO, AGD's Computer Emergency Response Team, AFP, and ACC) in one centre to lead agency efforts to detect, investigate, analyse and advise on cyber threats to critical networks.²⁵⁰ Like the CTCC, the 2013-14 Commonwealth budget made clear that the ACSC was to be funded from within existing agency resources.²⁵¹

Lastly, in March 2013, Gillard announced the creation of the National Border Targeting Centre (NBTC), which would be hosted by ACBPS, and would incorporate ACBPS, AFP, ASIO, ACC, DFAT's Passports Office, the Office of Transport Security, and the Department of Agriculture, Fisheries and Forestry.²⁵² According to government statements, the NBTC is meant to promote an intelligence-led border security effort, in the face of significant projected increases in air and maritime arrivals and international cargo.²⁵³

The creation of these three multi-agency centres pushed the on-going management of counter-terrorism, cyber-security, and border protection out into line departments and agencies. Lighter machinery remained at the centre of government to provide policy direction, but it did not resemble the significant policy machinery of the Howard or Rudd governments. For instance, the CTCC, being essentially an intelligence coordination centre, responded to the general guidance provided by the NICC and its sub-committees. The Cyber Policy Group,

²⁴⁹ Commonwealth Budget 2010-11, Budget Paper No.2—Expenditure Measures (Attorney General's).

²⁵⁰ Gillard, J. (January 24, 2013) 'Australian Cyber Security Centre' Media Release, Canberra: Prime Minister's Office.

²⁵¹ Commonwealth Budget 2013-14, *Budget Paper No.2*—Expenditure Measures (Attorney General's Department).

²⁵² Gillard, J. (March 3, 2013) 'National Border Targeting Centre to Target Organised Crime' Canberra: Prime Minister's Office.

²⁵³ *Ibid.*

chaired by the DPMC, examines policy issues related to cyber security and, hence, provides general policy guidance to the ACSC.²⁵⁴ The Cyber Security Operations Board (CSOB), chaired by the Secretary of the AGD, oversees the operations of the ACSC.²⁵⁵

Gillard's disassembly of the BPC and BPTF at the centre of government played into a withering attack from the opposition on her management of border protection, and national security policy in general. On June 1, 2011, Michael Keenan, the Shadow Minister for Justice, Customs and Border Protection, made a statement in the House of Representatives that tied together the several streams of the opposition's narrative against Gillard's management of national security, and so it is worth quoting at length:

The Labor Party's border protection failure is not just its failure to dissuade people smugglers from bringing people down to Australia illegally but its failure to do its job to fight local crime and to stop illegal substances and illegal weapons coming onto our streets in the first place. You cannot trust these guys with any national security issue and the Prime Minister has shown through her behaviour that she really does not see her role in national security as one of her primary considerations. She did not even bother turning up for the National Security Committee of Cabinet. When she came to office as Prime Minister she astonishingly axed the Border Protection Committee of Cabinet. She said that that was going to be one of her priorities and her first act was to axe the cabinet committee that actually looks at border protection.

Labor's failure within my portfolio has been enormous. Every front-line national security agency received a cut in this budget: the Australian Federal Police, the Australian Customs and Border Protection Service, the Australian Crime Commission and every single one of our intelligence agencies. And since the Labor Party came to office there are now 24,000 extra public servants and fewer front-line personnel dealing with national security and crime issues, which is a good indication that they just do not have the right priorities for our country.²⁵⁶

²⁵⁴ On the CPG, see: Department of Prime Minister and Cabinet (2014) *Annual Report 2013-14*, Canberra: Commonwealth of Australia, p.27; Attorney-General's Department (2013) *National Plan to Combat Cybercrime*, Canberra: Commonwealth of Australia, p.26.

²⁵⁵ Day, S. (October 24, 2014) Evidence to the Joint Committee of Public Accounts and Audit, *Review of Auditor-General's Reports Nos 42, 43, 48, 50 and 52 (2013-14)*, Canberra: Parliament of Australia, p.15.

²⁵⁶ For instance, see the attack on Gillard's record by Michael Keenan, the Shadow Minister for Justice, Customs and Border Protection: Keenan, M. (June 1, 2011) Statement in the House

National security issues, and specifically border protection, became a key policy issue leading up to the general election of September 2013. In July and August 2013, Tony Abbott's Coalition released two significant platform documents outlining their approach to border protection, including a commitment to create 'Operation Sovereign Borders' (OSB).²⁵⁷ With the Coalition's sweeping victory in September 2013, OSB was created almost immediately, reflecting its earlier platform commitment.

At the heart of Operation Sovereign Borders was a joint agency task force (OSB JATF). The OSB JATF consisted of multiple interagency 'task groups' and with a command structure shared between the ADF and the ACBPS. A three-star general from the ADF commands the OSB JATF and reports to the Minister of Immigration and Border Protection on its operations.²⁵⁸ OSB represented a new *operational* approach to border protection. Interestingly, for all the political rhetoric around Gillard's abandonment of the Border Protection Committee of Cabinet, Abbott did not reconstitute similar machinery within the core executive. Instead, the general policy framework for OSB has been managed through the NSC.²⁵⁹ The dedicated machinery within the centre of government is limited to the OSB Interdepartmental Reference Group (OSB IDRG), chaired by DPMC. The OSB IDRG is a secretary-level group that is meant to "provide a clearing house to address any interagency issues or support needs relating to Operation Sovereign Borders and the Joint Agency Taskforce outside of the operational context."²⁶⁰ Figure 1.3.27 shows the policy architecture for OSB, including the OSB IDRG. Importantly, the OSB IDRG includes representation from almost all of the

regarding Appropriation Bill (No.1) 2011-2012, Second Reading, House of Representatives Official Hansard No.7, 2011, Canberra: Parliament of Australia, pp.5630-5633.

²⁵⁷ On the Coalition's general approach to border protection, see ALP/National Coalition (August 2013) *The Coalition's Policy for a Regional Deterrence Framework to Combat People Smuggling*, Canberra; Brian Loughnane. On Operation Sovereign Borders, see ALP/National Coalition, (July 2013) *The Coalition's Operation Sovereign Borders Policy*, Canberra: Brian Loughnane.

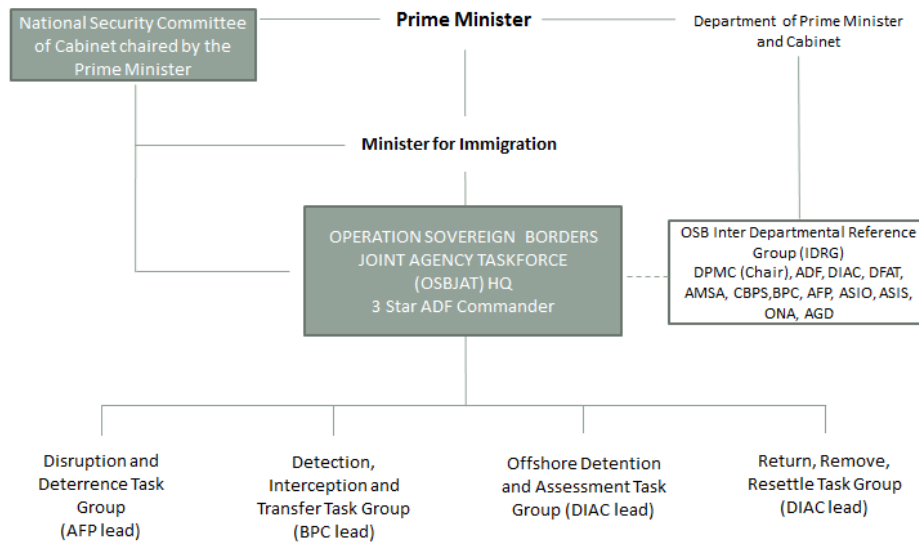
²⁵⁸ For an overview of the OSB structure, see Australian Customs and Border Protection Service and Department of Defence (2014) *Joint Review of Operation Sovereign Borders Vessel Positioning, December 2013—January 2014*, Canberra: Commonwealth of Australia, pp.11-12.

²⁵⁹ The intent to manage border protection policy through the NSC was made explicit in the Coalition's platform documents. See ALP/National Coalition, (July 2013) *The Coalition's Operation Sovereign Borders Policy*, Canberra: Brian Loughnane, p.12.

²⁶⁰ ALP/National Coalition, (2013) *The Coalition's Operation Sovereign Borders Policy*, pp.12-13.

Australian IC, including ASIO, ASIS, ONA, and the defence intelligence agencies through ADF representation. The task groups include intelligence support from these agencies at the operational level as well.

Figure 1.3.27: Policy Architecture for Operation Sovereign Borders²⁶¹



Ultimately, the OSB structure has become the mechanism for managing intelligence support to border protection efforts, in conjunction with the standing intelligence machinery such as the NICC and NICMC. The OSB IDRG is meant to manage any conflicts arising from resource demands on different actors, and to ensure that the exchange of resources between organisations is healthy. Any conflicts that cannot be managed by the OSB IDRG can be referred to ministers at the NSC for final settlement. Part of the reason that the structures at the centre of government related to border protection can remain limited is because the foundations had already been set for the necessary resource exchanges. Key actors in the OSB effort, such as Angus Campbell (ADF), Margot McCarthy (DPMC), Mike Pezzullo (Immigration), Nick Warner (ASIS), Duncan Lewis (ASIO), and Dennis Richardson (DoD) were around previously during Howard and Rudd’s border protection efforts and have a good working knowledge of the issues and of each other.

²⁶¹ ALP/National Coalition, (2013) *The Coalition’s Operation Sovereign Borders Policy*.

Operation Sovereign Borders became an example when counter-terrorism again became a policy priority following a series of terrorist attacks and plots inspired by the Islamic State of Iraq and al Shaam (ISIS). Two attacks on Australian territory, carried out by 'lone wolf' perpetrators, were successful in 2014: the stabbing of a police officer in Melbourne and the hostage standoff at a café in Sydney's Martin Place. Following these incidents, the NSC tasked the DPMC to carry out a review of Australia's CT arrangements.²⁶² The resulting review found that the coordination arrangements had worked well, but were ill suited for the tempo of counter-terrorism operations following the rise of ISIS. For instance, the review found that in February 2012, 1% of ASIO's CT investigations were classified as priority operations; by September 2014, the number of priority investigations numbered 60%.²⁶³ Similarly, AUSTRAC's Suspicious Matter Reports (SMRs) on terrorism financing had risen from 31 in 2008-09 to 134 in 2013-14.²⁶⁴ Overall, the review painted a picture of a terrorist threat that was growing in tempo and evolving in complexity, and government organisations trying to keep up with this shifting adversary. ISIS had driven a new wave of 'home-grown' terrorism that was seemingly more random and more difficult to detect.²⁶⁵ The message of the review's environmental analysis was clear: Australia had been relatively lucky, but its CT capabilities had to adapt to keep up.

The review examined several options for future coordination, but the key recommendations were:

- the appointment of a National Counter-Terrorism Coordinator;
- the formation of a Senior Executive Counter-Terrorism Group (SECTG) at the level of departmental secretaries and agency heads.
- to mandate the new Australian Counter-Terrorism Centre (ACTC) to "draw together policy and operational agencies, including secondees from the states and territories, to work together closely on operations, policy challenges, and capability development."²⁶⁶

²⁶² DPMC (2015) *Review of Australia's Counter-Terrorism Machinery*, Canberra: Commonwealth of Australia, p.2.

²⁶³ *Ibid*, p.19.

²⁶⁴ *Ibid*, p.18.

²⁶⁵ *Ibid*, pp.10-13.

²⁶⁶ DPMC (2015) *Review of Australia's Counter-Terrorism Machinery*, p.vi.

The government adopted all of these recommendations. Interestingly, the Review rejected the concept of a US-styled homeland security department. It found, as did the Smith Review in 2008, that a smaller and more agile coordinating body that could strengthen already effective coordination across agencies with both domestic and foreign mandates would be more useful.²⁶⁷ Specifically, the Review sought what it termed the 'Operation Sovereign Borders effect.' OSB had shown that the key factors to success were: clear and consistent political direction; ministerial and senior executive accountability; and close cooperation and communication at the strategic decision-making level.²⁶⁸ In short, the key factor was coordination stemming from cabinet ministers, not a new departmental structure.

Perhaps unsurprisingly given the close lessons being drawn from Operation Sovereign Borders, Prime Minister Abbott appointed Greg Moriarty to the position of Commonwealth Counter-Terrorism Coordinator (CT Coordinator) in May 2015. Moriarty was a deputy secretary in DFAT, who had closely supported OSB efforts while Australia's ambassador to Indonesia.²⁶⁹ At the same time, Abbott announced that Justice Minister Michael Keenan would take on the new role of Minister Assisting the Prime Minister on Counter-Terrorism.²⁷⁰ The intent was to create a clear line of ministerial and official accountability that could pull together resources from different agencies, and *proactively* tackle the problem of ISIS-inspired terrorism. Figure 1.3.28 shows the committee structures as they existed following the recent changes related to OSB and the new CT arrangements.

²⁶⁷ The review looked at the option of a US-styled homeland security department and a lighter UK-styled department of home affairs, but found problems in both models. For this discussion, see *Ibid*, pp.23-26.

²⁶⁸ *Ibid*, p.22.

²⁶⁹ Abbot, T. (May 25, 2015) Joint Press Conference on Stronger Counter-Terrorism Arrangements, Parliament House, Canberra, <https://www.pm.gov.au/media/2015-05-25/joint-press-conference-canberra> (Accessed May 21 2015).

²⁷⁰ Abbott, T. (May 25, 2015) 'Stronger Counter-Terrorism Arrangements' Press Release, Canberra: Prime Minister's Office, <https://www.pm.gov.au/media/2015-05-25/stronger-counter-terrorism-arrangements> (Accessed May 2015).

Evolving the Organisation of the DPMC: 'You Remind Me of An Episode of Yes Minister'

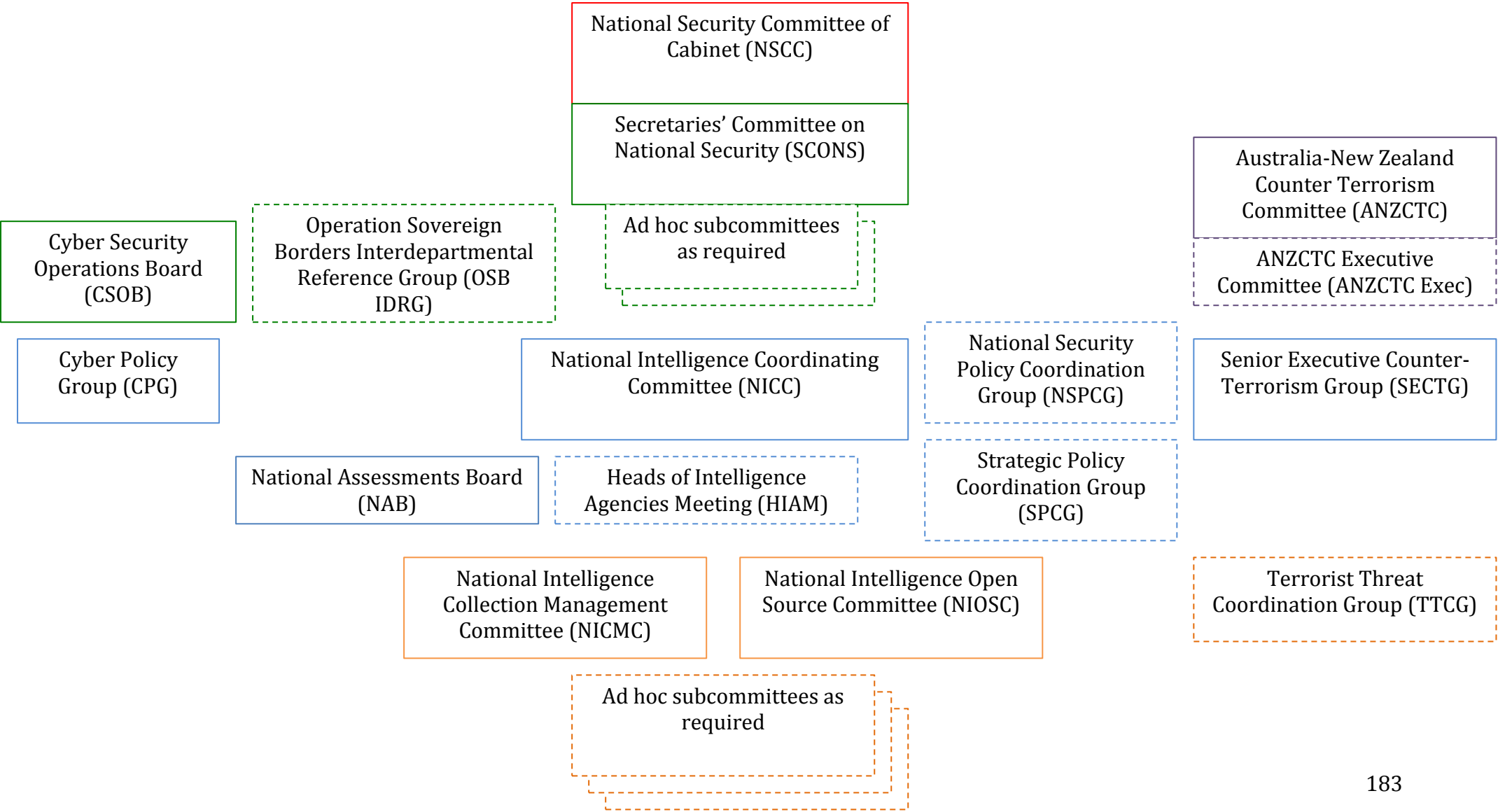
With the aforementioned changes in the national security architecture, the DPMC's organisation evolved to match. The Homeland and Border Security Division was pared down substantially to reflect the pushing of border protection coordination out into the OSB structure. Cyber security policy gained a greater presence through the formation of the Cyber Policy Branch, which has been coordinating implementation of the Cyber Security Strategy and is currently involved in the Cyber Security Review. Following the Review of Counter-Terrorism Machinery, there was a Counter-Terrorism Branch added to the NSIP Group to support the Commonwealth Counter-Terrorism Coordinator, along with a special advisor position.

The abandonment of the 'National Security Advisor' title within DPMC was a subtler shift. Following the ascension of the Abbott government, the NSA title was quietly dropped in favour of the more standard 'Associate Secretary' (Assoc. Secretary NSIP). Some in the media referred to this as a 'dismantling' of the position.²⁷¹ However, the current Associate Secretary, NSIP, Margot McCarthy, holds the same functional responsibilities within the department as before, with the exception of counter-terrorism (as will be discussed shortly).²⁷² The simpler explanation for the change in titles is found in the Prime Minister's preferences for his own office.

²⁷¹ Koutsoukis, J. (2013) 'Tony Abbott Dismantles Role of National Security Advisor by Stealth, Insiders Say' Sydney Morning Herald, <http://www.smh.com.au/federal-politics/political-news/tony-abbott-dismantles-role-of-national-security-adviser-by-stealth-insiders-say-20131024-2w4do.html> (Accessed December 2013).

²⁷² See McCarthy, M. (May 27, 2014) Evidence to the Senate Standing Committee on Finance and Public Administration Legislation, Official Committee Hansard, Canberra: Parliament of Australia, pp.47-50 and Department of Prime Minister and Cabinet (2014) Response to Question on Notice PM59, Senate Standing Committee on Finance and Public Administration Legislation.

Figure 1.3.28: Australian Committee Structure related to Management of the IC
 --circa 2015--



There has regularly been a Special Advisor (International) within the Prime Minister's Office (PMO), usually filled by a senior diplomat on loan from DFAT. Abbott added a second, entitled Special Advisor (National Security), which is currently filled by Andrew Shearer, who has experience in DPMC, ONA, and Defence.²⁷³ The preference of the Prime Minister was to place part of the advisory function within his own office, but retain a senior secretary-level official in DPMC to manage coordination and maintain the overall health of the interdepartmental system. Because, as some have noted, McCarthy had a "focus on process rather than strategic matters," this division of labour between PMO and DPMC may fit the personalities involved *and* be preferable to a Prime Minister that is heavily involved in national security affairs. Instead of the name-change being a stealthy 'dismantling' of the DPMC position, it is more likely that the change was made simply to avoid the confusion that would have come from having a 'Special Advisor (National Security)' in the PMO and a 'National Security Advisor' in DPMC.

Some commentators also questioned whether the number of senior executives within the NSIP Group could create confusion, with the addition of the new deputy secretary-level CT Coordinator.²⁷⁴ However, the division of responsibility seems clearer to those involved, and reflects the current level of work involved with counter-terrorism policy coordination. There had been two counter-terrorism reviews in 2014 following the Martin Place standoff. The government had also introduced several significant pieces of legislation in the span of only a year, including the *National Security Legislation Amendment Bill (No.1) 2014*, the *Counter-Terrorism Legislation Amendment (Foreign Fighters) Act 2014* and the *Counter-Terrorism Legislation Amendment Bill (No.1) 2014*. In evidence to the Senate Finance and Public Administration Legislation Committee, Margot McCarthy explained that her DepSec, Allan McKinnon, had been spending

²⁷³ Sheridan, G. (September 16, 2013) 'Doubling the Advisers a Sign of Global Clout' *The Australian*, <http://www.theaustralian.com.au/national-affairs/election-2013/doubling-the-advisers-a-sign-of-global-clout/story-fn9qr68y-1226719667403> (Accessed July 2015).

²⁷⁴ Burgess, V. (June 24, 2015) 'Not One, Not Two but Three Top Spooks' *Australian Financial Review*, <http://www.afr.com/news/policy/not-one-not-two-but-three-top-spooks-20150623-ghvixf> (Accessed July 2015).

almost all his time on counter-terrorism matters.²⁷⁵ This is problematic as the DecSec NSIP is supposed to help the Associate Secretary manage the range of national security business, including cyber security, border protection, defence, and international policy.

McCarthy explained during her Senate evidence that the new CT Coordinator would take over all the CT-related functions within the NSIP Group, leaving the Associate Secretary and DepSec to focus on the range of other national security policy issues. Given this, the creation of the CT Coordinator was not an effort to side-line the existing DPMC executives or an exercise in empire-building; it was an evolutionary change meant to ensure that the DPMC could continue to play an effective coordinating role in the face of a significant upturn in CT business. McCarthy did note that the CT Coordinator would not report through her, but would interact directly with the Secretary of DPMC, Minister Keenan, and the PM. When a senator questioned why a deputy secretary was not reporting through a more senior associate secretary, McCarthy responded “There is no need to have that sort of hierarchical reporting.”²⁷⁶ The range of senior positions within the DPMC still seemed to unsettle some senators however. In examining the senior positions within DPMC, one senator remarked, “So there will now be six deputy secretaries, three associate secretaries and a secretary. That is a lot of people with ‘secretary’ in their title.” Another senator quipped, “You remind me of an episode of *Yes Minister* now.”²⁷⁷ Figure 1.3.29 shows the organisation of the NSIP Group within DPMC following the evolutionary changes through the Gillard, second Rudd, and Abbott governments, up to approximately May 2015.

The Evolution of Intelligence Machinery within the Australian Core Executive

²⁷⁵ McCarthy, M. (May 26, 2015) Evidence to the Senate Standing Committee on Finance and Public Administration Legislation, Official Committee Hansard, Canberra: Parliament of Australia, p.180.

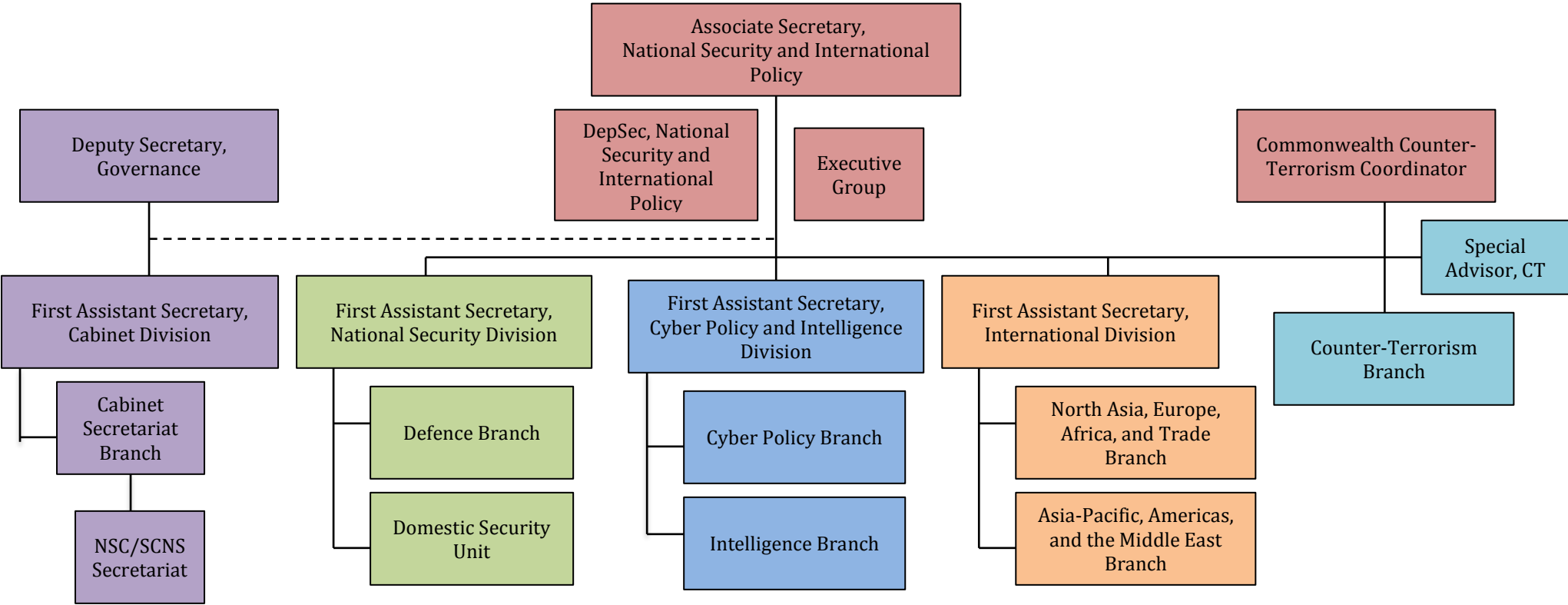
²⁷⁶ Ibid, p.181.

²⁷⁷ McCarthy (May 26, 2015) Evidence to the Senate Standing Committee on Finance and Public Administration Legislation, p.181.

The development of the interdepartmental intelligence machinery within the Australian core executive has been an evolutionary process. There have been periods of more accelerated change, such as after the Hope Royal Commission or following the 2008 Smith Review, but, since at least the late 1970s, the general model has been, and remains, quite recognisable. The growth or decline of the intelligence-related functions within the Department of Prime Minister and Cabinet has been dependent on the requirements of coordinating the interdepartmental machinery, and has been quite attuned to the needs of the prime minister and cabinet.

While different national security machinery has come and gone (such as the Border Protection Committee and its associated sub-structures), executive-level interdepartmental intelligence machinery has remained within the Australian core executive since the late 1970s. This is because of consistent cabinet-level interest in national security issues, including intelligence, particularly on the part of several prime ministers (Fraser, Howard, Rudd, and Abbott).

Figure 1.3.29: National Security and International Policy Group, early 2015
(Also showing the NSC/SCNS Secretariat within the Cabinet Division)



This ministerial interest manifests itself, currently, within the NSC, and cascades down through senior executive committees, whose members often have a working knowledge of the IC.

The design of the national security machinery itself is dependent on the priority, complexity, and persistence of policy problems, as well as the constraints in which actors must operate. Intelligence has remained within the Australian core executive because ministers have consistently prioritised the management and coordination of the national intelligence effort. The interdepartmental structures allow actors to build trust and manage the exchange of resources between their organisations in a way that enables *national* policy goals to be pursued instead of parochial departmental interests.

Chapter 4

The Machinery of Intelligence Community Management in New Zealand

Like Australia, New Zealand's interdepartmental machinery has evolved over time to balance both operational and institutional contingent factors across multiple environments. There have been periods of more aggressive organisational change, such as the latter half of the 1970s, the latter half of the 1980s, and the period from 2005 to 2015, interspersed by longer periods of more minor organisational adjustments. New Zealand's interdepartmental intelligence machinery, mirroring the growth of New Zealand's intelligence community itself, has evolved from near non-existence following the Second World War to become a significant part of the core executive. Far from being removed from the larger forces acting on government, New Zealand's IC has regularly been reshaped by institutional shifts and operational requirements; the art of management has been to most effectively balance competing demands.

Shadows of a Community: Early Coordination of the Intelligence Effort

The early post-war years of New Zealand's IC can most appropriately be described as minimalist. Because of this, the machinery within the core executive for intelligence coordination was equally light. Much of New Zealand's existing intelligence capability existed within the military, including a SIGINT collection capability, the Joint Intelligence Committee, and the Joint Intelligence Office (later Joint Intelligence Bureau), or in the New Zealand Police, in the form of the Special Branch. However neither the military or the police were the coordinating point for intelligence policy. The design of the early interdepartmental machinery for intelligence was informed by three important organisational features that defined New Zealand's core executive.

The first feature had to do with the construct of the central coordinating agencies. Beginning in 1945, the new Department of External Affairs (DEA) and the Prime Minister's Department (PMD) came under a single deputy head, Alister

McIntosh.¹ While it is unclear what the exact nature of the relationship was between the two departments, evidence thus far indicates that the PMD was the dominant of the two departments when it came to intelligence matters, and that the personal network of senior officials was a key coordinating mechanism.² From 1945-1955, McIntosh's deputy, Foss Shanahan, largely ran the PMD. George Laking, a former senior official who worked closely with both McIntosh and Shanahan, described the relationship, and, given its nuanced insights, it is worth quoting at length:

An organisational chart which I drew up in a moment of exasperation showed two intersecting circles, one centred on McIntosh, the other on Shanahan. Round the circumference of each there were three or four acolytes chasing their tails. Most appeared on both. The lines of accountability were in the form of a triangle—the base line connecting McIntosh and Shanahan while the diagonals connected each with the Prime minister....Within the composite structure were two separate streams of activity. One, in which Shanahan was the dominant figure, was the War Cabinet Secretariat and the network of activities which flowed from that. Under his influence and guidance it led eventually to the kind of Cabinet Secretariat that exists today. The other was the newly born External Affairs Department and the creation of a different network of external relationships. Here McIntosh had the primary responsibility and interest. Moreover, as Secretary of the War Cabinet and also External Affairs his position and authority were central to the whole enterprise. They were reinforced by his relationship with the Prime Minister.³

To add visual meaning to Laking's description, as well as to visually reflect some of the following paragraphs, the relationship between McIntosh and Shanahan (and the DEA and PMD) by 1950 is illustrated in Figure 1.4.1. While the PMD is shown as neutrally positioned under both McIntosh and Shanahan, this is largely to reflect McIntosh's formal authority over the PMD. In reality, Shanahan's management of the Cabinet Office and the Defence Secretariat (more will be said

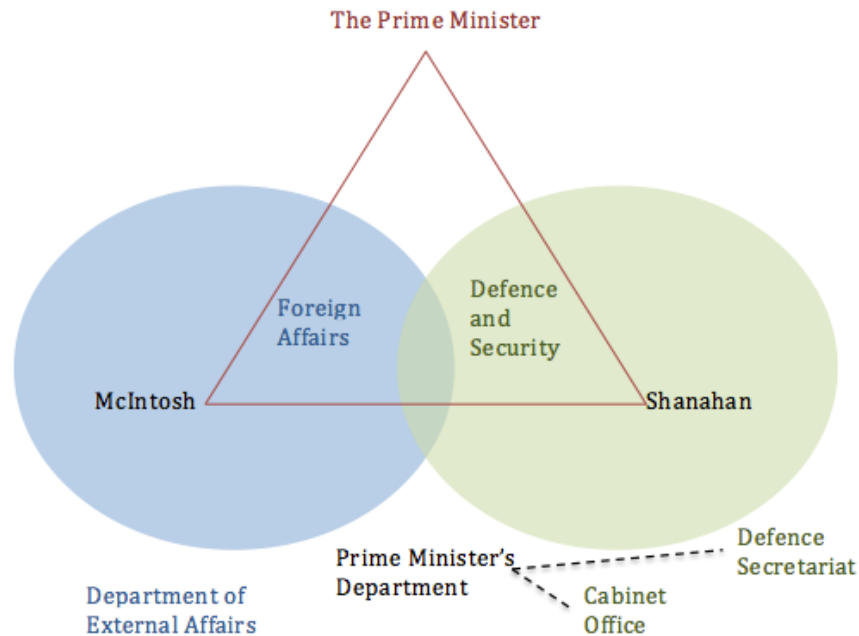
¹ It should be noted that historically, deputy heads in New Zealand were known as 'Secretaries,' a term consistent with their Australian counterparts. Following the state sector changes in the 1980s, permanent heads are now known as Chief Executives.

² Two recent studies that rely on archival sources emphasize the role played by the PMD, with very little mention of the DEA. See Hunt, G. (2007) *Spies and Revolutionaries: A History of New Zealand Subversion*, Auckland: Reed Publishing, and also Wharton, M.L. (2012) *The Development of Security Intelligence in New Zealand, 1945-1957*, MA Thesis, Massey University. On the close relationship between key senior officials, see McGibbon, I. (1999) *Unofficial Channels: Letters between Alister McIntosh and Foss Shanahan, George Laking, and Frank Corner*, Wellington: Victoria University Press,

³ Templeton, M. (1993) *An Eye, an Ear and a Voice: 50 Years in New Zealand's External Relations*, Wellington: Ministry of Foreign Affairs & Trade, p.72.

shortly on both) made him the de facto head of the PMD while McIntosh kept a watching brief on both DEA and PMD, but was largely focused on foreign affairs.

Figure 1.4.1
Spheres of Influence within the New Zealand Core Executive, circa 1950



The second underlying organisational feature within the New Zealand core executive was that secretariat support for Cabinet had been minimal through the war, and only developed through the latter half of the 1940s. PMD did perform some cabinet secretariat functions prior to 1945, but this cabinet support has been described as ‘ad hoc’ in nature.⁴ McIntosh’s deputy secretary, Foss Shanahan, was a driving force behind a formal cabinet secretariat *and* a formal intelligence community. Shanahan, unlike McIntosh, had a background in national security. He had initially been brought into the PMD in 1938 as Assistant Secretary to the Organisation for National Security (ONS, on which more will be said shortly.)⁵ Shanahan became Secretary to the Chiefs of Staff Committee

⁴ Archives New Zealand (2008) ‘Prime Minister’s Department: Administrative History’ <http://archway.archives.govt.nz/ViewFullAgencyHistory.do> (Accessed 2015).

⁵ Tonkin-Covell, J. (2000) *The Collectors: Naval, Army and Air Intelligence in the New Zealand Armed Forces During the Second World War*, PhD Thesis, University of Waikato, p.23; Martin, J.R. (2015) ‘An Age of the Mandarins? Government in New Zealand 1940-51’ in Samuel Furphy (ed.) *The Seven Dwarfs and the Age of the Mandarins: Australian Government Administration in the Post-War Reconstruction Era*, Canberra: ANU Press, p.97.

(CoSC) and Assistant Secretary to the War Cabinet in 1943. In 1945, when the War Cabinet ceased to exist and McIntosh took on the larger role as deputy head to both DEA and PMD, Shanahan became the Secretary to the Cabinet.⁶

Shanahan, with McIntosh's backing, pressed for a more robust cabinet secretariat that could better organise cabinet business. The role of government in the post-war world was much larger than previously, and cabinet business needed to be more efficient given the number of decisions that had to be made. The dominance of the Prime Minister and Deputy Prime Minister sometimes meant that good cabinet practice was circumvented. One former Treasury official noted that, "there were no Cabinet minutes under Nash—a stamp went on a submission, 'approved by Cabinet, sgd W Nash.' But sometimes a decision hadn't ever gone to Cabinet, and there were no rules to stop that. Foss must have seen rules were needed and he organised it."⁷ In a 1946 memorandum, Shanahan noted that the secretariat support for each cabinet committee was arranged separately, by whatever minister was the chair of the committee (presumably out of that minister's own department).⁸ This left room for disconnects between the cabinet committees, and did not guarantee that all ministers were fully informed.⁹ Additionally, in 1947 Shanahan wrote that a new approach could "reduce the amount of time spent by Cabinet on matters not of the same relative importance."¹⁰ In short, the state of affairs through the 1940s heightened the risk of conflict between ministers because there was no central secretariat that could enforce rules in cabinet, and ministers' time was not being efficiently used.

McIntosh and Shanahan had an uphill battle to convince their political masters that a more regimented approach to cabinet business was needed however. Peter Fraser and his deputy, Walter Nash, were notorious for avoiding any formalisation of the cabinet process, even in the face of significant wasted

⁶ McGibbon, 1999, pp.28-29.

⁷ Quoted in McKinnon, M. (2003) *Treasury: the New Zealand Treasury, 1840-2000*, Auckland: Auckland University Press, pp.207-208.

⁸ Martin, 2015, p.98.

⁹ Ibid.

¹⁰ Ibid.

time and acute problems in the cabinet paper process.¹¹ In making his case, Shanahan made consistent reference to the British, Australian, and Canadian cabinet secretariats, all of which had been substantially strengthened throughout the war and post-war years.¹² Through the last years of the Fraser government and the transition to the Holland government (1947-1949), Shanahan increasingly gained traction for better management of cabinet. Although Shanahan had become Cabinet Secretary in 1945, it was not until January 1948, in the waning days of the Fraser government, that the Secretary was allowed to attend meetings of the Cabinet on a trial basis.¹³ With the election of a new government under Sidney Holland in late 1949, Shanahan made recommendations to the prime minister-elect for the more effective management of cabinet business, after spending time in Ottawa with Norman Robertson, the Clerk of the Privy Council and Secretary to the Cabinet.¹⁴ In December 1949, the Cabinet Secretary became a permanent attendee at Cabinet meetings.¹⁵

Through 1948-1949, the larger role being played by the Cabinet Secretary corresponded with the creation of a small Cabinet Office within PMD.¹⁶ In Shanahan's own view, the Cabinet Office had four roles:¹⁷

1. Facilitating cooperation between departments;
2. Reconciling, where necessary, the conflicting interests of departments;
3. Verifying that action is taken to given effect to the decisions of Cabinet;
4. Providing the Secretariat of any standing or ad hoc committees of the Cabinet or officials.

There are clearly dual emphases on managing cabinet business and ensuring coordination across departments. These two focal points of the Cabinet Office

¹¹ Ibid, pp.95-99.

¹² Ibid, and Archives New Zealand (2008) 'Cabinet Office: Administrative History' <http://archway.archives.govt.nz/ViewFullAgencyHistory.do> (Accessed March 2015).

¹³ See Shroff, M. (2001) *The Role of the Secretary of the Cabinet—The View from the Beehive*, Occasional Paper No.5, New Zealand Centre for Public Law, Victoria University of Wellington.

¹⁴ Martin, 2015, p.99.

¹⁵ Martin, 2015 and Shroff, 2001, p.3.

¹⁶ Archives New Zealand (2008) 'Prime Minister's Department: Administrative History' <http://archway.archives.govt.nz/ViewFullAgencyHistory.do> (Accessed March 2015).

¹⁷ Found in Shanahan's personal file on cabinet organisation, Archives New Zealand, AAFD 816/1: Cabinet Organisation, General.

show the intent to better manage the exchange of resources within the core executive. The Cabinet Office, however, is not the only organisation that owes its lineage to Shanahan's drive for better coordination of government business.

Figure 1.4.2¹⁸
Foss Shanahan



The third organisational feature that had significant impact on the early development of the intelligence machinery was that New Zealand had no defence ministry until 1964. The country had three armed services (the Army, Navy, and Air Force), but did not have a department of state to coordinate their efforts or manage defence policy. Instead, the defence effort had been coordinated through numerous joint committees, all of which consisted of membership from the armed services and relevant civilian departments. Until 1943, this network of joint committees was known as the Organisation for National Security (ONS).¹⁹ In 1943, with the emergence of the War Cabinet, the War Cabinet Secretariat succeeded the ONS Secretariat within PMD, but the general concept of managing

¹⁸ National Library of New Zealand.

¹⁹ For a discussion of the workings of the ONS, see Tonkin-Covell, 2000, Ch.1.

defence through interdepartmental committees remained largely the same. John Tonkin-Covell's research on the wartime intelligence machinery has shown that this structure within the PMD was a key hub for strategic intelligence products going to ministers (and particularly the PM), and for matters of defence and intelligence policy during wartime.²⁰ Following the war, the joint committees were pared down and modelled on the British joint committee system, with the COSC sitting at the apex. Sitting under the COSC, the most important committees pertaining to intelligence were the Joint Planning Committee (JPC) and the Joint Intelligence Committee (JIC).²¹

At the centre of this web of defence committees was Foss Shanahan. Following the war, in addition to becoming Secretary to the Cabinet, Shanahan maintained a close hold on defence machinery as secretary of the COSC until 1955. In 1949, Shanahan convinced the Minister of Defence to create the Defence Council, which would oversee the defence establishment on a more regular basis, and better link the Minister to the joint committees by having the Minister of Defence, the service chiefs, and key departmental deputy heads at the table.²² To service these defence committees, Shanahan created a small Defence Secretariat within the PMD, alongside the Cabinet Office.

Shanahan's position as secretary to the COSC and the Defence Council, and head of the Defence Secretariat and Cabinet Office, gave Shanahan an unparalleled view of New Zealand's national security policy. Ian McGibbon has noted that Shanahan's consistent presence in the defence field left him more experienced in defence policy than many of the military service chiefs.²³ Largely due to Shanahan's position as secretary to the key defence committees, his creation of the Defence Secretariat and the Cabinet Office, and the lack of any defence ministry to contest the field, the PMD became the central focus of

²⁰ Ibid.

²¹ Hager, N. (1995) *The Origins of Signals Intelligence in New Zealand*, Working Paper No.5, Centre for Peace Studies Auckland: University of Auckland, p.21, and Wharton, 2012, p.72. Wharton cites several papers produced jointly by the JPC and the JIC.

²² McGibbon, I. (2000) 'Shanahan, Foss, 1910-1964' *Dictionary of New Zealand Biography*, Volume 5; McGibbon, 1999, p.29.

²³ McGibbon, 2000.

national security coordination, including in regard to New Zealand's nascent national intelligence effort. In the organisation of cabinet and defence business, Shanahan very much deserved his nickname: 'Foss the Boss.'²⁴

While regional and international defence policy and the need for inter-service coordination drove the design of the joint service committees and Defence Secretariat, the question of whether New Zealand had adequate security (particularly counter-intelligence) arrangements sparked the creation of further coordinating machinery within the core executive. Initially, a mid-level Interdepartmental Committee on Security (ICS) was formed in order to examine the problem of counter-intelligence and counter-subversion in New Zealand, in conjunction with the New Zealand Police Special Branch.²⁵ Following the Gouzenko defection in Canada, and visits by the Director-General of Britain's MI5 to assess New Zealand's security arrangements, in late 1951 Prime Minister Holland agreed with a British recommendation to set up a high-level Advisory Committee on Security (ACS), which would report directly to the PM.²⁶ Shanahan chaired the committee as Cabinet Secretary, and its members were the Secretary of the DEA, the Chair of the ICS, the Chair and one member of the Public Service Commission, the Director of Military Intelligence, the head of the Police Special Branch, a senior official of the Department of Scientific and Industrial Research, and an official of the Cabinet Office as secretary.²⁷ Research on the early years of New Zealand's security intelligence effort indicates that the ACS met infrequently, mainly between late 1951 and early 1952, however gaps in archival records leave this uncertain. As Miriam Wharton has noted, the key aspect of the ACS was its membership, bringing together the most important officials on security and intelligence matters.²⁸ However, in terms of operation, the ACS seems to have been used infrequently as a forum, with officials instead relying on personal informal networks. The ICS and ACS were, however, the first interdepartmental steps that would, in 1956, lead to the policy decision to create

²⁴ Ibid.

²⁵ Hunt, 2007, p.292.

²⁶ Wharton, 2012, p.74-75.

²⁷ Ibid.

²⁸ Wharton, 2012, p.75.

the New Zealand Security Service (NZSS). Thirteen years later, in 1969, the NZSS would become the New Zealand Security Intelligence Service (NZSIS), which exists today.

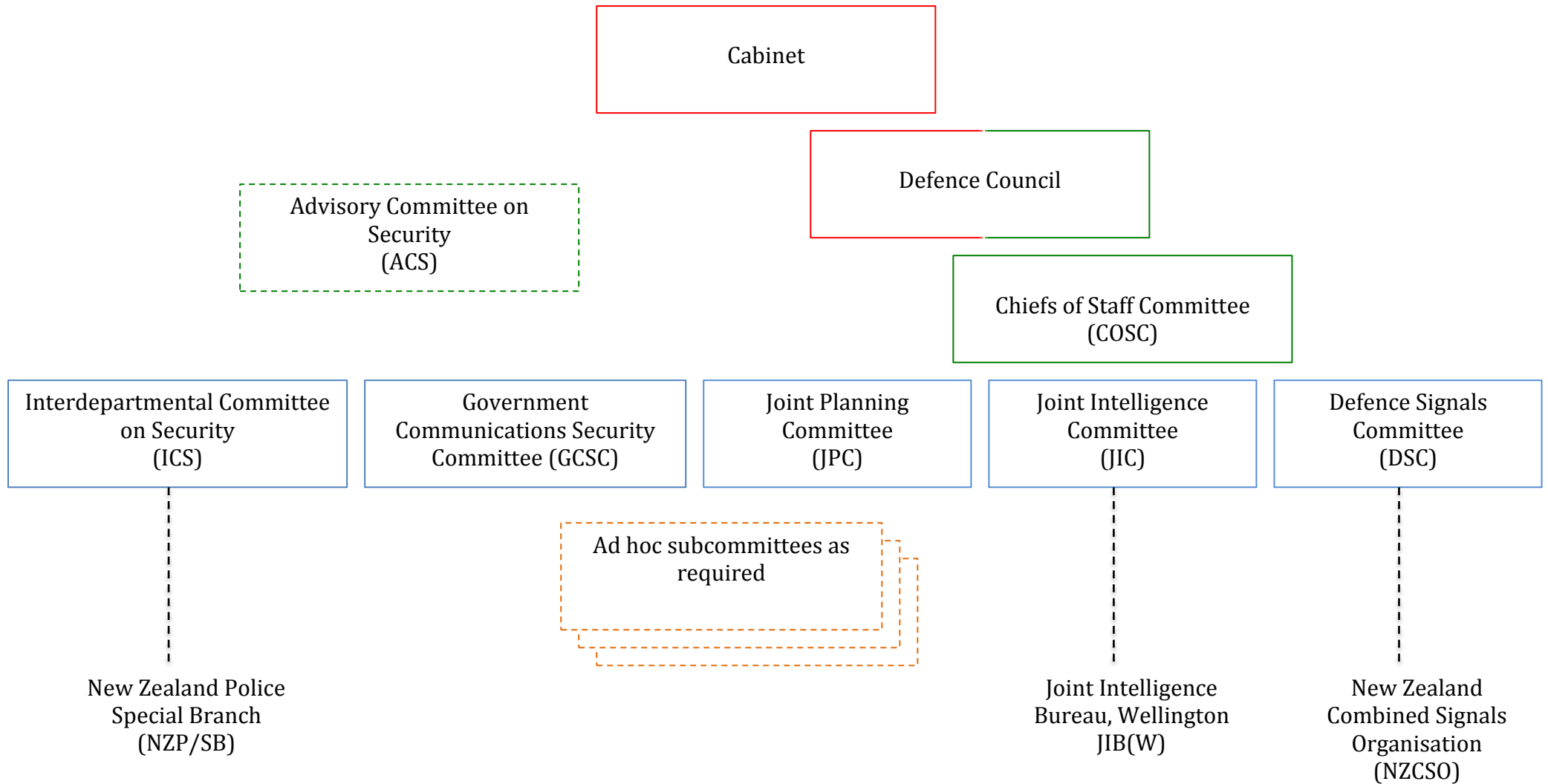
The last piece of the initial interdepartmental puzzle fell into place in 1955, with the creation of the New Zealand Combined Signals Organisation (NZCSO). The NZCSO encompassed New Zealand's fledgling SIGINT effort, in the form of the NR1 intercept station at Waiouru and a small Distribution Office (a Distribution Officer and an assistant) within defence headquarters in Wellington.²⁹ The Defence Signals Committee (DSC) provided the governance of the NZCSO, with representatives from the three services, and reported to the COSC as one of its subcommittees.³⁰ The government's COMSEC effort (not yet paired with the national SIGINT effort), was overseen by the New Zealand Communications Security Committee (NZCSC) with membership drawn from PMD, DEA, and the armed services.³¹ Figure 3 shows the intelligence machinery within the core executive, as it existed in approximately 1955. Because of the particularly nebulous nature of the machinery through the first post-war decade, connecting lines are shown indicating which committees provided governance and oversight to which core elements of the IC.

²⁹ Hager, N. (1996) *Secret Power*, Nelson NZ: Craig Potton, p.68.

³⁰ GCSB (1999) 'A Brief History of the GCSB' <http://www.gcsb.govt.nz/history.htm> (Accessed January 2015).

³¹ *Ibid.*

Figure 1.4.3: New Zealand Committee Structure related to Management of the IC
--circa 1955--



A Period of Change: Evolving the Intelligence Machinery through the 1970s

The next period of significant change for the interdepartmental machinery started 15 years later. While there had been some significant changes in the IC between 1955 and 1970, such as the formal creation of the NZ Security Service in 1956 (becoming the NZSIS in 1969) and the creation of the Ministry of Defence through 1965-67, the interdepartmental machinery had stayed relatively stable. The 1970s, however, was a decade of heightened public interest in intelligence, partially because of the revelations of the Church Committee in the United States. New Zealand had its own 'spy scandal' in the 'Sutch Affair.' William Sutch, a former high-ranking official, had been the subject of a significant NZSIS counter-intelligence operation, and was arrested by Special Branch officers while meeting with a KGB officer on a rainy night in a Wellington park. The subsequent prosecution of Sutch was unsuccessful, and the entire affair raised public questions about the operations of the secret state, and specifically the NZSIS.³²

The 1970s also saw a change in the operational environment for the New Zealand IC. The tempo of international terrorism was increasing. Japanese Red Army terrorists, acting in conjunction with Palestinian organisations, had brazenly attacked Tel Aviv's Lod Airport in May 1972. In the attack that came to exemplify international terrorism, Black September terrorists attacked Israeli athletes at the Munich Olympics in September 1972, grabbing global attention in a way that was previously unseen. Later, in 1975, terrorists attacked a meeting of OPEC ministers in Vienna, taking several hostage. While New Zealand avoided any direct terrorist incidents, there was at least one serious occurrence indicating that New Zealand was not immune from terrorist plots driven by foreign grievances. On October 3, 1974, police caught three men trying to break into the explosives store at Harokiwi Quarry. One of the men took a police officer hostage and commandeered a police vehicle to make an escape. In total, four men were arrested in relation to the incident. All four turned out to be members

³² On the Sutch case, see Hunt, 2007, Ch.9 and Bennetts, C.H. (2006) *Spy: A Former SIS Officer Unmasks New Zealand's Sensational Cold War Spy Affair*, Auckland: Random House NZ.

of the Ananda Marga sect, which had a violent quarrel with the Indian government. During questioning, the men admitted that they planned to steal explosives from the quarry to bomb the Indian High Commission in Wellington.³³

Finally, there were important movements in the international environment. Concerns over terrorism and espionage were driving wider international cooperation on intelligence. Older international working groups, such as the Five Eyes forums on counter-intelligence (CAZAB conferences), had now been joined by newer international groupings on terrorism (specifically KILOWATT, MEGATON, and the Berne Group).³⁴ Also, in a shift that had significant impacts on the Australian and New Zealand ICs, the British had progressively pulled out of the Pacific region. One of the more significant moves in this regard was Britain's relinquishment of their large SIGINT base in Singapore in 1971 followed by its final closure in 1974. Australia and New Zealand had both benefitted from the SIGINT station in Singapore.³⁵ While Britain retained their SIGINT capability in Hong Kong, it was apparent which way the winds were blowing; to satisfy their own intelligence requirements, Australia and New Zealand would need a stronger and more consistent regional capability.

All of these developments pointed to the need for a more coherent 'national' approach to intelligence. In 1974, Prime Minister Norman Kirk ordered a review into New Zealand's intelligence capabilities. Members of JIB(W) visited Australia's Joint Intelligence Organisation to see how the formation of JIO had

³³ The details of the plot are recounted in a US State Department cable, citing New Zealand police reporting. US Embassy Wellington, 'Subject: Ananda Marga' Wellington 03395, Reference 266030, November 13, 1975,

https://www.wikileaks.org/plusd/cables/1975WELLIN03395_b.html (Accessed March 2015).

³⁴ While New Zealand was only represented at CAZAB, the trend was clear: intelligence cooperation and diplomacy was becoming a required part of international business. On CAZAB, see Wright, P. (1987) *Spy Catcher: The Candid Autobiography of a Senior Intelligence Officer*, Toronto: Stoddart, pp.338, 375-376; Rimgton, S. (2002) *Open Secret: The Autobiography of the Former Director-General of MI5*, London: Arrow Books, pp.206-207. On KILOWATT and MEGATON (also referred to as 'MEGATONNE'), see Shpiro, S. (2001) *The Communication of Mutual Security: Frameworks for European-Mediterranean Intelligence Sharing*, NATO Academic Fellowship Programme, <http://www.nato.int/acad/fellow/99-01/shpiro.pdf> (accessed February 2015).

³⁵ On the Singapore station, see Hager, 1996, pp.69-74.

progressed following the Wilton Report in 1970.³⁶ The resultant internal report in New Zealand recommended that the JIB(W) form the hub of a new organisation, that would also subsume parts of the intelligence apparatus in the military branches and MFA, much the way that JIO had done in Australia. This new organisation was known as the External Intelligence Bureau (EIB), and was attached to the Prime Minister's Department. EIB was an analytic body, responsible for producing all-source national intelligence assessments. It would also coordinate the New Zealand IC by helping to define the intelligence requirements of senior decision-makers, with a particular emphasis on the PM. In short, the EIB would carry out much the same role as Australia's JIO (Jeffrey Richelson and Desmond Ball stated that the JIO lent a substantial helping hand to the New Zealanders during EIB's creation.)³⁷ However, EIB's position at the centre of government, responsible directly to the Prime Minister, put New Zealand ahead of Australia by a few years. It would not be until the creation of ONA in 1977 that the Australians had a similarly central assessment organisation. The EIB's Terms of Reference, signed by Prime Minister Rowling in February 1975, are outlined in Figure 1.4.4.

Figure 1.4.4: Terms of Reference for the External Intelligence Bureau, February 1975³⁸

1. *The External Intelligence Bureau, which is to be part of the Prime Minister's Department, is intended to meet the New Zealand Government's requirements for timely, relevant, and useful information, intelligence and assessments on developments overseas which are likely to affect New Zealand's interest.*
2. *The bureau is to be headed by a Director who is to be responsible to the Permanent Head, Prime Minister's Department, and Secretary of Foreign Affairs for executive control of the bureau. The Director is to receive direction and guidance on matters of policy from the New Zealand Intelligence Council. The Director is to be assisted by a Deputy Director who shall act for him in his absence.*
3. *The External Intelligence Bureau is to function both as an intelligence research organisation and as a co-ordinating body. It is to assemble, evaluate and present intelligence on political, social, economic, strategic, geographic, scientific, and technical subjects as required by the New Zealand Government. It is, to the fullest extent possible, to*

³⁶ Richelson, J.T. and Ball, D. (1990) *The Ties that Bind: Intelligence Cooperation between the UKUSA Countries—The United Kingdom, the United States of America, Canada, Australia and New Zealand*, (2nd Edition), Boston: Unwin Hyman, p.74.

³⁷ Richelson and Ball, 1990, p.74.

³⁸ The EIB Terms of Reference are included in Powles, G. (1976) *Security Intelligence Service*, Report by the Chief Ombudsman, Appendix D. They are quoted verbatim here from Powles' report.

- call upon the assistance of appropriate departments in preparing its assessments.*
4. *For its information the External Intelligence Bureau is to draw upon the Ministry of Foreign Affairs, the Ministry of Defence, and other appropriate sources within New Zealand. It is also, with the authority of the New Zealand Intelligence Council, to maintain liaison with appropriate organisations overseas.*
 5. *The External Intelligence Bureau is to provide the Directorate of service Intelligence with administrative, library, mapping, and cartographic services and is also to provide the New Zealand Intelligence Council with such administrative and secretarial services as it may require.*

The 1974 report also recommended the creation of a permanent high-level officials' committee to oversee New Zealand's foreign intelligence efforts, which would be known as the New Zealand Intelligence Council (NZIC).³⁹ The NZIC was a governance body that was meant to bring coherence to the national foreign intelligence effort. The NZIC's Terms of Reference, also signed by Prime Minister Rowling in February 1975, indicated that it would advise government on intelligence policy, ensure interdepartmental coordination, and have overall responsibility for New Zealand's international intelligence relationships. Figure 1.4.5 outlines the key characteristics of the NZIC, as of 1975.

| Figure 1.4.5: New Zealand Intelligence Council, February 1975⁴⁰ |
|--|
| Membership |
| Permanent Head, Prime Minister's Department and Secretary of the Ministry of Foreign Affairs (Chair) Secretary, Ministry of Defence Chief of the Defence Staff *Other concerned department heads, as required. |
| Secretariat Support |
| Secretariat support provided by External Intelligence Bureau |
| Terms of Reference |
| <ol style="list-style-type: none"> 1. <i>The New Zealand Intelligence Council is to maintain a general oversight of New Zealand's intelligence activities (other than those involving internal security functions) and is to ensure that these are properly co-ordinated so that the New Zealand Government's requirements in the intelligence field are met effectively.</i> |

³⁹ Richelson and Ball, 1990, p.78.

⁴⁰ The 1975 Terms of Reference for the NZIC are included in Powles, 1976, Appendix E. They are quoted verbatim here.

2. *In particular the New Zealand Intelligence Council is:*
 - a) *To ensure that the New Zealand Government is provided with timely, relevant, and useful information and intelligence on developments overseas which are likely to affect New Zealand interests;*
 - b) *To advise the New Zealand Government on policy matters relating to intelligence activities;*
 - c) *To maintain, co-ordinate, and generally supervise New Zealand's relations with appropriate intelligence organisations overseas;*
 - d) *To ensure that there is full co-operation and co-ordination of effort between Government departments in New Zealand on intelligence matters;*
 - e) *To provide direction and policy guidance to the External Intelligence Bureau and to keep its functions and responsibilities under review; and*
 - f) *To ensure that the work of the External Intelligence Bureau and that of the Directorate of Service Intelligence is co-ordinated effectively so that there is no unnecessary duplication.*
3. *The New Zealand Intelligence Council is to consist of the Permanent Head, Prime Minister's Department, and Secretary of Foreign Affairs, the Secretary of Defence, and the Chief of Defence Staff, together with the permanent heads of those other departments which subsequently participate in the work of the External Intelligence Bureau. The council is to meet under the chairmanship of the Permanent Head, Prime Minister's Department, and Secretary of Foreign Affairs. For normal and regular working purposes the members of the council are to designate representatives to act on their behalf and to meet under the chairmanship of an officer of the Ministry of Foreign Affairs nominated, after consultation with the other members of the council, by the Permanent Head, Prime Minister's Department. The Director of the External Intelligence Bureau is to be the Executive Secretary of the New Zealand Intelligence Council.*
4. *The council may invite to its meetings any other person whom it considers could make a useful contribution to its work.*

Paragraph 3 of the 1975 NZIC Terms of Reference indicate that the Council was meant to operate predominantly through a working committee of second-tier officials, designated by the core members to act on their behalf for “normal and regular” matters. While the NZIC was designed to bring greater central coherence to New Zealand’s intelligence efforts, it had one decided limitation: Paragraph 1 of the 1975 Terms of Reference make it clear that the NZIC’s authority did not extend to the NZSIS. This limitation on the NZIC existed for two reasons. Firstly, the NZSIS, being a security intelligence organisation, had to maintain operational independence and, hence, could not be ‘tasked’ to the same extent as organisations engaged in foreign intelligence collection. Secondly, the *New Zealand Security Intelligence Service Act 1969* (hereafter referred to as the *NZSIS Act*) made the Director of NZSIS directly responsible to the ‘Minister in Charge of the NZSIS’ (at that time the Prime Minister) for the Service’s

operations.⁴¹ As it stood in 1975, one could have read the *NZSIS Act* to mean that the line of accountability between the Minister in Charge and the NZSIS could not be 'broken' by an intermediary actor, such as the NZIC. While this is admittedly a strict interpretation, Prime Minister Rowling specifically stated in 1975 that the new arrangements had no impact on, or control over, the NZSIS.⁴²

The creation of the EIB and the NZIC in 1975 was only the opening round in a series of changes through the latter half of the 1970s that would set the foundations for the modern New Zealand IC. Running parallel to, but not disconnected from, these changes in the foreign intelligence field was the fallout from the Sutch Affair. As Graeme Hunt has noted, the trial of William Sutch had provided a rallying point for those activist groups that were opposed to the existence of the secret state, and particularly the NZSIS. The public furore had even begun to coalesce around a 'Campaign to Oppose the Security Service.'⁴³ The question of propriety and control in the NZSIS had quickly become a political priority, and a policy response was needed. In August 1974, Prime Minister Rowling appointed Sir Guy Powles, the Chief Ombudsman, to carry out a review of the NZSIS and determine whether it was fit for purpose. It was, at first blush, a strange choice; Powles was known to be a civil libertarian and had even testified on behalf of Sutch at his trial.⁴⁴ However, tactically, Powles' background meant that his findings had a better chance of being respected across the political spectrum.

Powles' report was submitted in July 1976, and forcefully concluded that New Zealand needed a security intelligence service. He also found that, generally, the organisation and nature of NZSIS was properly fit to New Zealand's needs. Powles stated that he found the arguments made by some organisations for the elimination of NZSIS ill thought out. Some submissions also made the case for the New Zealand Police to carry out the security intelligence function. Powles drew

⁴¹ See Section 5(3), *New Zealand Security Intelligence Service Act 1969*, No.24, September 11, 1969.

⁴² Richelson and Ball, 1990, p.75.

⁴³ Hunt, 2007, p.246.

⁴⁴ *Ibid*, pp.246-247.

the comparison with Canada's RCMP Security Service, stating that there was domestic and international precedent for a police-led security intelligence function. However, Powles found that such an arrangement was not practical for New Zealand (a fortuitous conclusion given the fate of the RCMP Security Service in Canada.)⁴⁵

Figure 1.4.6⁴⁶
Sir Guy Powles



Powles did recommend several evolutionary changes however, including having less emphasis placed on CS investigations, and placing more emphasis on CI and CT investigations. Importantly, several of Powles' recommendations were designed to bring NZSIS more closely under the NZIC's governance umbrella. For instance, he recommended that, while the NZIC should not determine the NZSIS' investigative priorities, the Service's priorities and the balance of resources between CS, CI, and CT investigations could be determined in consultation with the NZIC.⁴⁷ Powles also made a strong case that there were synergies in terms of

⁴⁵ Powles, 1976, pp.12-23.

⁴⁶ Photo: Auckland Museum.

⁴⁷ Powles, 1976, p.31.

information and analysis between the NZSIS and the EIB.⁴⁸ Given these considerations, Powles recommended that the Director of NZSIS be a permanent member of the NZIC and that the NZIC's Terms of Reference be amended to give the Council a defined role in providing guidance on security intelligence, in addition to its more direct role in foreign intelligence.⁴⁹

In his review, Powles also inquired as to the cooperation between the NZ Police and the NZSIS. While the Police and the Service were of the opinion that the relationship was good, especially on routine matters, Powles found that there was room for improvement. Particularly, the NZ Police stated that, while information sharing was generally good, the NZSIS was hesitant about sharing the some forms of information that would be useful to police investigations. Powles also found that there were not clear lines of responsibility in terms of terrorism investigations and responses.⁵⁰

During the time that Powles was finishing his report on the Security Intelligence Service, one of the NZIC's first tasks was to review New Zealand's SIGINT and COMSEC efforts with an eye to modernisation.⁵¹ Previously, communications and technical security (COMSEC and TECSEC) functions had been split between the MoD and NZSIS. However, this was neither the most efficient nor the most unified approach to management. The NZIC review of SIGINT and COMSEC, in conjunction to Powles' final report, led to another package of changes to the New Zealand IC in 1977.

At the ministerial level, two new ad hoc cabinet committees were formed: the Cabinet Committee on Terrorism, which would examine the terrorist threat to New Zealand interests and its CT response, and the Special Committee of Cabinet on Security, which appears to have been set up specifically to make

⁴⁸ Ibid, pp.61-64.

⁴⁹ Ibid.

⁵⁰ Ibid, pp.69-70.

⁵¹ Archives New Zealand (2008) 'Government Communications Security Bureau, Head Office: Administrative History' <http://archway.archives.govt.nz/ViewFullAgencyHistory.do> (Accessed February 2015); GCSB (2011) 'History' GCSB Website, <http://www.gcsb.govt.nz/about-us/history.html> (Accessed June, 2011).

decisions stemming from the Powles Report.⁵² To support these cabinet committees, similarly ad hoc senior officials' committees were established, chaired by the Permanent Head of the PMD, known as the Officials' Committee on Terrorism and the Officials' Committee on Security. In response to the changes recommended by the Powles Report, the NZIC membership and terms of reference were also amended. These changes are reflected in Figure 1.4.7. The Director of NZSIS was added to the membership, as was the Director of the EIB (although the EIB Director also retained their role as Secretary to the NZIC). The Permanent Head of the PMD was made the Chair with the Secretary of the Ministry of Foreign Affairs becoming a permanent member, reflecting the split of these two positions in 1975. The 1977 amendments to the Terms of Reference also removed the clause indicating that the NZIC could operate at a level lower than permanent heads. Interestingly, while Powles had suggested that the NZIC have two formal sub-committees, one for security intelligence and one for foreign intelligence, the amended Terms of Reference avoid this model, instead including a new passage in paragraph 4 indicating that the NZIC can form any sub-committees necessary to achieve its mandate. This more general clause allowed for a greater level of flexibility in the intelligence machinery that could be easily adapted to particular requirements.

| Figure 1.4.7: New Zealand Intelligence Council, January 1977⁵³ | |
|--|--|
| Membership | |
| Permanent Head, Prime Minister's Department (Chair) | |
| Secretary Ministry of Foreign Affairs | |
| Secretary, Ministry of Defence | |
| Chief of the Defence Staff | |
| Director, New Zealand Security Intelligence Service | |
| Director, External Intelligence Bureau (also Executive Secretary to NZIC) | |
| *Other concerned department heads, as required. | |
| Secretariat Support | |
| Secretariat support provided by External Intelligence Bureau | |

⁵² See Richelson and Ball, 1990, p.73, and Gustafson, B. (2000) *His Way: A Biography of Robert Muldoon*, Auckland: Auckland University Press, p.491.

⁵³ The 1977 Terms of Reference for the NZIC are included in Richelson and Ball, 1990, pp.79-80. Figure 1.4.7 shows what text was deleted (strikethroughs) and added (underlined text) in the 1977 changes to the Terms of Reference.

Terms of Reference

1. *The New Zealand Intelligence Council is to maintain a general oversight of New Zealand's intelligence activities (~~other than those involving internal security functions~~) and is to ensure that these are properly co-ordinated so that the New Zealand Government's requirements in the intelligence field are met effectively.*
2. *In particular the New Zealand Intelligence Council is:*
 - a) *To ensure that the New Zealand Government is provided with timely, relevant, and useful information and intelligence on developments overseas which are likely to affect New Zealand ~~interests~~;*
 - b) *To advise the New Zealand Government on policy matters relating to intelligence activities;*
 - c) *To maintain, co-ordinate, and generally supervise New Zealand's relations with appropriate intelligence organisations overseas;*
 - d) *To ensure that there is full co-operation and co-ordination of effort between Government departments in New Zealand on intelligence matters;*
 - e) *To ensure that the work of the External Intelligence Bureau, the Directorate of Defence Intelligence, and the New Zealand Security Intelligence Service is co-ordinated effectively so that there is no unnecessary duplication.*
 - f) *To provide direction and policy guidance to the External Intelligence Bureau and to keep its functions and responsibilities under review; and*
3. *The New Zealand Intelligence Council is to consist of the Permanent Head, Prime Minister's Department, the Secretary of Foreign Affairs, the Secretary of Defence, the Chief of Defence Staff, the Director of Security, and the Director of the External Intelligence Bureau (who, in addition, is to be the Executive Secretary of the Council) together with the permanent heads of those other departments which subsequently participate in the work of the External Intelligence Bureau. The council is to meet under the chairmanship of the Permanent Head, Prime Minister's Department, ~~and Secretary of Foreign Affairs, or, in his absence, a member of the Council designated by the Chairman.~~ The Chairman of the New Zealand Intelligence Council is to report to the Prime Minister on matters concerning the work of the Council. For normal and regular working purposes the members of the council are to designate representatives to act on their behalf and to meet under the chairmanship of an officer of the Ministry of Foreign Affairs nominated, after consultation with the other members of the council, by the Permanent Head, Prime Minister's Department. The Director of the External Intelligence Bureau is to be the Executive Secretary of the New Zealand Intelligence Council.*
4. *The Council is to have the authority to form from time to time such working committees and sub-groups as are considered necessary to carry out the functions set out in paragraph 2(a) to (f) above, each committee and sub-group to meet under the chairmanship of an officer designated by the Chairman of the Council after consultation with members of the Council. The council may invite to its meetings any other person whom it considers could make a useful contribution to its work, and in particular, Permanent Heads of other Government departments.*

At the agency level, the NZSIS Amendment Act 1977 made several changes to the NZSIS Act 1969 that gave effect to Powles recommendations. For instance, it added paragraph 1(d), stating that one of the Service's functions is:

To inform the New Zealand Intelligence Council of any new area of potential espionage, sabotage, terrorism, or subversion in respect of

*which the Director has considered it necessary to institute surveillance.*⁵⁴

This clause gave the NZIC some measure of formal oversight of the NZSIS' activities, while also balancing the direct accountability between the Minister in Charge and the NZSIS. Also, the 1977 Act formally gave the NZSIS a mandate to investigate terrorist threats, by adding terrorism to the definition of 'security.'⁵⁵ Additionally, the NZIC's review of SIGINT and COMSEC resulted in the creation of the GCSB in September 1977, which would be responsible for the national SIGINT, COMSEC, and TECSEC efforts. The GCSB was established in the MoD, and was under the accountability of the Minister of Defence.⁵⁶ However, policy and operational guidance for the new SIGINT organisation was provided by an interdepartmental sub-committee of NZIC, known as the Committee of Controlling Officials (CCO), chaired by the Permanent Head of the PMD.⁵⁷ Figure 1.4.8 shows the committee structure as it existed in 1977, following the Powles Report and the NZIC review of SIGINT and COMSEC.

Consolidation in the Centre: the Prime Minister's Department Comes into its Own

Corresponding with the changes in the intelligence machinery beginning in 1975, there was also evolutionary change in the nature of the core executive itself. Prime Minister Rowling, in consultation with the Cabinet Office, and the State Services Commission had already decided that, if re-elected, he would separate the PMD from the Ministry of External Affairs, to give the PM more administrative and policy support.⁵⁸ After the December 1975 election, when Robert Muldoon came to power, his views were very similar to Rowling's, and the separation of PMD from External Affairs proceeded.⁵⁹ In addition to separating the department from the External Affairs portfolio, a small Advisory Group was added to the PMD to help bolster the PM's policy capacity.

⁵⁴ *New Zealand Security Intelligence Service Amendment Act 1977*, Part 3(1).

⁵⁵ *Ibid*, Part 2(2)(b).

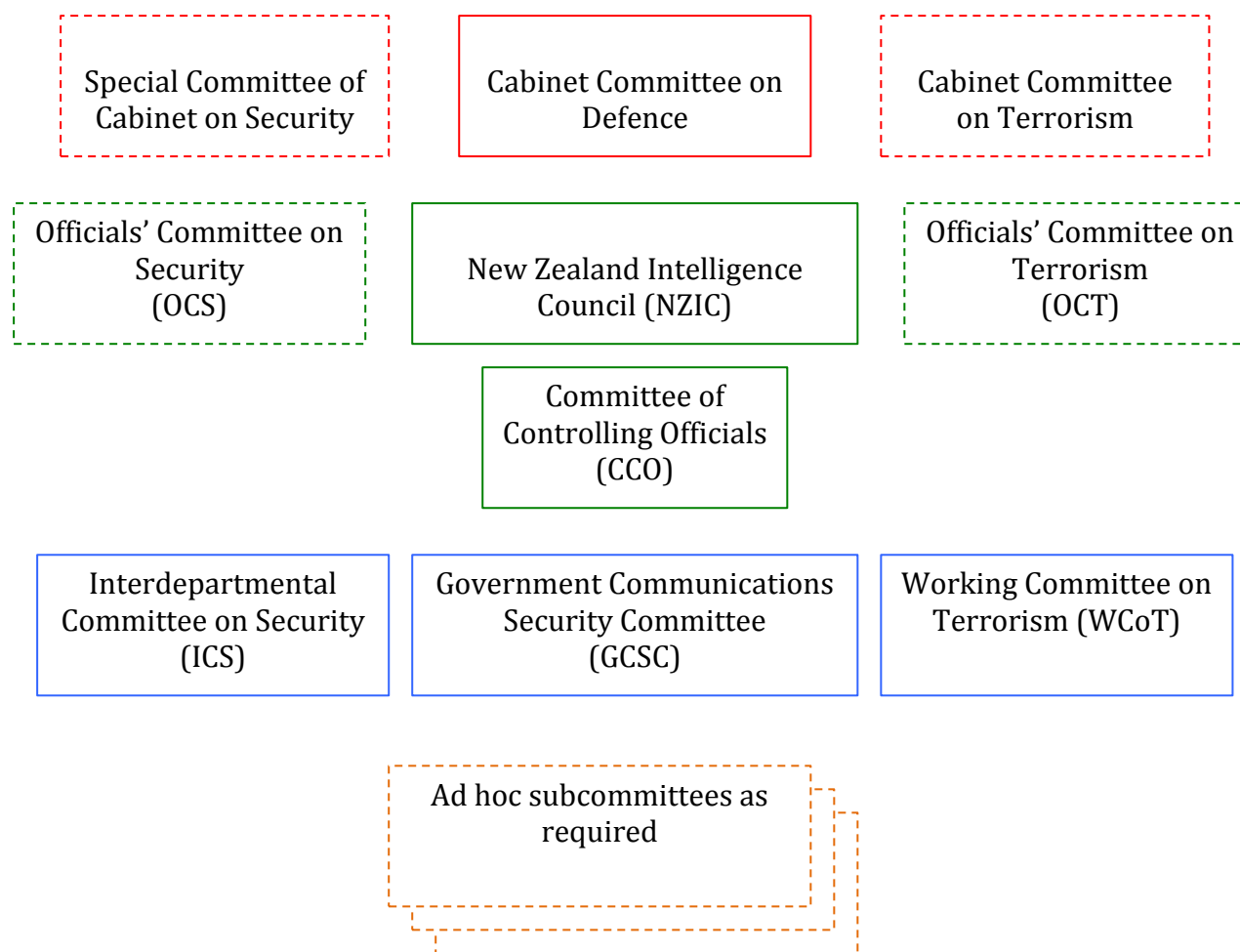
⁵⁶ Richelson and Ball, 1990, pp.76-78; Hager, 1996, p.78,

⁵⁷ GCSB (2011) 'History' GCSB Website.

⁵⁸ Formerly the Department of External Affairs.

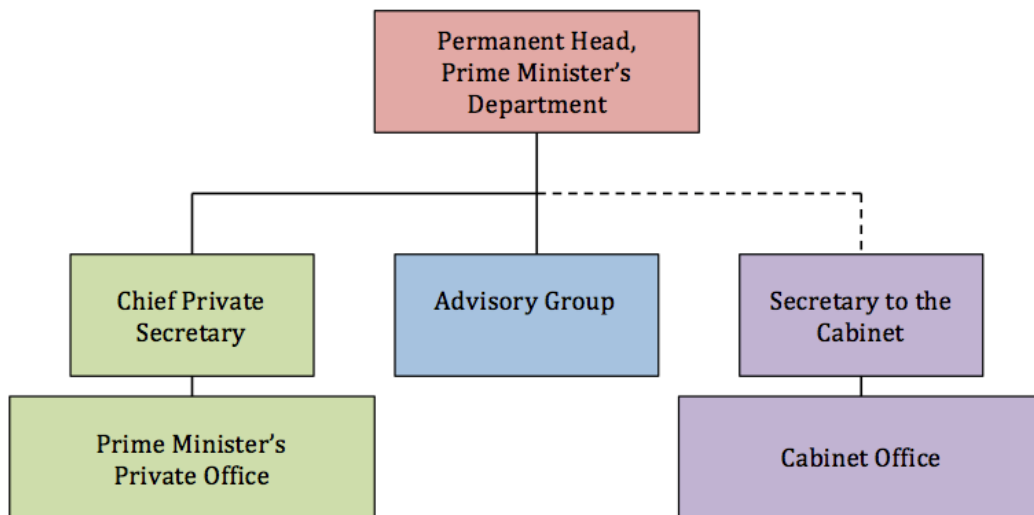
⁵⁹ Gustafson, 2000, p.178.

Figure 1.4.8: New Zealand Committee Structure related to Management of the IC
--circa 1977--



The separation caused some anxiety amongst Treasury mandarins, who feared that a strengthened PMD would challenge the Treasury's economic policy advice.⁶⁰ The small size of the Advisory Group however (7 to 8 advisors) and the choice of Bernard Galvin (a Treasury official) as Permanent Head of the PMD assuaged the Treasury's concerns.⁶¹ The PMD consisted the new Advisory Group, the Cabinet Office, and the PM's Private Office. Figure 1.4.9 shows the PMD as it existed in 1975.

Figure 1.4.9
Prime Minister's Department, 1975



Galvin, as Permanent Head, had formal authority over the three units within the PMD. However, the long-time Cabinet Secretary, Patrick Millen, managed the Cabinet Office somewhat independently. According to Muldoon's biographer, Barry Gustafson, Millen was "fiercely independent and largely kept the office neutral"⁶² in line with the Cabinet Office's unique constitutional role.

⁶⁰ McKinnon, 2003, p.169, and Hensley, 2000, pp.225-228. The Advisory Group was informally known in the press as the 'Think Tank.' Hensley states that the Group's handful of analyst advisors had broad 'portfolios' covering the range of government business: foreign affairs, economics, agriculture, business, social affairs, and transport.

⁶¹ Ibid.

⁶² Gustafson, 2000, p.178.

Figure 1.4.10⁶³
Bernard Galvin (L) and Patrick Millen (R)



Galvin and Millen were key actors within the interdepartmental intelligence and security machinery. Galvin, as Permanent Head, chaired both the NZIC and the Officials Committee on Security (OCS), while Millen was the OCS secretary.⁶⁴ Gustafson recounts that, following the Powles Report, Galvin and Millen were the principle authors of the *NZSIS Amendment Act 1977*.⁶⁵ As will be shown, the head of the Prime Minister's Department (later the Department of Prime Minister and Cabinet) and the Cabinet Secretary have continued to be key actors in the management of national intelligence.

A System in Flux: Balancing Environmental Forces in the 1980s

The 1980s and 1990s was a period of significant flux for New Zealand, both externally and internally. International terrorism was an increasing

⁶³ Photograph of Millen: Photograph taken by Ross Giblin. Further negatives of the Evening Post newspaper. Ref: EP/1985/5128/7-F. Alexander Turnbull Library, Wellington, New Zealand. <http://natlib.govt.nz/records/22378205>; Photograph of Galvin: Negatives of the Evening Post newspaper. Ref: 1/4-031972-F. Alexander Turnbull Library, Wellington, New Zealand. <http://natlib.govt.nz/records/22733263>.

⁶⁴ *Ibid*, p.193 and Terms of Reference for NZIC.

⁶⁵ *Ibid*.

concern to the security of civilians both at home and. The 1980s saw the start of numerous conflicts such as the Israeli invasion of Lebanon and the beginning of the first Intifada, and the intensification of others, such as the fight for a Tamil independence in Sri Lanka. These conflicts spurred the growth of terrorist groups such as Hizballah, Hamas, and the Liberation Tigers of Tamil Elaam (LTTE), who developed sophisticated international networks for financing and logistical support (and, in the case of Hizballah, operational use).

Additionally, geopolitics had become heated through the 1980s. Tensions between the US and Soviet Union had grown, with each concerned that the other was prepared to press the nuclear button. President Reagan was determined to “prepare the way for a new Soviet leader by pushing the old Soviet system to the breaking point.”⁶⁶ Reagan’s rhetoric was “profoundly unsettling” within the Soviet leadership, and drove a new level of paranoia within Soviet defence circles about American intentions that, on at least one occasion, nearly sparked a nuclear exchange.⁶⁷ Several regional tensions also became international flashpoints, such as the Soviet occupation of Afghanistan, Argentina’s invasion of the Falkland Islands in 1982, and American involvement in Central America.

International forces could have local repercussions, and New Zealand was not immune. The increasing tensions between the US and Soviet Union had a commensurate mobilising effect on disarmament and peace movements across the world. Gerald Hensley, the head of the Prime Minister’s Department through the 1980s, described the peace and disarmament movements at the time:

Like a seismic wave, the movement travelled across the world and landed up in New Zealand where it had a big impact. It energised lobbies, the people who think politics deals only with single issues. People were brought from Britain to talk about the nuclear menace and

⁶⁶ Gaddis, J.L. (2005) *Strategies of Containment: A Critical Appraisal of American National Security Policy During the Cold War*, Oxford: Oxford University Press, pp.354, 356.

⁶⁷ Ibid. On Soviet perceptions of American movements during this period, see Fischer, B.B. (1997) *A Cold War Conundrum: The 1983 Soviet War Scare*, Washington: CIA Center for the Study of Intelligence.

*what they saw as the growing risk of nuclear annihilation and certainly the whole lobbying effort was greatly energised.*⁶⁸

As part of this energising of the peace movement, France's testing of nuclear weapons in the South Pacific had drawn significant condemnation and protest from organisations such as Greenpeace. The friction between the French government and Greenpeace became so acute that France mounted a significant covert operation in 1985 to disrupt Greenpeace's protest of an upcoming test. French intelligence officers who had slipped into Auckland covertly planted explosives on the Greenpeace ship *Rainbow Warrior* in an effort to cripple the ship and hamper Greenpeace's protest activities. The ensuing explosion killed a Greenpeace photographer, partially sank the ship, and became a major point of tension between New Zealand and France.⁶⁹

Additionally, the question of whether New Zealand should host US nuclear-capable warships took on new urgency through the first half of the 1980s. The stance taken by the New Zealand government (particularly its Prime Minister, David Lange) that no nuclear-capable US ships could use New Zealand ports brought New Zealand into direct conflict with US defence policy. The US found New Zealand's stance untenable, and terminated its defence obligations towards New Zealand under the ANZUS treaty. This falling out between the two countries had a direct impact on the Five Eyes intelligence alliance, as the United States symbolically cut off New Zealand from some intelligence-sharing arrangements, specifically in the area of SIGINT.⁷⁰ As will be seen, New Zealand was forced to re-think its national intelligence effort in the face of this shift in its larger alliance environment.

⁶⁸ Gerald Hensley, Interviewed by Sue Onslow for the Commonwealth Oral History Project, Institute of Commonwealth Studies, University of London, April 2, 2014.

⁶⁹ On the *Rainbow Warrior* incident, see Sunday Times Insight Team (1986) *Rainbow Warrior: The French Attempt to Sink Greenpeace*, Toronto: Key Porter, and Hensley, 2006, pp.283-287.

⁷⁰ See Hensley, G. (2013) *Friendly Fire: Nuclear Politics and the Collapse of ANZUS, 1984-1987*, Auckland: Auckland University Press, and Aldrich, R. (2010) *GCHQ: The Uncensored Story of Britain's Most Secret Intelligence Agency*, London: HarperPress, pp.444-447.

Finally, New Zealand's public sector (or 'state sector') itself was going through its own seismic changes. Previous economic policies resulted in slow growth and high national debt, precipitating a financial crisis for New Zealand in the early 1980s. Incremental decisions had led to what was perceived as an untenable situation. As practitioners within the State Services Commission (SSC) itself put it, "the dramatic decline of New Zealand's fortunes during the 1970s and early 1980s exposed the inherent flaw in our version of the traditional model of centralized government decision-making and management. We discovered the cumulative costs of poor decisions the hard way."⁷¹ This prompted the government of David Lange to institute radical reforms in the state sector, targeting first financial and expenditure management, and, subsequently, the structure of the state sector itself.⁷²

Through the 1980s, New Zealand's IC had to carefully navigate the challenges posed by all of these environmental forces. Sometimes, the forces acted in contradictory ways. For instance, the threat environment dictated the need for a more horizontally integrated intelligence effort to face both state and non-state actors, however the changes in the state sector emphasised vertical accountability between officials and their ministers. In the face of these challenges however, the evolution of the interdepartmental committee system eventually hit upon a structure that would underpin the New Zealand national security system for the several decades.

A System in Flux: Consolidating the Committee Structures

When the Lange government came to power in 1984, Lange's deputy, Geoffrey Palmer recounts that there was a streamlining of the cabinet committee system. Five committees were disestablished or merged with others, resulting in

⁷¹ Matheson, A., Scanlon, G. and Tanner, R. (1995) *Strategic Management in Government: Extending the Reform Model in New Zealand*, Wellington: State Services Commission, p.1.

⁷² For an overview of New Zealand's reforms, see Office of the Auditor General of Canada (1995) *Toward Better Governance: Public Service Reform in New Zealand (1984-94) and its Relevance to Canada*, Ottawa: Ministry of Supply and Services. The financial and expenditure management reforms to the state sector are covered in more detail in Chapter 10.

a total of 10 committees. Out of these 10, there were two security-related cabinet committees. The first was the Terrorism Committee, and the second was the External Relations and Security Committee.⁷³ The first half of the 1980s saw minor changes in the interdepartmental committee structures. These changes were mainly in regard to the government's ability to handle terrorist incidents.

According to Gerald Hensley, who had succeeded Galvin as Permanent Head of the PMD in 1980, the interdepartmental counter-terrorism machinery that existed through this period was "rather cumbersome." Cabinet approved a revised structure that replaced the Cabinet Committee on Terrorism with the streamlined Terrorism Emergency Group (TEG). Hensley had consciously modelled TEG on the British COBRA⁷⁴ system, which emphasised flexibility of membership based on the incident.⁷⁵ The TEG, when activated, was chaired by the PM, with other relevant ministers and officials attending as required (most often this included the NZSIS, GCSB, Police, MoD, NZDF, and MFAT).⁷⁶ The point of the TEG was to closely link operational coordination with key national decision-makers.

Interestingly, Prime Minister Lange rarely activated the TEG, preferring to leave coordination at the level of senior officials and be briefed on an ad hoc basis.⁷⁷ Hensley recalls that Lange's "quick intelligence enabled him to grasp situations quickly and with a minimum of paperwork. His restlessness made him impatient of formality and of lengthy sittings."⁷⁸ For instance, in the weeks following the bombing of the *Rainbow Warrior* in 1985, the TEG was not activated. Hensley recalls that this was not problematic, as officials simply reformed the Officials Committee on Terrorism, which met 17 times to

⁷³ Palmer, G. (2013) *Reform: A Memoir*, Wellington: Victoria University Press.

⁷⁴ COBRA stands for Cabinet Office Briefing Room 'A'.

⁷⁵ Hensley, 2000, p.296.

⁷⁶ Greener-Barcham, B.K. (2002) 'Before September: A History of Counter-Terrorism in New Zealand' *Australian Journal of Political Science*, 37:3, p.509-524.

⁷⁷ Hensley, G. (April 30, 2004) 'Reflecting on the Fourth Labour Government' Speech delivered at the Stout Research Centre, Victoria University, published in the *New Zealand Herald* http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=3563688 (Accessed July 2015).

⁷⁸ Hensley, 2004.

coordinate New Zealand's response, including its intelligence efforts.⁷⁹ Both of New Zealand's principle intelligence collection agencies were involved in the response to the *Rainbow Warrior* bombing. Once two of the prime suspects were identified within New Zealand, the NZSIS was able to establish that their passports were false, place electronic surveillance devices in their motel room, and intercept their phone calls.⁸⁰ In an effort to track the remaining bombers, the GCSB mounted a targeted SIGINT collection effort against French vessels in the South Pacific, and leveraged their UKUSA allies to monitor French government communications in Paris. These efforts yielded valuable intercepts indicating that the yacht *Ouvea*, which had spirited some of the bombers out of Auckland, was heading to Norfolk Island for maintenance.⁸¹ Lange also did not activate the TEG two years later in 1987 when an Air New Zealand aircraft was hijacked, again preferring to operate in an ad hoc manner. In this instance, however, the failure to activate the interdepartmental machinery posed significant problems in terms of coordination.⁸²

At roughly the same time as the Lange government was dealing with the *Rainbow Warrior* affair, it was also trying to manage the fallout from the United States' suspension of defence and intelligence-sharing obligations with New Zealand because of its non-nuclear stance. In October 1985, President Reagan reaffirmed the US stance towards New Zealand by signing National Security Decision Directive 193, which stated that:

*...New Zealand cannot enjoy the benefits accorded a good ally without complying with the necessary responsibilities. The President considers that, given the absence of movement toward restoring port access, US adjustments in military, intelligence, and other alliance-related cooperation with New Zealand should remain in place, subject to further review as necessary.*⁸³

⁷⁹ Ibid, and Hensley, 2000, p.283.

⁸⁰ Ibid, p.283, and King, M. (1986) *Death of the Rainbow Warrior*, Auckland: Penguin Books, pp.165-170

⁸¹ Sheppard N. and Nippert, M. (August 28, 2015) 'At the End of the Rainbow' *New Zealand Herald*, http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=10656635 (Accessed August 2015), and Hensley, 2000, p.285.

⁸² Hensley, 2000, p.296-297, and Hensley, 2004.

⁸³ National Security Decision Directive 193, 'US Policy on the New Zealand Port Access Issue' October 21, 1985, National Security Council, found at:

Gerald Hensley, at that time the Chair of the NZIC and head of the PMD, recounts that the government was busy “plugging the gaps” left by the US suspensions.⁸⁴ Two reviews were conducted, one focused on defence policy and the other on the national intelligence effort.⁸⁵ The intelligence review, known as the ‘Hensley Review on Intelligence’ because Gerald Hensley was its principle author, made several recommendations related to both operational intelligence capability and the management of intelligence.

In his writing on the ANZUS debacle, Hensley notes that his review of the New Zealand IC “led to the abolition of the Intelligence Council and the merger of its functions into a new position of Coordinator of Domestic and External Security...”⁸⁶ However, this is a slight simplification.⁸⁷ The fate of NZIC was tied to a much larger evolution of the committee structures that occurred in March 1987, at the same time as Hensley submitted his intelligence review. Following a review by the SSC, the government committed itself to the development of national security policies focused on the concept of ‘comprehensive security,’ which would include external and internal threats, and natural hazards. Hensley states that, “The Commission believed that too much was being spent on external intelligence rather than on studying dangers at home and the PM was persuaded that it would be more efficient to bring domestic and external risks under one office.”⁸⁸ The policy paper that formed the basis for the new machinery, entitled ‘A National Security Policy for New Zealand’, stated that while other states’ structures had been examined, New Zealand “must establish machinery to meet its particular circumstances of geography, strategic environment, form of

<https://reaganlibrary.archives.gov/archives/reference/Scanned%20NSDDS/NSDD193.pdf>

(Accessed November 2015).

⁸⁴ Hensley, 2013, p.287-288.

⁸⁵ Ibid.

⁸⁶ Hensley, 2013, p.288.

⁸⁷ The role of the Coordinator for Domestic and External Security will be covered in following pages.

⁸⁸ Hensley, 2006, p.295.

government and resources.”⁸⁹ The paper then laid out six distinct objectives of the new machinery:⁹⁰

- A) *To produce estimates of the relative seriousness and likelihood of the various categories of threat to the nation’s security;*
- B) *To develop and coordinate the intelligence effort required to give the maximum degree of forewarning;*
- C) *To advise on the resources required to provide a reasonable level of protection against the various threats, and to formulate proposals for the allocation of the available resources;*
- D) *To prepare mobilisation plans to meet the contingencies of war, civil disaster or other emergency;*
- E) *To recommend any legislative measures that may be required to be in place to permit plans to be put into effect;*
- F) *To ensure coordinated action by the Government on national security issues.*

On March 2, 1987, Cabinet provided formal approval to the measures outlined in the policy paper. The Cabinet Committee on External Relations and Security and the Cabinet Committee on Terrorism were combined to form the new Cabinet Committee on Domestic and External Security (DES).⁹¹ The DES was to “have the same membership as the Terrorism Committee, but with the addition of a Finance Minister.”⁹²

As with most cabinet committees, DES was supported by a committee of deputy heads. The officials’ committee was not a *new* committee, as much as it was an *expanded and evolved* version of the existing NZIC. The cabinet minute that created the new structures noted that Cabinet had:

...agreed that the New Zealand Intelligence Council be changed to include the Chairman of the State Services Commission and the

⁸⁹ ‘A National Security Policy for New Zealand’, contained in AAFH 6790 W5510 (Box 268) R 3 DESC Part 1, Reviews—Chief Executive—Domestic and External Security Commission 1989, Archives New Zealand.

⁹⁰ *Ibid.* The six objectives are quoted verbatim from the policy paper.

⁹¹ The Cabinet Committee on Domestic and External Security is also known by the acronym ‘DESC’ in many sources, however archival records indicate that the formal identifier for the committee was ‘DES.’

⁹² Cabinet Minute CM 87/7/11, ‘Domestic and International Security: Policy Coordination and Management’, contained in AAFH 6790 W5510 (Box 268) R 3 DESC Part 1, Reviews—Chief Executive—Domestic and External Security Commission 1989, Archives New Zealand.

*Secretary to the Treasury and be renamed the Officials committee for Domestic and International Security.*⁹³

Subsequently, the name of the officials' committee was slightly altered to Officials Committee for Domestic and External Security Coordination (ODESC), likely for consistency with the Cabinet Committee it served. The DES and ODESC could co-opt ministers and officials as required by the issues being considered, however Figure 1.4.11 illustrates the core memberships.

| Figure 1.4.11: Memberships of the DESC and ODESC, 1987⁹⁴ |
|--|
| Cabinet Committee on Domestic and External Security (DES) |
| <p><i>Prime Minister (Chair)</i> <i>Deputy Prime Minister (Deputy Chair)</i> <i>Minister of Foreign Affairs</i> <i>Minister of Overseas Trade</i> <i>Minister of Defence</i> <i>Minister of Civil Defence</i> <i>Minister of Police</i> <i>Minister of Finance (or alternative Treasury minister)</i></p> <p><i>*Other ministers co-opted as required.</i></p> |
| Officials' Committee for Domestic and External Security Coordination (ODESC) |
| <p><i>Coordinator of Domestic and External Security (Chair)</i> <i>Secretary of Foreign Affairs</i> <i>Chief of Defence Staff</i> <i>Secretary of Defence</i> <i>Secretary of the Treasury</i> <i>Secretary of Trade and Industry</i> <i>Chairman of the State Services Commission</i> <i>Director of the Prime Minister's Office</i> <i>Director of the NZSIS</i> <i>Secretary or Director of Civil Defence</i> <i>Commissioner of Police</i></p> <p><i>*Other deputy heads co-opted as required.</i></p> |

The cabinet papers also stated that ODESC would form sub-committees to address particular subjects, “such as external intelligence, terrorism and post-

⁹³ Cabinet Minute CM 87/7/11, 'Domestic and International Security: Policy Coordination and Management.'

⁹⁴ The membership lists included in Figure 1.4.11 are taken from 'A National Security Policy for New Zealand,' 1987, p.2.

disaster relief and recovery.”⁹⁵ Archival sources indicate that in 1989, ODESC had three standing interdepartmental committees supporting it. The Working Committee on Terrorism (WCoT) was, as the name suggests, focused principally on counter-terrorism and met as required. The Interdepartmental Committee on Security continued under ODESC, and also met as required. The principal intelligence-related sub-committee of ODESC at the time was the Intelligence Requirements and Assessments Committee (IRAC), which met weekly and determined the coverage and frequency of intelligence reporting.⁹⁶ Given these roles, the IRAC was similar in concept to the British Joint Intelligence Committee. Figure 1.4.12 illustrates this interdepartmental machinery, as it existed in 1988. While the committee system would shift through the 1990s, specifically in regard to the cabinet committees, the DESC/ODESC system established in 1987 would set the foundations for the management of intelligence within New Zealand’s core executive for subsequent decades.

A System in Flux: Deconstructing and Reconstructing a Central Agency

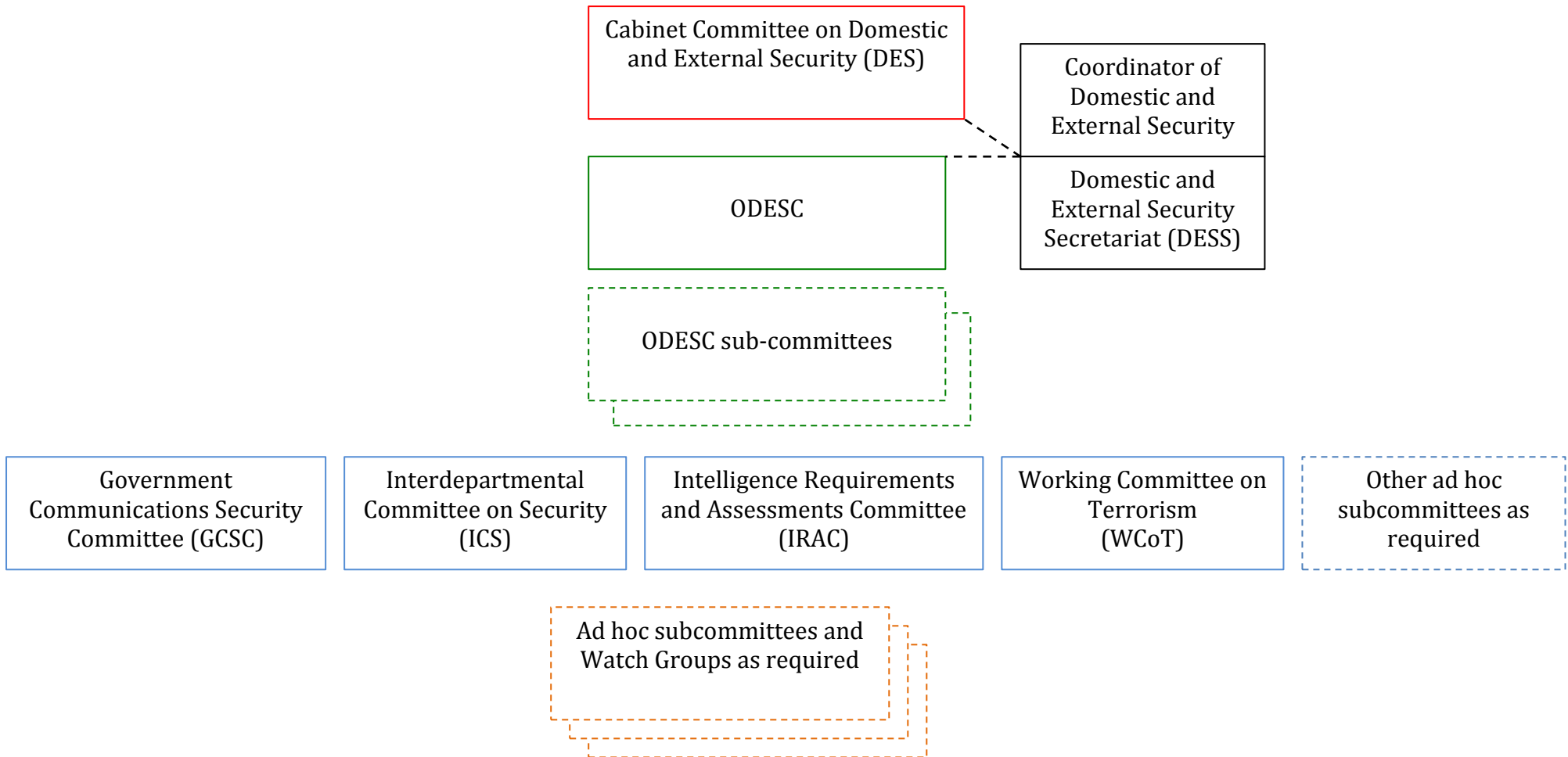
With the committee system consolidated in the beginning of March, 1987, the government made a seemingly counter-intuitive organisational decision at the end of March. Following a study by the SSC that concluded there needed to be a greater separation between political and policy advice, the government abolished the Prime Minister’s Department and, in its place, formed three separate organisations: the Cabinet Office; the Prime Minister’s Office (PMO); and, the Domestic and External Security Secretariat (DESS).⁹⁷

⁹⁵ ‘A National Security Policy for New Zealand,’ 1987, p.2.

⁹⁶ ‘Chief Executive Reviews: Interview Brief for Domestic and External Security Bureau’ and ‘Domestic and External Security Secretariat Three Year Forecast, Part B – Departmental Review Questions’ in AAFH 6790 W5510 (Box 268) R 3 DESC Part 1, Reviews—Chief Executive—Domestic and External Security Commission 1989, Archives New Zealand.

⁹⁷ Hensley, 2006, p.295.

Figure 1.4.12: New Zealand Committee Structure related to Management of the IC
--circa 1988--



Following the decision to abolish the PMD, its functions were spread across these three separate organisations. The Cabinet Office remained largely unchanged, but now had a formally independent existence. The new PMO combined the Advisory Group, the Press Office, and the PM's Private Office.⁹⁸ This left the intelligence coordination functions of the PMD as the only functions that were not subsumed by either the Cabinet Office or the PMO. However, the policy paper that underpinned the formation of the DESC/ODESC machinery had called for a central coordinating function with an ambitious remit, stating:

It will be the responsibility of a small central structure to coordinate planning to cope with threats to New Zealand security; to consider the allocation of resources to meet such threats; to examine the adequacy of existing powers and organisational measures to deal with them; to oversee the gathering and evaluation of intelligence on the emergence and development of such threats; and where machinery for the purpose does not exist, to commission any necessary planning. This coordinating function will be subject to direction from the Prime Minister and the Cabinet Committee on Domestic and External Security.⁹⁹

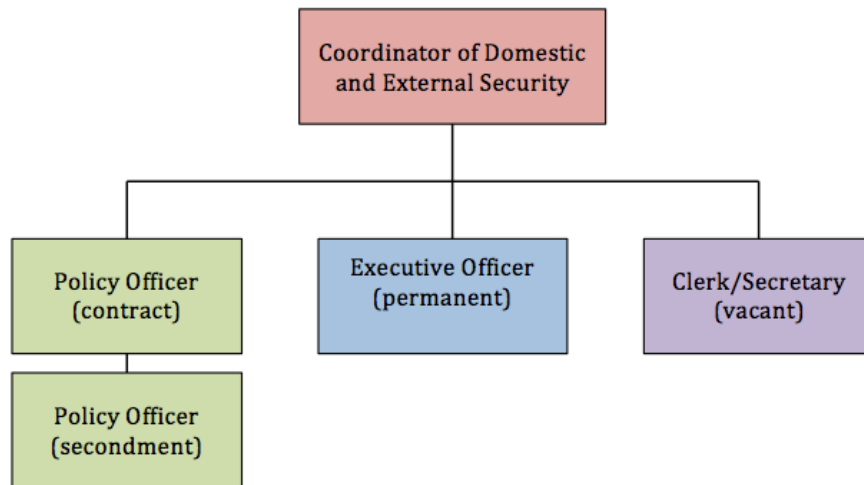
These functions came to rest in the Domestic and External Security Secretariat, which was headed by the Coordinator of Domestic and External Security (hereafter referred to as 'the DES Coordinator'). The first DES Coordinator was Gerald Hensley, who had been Permanent Head of the PMD prior to its fragmentation. Initially, the DESS consisted of only the DES Coordinator and an executive officer. However, by October 1988, the DESS had doubled in size to include two policy officers and an un-staffed position for a Clerk.¹⁰⁰ Figure 1.4.13 illustrates the organisation of DESS in late 1988.

⁹⁸ Hunn, D.K. and Lang, H.G. (1989) *Review of the Prime Minister's Office and Cabinet Office*, Wellington: State Services Commission, p.18.

⁹⁹ 'A National Security Policy for New Zealand,' 1987, p.2.

¹⁰⁰ 'Chief Executive Reviews: Interview Brief for Domestic and External Security Bureau' in AAFH 6790 W5510 (Box 268) R 3 DESC Part 1, Reviews—Chief Executive—Domestic and External Security Commission 1989, Archives New Zealand.

Figure 1.4.13
Domestic and External Security Secretariat, October 1988¹⁰¹



The DES Coordinator was responsible for the overall health of the national security policy process, and had a particular role in coordinating intelligence. In a letter to Paul Mackay of the SSC, dated October 10, 1988, Hensley outlines the role of the DES Coordinator in relation to intelligence:

The Coordinator has direct responsibilities for the proper working of the external intelligence system, being responsible to the Prime Minister for both the budgets and the operational efficiency of the External Assessments Bureau and the Government Communications Security Bureau. He has twice weekly or more consultations with the directors of these bureaus and liaises regularly with the Director SIS. He also accredits Intelligence Liaison Officers at New Zealand posts abroad and is responsible for New Zealand's intelligence liaison relationships with other countries.¹⁰²

Additionally, the DES Coordinator was “to act as the principal advisor to the Prime Minister on national security issues.”¹⁰³ Importantly for this advisory role, the DES Coordinator and the DESS were co-located with the GCSB in the Freyberg Building, giving them direct access to SIGINT reporting. The proximity to GCSB proved vital during the coup in Fiji in 1987, when GCSB's SIGINT

¹⁰¹ Organisation diagram is derived from information contained in ‘Chief Executive Reviews: Interview Brief for Domestic and External Security Bureau’ as cited above.

¹⁰² Letter from Gerald Hensley (Coordinator DES) to Paul Mackay (SSC), October 10, 1988 in AAFH 6790 W5510 (Box 268) R 3 DESC Part 1, Reviews—Chief Executive—Domestic and External Security Commission 1989, Archives New Zealand.

¹⁰³ Ibid.

collection picked up the first indications of a coup and Hensley was able to provide early warning to Prime Minister Lange.¹⁰⁴

Figure 1.4.14¹⁰⁵

Gerald Hensley, Coordinator for Domestic and External Security 1988-1989



The creation of the DESS effectively split the cabinet secretariat function within the core executive. While the Cabinet Office provided secretariat support to most cabinet committees and deputy heads' committees, the DESS, as its name implies, provided secretariat support for the DES, ODESC, and ODESC sub-committees. The DES Coordinator was also "responsible for providing advice on the allocation of resources, reconciling conflicting departmental interests and presenting fully coordinated recommendations." This, in effect, maintained the same cabinet processes while separating the intelligence and security machinery from the rest of the cabinet system.

The fragmentation of the PMD in 1987 was largely a result of an attempt to separate official and political functions.¹⁰⁶ However, larger forces had

¹⁰⁴ Crowley, G.J. (2002) *New Zealand's Response to the Aircraft Hijack Incident During the 1987 Coup d'Etat in Fiji: A Study of Civil-Military Relations in Crisis*, MA Thesis, Palmerston North, NZ: Massey University, p.18; Gerald Hensley, Interviewed by Sue Onslow for the Commonwealth Oral History Project, Institute of Commonwealth Studies, University of London, April 2, 2014.

¹⁰⁵ Photograph from the *Dominion Post*.

come to a head, and were driving a more systemic reform of the public service (known as the 'state sector' in New Zealand.) Previous economic policies resulted in slow growth and high national debt, precipitating a financial crisis for New Zealand in the early 1980s. Incremental decisions had led to what was perceived as an untenable situation. As practitioners within the SSC itself put it, "the dramatic decline of New Zealand's fortunes during the 1970s and early 1980s exposed the inherent flaw in our version of the traditional model of centralized government decision-making and management. We discovered the cumulative costs of poor decisions the hard way."¹⁰⁷ This prompted the government of David Lange to institute radical financial and state sector reforms targeting financial and expenditure management, and subsequently the structure of the state sector itself.¹⁰⁸

The *State Sector Act 1988* and the *Public Finance Act 1989* were the vehicles that ushered in substantial changes to the structure of the state sector and the system of financial and expenditure management respectively.¹⁰⁹ Responsibility and accountability for expenditure management were dispersed outwards to deputy heads, now known as Chief Executives (CEs), who were held accountable for delivering outputs to achieve the government's chosen outcomes. To reinforce this, CEs were made directly accountable to their minister through renewable performance contracts, in line with principal-agent concepts.¹¹⁰

When Geoffrey Palmer became Prime Minister in 1989, he felt that the centre of government was weak. Specifically, Palmer stated in his memoirs that, "When I became Prime Minister in 1989 I did not think the Department of Prime

¹⁰⁶ Hunn and Lang, 1989, pp.18-19.

¹⁰⁷ Matheson, A. Scanlan, G. and Tanner R. (1995) *Strategic Management in Government: Extending the Reform Model in New Zealand*, Wellington: State Services Commission, p.1.

¹⁰⁸ For an overview of New Zealand's reforms, see Office of the Auditor General of Canada (1995) *Toward Better Governance: Public Service Reform in New Zealand (1984-94) and its Relevance to Canada*, Ottawa: Ministry of Supply and Services.

¹⁰⁹ Both Acts are also discussed in Ch.10, which discusses financial management and New Zealand's IC.

¹¹⁰ Jensen, G. (2003) 'Zen and the Art of Budget Management: The New Zealand Treasury' in Wanna, Jensen, and de Vries eds. (2003) *Controlling Public Expenditure* Cheltenham, UK: Edward Elgar, pp.32-37.

Minister and Cabinet had worked well under David [Lange], and part of the problem was structural.”¹¹¹ He also hinted that part of this belief was formed by what he saw as a much more robust central agency in Australia: “I had personal experience of how the equivalent department operated in Australia, and it was a great deal more potent than in New Zealand. In Canberra when I worked there, the DPMC had a division shadowing every other department.”¹¹² Palmer asked Don Hunn (the State Services Commissioner) and Henry Lang (former Secretary to the Treasury) to review the Prime Minister’s Office and Cabinet Office to determine the proper structural fit.

The Hunn-Lang Review found that the state sector reforms, and specifically the *State Sector Act*, solidified vertical accountability and made coordination more difficult. The report stated that:

*[The reforms] have increased the individual responsibility and accountability of departments (via their Chief Executives) to their particular Ministers, and thereby reduced the incentives for effective co-ordination between departments. At the same time the reforms and other developments have transformed the nature and roles of the two central agencies, the Treasury and the State Services Commission, substantially reducing their capacity to perform the co-ordinating functions they provided in the past. The result is that a lacuna has developed at the heart of the machinery of government.*¹¹³

The report also found that, while Cabinet remained the principal coordinating body for government, Cabinet’s decision-making was highly dependent on the quality of advice coming from officials. Hunn and Lang noted that the weakness in the centre of government had resulted in advice that was lower quality and not sufficiently tested by rigorous discussion and challenge. The implication was that both officials and ministers were having trouble identifying and tackling the key policy questions in a coordinated way.¹¹⁴ The Report also made clear that these shortcomings were occurring at a time when government business was

¹¹¹ Palmer, G. (2013) *Reform: A Memoir*, Wellington: Victoria University Press. It should be noted that Palmer uses the title ‘Department of Prime Minister and Cabinet’ for consistency; the department itself did not exist in early 1989.

¹¹² Palmer, 2013.

¹¹³ Hunn and Lang, 1989, pp.4-5.

¹¹⁴ Hunn and Lang, 1989, p.5.

growing in both volume and complexity.¹¹⁵ In short, complexity was growing while the government's ability to make sense of it had lessened.

From an organisational standpoint, Hunn and Lang also disagreed with the way the functions of the PMD had been distributed in 1987. They specifically took issue with the view that the advice and analysis provided by the Advisory Group was a *political* function, as opposed to an *official* one. Hunn and Lang argued that the Advisory Group represented the core of the PM's ability to corroborate departmental advice.¹¹⁶ However, they also strongly supported the idea that a clear delineation should be made between partisan and non-partisan bodies, stating:

*The opportunity should now be taken to draw a clear line between the political and the bureaucratic elements in the support system for the Prime Minister and Cabinet so that the structure and its operation are transparent: both of these elements are essential to the effectiveness of the system and both must be of the highest quality, but they should, as far as practicable, be kept separate and be seen to be so.*¹¹⁷

Ultimately, Hunn and Lang did not disagree with the spirit of the 1987 changes, but did disagree with how they had been implemented organisationally. They felt that a strong non-partisan support structure for the PM and Cabinet would have at its heart a robust analytic and advisory function, along with an equally strong and politically neutral Cabinet Office. On the other hand, Hunn and Lang felt that the press and private office functions, which provided political support to the PM, should be kept at arms length.

Hunn and Lang outlined three options for the organisation of the prime ministerial and cabinet support functions. The first option involved adding resources to the three existing organisations, with minimal change to the structure or balance of functions. Hunn and Lang felt this was an unrealistic solution, as it failed to address the problems of coordination that had been

¹¹⁵ Ibid, p.5.

¹¹⁶ Ibid, pp.4, 5, 8-9.

¹¹⁷ Ibid, p.4.

exacerbated by the state sector reforms, or the desire to simplify policy advice under fewer Chief Executives for efficiency.¹¹⁸ The second option was to unify all the functions into a single department, similar to what had existed in the PMD. Hunn and Lang recognised that this was the most efficient organisational form, but it did not meet larger constitutional requirements. In their final report, Hunn and Lang stated:

The second option would be to combine all the existing functions of the two offices (including the Private Office) in a new department whose Chief Executive would also be Chief Secretary of the Cabinet. While from an organisational point of view this would be the most efficient option, we do not favour it because it would not separate sufficiently the party political from the professional policy advice systems.¹¹⁹

Hunn and Lang recognised that there was an option that maximised efficiency, but the equally powerful institutional requirements to separate official and political streams of advice (based on the Westminster tradition of a politically neutral public service) required a compromise between efficiency and overall organisational integrity.

Ultimately, Hun and Lang recommended a structure that balanced the need for strong central policy coordination with the need for clear delineation between official and political functions. They recommended that the Cabinet Office, a significantly expanded Advisory Group, and the DESS be merged into a unified Department of Prime Minister and Cabinet under a single Chief Executive, while the PMO remain a separate, politically oriented organisation.¹²⁰ Thus, in 1990, a mere three years after the Prime Minister's Department had been fragmented, the majority of it was unified again into the Department of the Prime Minister and Cabinet (NZDPMC), in line with Hunn and Lang's recommendations.

Although it did not deal specifically with the intelligence functions within the core executive, the Hunn-Lang Review still had a noticeable impact on the machinery of the New Zealand IC. Alongside the Cabinet Office and the Policy

¹¹⁸ Hunn and Lang, 1989, p.6.

¹¹⁹ Ibid.

¹²⁰ Ibid, pp.7-10

Advisory Group, the DESS and EIB became business units within the new NZDPMC (although the Director of EIB remained directly accountable to the PM for the EIB's output.)¹²¹ The Chief Executive of the NZDPMC also took on the role of DES Coordinator, and chair of ODESC.

The Post-Cold War Environment: Moving Towards Lighter Cabinet Machinery

When Jim Bolger came to power in 1990, he continued the process of cabinet committee consolidation. As a reaction to the policy incoherence of the early years of the Lange government, both Labour and National governments came to use a strong central cabinet committee chaired by the PM to coordinate policy. Under Labour governments, this committee was named the Policy Committee of Cabinet, and under National governments it was known as the Strategy Committee of Cabinet.¹²² Under Bolger, the Cabinet Strategy Committee (known by the identifier STR) operated with two to three formal subcommittees. Jonathan Boston indicates that during the first half of the 1990s, the subcommittees were:¹²³

- Cabinet Strategy Subcommittee on External Relations and Defence (ERD)
- Cabinet Strategy Subcommittee on Intelligence and Security (CIS)
- Cabinet Strategy Subcommittee on Civil Defence/Terrorism

This new cabinet structure essentially broke the DES committee that existed through the Lange and Palmer governments into three smaller committees, similar to the structure that had existed prior to the formation of DES. While this seems counterintuitive, it is necessary to consider the policy priorities of the government to understand the resultant cabinet machinery. Bolger came to power at a time when the New Zealand economy was facing recession, and

¹²¹ Murdoch, S. (2009) *Intelligence Agencies Review*, Report to the State Services Commissioner, Wellington: State Services Commission, p.42 and Archives New Zealand (2008) 'National Assessments Bureau: Administrative History'

<http://archway.archives.govt.nz/ViewFullAgencyHistory.do> (Accessed 2015).

¹²² Mulgan, R.G. and Aimer, P. (2004) *Politics in New Zealand, 3rd Edition*, Auckland: Auckland University Press, pp.85-86.

¹²³ Boston, J. (1996) *Public Management: The New Zealand Model*, Oxford: Oxford University Press, p.47.

deficits were steadily mounting. To right this situation, the government embarked on a significant restructuring of the welfare state.¹²⁴ Additionally, the government was faced with introducing a new electoral system following the 1993 referendum in which the country chose to move from a first-past-the-post system to a mixed-member-proportional system. In short, the Bolger government had numerous significant domestic policy priorities, and dealt with defence and security policy as required. The cabinet system was designed to allow for this policy prioritisation. Much of the standing cabinet machinery was focused on domestic and economic policy, while the subcommittees of STR allowed the PM to manage foreign, defence, and intelligence policy as required. Figure 1.4.15 illustrates the committee system, as it existed in 1997 for the governance of intelligence.

In December 1997, Jenny Shipley replaced Bolger as PM in a cabinet coup and brought with her a new drive to lighten the cabinet machinery. By 1997, the cabinet committee system under Bolger numbered 10 committees, with two subcommittees of STR (one for external relations and defence, and one for intelligence and security).¹²⁵ Shipley replaced this committee system with four standing cabinet committees, and three subcommittees of STR.¹²⁶ In a press release, Shipley stated that:

*The redesign of Cabinet Committees and streamlining of their business is aimed at focusing the government's attention on its social and economic goals, as well as improving the efficiency of decision-making. [...] The organisational changes are intended to improve the quality of the decision-making process and free up Ministers so that they can spend more time working with the public.*¹²⁷

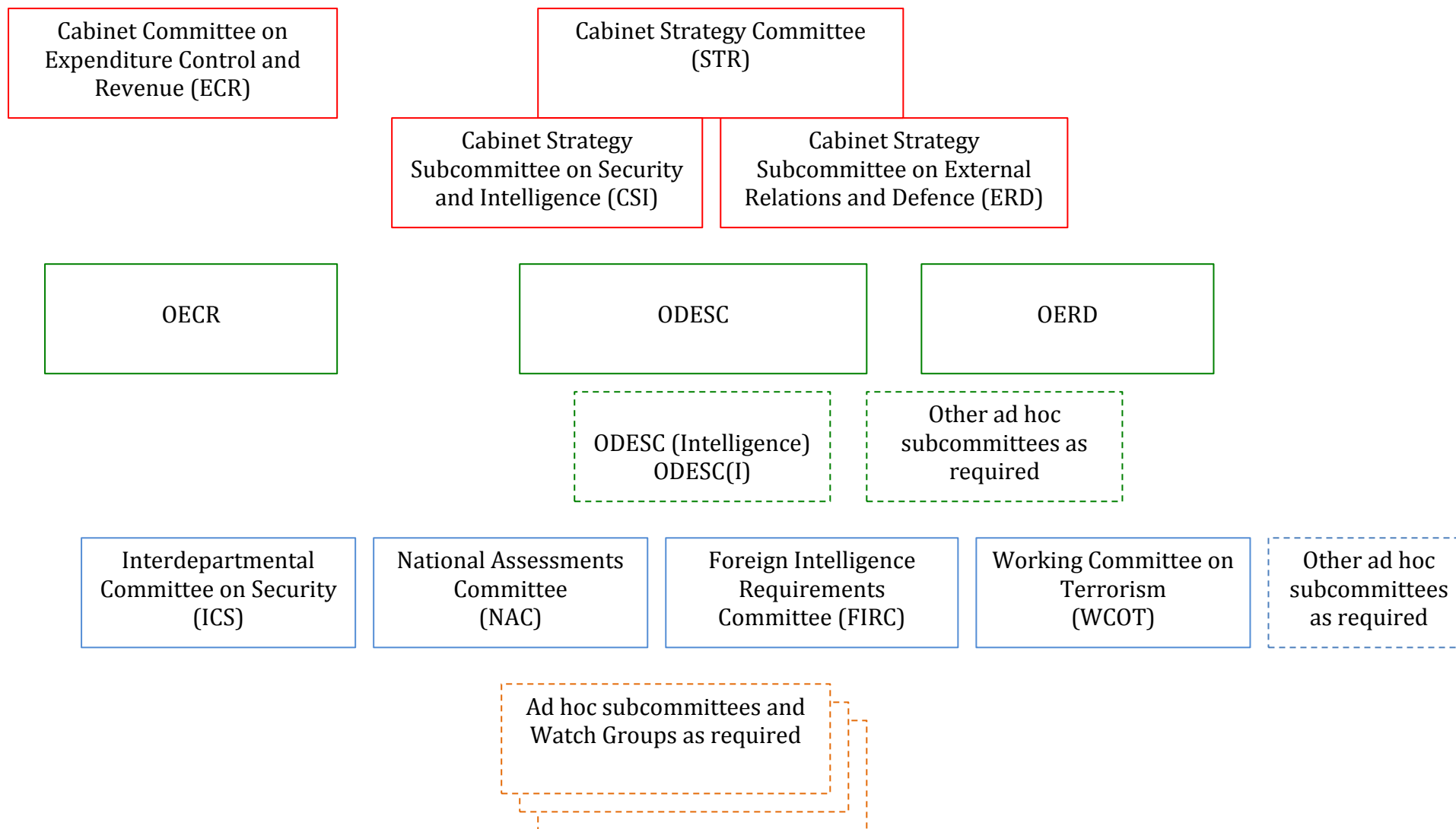
¹²⁴ McKinnon, 2003, pp.345-358.

¹²⁵ Department of Prime Minister and Cabinet, 'Cabinet Committee Membership as at 3 February 1997' found at: http://www.executive.govt.nz/cab_comm/index.htm (archived copy accessed August 2015).

¹²⁶ The Cabinet Strategy Committee would later be renamed the Cabinet Committee on Strategy and Priorities (CSP), but its function remained largely the same.

¹²⁷ Shipley, J. (February 11, 1998) 'New Cabinet Committee Structure Streamlines the Operation of Government' Prime Minister's Press Release, <http://www.beehive.govt.nz/release/new-cabinet-committee-structure-streamlines-operation-government> (archived copy accessed August 2015).

Figure 1.4.15: New Zealand Committee Structure related to Management of the IC
--circa 1997--



Correspondingly, Shipley did away with a dedicated committee for foreign and defence policy, however she maintained the CIS to address intelligence and security matters. Figure 1.4.16 shows the membership and terms of reference for CIS, as of early 1998.

| Figure 1.4.16 Membership and Terms of Reference for the Cabinet Strategy Subcommittee on Intelligence and Security (CIS) ¹²⁸ |
|---|
| Membership |
| <i>Prime Minister (Chair)</i> <i>Deputy Prime Minister and Treasurer</i> <i>Attorney General and Minister of Justice</i> <i>Minister of Foreign Affairs and Trade</i> <i>Minister of Defence</i> |
| Terms of Reference |
| <p><i>“To Consider issues of oversight, organisation and priorities for the New Zealand intelligence community and any issues which, because of their security or intelligence implications, the Prime Minister directs be considered by the committee.</i></p> <p><i>Note: This committee will have power to act where security considerations so require, subject to any decisions requiring the consideration of the allocation of additional resources being referred to the Cabinet Strategy Subcommittee on Expenditure Control and Government Administration and Cabinet.”</i></p> |

Shipley continued to try and minimise the amount of time that ministers spent in cabinet meetings throughout her time in office. In 1999, she announced that Cabinet would meet only biweekly, stating that “on the weeks when Cabinet is not meeting, Ministers will be freed up to work on issues that concern New Zealanders and meet constituents in their electorates or list areas of responsibility.”¹²⁹ In both structure and frequency, the reorganisation that Shipley introduced to the cabinet system reflected the desire to minimise cabinet demands on ministers, and maximise the time they did spend in cabinet on the government’s domestic and economic policy priorities.

¹²⁸ The membership and terms of reference for CIS are taken from Department of Prime Minister and Cabinet, (April 1998) ‘Cabinet Strategy Subcommittee on Intelligence and Security’ found at: http://executive.govt.nz/cab_comm/cis.htm (archived copy accessed August 2015).

¹²⁹ Shipley, J. (March 15, 1999) ‘Cabinet to Meet Fortnightly’ Prime Minister’s Press Release, <http://www.beehive.govt.nz/release/cabinet-meet-fortnightly> (archived copy accessed August 2015).

The Post-Cold War Environment: The Officials' Committees through the 1990s

Below the level of cabinet ministers, the officials' machinery remained relatively stable through the 1990s, with the exception of some expanded machinery. ODESC and its subcommittees became, to an extent, a foundation for the New Zealand national security community. Most importantly for New Zealand's IC, ODESC formed a standing subcommittee specifically to address intelligence matters, named ODESC (Intelligence), or simply ODESC(I). ODESC(I) comprised the Chief Executive of the NZDPMC (in his capacity as DES Coordinator), as well as the other Chief Executives and heads of agencies that comprised the core of the IC. It did not include the members of ODESC that were focused on emergency management and national resilience. Figure 1.4.17 outlines the membership of ODESC(I) through the 1990s.

| Figure 1.4.17¹³⁰ Membership of ODESC(I), circa 1999 |
|---|
| <i>Chief Executive of NZDPMC (Chair)</i> |
| <i>Chief Executive of MFAT</i> |
| <i>Chief Executive of MoD</i> |
| <i>Secretary/Chief Executive of the Treasury</i> |
| <i>Chief of Defence Force</i> |
| <i>Director of NZSIS</i> |
| <i>Director of GCSB</i> |
| <i>Director of EAB</i> |
| <i>Intelligence Coordinator (observer)</i> |
| <i>Director of DESS (Secretary)</i> |

ODESC(I) handled the intelligence-related elements of ODESC's terms of reference, specifically overseeing the foreign intelligence requirements process, advising on the resourcing and performance of the foreign intelligence effort, and ensuring general policy coordination amongst the agencies.¹³¹ Warren

¹³⁰ Figure 1.4.17 draws from Domestic and External Security Secretariat (2000) *Securing Our Nation's Safety: How New Zealand Manages its Security and Intelligence Agencies*, Wellington: NZDPMC, p.42, and Tucker, W. (May 23, 2007) 'Director's Address to Wellington Intelligence Seminar' SiD Superstructure Group Intelligence Seminar, Wellington.

¹³¹ Tucker (May 23, 2007)

Tucker, who was head of GCSB and subsequently NZSIS, stated that ODESC(I) worked well “because it operates in a very collegial manner, with all participants well known to each other and with frequent interactions outside the formal ODESC(I) meetings.”¹³² However, the heads of the major intelligence agencies and customer departments met in other ODESC subcommittees as well, such as ODESC(Terrorism), known as ODESC(T). The number of times the key actors found themselves in the same room promoted the collegiality of the system and helped to build trust at the executive levels of the agencies.

In the 1990s, reflecting the need to more closely monitor the foreign intelligence effort, the Intelligence Requirements and Assessment Committee was split into two formal committees, operating just below ODESC and overseeing different aspects of the intelligence effort. The National Assessments Committee (NAC) operated very similarly to Britain’s Joint Intelligence Committee. The NAC was comprised of representatives from intelligence producer and consumer organisations, and would oversee the EAB’s assessment program. The NAC met weekly to “provide a forum for debate, scrutiny, and contestability of draft assessments,”¹³³ and to review and update the forward plan for national assessments, as required.¹³⁴ The Foreign Intelligence Requirements Committee (FIRC) became responsible for managing the requirements and priority-setting process for foreign intelligence, under the oversight of ODESC(I). FIRC, similarly to the NAC, brought together representatives of the core intelligence consumer and producer departments and agencies to determine consumer requirements, assess the relative priority of intelligence targets, and monitor the subsequent collection effort. Figure 1.4.18 illustrates the membership of FIRC as of 1999-2000, including the role of each organisation represented on the committee.

¹³² Ibid.

¹³³ DESS, 2000, p.40.

¹³⁴ For a thorough discussion of the NAC’s role, see DESS, 2000, pp.39-40.

| Figure 1.4.18 ¹³⁵ Membership of FIRC, circa 1999-2000 | |
|---|----------------------------------|
| Role of FIRC | |
| <p><i>“The role of FIRC is to:</i></p> <ul style="list-style-type: none"> • <i>prepare and approve under the direction of ODESC, the statement of New Zealand’s detailed prioritised Foreign Intelligence Requirements</i> • <i>ensure that the Foreign Intelligence Requirements, when approved, are promulgated to the various agencies and Departments in a form that enables resource allocations to be well targeted and operational capabilities to be effectively managed</i> • <i>keep the Requirements and their assigned priority under on-going review, making adjustments as appropriate.”</i> | |
| Organisation | Role in Clandestine Intelligence |
| <i>Intelligence Coordinator, NZDPMC</i> | <i>Chair of FIRC/ Consumer</i> |
| <i>NZSIS</i> | <i>Collection/Assessment</i> |
| <i>GCSB</i> | <i>Collection</i> |
| <i>DDIS</i> | <i>Collection/Assessment</i> |
| <i>EAB</i> | <i>Assessment</i> |
| <i>MFAT</i> | <i>Consumer</i> |
| <i>MoD</i> | <i>Consumer</i> |
| <i>NZDF</i> | <i>Consumer</i> |
| <i>Treasury</i> | <i>Consumer</i> |
| <i>NZ Police</i> | <i>Consumer</i> |
| <i>Ministry of Economic Development</i> | <i>Consumer</i> |
| <i>Ministry of Agriculture and Forestry</i> | <i>Consumer</i> |
| <i>Ministry of Fisheries</i> | <i>Consumer</i> |

Strengthening the NZDPMC in the 1990s: The Role of the Intelligence Coordinator

As previously noted, when the NZDPMC was created in 1991, the Chief Executive of the department became DES Coordinator and, in this capacity, the chair of ODESC and ODESC(I). However, because the Chief Executive of the

¹³⁵ Figure 1.4.18 draws from DESS (2000) *Securing Our Nation’s Safety: How New Zealand Manages its Security and Intelligence Agencies*, Wellington: NZDPMC, pp.38-39. The ‘Role of FIRC’ is quoted directly from this publication.

NZDPMC also had a department to run, they could not devote as much time to the coordination of the national intelligence effort as was possible when the DES Coordinator was a stand-alone role. This shift in roles coincided with the end of the Cold War, at which point the national intelligence effort needed a steady guiding hand to transition into a new global environment. In short, the effect was that the intelligence effort needed more consistent management than the Chief Executive of NZDPMC was able to give it. The solution to this dilemma was the creation of a new role within the NZDPMC in 1994: the Intelligence Coordinator.¹³⁶ The role of the Intelligence Coordinator was based on the same role in the British Cabinet Office, with a specific emphasis on managing the intelligence requirements and priorities process.¹³⁷

The Intelligence Coordinator's principal responsibility was to support ODESC in the coordination of the New Zealand IC, and particularly the foreign intelligence effort. The NZDPMC stated that, on behalf of ODESC, the Coordinator ensured the "efficient, effective and responsive performance of the government's security and intelligence resources" and would "facilitate the setting of New Zealand's requirements for foreign intelligence."¹³⁸ Correspondingly, the Intelligence Coordinator chaired the FIRC and was directly accountable to the Chief Executive of the NZDPMC (in their capacity as Chair of ODESC). The Coordinator attended meetings of ODESC, ODESC(I), NAC, and could chair the NAC at the request of the Director of the EAB.¹³⁹ The Intelligence Coordinator role was designed to keep a finger on the pulse of the IC, watching its overall health from within the core executive, as busy chief executives ran their departments.

Similar to its British namesake, the first New Zealand Intelligence Coordinator was a retired head of one of New Zealand's intelligence agencies,

¹³⁶ Murdoch, 2009, p.42.

¹³⁷ Ibid.

¹³⁸ DESS, 2000, p.20, 38.

¹³⁹ DESS, 2000, pp.20, 37, 38, 39-40. It is unclear how often the Intelligence Coordinator chaired the NAC, if at all. However, if the Coordinator was asked to chair the NAC, it likely would have been when the agenda was related to the assessment *programme*, rather than the review of assessment products.

Brigadier John 'Lin' Smith, who had been Director of NZSIS from 1983 to 1991.¹⁴⁰ The seniority that Smith brought to the Coordinator's position was apt, considering that the position "was seen as critical to the development of a more explicit targets and requirements process, modelled on the British Joint Intelligence Committee and based on more conscious responsiveness to the needs of policy agencies as customers."¹⁴¹ Following Smith's tenure, the Intelligence Coordinator position was filled by a director-level official, usually from one of the collection agencies, prior to taking on more senior positions within the IC. For instance, Warren Tucker, who was Director of SIGINT Operations at GCSB, followed Smith as Coordinator from 1996-1999. Tucker would subsequently become the Director of GCSB and the Director of NZSIS. Mike McBurney, a senior official in NZSIS, became the Intelligence Coordinator after Tucker in 1999, and would subsequently become a Deputy Director of NZSIS.¹⁴²

The NZDPMC's intelligence coordination effort expanded minimally through the 1990s, in response to the increased complexity of coordinating the IC's intelligence priorities in an era when the Soviet Union was no longer the obvious threat. Counter-terrorism, economic competition in the Asia-Pacific region, and the development of new oversight bodies (the Inspector General for Intelligence and Security, for instance) increased the complexity of intelligence governance. For instance, in 1996, the government made several amendments to the *NZSIS Act*, including giving the Service the ability to perform a limited foreign intelligence collection role through the use of foreign intelligence warrants. This expanded role for NZSIS meant that there was a need for better coordination across the organisations involved in foreign intelligence. The result was a minimal expansion of the official machinery in the creation of the FIRC. Because of these incremental changes to the officials' machinery, New Zealand's IC would,

¹⁴⁰ Ibid, and Schouten, H. (September 26, 2002) 'Spymaster's French Test' *Dominion Post*, p.6. The first Intelligence Coordinator in Britain's Cabinet Office was Sir Dick White, who had previously been both Chief of the Secret Intelligence Service and Director-General of the Security Service.

¹⁴¹ Murdoch, 2009, p.42.

¹⁴² DESS, 2000, p.42,43 and US Embassy Wellington, 'A/S Fort's October 9-10 Visit to New Zealand' October 24, 2008 08WELLINGTON356, http://wikileaks.org/plusd/cables/08WELLINGTON356_a.html (Accessed July 2015).

initially, weather the shock of 9/11 with few major changes to the national security machinery.

The Interdepartmental Machinery and the '9/11 Decade'

Upon taking office in 1999, Prime Minister Helen Clark's government started to reverse Shipley's deconstruction of the standing cabinet committees by reconstituting the Cabinet External Relations and Defence Committee (ERD), which was chaired by the Foreign Minister. Additionally, the cabinet committee that oversaw intelligence policy was again made a stand-alone committee, rather than a sub-committee, and became known as the Ad Hoc Cabinet Committee on Intelligence and Security (known by the identifier AIS).¹⁴³

Following the 9/11 attacks, New Zealand joined the international effort to dislodge the *al Qaeda* movement from Afghanistan and disrupt its international networks. New Zealand deployed troops to Afghanistan as part of the international coalition, including special operations forces and intelligence personnel.¹⁴⁴ For the first time in decades, New Zealand was, for all intents and purposes, at war. Following 9/11, the overall coordination of the government's security and intelligence response was managed through the Cabinet Policy Committee (POL), supported by AIS. This cabinet management is reflected in budget papers released by the NZSIS several years later, discussing the Service's post-9/11 budget bids.¹⁴⁵

Through the immediate post-9/11 period, the invasion of Afghanistan, and the lead-up to the invasion of Iraq, the tempo of intelligence and security decision-making increased. New Zealand's policymakers were forced to respond

¹⁴³ Department of Prime Minister and Cabinet, 'Cabinet Committee Membership at 7 February 2000' <http://www.executive.govt.nz/committees/index.html> (archived page accessed February 2015).

¹⁴⁴ For one account of New Zealand's involvement in Afghanistan, see Hager, N. (2011) *Other People's Wars: New Zealand in Afghanistan, Iraq and the War on Terror*, Nelson, NZ: Craig Potton. While Hager's analysis must be read with a critical eye, the *information* contained in his publications is useful.

¹⁴⁵ These papers, and the flow of cabinet business that they indicate, are discussed in detail in Chapter 10.

to global events and balance international and domestic political drivers. The result was a subtle consolidation of the cabinet committee system and a focusing of the officials' committees. Following 9/11, the Cabinet Committee on Domestic and External Security Coordination (DES) was reconstituted as an informal committee, alongside AIS.¹⁴⁶ This is unsurprising, considering the terms of reference and membership of AIS were designed for intelligence and security matters, and the terms of reference and membership of ERD were designed for defence and foreign policy matters.¹⁴⁷ Neither committee explicitly had the mandate or membership to address policy questions related to 'homeland security.' In late 2002, the DES subsumed the intelligence terms of reference of AIS, and became a formal cabinet committee. The terms of reference and membership for DES in December 2002 are illustrated in Figure 1.4.19.

| Figure 1.4.19 Membership and Terms of Reference for the Cabinet Committee on Domestic and External Security Coordination (DES) as of November 2002 ¹⁴⁸ | |
|--|--|
| Membership | |
| <p><i>Prime Minister (Chair)</i> <i>Deputy Prime Minister</i> <i>Treasurer</i> <i>Attorney General</i> <i>Minister of Foreign Affairs</i> <i>Minister of Defence</i> <i>Minister of Immigration</i> <i>Minister of Police and Civil Defence</i></p> | |
| Terms of Reference | |
| <ul style="list-style-type: none"> • <i>To co-ordinate and direct the national response to a major crisis or to circumstances affecting national security (such as natural disaster, biosecurity problem, health emergency, or terrorist/military threat) within New Zealand or involving New Zealand's interests overseas;</i> • <i>To consider issues of oversight, organisation and priorities for the New Zealand intelligence community and any issues which, because of their security or intelligence implications, the</i> | |

¹⁴⁶ Controller and Auditor General (2003) *Managing Threats to Domestic Security*, Wellington: The Audit Office, p.31n.

¹⁴⁷ NZ Department of Prime Minister and Cabinet (as at December 30, 2001) 'Ad Hoc Cabinet Committee on Intelligence and Security' <http://www.dpmc.govt.nz/cabinet/committees/ais.html> (Archived page accessed November 2015); NZDPMC (as at March 29, 2002) 'Cabinet External Relations and Defence Committee' <http://www.dpmc.govt.nz/cabinet/committees/erd.html> (Archived page accessed November 2015).

¹⁴⁸ The membership and terms of reference for DES are taken directly from NZ Department of Prime Minister and Cabinet (as at November 20, 2002) 'Cabinet Committee on Domestic and External Security Co-ordination' <http://www.dpmc.govt.nz/cabinet/committees/des.html> (Archived page accessed November 2015).

Prime Minister directs be considered by the committee;

- *To consider policy and other matters relating to domestic and external security co-ordination (including civil defence and emergency management).*

The committee will have power to act where the need for urgent action and/or operational or security considerations so require. Decisions of the committee under power to act will be reported to the next Cabinet meeting as appropriate.

At the time of 9/11, the ODESC structure had become a generic committee that pulled together different Chief Executives depending on the issues at hand. Because of this manner of operation, there continued to be several standing ODESC 'sub-committees:' ODESC(I) for intelligence; ODESC(T) for terrorism; ODESC(M) for maritime security; and ODESC(E) for emergencies such as natural disasters.¹⁴⁹ These were augmented by groupings of Chief Executives, formed under the ODESC umbrella, to coordinate the government's response to particular crises, such as ODESC(Solomon Islands).¹⁵⁰ Many of these iterations of ODESC would have had the same *core* membership, but the extended membership and agenda focus would have differed, based on the policy questions. The Controller and Auditor General's examination of the ODESC system in 2003 indicates that a streamlining had taken place, and by that time only two standing subcommittees of ODESC existed: ODESC(I) for intelligence and ODESC(P) for policy, planning, and preparedness (i.e. resilience).¹⁵¹ Figures 1.4.20, 1.4.21, and 1.4.22 illustrate the evolution of the interdepartmental committee structures, from 1999 to approximately 2003.

¹⁴⁹ Mention of these committees can be found in several annual reports from the Department of Prime Minister and Cabinet, such as NZ Department of Prime Minister and Cabinet (2001) *Report of the Department of Prime Minister and Cabinet: Report to the House of Representatives for the Year Ended 30 June 2001*, Wellington: NZDPMC, p.19; NZ Department of Prime Minister and Cabinet (2002) *Report of the Department of Prime Minister and Cabinet: Report to the House of Representatives for the Year Ended 30 June 2002*, Wellington: NZDPMC, p.20.

¹⁵⁰ NZDPMC, 2001, p.19.

¹⁵¹ Controller and Auditor General, 2003, p.31.

Figure 1.4.20: New Zealand Committee Structure related to Management of the IC
--circa 1999--

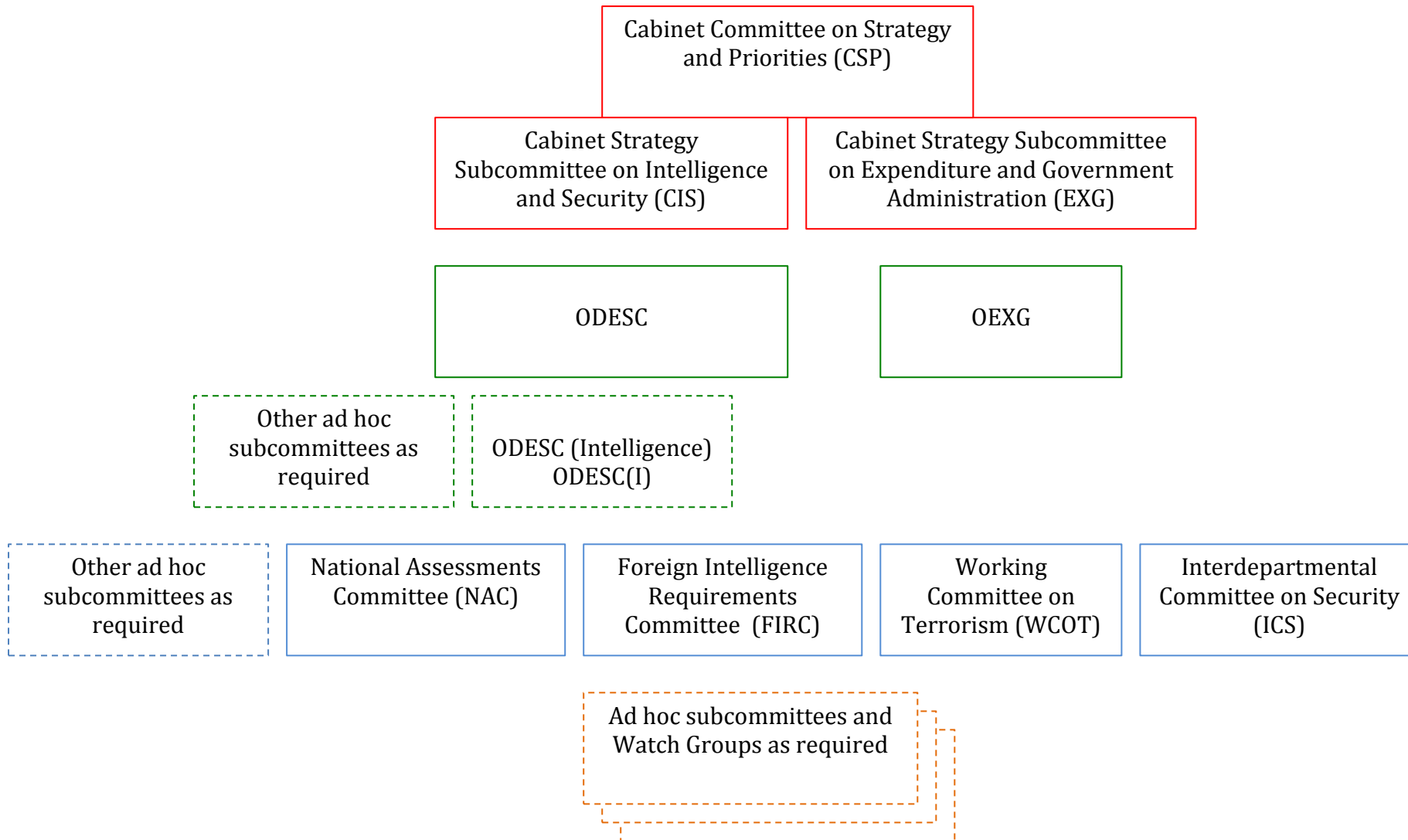


Figure 1.4.21: New Zealand Committee Structure related to Management of the IC
 --circa 2002--

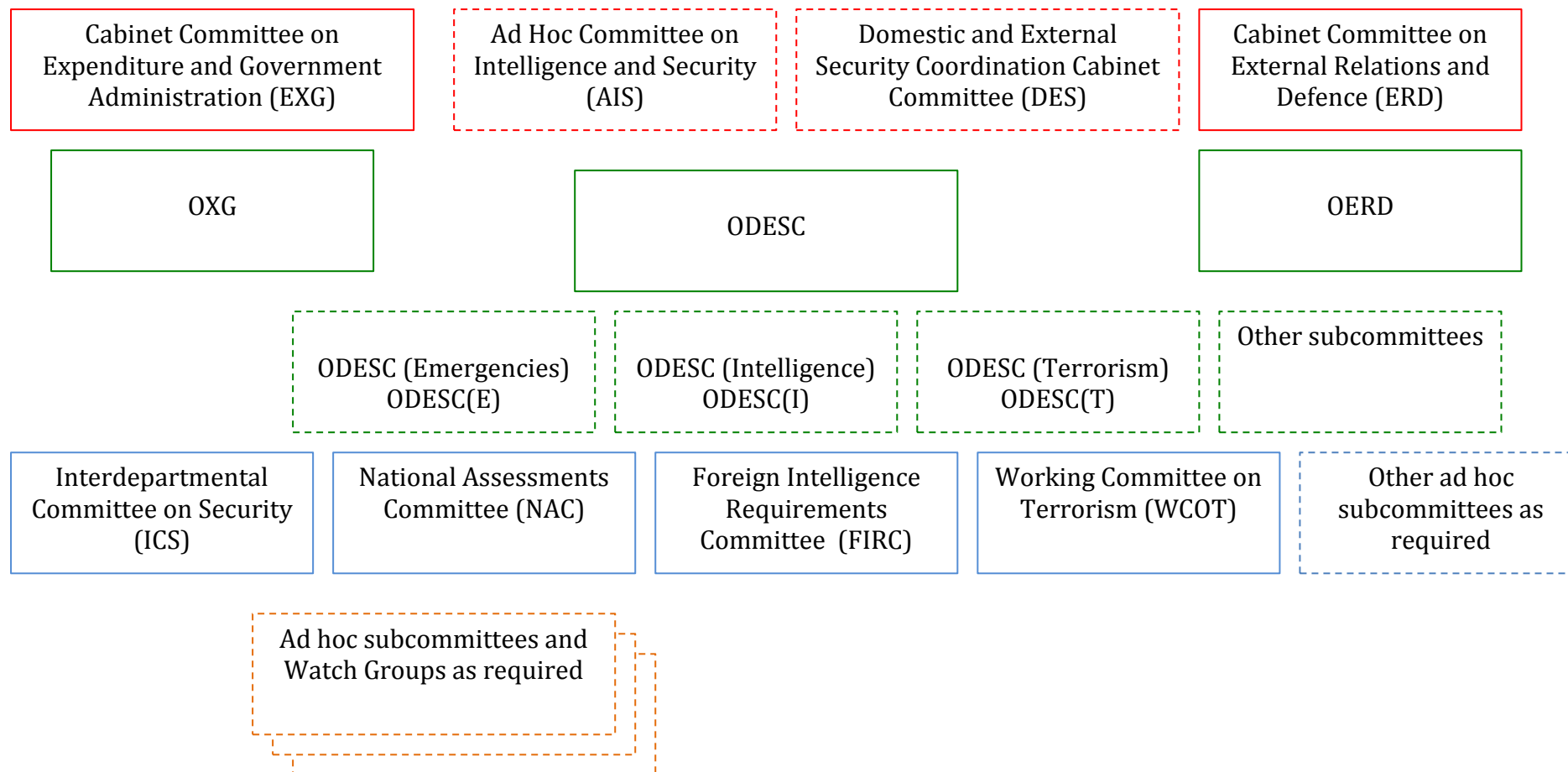
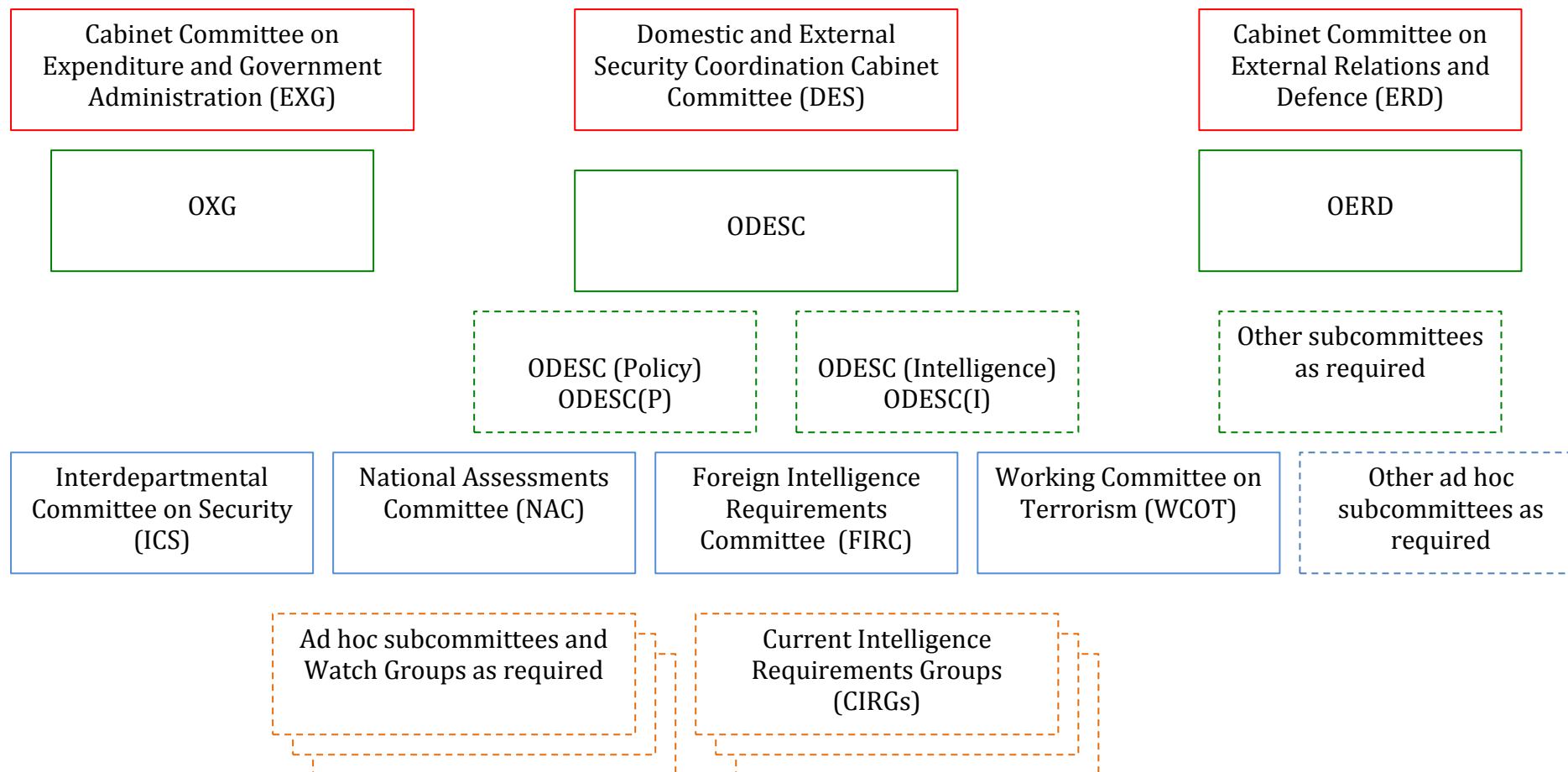


Figure 1.4.22: New Zealand Committee Structure related to Management of the IC
--circa 2003--



The tempo of global events in the early 2000s resulted in a proliferation of New Zealand’s intelligence requirements. All at once, the national intelligence effort was needed to protect New Zealanders at home from potential terrorist plots, to protect New Zealanders abroad from attacks like those seen in Bali and Jakarta, to protect New Zealand troops from attacks in Afghanistan, and to continue to cover traditional areas such as espionage, foreign interference, and threats to New Zealand’s economic well-being. If not effectively prioritised, this level of varied activity would place a significant burden on the collection or analytic resources of New Zealand’s small IC. By compiling statistics of committee meetings presented in the NZDPMC annual reports for the first five years of the ‘9/11 decade,’ one can see that there was a significant increase in workload for the officials’ committees. The total number of ODESC meetings steadily increased, more than doubling between 2000-2001 and 2004-2005 (see Figure 1.4.23).

| Figure 1.4.23 Frequency of IC-related Officials’ Committee Meetings 2000-2001 to 2004-2005 ¹⁵² | | | | | |
|---|-----------|-----------|-----------|-----------|-----------|
| | 2000-2001 | 2001-2002 | 2002-2003 | 2003-2004 | 2004-2005 |
| ODESC Total | 13 | 14 | 21 | 27 | 30 |
| ODESC(I) | 4 | 4 | 4 | 12 | Unknown |
| FIRC | 11 | 11 | 3 | 3 | 5 |
| CIRGs | NA | NA | 34 | 49 | 6 |

All these new demands required a more flexible and frequent approach to rationalising intelligence requirements and prioritising resources appropriately. As a result, in 2002-2003, numerous sub-groups were formed under the auspices of the FIRC in order to “give the process for defining information and intelligence requirements enough flexibility to handle immediate needs as they arise.”¹⁵³ These Current Intelligence Requirements Groups (CIRGs) were meant to bring together the key agencies and departments on a particular topic that could then

¹⁵² The statistics in Figure 1.4.23 are compiled from the NZDPMC annual reports covering the years from 2000-2001 to 2004-2005. ‘NA’ denotes that a committee was not in existence during the given year, and ‘unknown’ indicates that no statistics were provided for that year. Meetings of ODESC(I) are included in ‘ODESC Total.’

¹⁵³ Controller and Auditor General, 2003, p.55.

rapidly build a picture of what intelligence was needed and what could be readily provided. FIRC maintained a strategic overview of the process, handling the overarching intelligence requirements and priorities framework within which the CIRGs would operate. Figure 21 shows that even when FIRC meetings decreased beginning in 2002-2003, they were more than offset by the number of meetings of the CIRGs at lower levels.

The Murdoch Review: From Coordination to Governance

The interdepartmental machinery remained relatively stable through the latter half of the 9/11 decade, however the IC itself had grown in size, cost, and scope. The budget votes for NZSIS and GCSB had grown steadily in both operating and capital funds, and investment in military intelligence had grown to support the deployments in Afghanistan.¹⁵⁴ New organisations had been established, such as the Combined Threat Assessment Group (CTAG), which was New Zealand's response to the 'fusion centres' in its larger Five Eyes allies. Also, by 2009 New Zealand was forming a dedicated entity within the NZDF to perform GEOINT collection and analysis.¹⁵⁵

However, while New Zealand's IC had experienced a period of growth, New Zealand's economy was heading into a period of turmoil. Because of a domestic slow-down through 2007 and early 2008, New Zealand entered a recession. This recession was severely compounded by the effects of the global financial crisis later in 2008.¹⁵⁶ Among other measures meant to put New Zealand back on a sound economic footing, the government began to hunt out efficiencies in the public sector, subjecting expenditure votes to 'line-by-line' and 'value-for-money' reviews.¹⁵⁷ The government conducted a classified line-by-line review of the intelligence budget votes, which found "the need for further

¹⁵⁴ Murdoch, 2009, Annex 4.

¹⁵⁵ Murdoch, 2009, p.27.

¹⁵⁶ NZ Treasury, (2010) *New Zealand Economic and Financial Overview 2010*, Wellington: New Zealand Government, p.11.

¹⁵⁷ From Project Leader, Value for Money to Minister of Finance, (January 23, 2009) 'Aide Memoir: Value for Money Guidance for Vote Ministers' NZ Treasury, <http://www.treasury.govt.nz/publications/informationreleases/budget/2009/pdfs/b09-llr-amtsy-mof-23jan09.pdf> (Accessed January 2015).

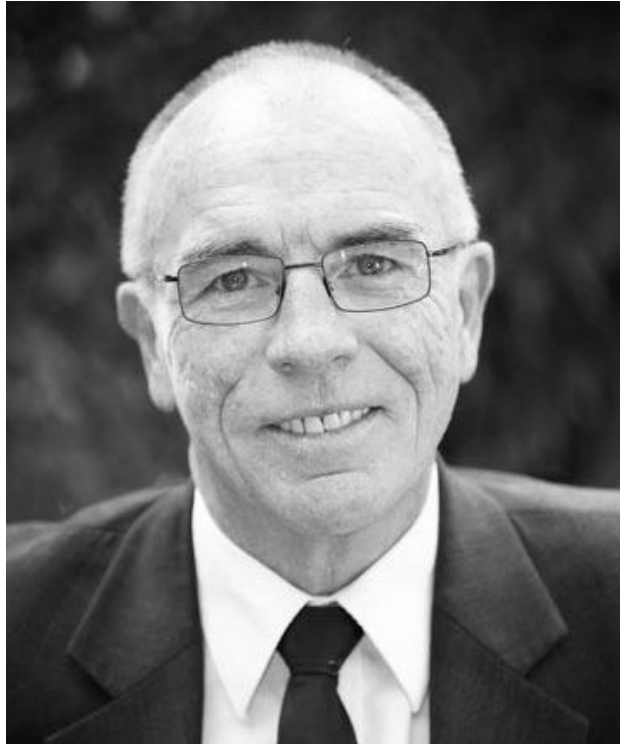
analysis of the contribution of the Prime Minister's three intelligence entities to national security risk management" and raised questions as to "the optimal structure for the three intelligence agencies."¹⁵⁸If it had not been for a fluke accident, the nature of the government's subsequent analysis may have remained secret for several years.

In late August 2009, a Treasury official hurrying to a meeting in downtown Wellington dropped her notebook on the street. A reporter for Radio New Zealand subsequently picked up the notebook and found that the contents contained details of a secret review of the New Zealand intelligence agencies, including the option of a possible merger of NZSIS and GCSB. In the days that followed, Prime Minister Key confirmed that a review of the IC was underway.¹⁵⁹ Simon Murdoch, a senior Chief Executive who had headed GCSB, MFAT and NZDPMC, conducted the *Intelligence Agencies Review* on behalf of the PM and the State Services Commissioner, examining the structure, governance, and coordination of New Zealand's national intelligence effort. The Murdoch Review, as the report became known, represented the most substantial review of the New Zealand IC post-9/11, and started the IC towards a new way of doing business. Murdoch concluded that, while the intelligence organisations were largely collegial particularly at higher levels, the expanding complexity of the threat environment and the growth of the IC itself meant that more needed to be done to lead and manage the intelligence organisations as a *community*.

¹⁵⁸ Murdoch, 2009, 'Annex 1: Intelligence Agencies Review Terms of Reference-27 May 2009' p.11.

¹⁵⁹ NZPA (Sept 8, 2009) 'Chance Find Reveals Secret SIS Review' *Stuff.co.nz*, <http://www.stuff.co.nz/dominion-post/news/politics/2843506/Chance-find-reveals-secret-SIS-review> (accessed October 2015), and Radio New Zealand (Sept 9, 2009) 'Treasury Admits 'Spy Plan' Notebook Ownership' Radio New Zealand News, <http://www.radionz.co.nz/news/national/15303/treasury-admits-'spy-plan'-notebook-ownership> (accessed October 2015).

Figure 1.4.24¹⁶⁰
Simon Murdoch



The terms of reference for the Murdoch Review recognised that the outcome would need to effectively balance the demands of two conflicting environments: a threat environment expanding in complexity, and an economic environment becoming more precarious. Two paragraphs within the terms of reference highlight this challenge by stating:

Now it is evident that the current economic and financial situation facing New Zealand means that government spending will be tightly constrained. This applies to the intelligence agencies as well as to other sectors of Government.

*However, the context and work of the intelligence agencies will not become any easier. It has become increasingly complex following the end of the Cold War and this is likely to be compounded by the international economic and financial situation.*¹⁶¹

In what can only be considered a testament to civil service drafting skill, Murdoch's review was expansive in scope, but incredibly succinct. He examined

¹⁶⁰ Photo: <http://www.stuff.co.nz/business/industries/7768251/Ex-GCSB-head-to-helm-Rena-review>

¹⁶¹ Murdoch, 2009, Annex 1: Intelligence Agencies Review Terms of Reference-27 May 2009, p.11.

the culture, communications, resourcing, and governance of the core IC, with a particular focus on GCSB, NZSIS, DDIS and EAB, but his final report was only 62 pages in length (including annexes). However, Murdoch’s recommendations had a significant impact on the management of the IC.

The Murdoch Review concluded with a mix of general and specific recommendations that can be grouped into five broad and interconnected categories, and linked to several subsequent actions taken by the government to strengthen the governance arrangements of the IC. These findings and outcomes are laid out in Figure 1.4.25. While only some outcomes of the Murdoch Review are discussed here, Figure 1.4.25 also indicates which chapters of this work discuss the other outcomes of the Murdoch Review.

| Figure 1.4.25¹⁶² Broad Findings of the <i>Intelligence Agencies Review</i> and Key Outcomes | |
|---|--|
| Broad Findings of the Murdoch Review | Key Outcomes |
| 1. There was a need to revise the interdepartmental committee structure to oversee a community-wide approach to governance (discussed in Chapter 4) | <ul style="list-style-type: none"> • Creation of ODESC(G) committee |
| 2. The ability of the central agencies to manage cross-community governance needed to be strengthened (discussed in Chapters 4 and 10) | <ul style="list-style-type: none"> • Creation of the Intelligence Coordination Group (ICG) in the NZDPMC • Creation of ODESC(G) committee |
| 3. There was a need for a community-wide performance management framework, tied to the government’s larger national security outcomes (discussed in Chapter 10) | <ul style="list-style-type: none"> • Creation of a Joint Strategic Framework for the core IC agencies. • Creation of a joint statement of intent for the core IC agencies. |
| 4. The IC needed to implement a more “dynamic” approach to the requirements and priorities system, and a stronger capability for national assessments (discussed in Chapters 4 and 7) | <ul style="list-style-type: none"> • Renaming and refocusing of the External Assessments Bureau, to become the National Assessments Bureau (NAB) • Creation of the Intelligence Coordination Group (ICG) in the NZDPMC |

¹⁶² Murdoch, 2009, pp.5-9 discusses the broad findings of the Review, while the ‘Key Outcomes’ are sourced throughout the text.

| | |
|---|---|
| | <ul style="list-style-type: none"> • Enhancements of NZICNet secure computer system |
| <p>5. There was a need to institutionalise cross-community efficiency measures, through the use of shared services, infrastructure, and management practices (discussed in Chapter 10)</p> | <ul style="list-style-type: none"> • Creation of Intelligence Community Shared Services (ICSS), including an IC Chief Financial Officer • Relocation of core IC elements into Pipitea House |

Along with recommendations for changes, Murdoch was clear about what changes he felt were unneeded. Firstly, he stated that there was “not a strong case” for a merger between the national collection agencies (GCSB and NZSIS), and that a merger could be more costly than assumed.¹⁶³ Murdoch refuted the idea of a merger by explaining that, while both agencies were in the ‘intelligence business,’ they were each tailored towards specific intelligence disciplines:

*NZSIS and GCSB would not fit easily together in terms of core outputs or culture and business practice, and both have unique centres of expertise that require specialised training and development regimes. They both collect secret intelligence, but in very different ways, and each has compartmentalising requirements for sensitive information from offshore partners. They already interact effectively on operations and projects where they need to, as the law permits. There is no ‘high-hanging’ operational synergy that it would need a merger to unlock.*¹⁶⁴

Most importantly, as the last line in the quote above suggests, Murdoch found that there would be no *operational* benefit to a merger, as the agencies worked well together within their respective legal mandates. In short, Murdoch’s findings directly contradicted the popular image of intelligence agencies that are incapable of working together.

The government adopted many of Murdoch’s recommendations, including the recommendation to revisit the interdepartmental committees. Murdoch found that ODESC and ODESC(I) were effective coordinating bodies, but needed to be augmented or refocused. In summing up the structures that had existed between 1990 and 2009, Murdoch stated that:

¹⁶³ Murdoch, 2009, p.6
¹⁶⁴ Murdoch, 2009, p.6.

*In practice the post 1990 structure has done the job pretty well. It enables the integration of intelligence into operations notably, in the foreign relations space, the exposure of policy risk at the cross-agency level and wider scoping of options for advice to Ministers. And it has been very successful in planning for and coordinating actual immediate emergency response, especially to complex events with onshore/offshore dimensions.*¹⁶⁵

The close networks and familiarity of the senior executives within the New Zealand IC had led to high levels of collegiality, which had facilitated coordination (particularly in foreign intelligence), and had only required a light touch by central agencies.¹⁶⁶ However, Murdoch found that the existing structures were at risk of being outpaced. The complexity of the global environment was placing greater demands on an IC that was, itself, becoming more diverse. Murdoch cautioned that increasing demands on the IC, combined with on-going fiscal restraint, if mismanaged, “exposes the danger that the NZIC will be unable to sustain its levels of performance: the quality of its service delivery or its operational soundness or its intellectual acuteness could erode, by degree.”¹⁶⁷ In short, the IC was at risk of moving ‘out of fit’ with the threat environment. Murdoch’s view was that the IC had to adopt a more robust approach to cross-community governance in order to navigate the future, and that this needed to be led from the centre. Ministers, Murdoch stated, “are entitled to be assured that NZIC’s structures are future proofed, that its overall management of its inputs to national security will be sustainable and will meet acceptable standards.”¹⁶⁸ In this sense, Murdoch viewed stronger IC governance as a key democratic assurance of the IC’s operations.

Murdoch’s conclusions intersected with a larger movement within the centre of government to strengthen the three central agencies (NZDPMC, the Treasury, and the SSC), and have them play a stronger role in interdepartmental governance. This shift began in 2006, at the direction of Cabinet, when the central agencies conducted a major review of their role in public sector governance. The resulting Central Agencies Review of 2006 found that the three

¹⁶⁵ Murdoch, 2009, ‘Annex 5: Governance of NZIC, Accountability and Authorising Regime,’ p.43

¹⁶⁶ Ibid.

¹⁶⁷ Ibid.

¹⁶⁸ Ibid.

central agencies should act as a unified 'corporate centre,' with the three Chief Executives forming, essentially, a management board that would ensure high performance in policy, financial, and management practices across departments.¹⁶⁹ The key outcome of the Central Agencies Review was that the three central agencies were recognised as, not simply coordinating, but *collectively leading* on state sector governance.

Murdoch used the redefined role of the central agencies when he recommended the creation of a new ODESC sub-committee focused on governance that would be known as ODESC(Governance), or simply ODESC(G). Murdoch found that ODESC(I) was a good coordinating body for the core IC, but not suited in membership or terms of reference to "integrating intelligence with national security across a wider set of actors, and of sustaining performance and capability at a time of some risk (fiscal and otherwise)."¹⁷⁰ The core membership of ODESC(G) would be the three chief executives of the central agencies. A further two members, would be drawn from the chief executives of other departments or agencies who were key IC customers, on a rotational basis.¹⁷¹ ODESC(I) would still be used as the principal coordinating body for the core IC and the heads of the key agencies would be full-time members, but Murdoch stated that "their participation in ODESC(G) would be agenda-driven and avoid conflicted roles. They should not 'sit in judgment' on each other's budgets or performance."¹⁷² Instead, evaluation of the national intelligence effort would be the responsibility of the central agencies and other key intelligence consumers. The government accepted Murdoch's recommendation, and created ODESC(G) in 2010. Figure 1.4.26 shows the membership of ODESC(G) in early 2011.

¹⁶⁹ Central Agencies Review (September 2006) *Review of Central Agencies' Role in Promoting and Ensuring State Sector Performance*, Wellington: New Zealand Treasury, <http://www.treasury.govt.nz/publications/informationreleases/exgreviews/pdfs/tsy-exgrev-ca-sep06.pdf> (Accessed January 2015).

¹⁷⁰ Murdoch, 2009, 'Annex 5: Governance of NZIC, Accountability and Authorising Regime,' p.43.

¹⁷¹ Ibid, pp.43-44, and NZ Department of Prime Minister and Cabinet (May 2011) *New Zealand's National Security System*, Wellington: Department of Prime Minister and Cabinet, pp.23-24.

¹⁷² Murdoch, 2009, 'Annex 5: Governance of NZIC, Accountability and Authorising Regime,' p.44.

| Figure 1.4.26 Membership of ODESC(G) as of May 2011 |
|---|
| Chief Executive, Department of Prime Minister and Cabinet (Chair) |
| Secretary/Chief Executive of the Treasury |
| State Services Commissioner |
| Chief of Defence Force |
| Commissioner of Police |

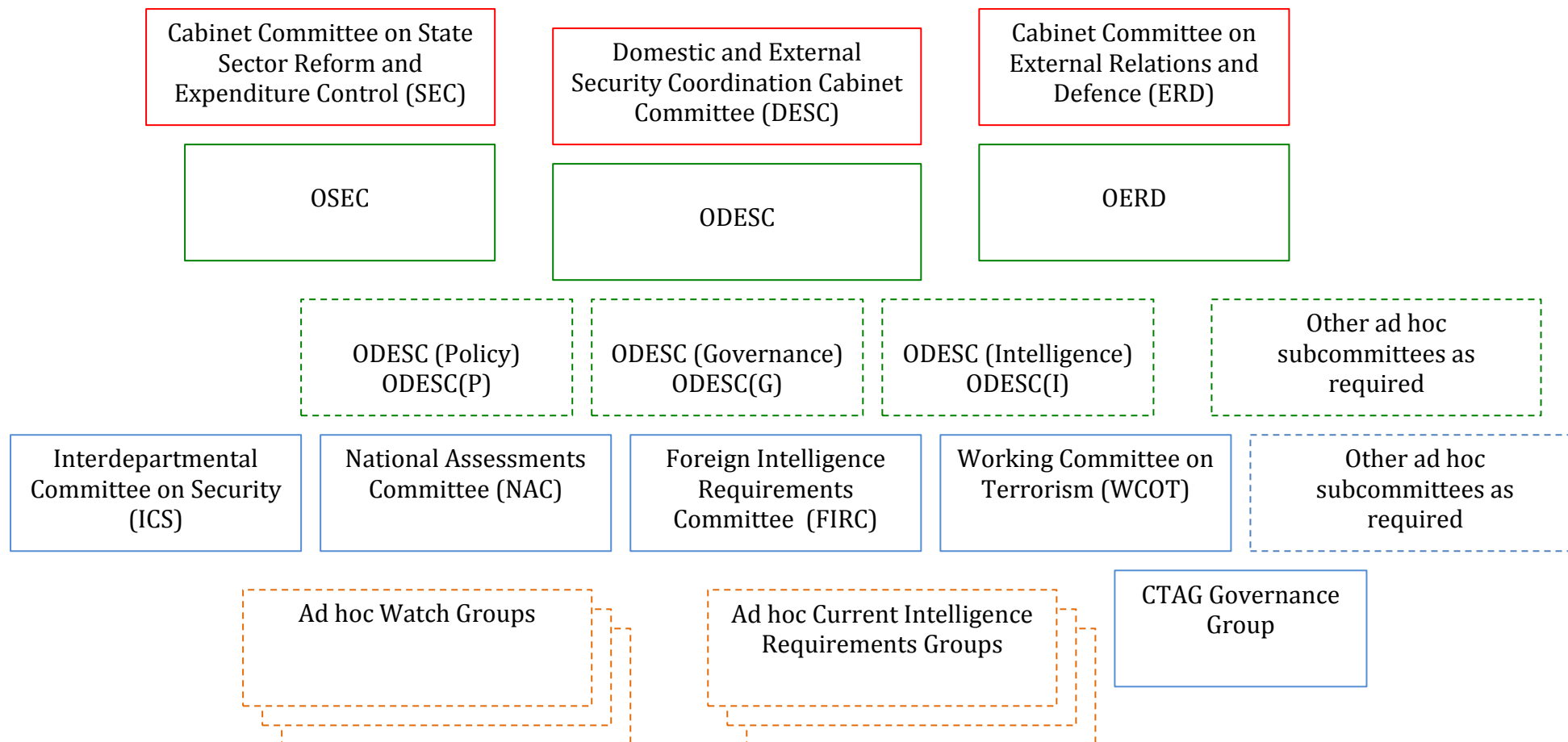
ODESC(G) represented a subtle but important change in the interdepartmental committee structure. For the first time in the IC's modern history, all three of the central agencies, as well as key intelligence consumers, were represented on a committee of deputy heads focused on ensuring the overall health of the national intelligence effort (in terms of both democratic accountability and operational efficacy). Figure 1.4.27 illustrates the interdepartmental intelligence committees as they existed around 2010, following the Murdoch Review.

The Murdoch Review: Supporting New Governance Efforts

Murdoch recognised that supporting ODESC(G) and the new cross-community governance agenda would require greater support from the central agencies, and particularly the NZDPMC. His review had found that the machinery inside the NZDPMC responsible for national security was underpowered. Murdoch stated that the Intelligence Coordinator had a "limited mandate and limited authority," and compared this to other states (specifically Canada, Australia, and the UK) where the same function had been strengthened since 9/11.¹⁷³ Murdoch did not offer any specific recommendations for *how* to strengthen the NZDPMC machinery, but he did note that whatever approach was taken would have to balance several different factors.

¹⁷³ Murdoch, 2009, p.7.

Figure 1.4.27: New Zealand Committee Structure related to Management of the IC
--circa 2010--



For instance, a stronger central coordinating function could not detract from the direct accountability between deputy heads and their ministers, or any of the accountabilities that were in statutes such as the *NZSIS Act 1969*, the *GCSB Act 2003*, or more generally the *State Sector Act 1988* and the *Public Finance Act 1989*. Murdoch stated that, while a stronger central coordination function could be informed by international examples, it would ultimately be anchored in “what works in Wellington.”¹⁷⁴

Interestingly, the government explicitly opted *against* creating a senior-level position within the NZDPMC akin to the national security advisor positions that had been created in Canada, Australia, and the UK. In an official publication released in May 2011 outlining the post-Murdoch national security system, the government stated:

*The logic of [the national security] framework suggests that there needs to be a senior official responsible for delivering advice on national security to Government, and providing leadership to and coordination of whole-of-government efforts. While this need has been met in a number of jurisdictions through the establishment of a National Security Advisor, in New Zealand, this role sits with the Chief Executive of the Department of the Prime Minister and Cabinet, in the well-established capacity as Chair of ODESC. Two new senior positions have been established in DPMC following the review of the intelligence agencies in 2009 – the Director of Security Risk and the Director of Intelligence Coordination. As a consequence, the Chief Executive of DPMC is better supported than previously to lead the national security agenda.*¹⁷⁵

In short, the government chose to keep the Chief Executive of NZDMC as the principal official for national security management, rather than create a new senior-level position to take on those responsibilities. However, the Chief Executive’s responsibilities were growing outside of the national security sector, with the push to have the central agencies play a greater leadership role. To assist the Chief Executive in supporting the new governance structures, the Domestic and External Security Group (DESG) in NZDPMC was expanded and reorganised into two new groups: the Intelligence Coordination Group (ICG) and

¹⁷⁴ Murdoch, 2009, p.8.

¹⁷⁵ NZDPMC, 2011, p.12.

the Security Risk Group (SRG). The ICG assumed responsibility for supporting the Chief Executive of NZDPMC, ODESC(G), and ODESC(I) on all matters related to the coordination and governance of the IC.¹⁷⁶ The first Director of ICG was Roy Ferguson, a senior MFAT official who had previously been the Intelligence Coordinator within NZDPMC. Figure 1.4.28 illustrates the organisation of the national security-related functions within NZDPMC prior to the Murdoch Review, while Figure 1.4.29 illustrates the expanded organisation following the Murdoch Review. In both figures the Cabinet Office organisation is also shown, as the Cabinet Office remained responsible for supporting the DES and ERD cabinet committees.

The Murdoch Review represented a major shift in the management of New Zealand's national intelligence effort, and specifically in how intelligence was treated within the core executive. As noted, however, the changes were brought about by a confluence of institutional and contingent factors from which a balance was struck. However, subsequent events would push intelligence reform further still.

¹⁷⁶ When the ICG was created, the Intelligence Coordinator position ceased to exist as its functions were now carried out by the Director of ICG.

Figure 1.4.28: NZDPMC Organisation Related to National Security Management, 2008

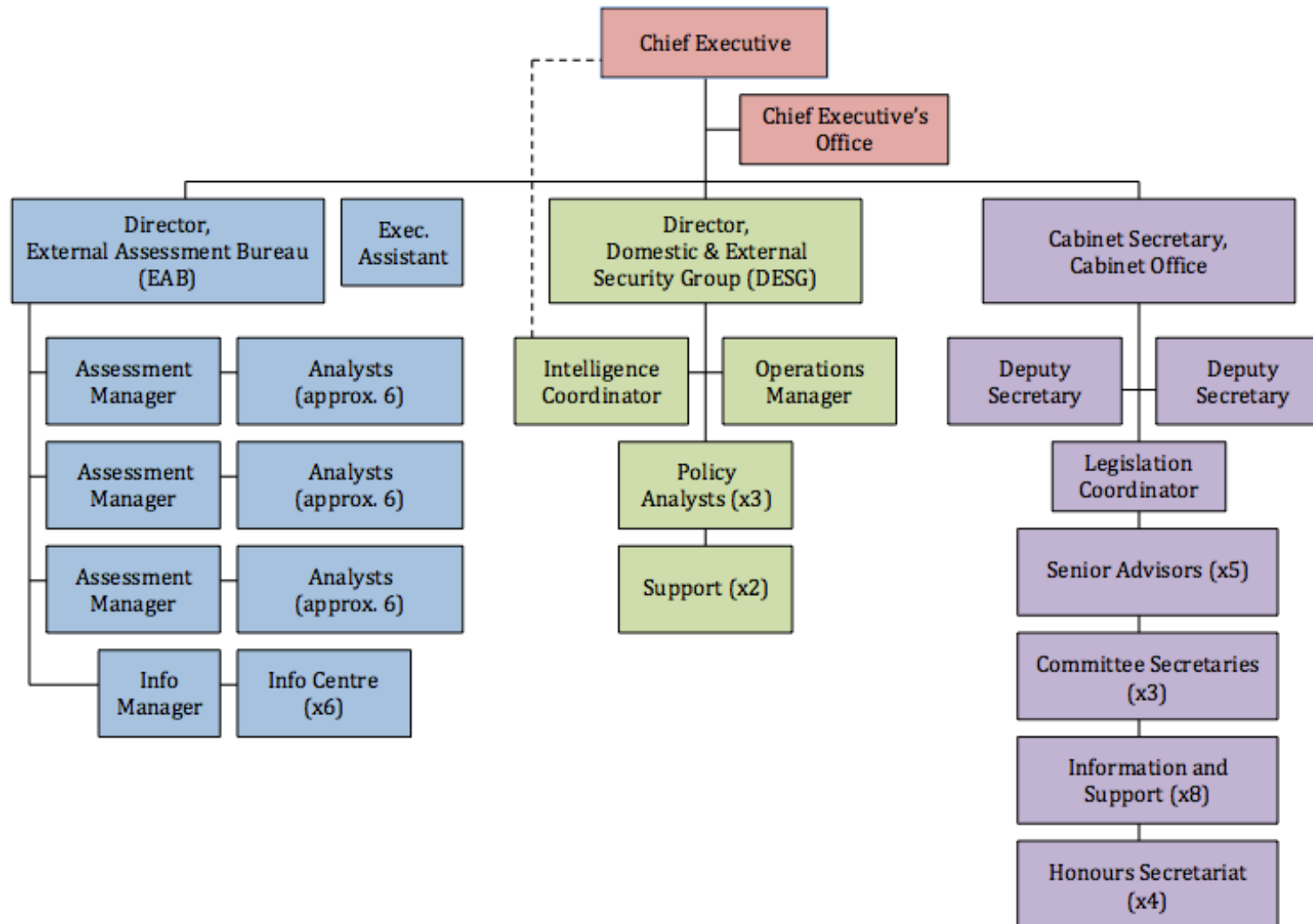
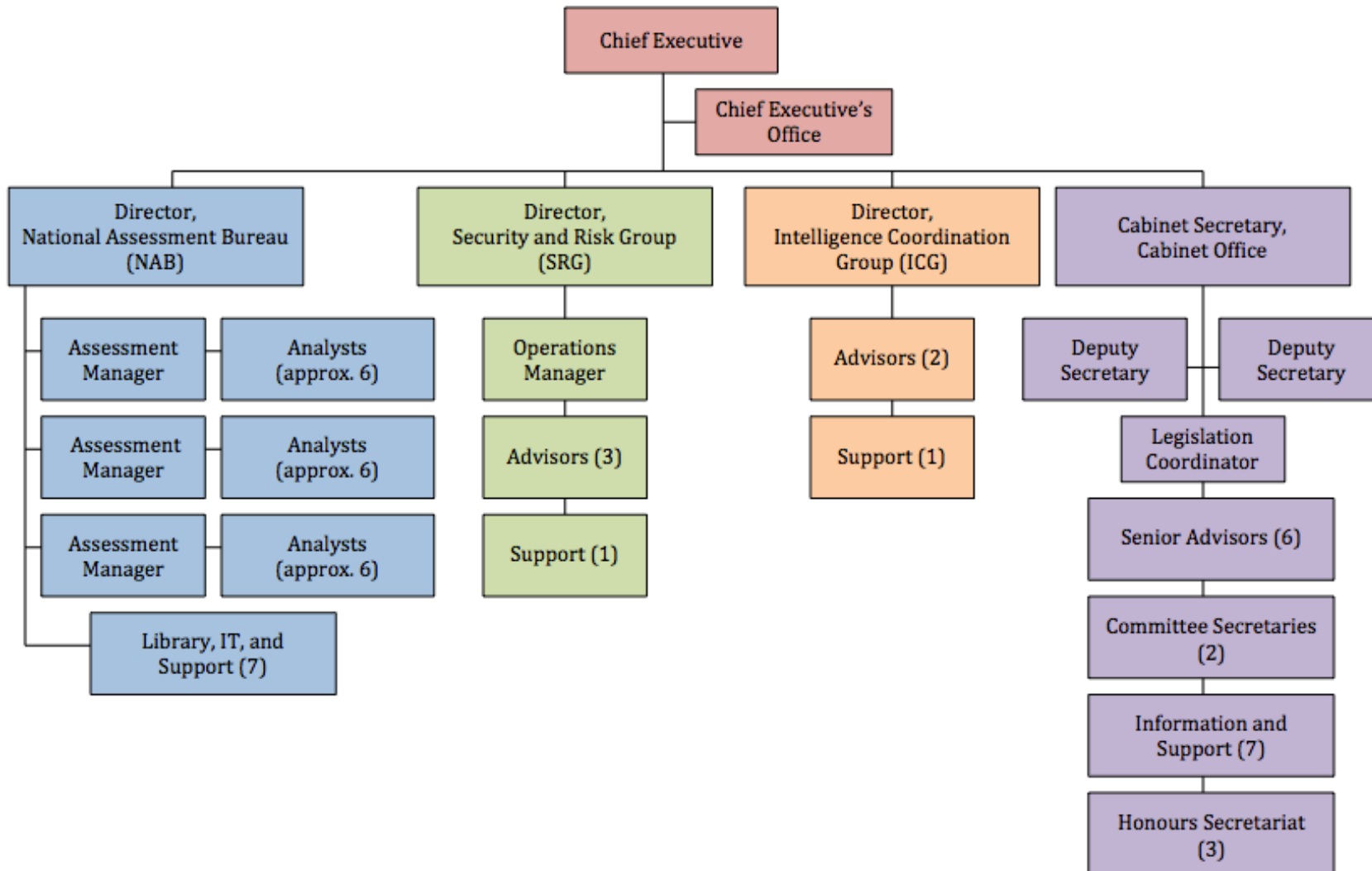


Figure 1.4.29: NZDPMC Organisation Related to National Security Management, 2011



The Ship of State in Stormy Seas: The Intelligence Crises of 2012 to 2014

If the 9/11 decade was a period of change for the New Zealand IC, the years immediately following the Murdoch Review became a period of crises. Only a few short years after the death of Osama bin Laden, the Arab Spring movement threw the Middle East and North Africa into chaos. Civil war in Syria and instability in Iraq propelled the growth of a significant ‘foreign fighter’ phenomenon. Most worrying was the growth of ISIS, a terrorist group with a particular talent for attracting foreigners to its ranks and for inspiring home-grown attacks. New Zealanders were not immune from the pull of ISIS and the Syrian conflict. In November 2014, Prime Minister John Key stated that between 60 and 80 individuals in or from New Zealand were of interest to intelligence and law enforcement authorities for actively supporting ISIS.¹⁷⁷ Far from becoming simpler following the post-9/11 decade, the global environment had undergone several significant shifts. At the same time as the threat environment was becoming messier, both GCSB and NZSIS became embroiled in battles closer to home. Quite unexpectedly, the first major crisis came about not because of a terrorist attack or a spy scandal, but because of an eccentric German millionaire named Kim Schmitz, better known by his assumed name Kim Dotcom.

The Ship of State in Stormy Seas: The Dotcom Affair and the Kitteridge Report

Dotcom was a tech millionaire who ran Mega Media Group; he was also a fugitive, wanted by US authorities for copyright infringement and money laundering. In late 2011, Dotcom was often residing in a mansion that he owned in Auckland, New Zealand, and US authorities requested the assistance of the NZ Police to execute search and arrest warrants. As part of the police operation to arrest Dotcom, named Operation DEBUT, GCSB accessed Dotcom’s email traffic between December 20, 2011 and January 20, 2012. In total, nine end-product reports (EPRs) were provided from GCSB to police, which were used to help police determine when all the suspects would be present at the mansion, and what level of risk there would be to arresting officers. Operation DEBUT came to a conclusion on January 20 when officers from

¹⁷⁷ Key, J. (November 5, 2014) ‘Protecting National Security and Responding to ISIL’ News Release by the Prime Minister, <http://beehive.govt.nz/release/protecting-national-security-and-responding-isil> (Accessed Nov 2014).

the NZ Police Special Tactics Group (STG) raided the Auckland mansion and arrested Dotcom and several others. Operationally, DEBUT was a strong example of effective cooperation between intelligence agencies and their customers. However, when GCSB lawyers reviewed the information regarding Dotcom's residency status again as part of the after-action debriefs, it was discovered that Dotcom's communications had been protected under the *GCSB Act 2003*. In short, GCSB's interception of Dotcom's communications had been illegal.

When the Director of GCSB notified Prime Minister Key of the illegal interception, the PM requested a review of the incident by the Inspector General of Intelligence and Security (NZ IGIS), Paul Neazor. Neazor found that the illegal interception of Dotcom's communications was not *wilful* contravention of the law by GCSB and the NZ Police. When Dotcom was first given a 'residence visa' in November 2010 under the *Immigration Act 1987*, he was not considered a permanent resident and therefore his communications were not protected. However, in late November 2010, when the *Immigration Act 2009* came into force, provisions of the act subtly changed Dotcom's status to that of a permanent resident, even though he held a 'residence class visa.' This change in residency status meant that Dotcom's communications became protected under the *GCSB Act 2003*. Neazor stated that, "Enquiry was made during the activity [i.e. the interception] in an attempt to ensure that the Bureau acted within its legal mandate as to what it can collect. The illegality arose because of changes in the Immigration Act wording and some confusion about which category Dotcom was in thereafter."¹⁷⁸ In summary, GCSB and the NZ Police had acted correctly in terms of *procedure* and had every intention of staying within their legal boundaries. However, the agencies had failed to recognise shifts in the wider legal environment that drastically affected the principal legal authorities under which the GCSB operated.

The incident, unsurprisingly, raised troubling questions within the government, which had come under intense public criticism when the GCSB's role in

¹⁷⁸ The information in this paragraph is drawn from Neazor, D.P. (Sept 27, 2012) 'Kim Dotcom and Others v. Attorney General—Residency Status' Wellington: Inspector General of Intelligence and Security, <http://media.nzherald.co.nz/webcontent/document/pdf/201239/Neazor%20repor1.pdf> (Accessed September 2012).

the operation became known. Why had the agencies failed to notice the legislative shift? What other potential legislative problems had gone unnoticed? What would need to be done to fix this, and any other, problems? Fundamentally, the question was how, and to what extent, the GCSB's legislation (and, by extension, its operations) had fallen out of 'fit' with its external environments. To address these questions the PM appointed the Cabinet Secretary, Rebecca Kitteridge, as the Associate Director of the GCSB, with orders to carry out a compliance review of the Bureau's activities (commonly referred to as the 'Kitteridge Report'). Kitteridge's work took on significant importance for the IC, not least because GCSB had voluntarily stopped its assistance to domestic partners (NZ Police, NZSIS, and others) until these questions were answered and a solution was found.¹⁷⁹

Figure 1.4.30¹⁸⁰
Rebecca Kitteridge



Kitteridge and a team of lawyers seconded from the Crown Law Office took six months reviewing the Bureau's compliance framework and how its operations fit within that framework. Her final report, published in March 2013, identified several

¹⁷⁹ Kitteridge, R. (March 2013) *Review of Compliance at the Government Communications Security Bureau*, Wellington: Government of New Zealand, pp.14-15.

¹⁸⁰ Photo: <http://www.radionz.co.nz/news/national/271417/more-monitored-over-islamic-state-links> (Accessed April 2015)

different aspects of the GCSB's governance framework and organisation that needed attention.

Firstly, Kitteridge found that the *GCSB Act 2003* needed to be overhauled. After consultation with the NZ IGIS, Solicitor-General, and the Crown Law Office, it was found that the *GCSB Act* contained some significant legal assumptions that did not give adequate legal cover to GCSB's operations. The most significant legal assumption had to do with GCSB's support to the warranted activities of the NZSIS and the NZ Police. Historically, GCSB had been allowed to provide technical assistance to the NZSIS and the NZ Police if the activity was covered under an NZSIS or Police warrant. In these instances, GCSB was acting as the agent of the domestic agency and assisting in carrying out their lawful mandate. This arrangement existed because GCSB had significant and expensive technical capabilities that were not available to the domestic agencies, but were useful in counter-terrorism, counter-intelligence, or serious crime investigations. The legal foundation for this assistance was provided in Section 8(1)(e) of the *GCSB Act*, which stated that the Bureau could cooperate with other agencies, if it was acting under a warrant obtained by those agencies. This was also reflected clearly in New Zealand Signals Intelligence Directive 7 (NZSID 7), which stated:

The rules in this Directive [regarding the protection of New Zealand communications] do not apply to collection authorised by a warrant issued to the Director of Security under the authority of the New Zealand Security Intelligence Service Act 1969, nor to collection authorised by a warrant issued to a New Zealand law enforcement agency.¹⁸¹

At the same time, however, Section 14 of the *GCSB Act* prohibited the Bureau from collecting the communications of New Zealand citizens and permanent residents. For ten years, it was assumed that the presence of Section 8(1)(e) gave the GCSB legal cover to assist domestic agencies in warranted operations, and hence created an exemption from the Section 14 prohibition. However, when Kitteridge and her legal team (as well as the NZ IGIS and the Solicitor-General) looked at these two sections of the *GCSB Act*, they found that the relationship between the two sections was

¹⁸¹ *New Zealand Signals Intelligence Directive 7*, December 2009, Paragraph 2.7, CONFIDENTIAL COMINT, Government Communications Security Bureau, Declassified and released to the author by GCSB in February 2015.

unclear. There was no explicit exemption in Section 14 for assistance provided to domestic agencies under warrant. This left the strong possibility that the courts, if put in the position of having to choose which section of the *GCSB Act* took precedence, would find that GCSB's assistance to NZSIS and the NZ Police, even under a warrant, was illegal if it had targeted New Zealand citizens.¹⁸² This ambiguity jeopardised an important capability in national security and serious criminal investigations, which was becoming more important as targets became more technologically savvy.

Additionally, Kitteridge found that the *GCSB Act*, even though it was designed to be 'technology-neutral,' reflected an era when SIGINT was the dominant business line for GCSB. The rise of cyber threats throughout the decade meant that the Bureau's information assurance and cybersecurity operations had taken on much greater importance and sophistication. The nature of the cybersecurity business was not well reflected in the *GCSB Act*, again leaving legal grey areas over an increasingly important capability.¹⁸³ Kitteridge pointed out that GCSB had made every effort to keep up to date with the changing technological environment; indeed, the Bureau's operational capability depended on it. However, against the significant technological evolution, the *GCSB Act* was looking dated. Kitteridge noted that, "as at the date of this report, the reality is that the Act is difficult to apply to some of the Bureau's current operation or its intended future operation."¹⁸⁴ Finally, Kitteridge also noted that there had been no analysis conducted on how key judicial decisions might impact the GCSB's legislative foundation, and that the Bureau's legal advisor was not well connected into the rest of the public law community.¹⁸⁵ In short, the legal environment had evolved, and the GCSB was unsure of how that impacted its operations.

Kitteridge also found that several organisational aspects of the GCSB had become problematic. Firstly, in some instances there was significant over-burdening of individual positions. The most extreme case seemed to be the Deputy Director of

¹⁸² Kitteridge, 2013, pp.14-19.

¹⁸³ Ibid, p.24.

¹⁸⁴ Ibid.

¹⁸⁵ Ibid.

Mission Enablement (DDME), who was also the sole legal advisor within the Bureau. Kitteridge noted that:

At the time this review commenced, in addition to legal advice, the DDME had responsibility for governance and performance, strategy and policy, risk management, the Liaison Officers, the Compliance Advisor, strategic relationships, the Chief Financial Officer, knowledge services, the registry, the Chief Information Officer, technology infrastructure, security (physical, personnel, and IT) and mission capability (IT) development. Until fairly recently he also had responsibility for HR, finance and logistics, procurement and property services. He was for some periods also Acting Director of GCSB.¹⁸⁶

Unsurprisingly, Kitteridge found that this burden on a single senior executive had contributed greatly to an inadequate focus on compliance and legal matters. She found that the DDME could only commit 5 per cent to 10 per cent of their time to legal analysis, and was disconnected from the larger public law community.¹⁸⁷

The reviewers found similar shortcomings in other key positions, specifically the Compliance Advisor, the Manager of Outreach, and the Operational Policy Advisor. The single Compliance Advisor in the GCSB was overburdened. Kitteridge noted that, “Every person that I interviewed said that there was insufficient capacity in the compliance area,” and that the lack of capacity resulted in the Compliance Advisor being unable to spend time “doing anything other than providing day-to-day advice (such as filing, quarterly reports, audits, developing [Frequently Asked Questions], working on training and examining analysts, contributing to new operational policies, etc.)”¹⁸⁸ Similarly, the review found that the Manager of Outreach was the only person in the Bureau who could talk to the Department of Internal Affairs or Immigration New Zealand on matters related to citizenship or nationality.¹⁸⁹ This created a choke point for advice on these important matters, and slowed the ability of the Bureau to gain input from other key departments. Similar issues had developed with the Operational Policy Advisor, whom Kitteridge dubbed “yet another ‘sole trader’ position.”¹⁹⁰

¹⁸⁶ Kitteridge, 2013, p.63.

¹⁸⁷ Ibid, pp.24, 63-64.

¹⁸⁸ Ibid, p.67.

¹⁸⁹ Kitteridge, 2013, p.67.

¹⁹⁰ Ibid, p.68.

What becomes clear from the Kitteridge Report is that there was a serious problem of 'organisational health' within the GCSB. Key individuals were overburdened and key functions were under-resourced at a time when the Bureau's operational work was becoming more demanding and varied. These problems of organisational health, while not directly related to the Bureau's front-line *operational* capability, had reached a point of criticality where they had undermined the Bureau's institutional integrity, particularly in the eyes of the public. While the GCSB had become a media punching bag because of the Dotcom Affair, the NZSIS had managed to come out of the incident relatively unscathed. However, a short time after the Dotcom Affair, another controversy several years in the making would bring the NZSIS into its own political debacle.

The Ship of State in Stormy Seas: The 'Whale Oil' Affair and the Gwyn Report

In February 2011, an earthquake measuring 6.1 on the Richter scale rocked Christchurch; it was the second quake in six months to hit one of New Zealand's most populous cities. Several buildings, already weakened by the previous quake in September 2010, collapsed or were significantly damaged and 180 people were killed. On July 19, 2011, the *Southland Times* began publishing a series of stories stating that, in the chaos following the earthquake, the activities of numerous Israelis in Christchurch had caught the attention of the NZSIS and NZ Police. One Israeli individual, killed by falling debris while sitting in a van in downtown Christchurch, was reportedly found to have multiple passports on his body, and his three companions from the same group left New Zealand for Israel within 12 hours. At the same time, an Israeli search and rescue team showed up in Christchurch to help look for two other missing Israeli citizens and was turned back for not having the proper accreditation. Finally, there was concern that two Israeli forensic analysts that had assisted in identifying victims of the quake had access to the national police database during their work.¹⁹¹ Faced with growing rumours around the case, Prime Minister

¹⁹¹ On the details of the case, see Tulett, F., Watkins, T. and Vance, A. (July 20, 2011) 'Investigation Cleared Israelis of Spy Claims: PM' *Southland Times/Stuff*, <http://www.stuff.co.nz/national/politics/5311491/Investigation-cleared-Israelis-of-spy-claims-PM> (Accessed November 2015); Watkins, T. and Small, V. (July 21, 2011) 'Hunt on for Source in Israeli

John Key made a statement confirming that the Israelis had been investigated by New Zealand's security agencies, but that they had "found no evidence that the people were anything other than backpackers."¹⁹² Operationally, this is where the story of the Israelis in Christchurch ended; however, politically, it was just the beginning of a much more complex political crisis.

In the days following the media stories and the PM's statement regarding the Israelis in Christchurch, the Leader of the Opposition, Phil Goff, had criticised the government's handling of the issue, and argued that he had not been briefed on the investigation.¹⁹³ The PMO and the NZSIS, on the other hand, maintained that the Director of NZSIS, Warren Tucker, had briefed Goff on the investigation.¹⁹⁴ What subsequently followed was a series of exchanges between government ministers and the NZSIS Director on one side, and Goff and the opposition parties on the other that progressively worsened.¹⁹⁵ On July 26, 2011, Cameron Slater, a conservative blogger who ran the political blog *Whale Oil*, requested documents from NZSIS under the *Official Information Act* (OIA). Slater requested documents pertaining to the briefing where Goff had allegedly been informed of the Christchurch investigation. Within days, sanitised copies of NZSIS briefing agendas had been provided to Slater and subsequently published on *Whale Oil*, indicating that the Christchurch investigation had been a topic covered at one of Goff's briefings.¹⁹⁶

With both sides sufficiently bloodied by the affair, the political controversy subsided for nearly three years. However, in August 2014, New Zealand investigative researcher Nickey Hager published a book about the Key government entitled *Dirty*

Investigation' *Southland Times/Stuff*, <http://www.stuff.co.nz/national/politics/5317229/Hunt-on-for-source-in-Israeli-investigation> (Accessed November 2015).

¹⁹² Key, J. (July 20, 2011) 'PM on Media Reports about Israeli Nationals' Prime Minister's Office, <http://beehive.govt.nz/release/pm-media-reports-about-israeli-nationals> (Accessed November 2015).

¹⁹³ Gwyn, C. (2014) *Report on the Release of Information by the New Zealand Security Intelligence Service in July and August 2011*, Wellington: Inspector General of Intelligence and Security, p.5. In New Zealand, as in Australia, the head of the security service regularly briefs the Leader of the Opposition on important matters of security.

¹⁹⁴ Ibid.

¹⁹⁵ Chapman, K. and Vance, A. (August 5, 2011) 'Goff Lashes out at SIS Boss over Israeli Briefing' *The Dominion Post/Stuff*, <http://www.stuff.co.nz/dominion-post/news/politics/5391584/Goff-lashes-out-at-SIS-boss-over-Israeli-briefing> (Accessed November 2015).

¹⁹⁶ For a full chronology of the affair, see Gwyn, 2014, pp.16-17.

Politics, which, among other allegations, accused the NZSIS of politicisation when it released the briefing documents to Cameron Slater and *Whale Oil*. Hager's book was a political hand grenade; it put Key's government on the defensive and spurred the Green Party (another of New Zealand's opposition parties) to file a complaint with the NZ IGIS over the *Whale Oil* incident. In late August, 2014 the NZ IGIS, Cheryl Gwyn, began a formal inquiry into the release of information regarding the Christchurch investigation, with a specific focus on any politicisation on the part of the NZSIS.

Gwyn's report, published in November 2014, was one of the most substantial reports released publicly by the NZ IGIS. The report was also unique in its sensitivity, in that it dealt extensively with the interaction between the NZSIS and the Prime Minister's Office (PMO). Gwyn's report made damning reading for the NZSIS. Her major conclusions fell under three broad categories covering the release of information by the NZSIS, the political neutrality of the NZSIS, and lastly the managerial propriety of the Director and senior management in NZSIS.¹⁹⁷ Importantly, Gwyn found that there was no partisan motive in the NZSIS' actions. She did, however, find that the information released by NZSIS had been misleading and had damaged the Leader of the Opposition. While the release of information by the NZSIS had not been done with a political motive in mind, the result had been damage to the official opposition.¹⁹⁸

While Gwyn found that the actions of the NZSIS were problematic, but not political, she did raise concerns around the interaction between the NZSIS and the PMO. The main liaison for the NZSIS in the PMO was the Deputy Chief of Staff, Philip de Joux, who was a political staffer. Gwyn found that the PMO political staff had requested information and details around the briefings from the NZSIS (interacting with the Director or Deputy Directors), in a manner that was consistent with a minister's office requesting information from a deputy head's office. In this sense, the Director of the NZSIS had legitimate reason for providing details on the briefings to the PMO. However, PMO political staff then used the information obtained from

¹⁹⁷ Gwyn, 2014, pp.7-8.

¹⁹⁸ Gwyn, 2014,

NZSIS to collude with Cameron Slater on the OIA request, which had purely partisan motives. Gwyn pointed out that this situation was far from simple for the Director of NZSIS: on one hand, the PMO's request for information was routine and there was an imperative for the NZSIS to be forthcoming with its Minister (the PM); on the other hand, in doing so, the Director risked the Service's information being used for partisan political purposes. In a sense, this classic tension in the Westminster system was made even more pronounced by the legal imperative to safeguard the political neutrality of the NZSIS. Even with this inherent difficulty, Gwyn found that Tucker had not done enough to guard the political neutrality of the NZSIS.¹⁹⁹

Gwyn's report included a number of recommendations, however some deserve specific recognition here given their implications for the organisation of the IC. Firstly, Gwyn recommended that:

*NZSIS, together with the [GCSB] and the [NZDPMC], should consider locating a departmental adviser (representing the Intelligence Community) in the Minister's office and/or in the Policy Advisory Group in the [NZDPMC], to be the principal point of liaison between the Intelligence Community and the Minister's office, and should work with the State Services Commission to develop best practice guidelines for those advisers.*²⁰⁰

This position, being a non-partisan public servant rather than a partisan political staffer, would focus on protecting the neutrality of the IC agencies in their dealings with the responsible minister's office; in short, they would act as a 'buffer' for the agencies. Gwyn's second machinery-related recommendation was that:

*NZSIS, together with the broader [IC] and the State Services Commission, should consider whether, as part of the [IC's] leadership development, increased opportunities can be identified for secondments of [IC] staff into the wider State Services and vice versa, to facilitate a broader understanding of the state services and of the political environment in which state servants carry out their role.*²⁰¹

This recommendation was designed to open up the IC to lessons learned in the rest of the public service as well as to allow IC personnel to hone their 'political antenna' earlier in their careers, *before* career postings that may require a careful management of the IC's political neutrality.

¹⁹⁹ Gwyn, 2014, pp.44-60.

²⁰⁰ Ibid, Recommendation 4.

²⁰¹ Gwyn, 2014, Recommendation 7.

The Ship of State in Stormy Seas: Snowden

Fuelling the public reaction to both the Dotcom affair and the Whale Oil affair, like a lightning storm over a wildfire, was the massive leak of highly classified US intelligence material by Edward Snowden.²⁰² The media coverage of the Snowden material included several items related to the GCSB's activities, and combined with the Dotcom affair and the Whale Oil affair to drive a wave of public suspicion towards the New Zealand IC. Interestingly, this public suspicion and the resulting political confrontation came close to derailing the *Government Communications Security Bureau Amendment Bill*, which was designed to clarify the powers of the GCSB in light of the findings of the Kitteridge Report.²⁰³

The Ship of State in Stormy Seas: Strengthening the Ship Against the Storms

What became apparent through the 2012-2014 period of intelligence crises was that the government faced a significant dilemma. The complexity of the threat environment, particularly the fallout of the conflicts in Syria and Iraq, put a premium on strong intelligence. The Whale Oil affair, and particularly the Dotcom affair, strongly indicated that there was a need to revisit the governance of the IC. However, the public and political reaction to these incidents, fuelled by the Snowden revelations, was making any intelligence reforms (particularly those aimed at enabling the IC to meet evolving threats) a hard political and public 'sell.'²⁰⁴ Passing the *GCSB Amendment Act* and the *Telecommunications (Interception Capability and Security) Act*, or TICSAs, in late 2013 had already resulted in acrimonious political and public debate.

²⁰² For an account of the Snowden leaks by a principal protagonist, see Greenwald, G. (2014) *No Place to Hide: Edward Snowden, the NSA, and the US Surveillance State*, Signal/McClelland & Stewart.

²⁰³ For a detailed look at the intersection between the *GCSB Amendment Bill*, the Snowden leaks, and the Dotcom Affair, see Patman, R.G. and Southgate, L. (2015) 'National Security and Surveillance: The Public Impact of the GCSB Amendment Bill and the Snowden revelations in New Zealand' *Intelligence and National Security*, DOI: 10.1080/02684527.2015.1095968.

²⁰⁴ For a succinct analysis of the conflicting environmental factors, see State Services Commission, the Treasury, and the Department of the Prime Minister and Cabinet (July 2014) *Performance Improvement Framework: Review of the Agencies in the Core New Zealand Intelligence Community*, Wellington: State Services Commission, p.5.

Complicating the government's ability to respond to these environmental difficulties was the fact that the central agencies, and particularly the NZDPMC, was under-powered when it came to leading IC governance, and the full changes stemming from the Murdoch Review had only been in place for a short time by 2012. An initial Performance Improvement Framework (PIF) review of the NZDPMC in 2013 found that the department was 'well placed' overall to lead and coordinate the national intelligence effort, but hinted at shortcomings.²⁰⁵ Specifically, the 2013 PIF review pointed out that the intelligence-related units within the NZDPMC were "under-resourced" and that there had been a "significant increase in the demands of the security and intelligence sector."²⁰⁶ Interestingly, the PIF review of the NZDPMC signalled a reversal in the government's stance over the creation of a separate position within the NZDPMC to manage the security and intelligence functions. Following the Murdoch review, the government had opted against the creation of such a position, indicating that the Chief Executive had, and could continue to, perform the role without the support of a second senior executive within the department. The 2013 PIF review however, stated that:

We also observe that the Chief Executive's responsibilities for security and intelligence are large and growing. We suggest the appointment of a Deputy Chief Executive with responsibility for the security and intelligence activities might be desirable to strengthen the linkages between the defence and intelligence agencies and provide the Prime Minister with an advice stream that more formally incorporates a national security perspective.²⁰⁷

This suggested change was not directly based on any substantial increase in the size of the New Zealand IC. Instead, when put in the context of the increasingly complex global and political environments, one can see clearly that the size and sensitivity of the task had grown to require more attention than the Chief Executive of the NZDPMC alone could provide.

A PIF review of the core agencies within the New Zealand IC was published in 2014, with the intent of building on the changes following the Murdoch Review. The PIF review of the IC laid out several focus areas for the following four years as part of

²⁰⁵ State Services Commission, the Treasury, and the Department of the Prime Minister and Cabinet (June 2013) *Performance Improvement Framework: Review of the Department of the Prime Minister and Cabinet*, Wellington: State Services Commission, pp.23-25 (hereafter referred to as the NZDPMC PIF Review, 2013).

²⁰⁶ Ibid, pp.10,13.

²⁰⁷ NZDPMC PIF Review, 2013, p.33.

an IC ‘business strategy’. Interestingly, almost all of these focus areas in some way touched on the central agencies, and particularly the NZDPMC. The PIF review states, “the central agencies have reviewed the [New Zealand IC] PIF Review findings and have concluded an extra-ordinary response is required and this response cannot just come from [the IC]. The central agencies acknowledge they have a supporting role for this response as key leaders in the public sector and, more specifically, through ODESC.”²⁰⁸ In response, the central agencies committed to effective governance of the IC’s agenda, specifically through the ODESC committee structure. Figure 1.4.31 shows the IC business strategy and resulting central agencies commitments.

| Figure 1.4.31²⁰⁹ IC ‘Business Strategy’ and Central Agencies Response from the 2014 PIF Review of the Core New Zealand IC | |
|---|---|
| IC Four-Year Business Strategy | Central Agencies Commitments |
| <ol style="list-style-type: none"> 1. Clarify the national security priorities and the scope of the IC’s role 2. Ensure the IC works together effectively 3. Establish customer-driven priorities, products and practices 4. Upgrade business systems 5. Establish a common workforce plan 6. Ensure continued legal compliance 7. Provide a competent vetting system 8. Manage within resources allocated to the IC 9. Improve the public mandate 10. Maintain access to key international alliances | <ol style="list-style-type: none"> 1. Provide oversight and governance through ODESC 2. Oversee the action plans developed 3. If needed, arrange to fill any critical skill gaps from elsewhere within the state sector 4. Ensure role clarity and business strategy in NZIC and ODESC arrangements |

The 2012-2014 period of intelligence crises, and the introspective examinations of the core executive machinery that resulted, led to a significant reset of the interdepartmental committees. Firstly, ODESC(G) became the most-senior formal committee of officials overseeing the entire spectrum of national security activity; it was to maintain a strategic view of the health of the entire national

²⁰⁸ State Services Commission, the Treasury, and the Department of the Prime Minister and Cabinet (July 2014) *Performance Improvement Framework: Review of the Agencies in the Core New Zealand Intelligence Community*, pp.9 (hereafter referred to as the ‘IC PIF Review, 2014’)

²⁰⁹ Items in Figure 28 are drawn from the IC PIF Review, 2014, p.6-7, 9.

security sector, not simply the IC, in order to effectively link intelligence, security, defence, and resilience activities.²¹⁰ Supporting ODESC(G) would be two ‘governance boards.’ The Security and Intelligence Board (SIB) replaced ODESC(I), and was focused on intelligence and security matters. The Readiness and Response Board (RRB) replaced ODESC(P) and was focused on national resilience and crisis management.²¹¹ While the committees may, at first, appear to be simply the same committees with different names, the terms of reference make clear that ODESC(G), SIB, and the RRB, are more strategically focused.

| Figure 1.4.32²¹² Membership and Terms of Reference for the Officials Committee on Domestic and External Security Coordination (Governance), as agreed November 26, 2013 | |
|---|--|
| Membership | |
| <p><i>Chief Executive of NZDPMC (Chair)</i></p> <p><i>Chief Executive and Secretary of the Treasury</i></p> <p><i>Chief Executive of the State Services Commission</i></p> <p><i>Chief Executive of MFAT</i></p> <p><i>Chief Executive of MoD</i></p> <p><i>Chief of the Defence Force</i></p> <p><i>Solicitor-General</i></p> <p><i>Commissioner of Police</i></p> <p><i>Chief Executive of the Ministry of Health</i></p> <p><i>Chief Executive of the Ministry of Primary Industries</i></p> <p><i>Deputy Chief Executive for Security and Intelligence (NZDPMC)</i></p> | |
| Terms of Reference | |
| <p>Purpose</p> <p><i>To oversee the national security and resilience system, to ensure capability and systems are in place to identify major risks facing New Zealand, and to provide that appropriate arrangements are made across Government to efficiently and effectively mitigate and manage those risks.</i></p> <p>Role and Responsibilities</p> | |

²¹⁰ NZ Department of Prime Minister and Cabinet (November 26, 2013) ‘Terms of Reference for ODESC(G),’ provided to the author by the New Zealand Department of the Prime Minister and Cabinet in January 2015.

²¹¹ It should be noted that the ‘Readiness and Response Board’ has since been renamed the ‘Hazard Risk Board.’ NZ Department of Prime Minister and Cabinet (2015) *Annual Report for the Year Ended June 30, 2015*, Wellington: Department of the Prime Minister and Cabinet, p.10.

²¹² The contents of Figure 1.4.32 are taken directly from NZ Department of Prime Minister and Cabinet (November 26, 2013) ‘Terms of Reference for ODESC(G),’ provided to the author by the New Zealand Department of the Prime Minister and Cabinet in January 2015.

ODESC(G) will be responsible for:

- *Providing advice (as required) on national security and resilience systems and governance to the Cabinet Committee on Domestic and External Security;*
- *Overall national security and resilience sector governance, including oversight of the Security and Intelligence Board (SIB), the Readiness and Response Board (RRB) and the ODESC sub-committees;*
- *Identification and assessment of significant risks facing New Zealand;*
- *Ensuring appropriate sector-wide a systemic national security and resilience risk management and assurance is in place;*
- *Ownership and periodic review of the National Security and Resilience Plan; and*
- *Improving New Zealand's resilience to respond to and recover from emergencies and maintaining facilities for the effective co-ordination of government response to crises.*

ODESC(G)'s responsibilities will not cut across the line of accountability of the Board members to their Ministers, State Services Commissioner or any other statutory functions.

The Security Intelligence Board (SIB) and the Readiness Response Board (RRB), the ODESC sub-committees and the ODESC Forum will report up to ODESC(G) as deemed necessary.

In late 2014, following the re-election of the Key government, the DES cabinet committee was abolished and in its place the government created the Cabinet National Security Committee (NSC). The NSC looks very much like its predecessor, however it is more focused on strategic governance of the national security sector. In fact, the NSC is very much modelled on the Australian and British equivalents. Figure 31 illustrates the membership and terms of reference for the NSC.

| Figure 1.4.33²¹³ Membership and Terms of Reference for the Cabinet National Security Committee (NSC), October 2014 |
|--|
| Membership |
| <i>The Prime Minister (Chair)</i> <i>Minister of Finance (and Deputy PM)</i> <i>Attorney-General</i> <i>Minister of Defence</i> <i>Minister of Foreign Affairs</i> <i>Minister of Justice</i> <i>Minister of Immigration</i> |
| <i>*With the addition of other relevant portfolio ministers where appropriate</i> |
| Terms of Reference |
| <i>To have oversight to the national intelligence and security sector, and to consider policy and</i> |

²¹³ Cabinet Office (October 14, 2014) 'Cabinet Committees: Terms of Reference and Membership' CO(14)8, <http://www.dPMC.govt.nz/cabinet/circulars/co14/8> (Accessed October 2014).

legislative proposals relating to the sector.

To co-ordinate and direct national responses to major crises or circumstances affecting national security (either domestic or international).

NSC will have Power to Act where the need for urgent action and/or operational or security considerations require it.

Additionally, the lines of ministerial accountability were revised to give the Prime Minister a more strategic role and provide the support of another minister. At the same time as the NSC was announced in October 2014, the PM announced the ministerial changes. The Attorney-General, Chris Finlayson, became the Minister in Charge of the NZSIS and the Minister Responsible for the GCSB. The Prime Minister took on the newly created role of Minister for National Security and Intelligence.²¹⁴ Prime Minister Key stated at the time that, “Officials have examined models used overseas and what we are adopting is very similar to what is seen with our closest partners” adding, “the Ministerial changes I am announcing today will make our structure very similar to that seen in Australia and Great Britain, and further strengthen the governance of what is an absolutely crucial sector for New Zealand.”²¹⁵ While Finlayson was responsible for approving warrants, the annual reports of the agencies, bringing proposals to Cabinet, and other agency-specific ministerial responsibilities, the Prime Minister retained responsibility for reviewing and approving the IC’s joint four-year budget plan, setting the overall legislative and policy framework, and chairing the NSC.²¹⁶ In short, while the Minister responsible for the NZSIS and the GCSB dealt with the *agencies*, the PM dealt with the *community*.

Finally, the new governance arrangements and political sensitivity around intelligence activity required a substantially stronger NZDPMC to manage both the IC governance agenda and the public image of the agencies. The changes following the Murdoch Review created a stronger coordinating unit within the NZDPMC, but it had become clear that a more substantial reform of the national security units within the

²¹⁴ NZ Department of Prime Minister and Cabinet (October 14, 2014) ‘Outline of Security Portfolio Responsibilities’ <https://www.beehive.govt.nz/sites/all/files/Outline-of-security-portfolio-responsibilities.pdf> (Accessed October 2014).

²¹⁵ Key, J. (October 6, 2014) ‘National Security and Intelligence Role Created’ Prime Minister’s Office, <http://beehive.govt.nz/release/national-security-and-intelligence-role-created> (Accessed October 2014).

²¹⁶ A more detailed breakdown of the two roles is found in NZDPMC (October 14, 2014) ‘Outline of Security Portfolio Responsibilities.’

department was needed. The first significant change was that a Deputy Chief Executive for Security and Intelligence (DCE-S&I) was added to the senior executive team of the NZDPMC. The former Commissioner of the NZ Police, Howard Broad, was hired as the first DCE-S&I in January 2014. The job description for the DCE-S&I stated that “the DCE position has been established to assist the Chief Executive in providing effective leadership and overall coordination of the Domestic and External Security Sector, to ensure the [PM] and Ministers receive integrated, high quality advice on security issues and concerns to support their decision-making.” The DCE-S&I was given a specific role in regard to the IC, with the job description stating, “The position will be responsible for the oversight of the performance of the New Zealand Intelligence Community, comprising the GCSB, NZSIS, and NAB,” and specifically that they would oversee the process to “define and set objectives for the NZIC; identify priorities; ensure appropriate allocation of resources; and monitor outcomes and results.”²¹⁷ However, there was an inherent balance to be struck; the new DCE-S&I could lead across the IC, but could not infringe the line of ministerial accountability between the agencies and their minister, or the statutory role of the agency heads as defined in their enabling legislation (the *NZSIS Act* and the *GCSB Act*). The job description for the DCE-S&I alludes to this balance by stating “In carrying out this coordination role, it is recognised that agencies within the Domestic and External Security Sector, including the [NZ IC], are each accountable for their own leadership and performance as defined through legislation and agreement with their own Ministers and stakeholders.”²¹⁸ Given this balance, while the DCE-S&I principally supported the PM and the relevant cabinet and officials’ committees, they also supported the minister in charge/responsible for the agencies (currently the Attorney-General). The NZDPMC also reorganised and expanded the business units related to national security and intelligence, now under the DCE-S&I. The new Security and Intelligence Group (S&I Group) consisted of five business units, as illustrated in Figure 1.4.34.

²¹⁷ NZDPMC (October 2013) ‘Job Description: Deputy Chief Executive, Security and Intelligence’ <http://www.dPMC.govt.nz/sites/all/files/vacancies/jd-dce-security-and-intelligence.pdf> (Accessed October 2013)

²¹⁸ Ibid.

| Figure 1.4.34 ²¹⁹ Business Units of the NZDPMC Security & Intelligence Group, 2014-15 | | |
|---|----------------------------------|--|
| Business Unit | When Formed | Role |
| National Security Systems Directorate (NSSD) | Formed in 2014 | <ul style="list-style-type: none"> • Provides secretariat support to ODESC, SIB, and RRB. • Coordinates performance management of the IC. • Coordinates support to decision-makers during crises. • Manages risk and resilience identification and response. |
| National Security Policy Directorate (NSPD) | Formed in 2014 | <ul style="list-style-type: none"> • Coordinates national security policy and legislation. • Coordinates advice to ministers on national security. • Leads thinking on IC priority-setting. |
| Intelligence & Assessment Directorate (I&AD) | Formed in 2014, but included NAB | <ul style="list-style-type: none"> • Ensures effective and high-quality intelligence and assessments to decision-makers. • Leads process for customer-driven intelligence requirements. • Chairs and supports the National Intelligence Coordination Committee. |
| National Security Communications Directorate (NSCD) | Formed in 2013 | <ul style="list-style-type: none"> • Provides sector-wide leadership on communications, public relations, and reputational issues. |
| National Cyber Policy Office (NCPO) | Formed in 2010 | <ul style="list-style-type: none"> • Leads on cyber-security policy. • Facilitates interaction with private sector on cyber-security. • Manages the national cyber-security strategy, and international engagement. |

The Intelligence and Assessment Directorate (I&A Directorate) plays a central role in coordinating the IC by managing both the national intelligence assessments system and a new system for customer-driven requirements. Because of this wider role, the NAB forms only part of the I&A Directorate. The Directorate also includes the New Zealand IC Intelligence Coordination Secretariat, which supports the intelligence requirements system, as well as a new interdepartmental committee that oversees the coordination of the core IC. In 2015, the National Assessments Committee, formerly focused on intelligence assessments and chaired by the

²¹⁹ The information in Figure 1.4.34 is drawn from the following: NZ Department of Prime Minister and Cabinet (2014) 'About DPMC' <http://www.dPMC.govt.nz/dPMC#sig> (Accessed December 2014); NZ Department of Prime Minister and Cabinet (2014) 'DPMC: Security and Intelligence Group' <http://www.dPMC.govt.nz/sig> (Accessed December 2014).

Director of the NAB, was reconstituted as the National Intelligence Coordination Committee (NICC). This new committee was “charged with overseeing the delivery of New Zealand’s national intelligence priorities,” and was termed the “governance body for intelligence coordination.”²²⁰ The Director of the I&A Directorate chairs the NICC.²²¹ Additionally, as part of the intelligence requirements and priorities system, the I&A Directorate coordinates a small network of National Intelligence Priorities Working Groups.²²² Figures 1.4.35 and 1.4.36 illustrate, respectively, the revised interdepartmental committee structure and NZDPMC machinery that resulted from the 2013-2015 reforms.

As in Australia, the intelligence-related machinery within the core executive evolves according to priority, complexity, and persistence of intelligence as a policy issue, and the constraints of the actors involved. Each of these factors is perpetually moulded by competing environmental demands. By tracing the history and evolution of the intelligence machinery within the core executive, it becomes clear that the organisational design of the machinery has constantly balanced the institutional demands of a Westminster system of cabinet government, the political demands of changing governments, the public demands of a populace who has oscillated on its views towards the IC, and the steadily increasing complexity and breadth of the global threat environment. As Jim Rolfe observed in 2010, the New Zealand system is one built on necessary trade-offs.²²³ The trade-offs, however, are made in pursuit of a particular balance between competing environmental demands. Occasionally, as happened through the period of 2012-2014, parts of the IC fell out of fit with their environment and adjustments, sometimes substantial, have had to be made. However, these instances of ill-fit have not been caused by the malicious intent of those within the IC, but by constantly shifting external environments that require

²²⁰ NZDPMC (2015) *Annual Report for the Year Ended June 30, 2015*, Wellington: Department of the Prime Minister and Cabinet, p.13; GCSB (October 2015) ‘Position Description: Policy Advisor’ <http://www.gcsb.govt.nz/working-for-us/current-vacancies/policy-advisor-2/> (Accessed October 2015); NZ Department of Prime Minister and Cabinet (November 2015) ‘Job Description: Director, Intelligence & Assessment’ <https://centralagenciesjobs.cass.govt.nz/dpmc/jobdetails/ajid/4W8k7/Director-Intelligence-and-Assessment.7202.html> (Accessed November 2015).

²²¹ NZDPMC, 2015, ‘Job Description: Director, Intelligence & Assessment.’

²²² Ibid.

²²³ Rolfe, J. (2010) ‘New Zealand: Small Community, Central Control’ in Daniel Baldino (ed.) *Democratic Oversight of Intelligence Services*, City: The Federation Press, pp.128-129.

equally constant adaptation and re-balancing. Contrary to popular beliefs in some quarters, the evolution of the New Zealand intelligence community has not been about expanding its powers or authority, but about keeping in balance with constantly changing environmental demands that are, more often than not, contradictory in nature.

Figure 1.4.35: New Zealand Committee Structure related to Management of the IC
--circa 2014-2015--

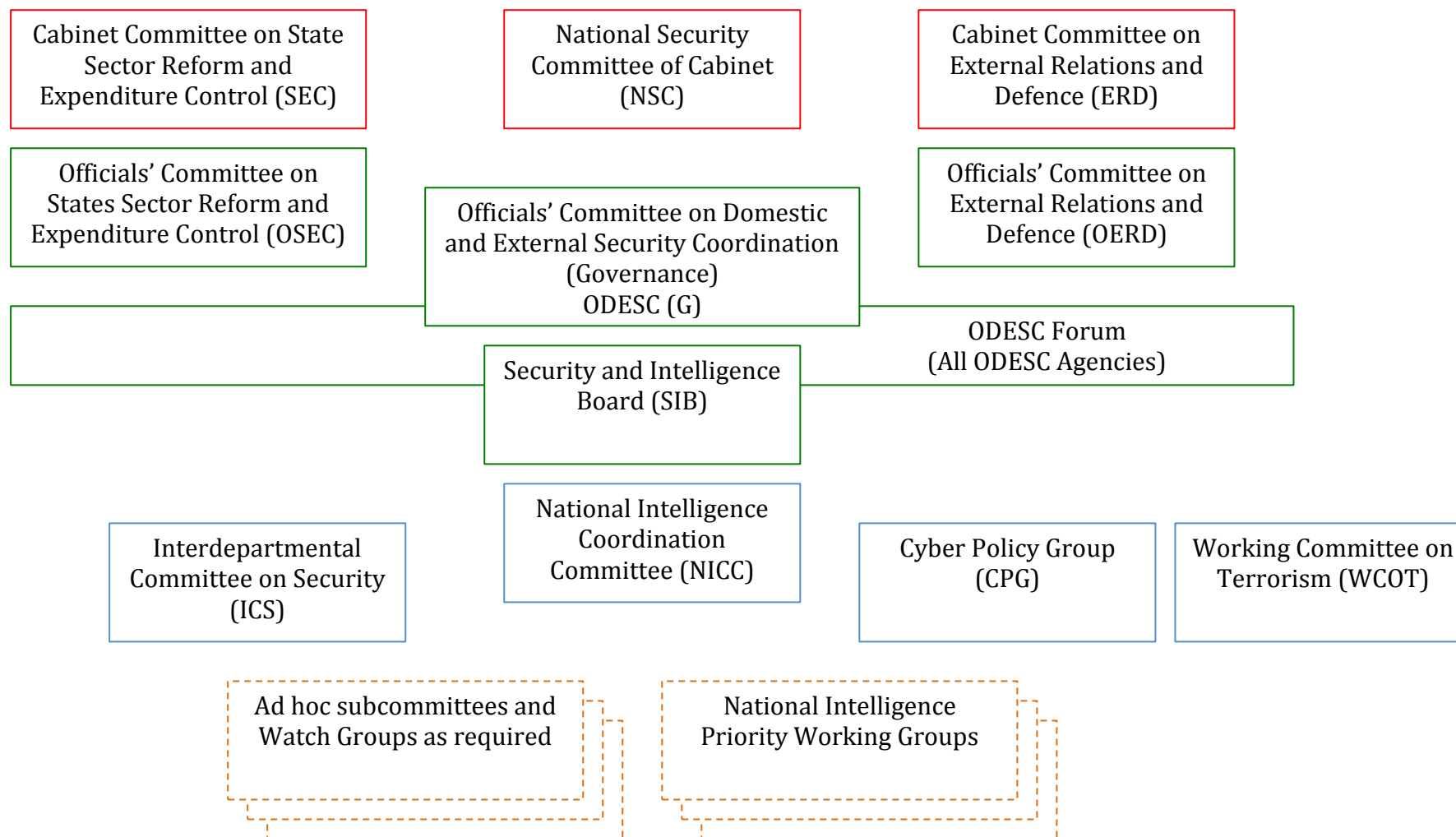
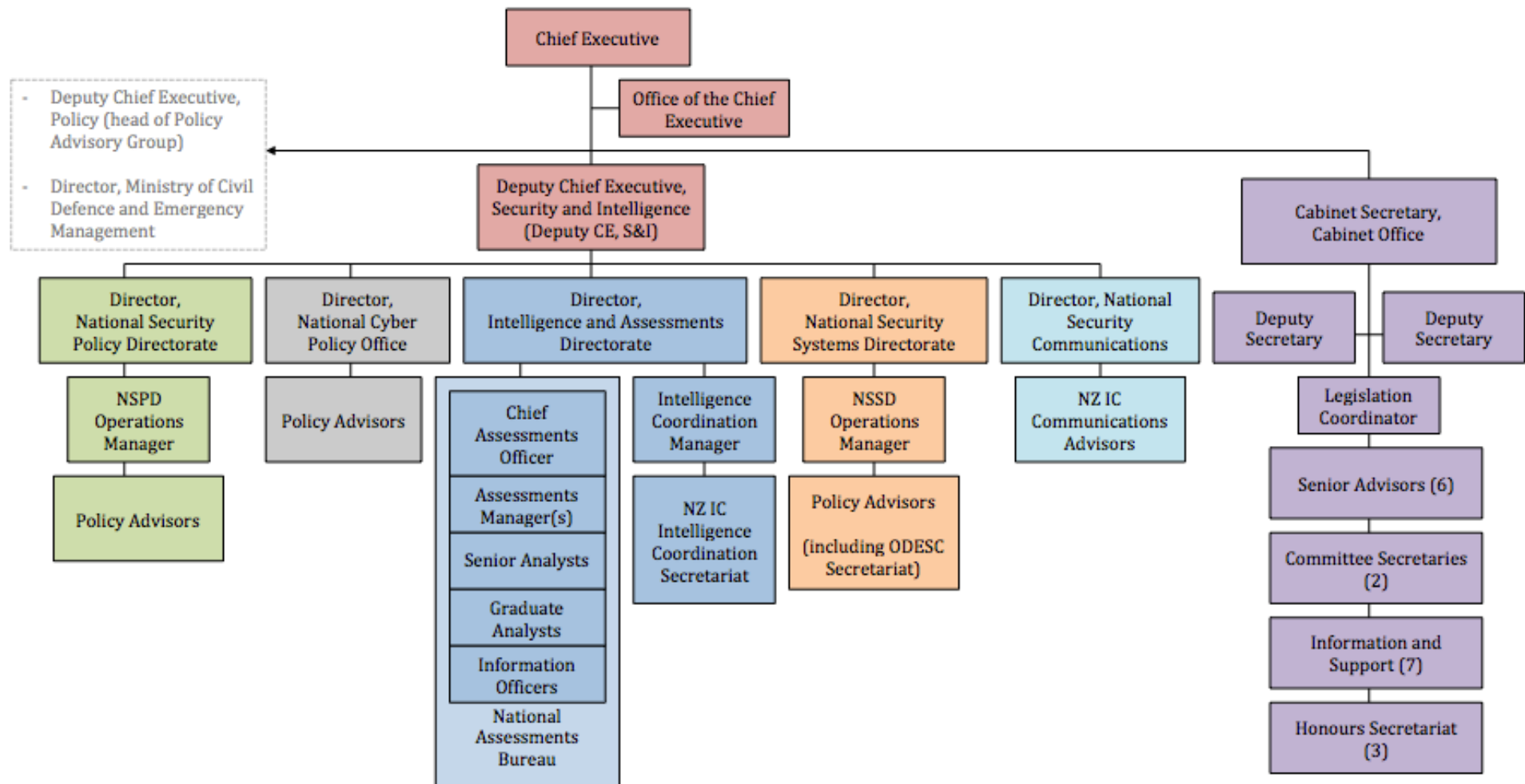


Figure 1.4.36: NZDPMC Organisation Related to National Security Management, late 2014



Chapter 5

The Machinery of Intelligence Community Management in Canada

For Canada, the evolution of post-war intelligence developed along two distinct tracks held together mainly by informal networks of officials who had common interests across the IC. The first track, centred on foreign intelligence, was mainly concerned with the form and direction of the national SIGINT effort. The second track, centred on security intelligence, mainly focused on Canada's counter-intelligence effort and particularly whether it should be a police or civilian function. Following the end of the Second World War, Canada, like its Commonwealth allies, vested control for the national intelligence effort in the Joint Intelligence Committee, which was modelled on its British equivalent. Also like its Commonwealth counterparts, the JIC was one of several joint committees meant to stitch together the efforts of the different armed services under the Chiefs of Staff Committee (CoSC). Given its wider remit over intelligence, and specifically SIGINT, the previously military-dominated JIC was expanded at the end of the war to include civilian representatives from the Department of External Affairs (DEA) and the Royal Canadian Mounted Police (RCMP).¹ However, as early as 1945-1946, the development of the organisational structures of the IC began to reflect two distinct tracks.

Organising Foreign Intelligence: Muddling Through

While historians such as Wesley Wark and Kurt Jensen have covered the detail of the early debate around post-war foreign intelligence at length, and therefore the same ground will not be trod here, it is necessary to assess the overarching themes in the debate. At first glance, the back-and-forth between DEA and DND representatives could simply be attributed to bureaucratic turf-fighting between departments. However, this is too simplistic a view. The entire policy question of whether Canada should continue its intelligence efforts in peacetime was under serious doubt, and as historian Wesley Wark wrote, for

¹ O'Neill, N.K. (1987) *History of the CBNRC*, Volume 1, Ottawa: Department of National Defence, Ch.2, p.1.

Canada “it was an unprecedented debate over unprecedented issues.”² At the end of the day, it was a debate about Canada’s place in the world, and therefore, it would be natural for the two principal departments involved in managing international affairs at the time (DEA and DND) to have active views and vigorous debate. Importantly, these early discussions around a Canadian SIGINT capability do not fall purely along departmental lines, and in fact, it becomes apparent that there was not agreement *within* the departments, let alone between them. The discussions are more defined by mid-level officials in both DEA and DND, convinced of the benefit of intelligence to Canada, trying to persuade their more senior colleagues that the effort was worth the expense in peacetime, and manoeuvring towards whichever allies seemed to be of like mind. The debates are also defined by senior officials, specifically in DEA, trying to determine the best path forward in the absence of any strong views from ministers, but strong and sometimes conflicting views within and between departments.³

By late 1945 the impending UK-US negotiations on SIGINT cooperation forced Canada’s hand. The consensus was simple: it was better to be in than out since the return on investment through allied cooperation was vastly in Canada’s favour. In April 1946 an Order-in-Council, signed by the Minister of Science (for NRC), the Minister of External Affairs (for DEA), and the Minister of Defence (for DND), brought into existence a standing peacetime organisation for SIGINT, which would be known as the Communications Branch of the National Research Council (CBNRC). The issue never went to full cabinet.⁴ The JIC, which was preoccupied with the larger set up of the fledgling Canadian IC,⁵ was substituted in SIGINT matters by a series of DEA-chaired committees. The most important of

² Wark, W. (no date) Draft official history of the Canadian intelligence community, ‘Ch.2 ‘Do Gentlemen Read Each Other’s Mail?: The Debate over a Postwar Canadian SIGINT Agency,’ TOP SECRET/UMBRA/CEO, Released to the author under ATIA.

³ See Jensen, K.F. (2008) *Cautious Beginnings: Canadian Foreign Intelligence 1939-51*, Vancouver: UBC Press, pp.117-136, 174; Wark, (no date) Draft official history of the Canadian intelligence community, Chapter 2 ‘Do Gentlemen Read Each Other’s Mail?: The Debate over a Postwar Canadian SIGINT Agency.’

⁴ CBNRC was initially known as the Communications Research Centre, which is the name that appears in the Order-in-Council. Jensen, 2008, pp.134-35.

⁵ Wark, W. (no date) Draft official history of the Canadian intelligence community, Chapter 3 ‘Canadian SIGINT: Post-War Birth Pangs [redacted],’ CEO, Released to the author under ATIA.

these was the 'Senior Committee' (SC), an *ad hoc* body of deputy heads and equivalents, chaired by the Under-Secretary of State for External Affairs (USSEA), Norman Robertson, and consisting of the Chiefs of Staff (CoS), the President of the National Research Council (NRC), the Chairman of the Defence Research Board (DRB), the Clerk of the Privy Council Office (PCO), and the DM of National Defence.⁶ The Senior Committee convened only occasionally, and mainly to discuss major policy issues and budget matters relating to the Canadian SIGINT effort, particularly if those issues would need ministerial attention.

The SC was supported by a lower-level body that was charged with overseeing policy related to CBNRC, known as the Communications Research Committee (CRC). CRC consisted of many of the same individuals who sat on the JIC, but also included the directors of signals from each of the armed services and representation from the NRC for administrative matters.⁷ CRC was chaired by the Director of the DEA's Defence Liaison (2) Division, or DL(2). DL(2), created in 1948, dealt with all intelligence and security matters that the DEA was involved in, including foreign intelligence policy and intelligence relations with the Five Eyes.⁸ Importantly, the Director of DL(2) also chaired the JIC, providing a key link between the national SIGINT effort and the foreign intelligence assessment effort.

By the early 1950s, however, the CRC was proving problematic. Decision-making was too slow. As Kevin O'Neill notes in the official history of CBNRC, "the individual Service members of the CRC were beginning to feel their oats in 1950, which tended to make effective and speedy joint action difficult to achieve."⁹ This was an issue because the CRC was not only dealing with policy issues, but also with many administrative matters. As O'Neill recounts, with the peacetime SIGINT effort being so new it was difficult to work out where the policy-setting

⁶ O'Neill, 1987, para.2.4, 2.9-2.10.

⁷ Ibid, para.2.4, 2.11.

⁸ DL(1), another division, was responsible for defence-related foreign policy matters, such as defence relations with the US and UK, NATO and continental defence cooperation. Prior to 1948, these two divisions had been unified as the Defence Liaison Division. Jensen, 2008, pp.157.

⁹ O'Neill, 1987, para.2.12.

world ended and the administrative world started.¹⁰ Additionally, because members of the CRC were responsible to their own departments and there was no central secretariat, members of the SC were being debriefed differently on discussions taking place in CRC. This complicated discussions in the SC and was an inefficient use of DMs' time.¹¹ Thus, in 1953, the decision was made to turn CRC into an advisory body and vest responsibility for SIGINT policy in a single individual, known as the Director of Communications Security (DCS) who would be accountable to the SC.¹² Logically, the Director of DL(2) became the DCS, in addition to being the Chair of JIC, and was supported by a reinvigorated committee structure for both SIGINT and COMSEC.¹³ It had also become apparent that there was a need for more robust oversight at the DM level. In the same reorganisation that created the DCS, the SC reconstituted itself as the more formal Communications Security Board (CSB), with an expanded membership that included an ADM from the Department of Finance and, as of 1956, the Commissioner of the RCMP. Figure 1.5.1 shows the membership and terms of reference for the CSB in 1959, and Figure .

| Figure 1.5.1: Communications Security Board, 1959¹⁴ |
|---|
| Membership |
| Under-Secretary of State for External Affairs (Chair) Secretary to the Cabinet Chief of the Naval Staff Chief of the General Staff Chief of the Air Staff Deputy Minister, DND Chairman, Defence Research Board President, NRC Commissioner, RCMP Assistant Secretary to the Treasury Board Director of Communications Security (Secretary) |

¹⁰ Ibid, para.2.5-2.7.

¹¹ O'Neill, 1987, para.2.12.

¹² Ibid, para.213.

¹³ Ibid, para.2.13-2.14.

¹⁴ Info in Figure 1.5.1 is found in CSB/56(Revised) 'Canadian SIGINT and COMSEC Structure,' November 2, 1959, found in O'Neill, 1987, Ch.2 Annex C.

| |
|---|
| Secretariat |
| Officers of DL(2) |
| Terms of Reference |
| <p><i>“The Communications Security Board shall:</i></p> <ul style="list-style-type: none"><i>a) maintain general policy control over all aspects of collection, processing and dissemination of SIGINT;</i><i>b) exercise such control through the Director of Communications Security (DCS);</i><i>c) maintain general policy control over all aspects of Communications-Electronic Security;</i><i>d) exercise such control through the Communications-Electronic Security Policy Committee (CSPC).”</i> |

Organising for Security Intelligence: Pulling Security to the Centre

Just as the UK-US negotiations over SIGINT cooperation focused Canada’s thinking on foreign intelligence, a single Russian cypher clerk from the Soviet embassy in Ottawa focused Canada’s thinking on security intelligence. It is well established that Igor Gouzenko’s defection, his details of Soviet spy networks in the West, and the subsequent public attention made Ottawa the centre of Cold War attention. More importantly, however, Gouzenko made security intelligence and counter-intelligence a *political* issue of priority. Suddenly, the remaining four of the Five Eyes were turned towards Ottawa and allies were expecting answers, action, and access. Additionally, however, the Soviet Union was still technically a wartime ally, making Gouzenko’s revelations a delicate diplomatic matter; there was significant concern about Soviet retaliation against Canadian interests or personnel. Finally, with the arrests of suspected spies in February 1946 and the announcement of a royal commission, the story hit the media; the issue of Soviet espionage and Canadian security became a significant public issue for the government, with substantial press coverage and commentary.¹⁵ Previously, as historian Jack Granatstein has written, the PM “kept his distance, not wanting to know, so he could not answer if asked, and he was more than

¹⁵ On the Gouzenko affair’s impact on the Canadian government, see Granatstein, J.L. (1981) *A Man of Influence: Norman A. Robertson and Canadian Statecraft 1929-68*, Deneau Publishers, pp.172-182; Sawatsky, J. (1980) *Men in the Shadows: The RCMP Security Service*, Toronto: Doubleday, pp.71-90; Whitaker, R., Kealey, G.S., and Parnaby, A. (2012) *Secret Service: Political Policing in Canada from the Fenians to Fortress America*, Toronto: University of Toronto Press, pp.180-189.

willing to have the Under-Secretary [Norman Robertson] assume the responsibility.”¹⁶ With Gouzenko’s defection, however, there was no way the PM could avoid close involvement in both political and ministerial terms. Apart from the obvious political implications of public opinion, Gouzenko had identified potential Soviet penetration of foreign governments, including the UK and US. Breaking this news to allies, particularly close allies, was a job that could only be done by the PM. Additionally, Gouzenko’s revelations and the resulting Kellock-Taschereau Commission made clear that there were several Canadian public servants who had been compromised by Soviet intelligence. As the Prime Minister has ultimate ministerial responsibility for the public service, the penetration of the public service by a foreign power on the scale that Gouzenko had unveiled, and particularly targeting individuals in sensitive positions, was of direct concern to the PM.¹⁷

The result was that security policy, particularly security screening policy, was pulled to the centre through the creation of an interdepartmental committee, chaired by the Clerk of the PCO,¹⁸ known as the Security Panel (SP). Created in 1946, the Security Panel was charged with providing advice to ministers on security policy, and providing a central point of coordination between departments on security issues. In 1953, the Security Sub-Panel was formed of lower-level officials to support the DMs on the Security Panel, acting essentially as a working group.¹⁹

Both the SP and the CSB were formally accountable to the Cabinet Committee on Defence (CC/Defence) and the full Cabinet. However, as seen with the formation of Canada’s post-war SIGINT capability, on the rare occasion

¹⁶ Granatstein, 1981, p.180.

¹⁷ On the method of recruitment and individuals, see Kellock, R.L. and Taschereau, R. (1946) *Royal Commission to Investigate the Facts Relating to and the Circumstances Surrounding the Communication by the Public Officials and Other Persons in Positions of Trust of Secret and Confidential Information to Agents of Foreign Power*, Ottawa: Edmond Cloutier, found at: <http://epe.lac-bac.gc.ca/100/200/301/pco-bcp/commissions-ef/taschereau1946ii-eng/taschereau1946ii-eng.htm> (Accessed January 2016).

¹⁸ The Clerk is also Secretary to the Cabinet and, now, the statutory head of the public service.

¹⁹ McDonald, D.C. (1981) *Second Report: Freedom and Security Under the Law—Volume 2*, Royal Commission of Inquiry into Certain Activities of the Royal Canadian Mounted Police, Ottawa: Canadian Government Publishing Centre, pp.89-90.

where intelligence policy matters were in question, they were often taken up directly with the PM or through ad hoc groups of ministers, the membership of which depended on the policy question. Figure 1.5.3 and 1.5.4 illustrate the Canadian committee system, as it existed through to the early 1960s.

The Role of the Centre: The Fledgling Privy Council Office

Through the late 1940s and 1950s, the line departments themselves were responsible for most of the secretariat support for the interdepartmental committees. The DEA and CBNRC provided secretariat support to the CSB and its subordinate committees, while the DND provided secretariat support to the JIC in the form of the Joint Intelligence Staff (JIS). In 1959, the JIS consisted of a four-person Secretariat, a five-person Estimates Staff, and an eight-person 'Joint Indications Room,' which was essentially a current intelligence watch centre.²⁰ The one exception was the SP, which was chaired by the Clerk of the PCO and was therefore supported by officers from the small Cabinet Secretariat within PCO.

However, PCO's role in intelligence matters was minimal through these years. As discussed, the PM preferred to leave intelligence matters to the departments responsible, specifically the DEA and DND. Also, the idea of a central cabinet office was still relatively new in the Canadian system. Prior to the Second World War, the PCO had existed as a small office to support Cabinet in its official form as the Privy Council to the Crown, not in its capacity as a decision-making body (and hence the name of the office). It was not until 1939 that O.D. Skelton and Arnold Heeney were able to convince the PM that Cabinet, and particularly the Cabinet War Committee, would need greater administrative support. In fact, the small Cabinet Secretariat was still in a somewhat temporary existence following the war, only having authority under an Order-in-Council that could be rescinded, and would not become a permanent feature of the Ottawa machinery until 1957.²¹ It is interesting to note, however, that the

²⁰ McPhee, I.A. (April 27, 1959) 'Memorandum for the JIC: Organization of JIC Secretariat, JIS and JIR' Department of National Defence, CONFIDENTIAL, LAC: RG24 Vol.33542, File 1274-10 Part 7.

²¹ See Heeney, A. (1973) *Things That are Caesar's: Memoirs of a Canadian Public Servant*, Toronto: University of Toronto Press; Masschaele, B. (1998) 'Memos and Minutes: Arnold Heeney, the

organisation of the Cabinet Secretariat was very closely modelled on the British equivalent, and the officers were responsible for subject-matter areas instead of specific committees. This meant that officers of the Cabinet Secretariat could follow particular issues through different committees, rather than being tied to a single part of the cabinet machine.²² While this seems a mundane point, it is important in understanding the fluidity of the central coordinating agencies.

Also, it should be noted that through the war years the PCO and the DEA were not as separate as it might appear. PM Mackenzie King, like his New Zealand counterpart, simultaneously held the External Affairs portfolio. This meant that both PCO and the DEA served the same master, albeit in slightly different capacities. Physically, both departments were also headquartered in East Block on Parliament Hill in very close proximity to the PM, and Robertson and Heeney were both in the same close network of Ottawa mandarins. These factors contributed to a very small network of officials, spanning both DEA and PCO, centred on the PM.

Figure 1.5.2: East Block, Parliament Hill in Ottawa²³

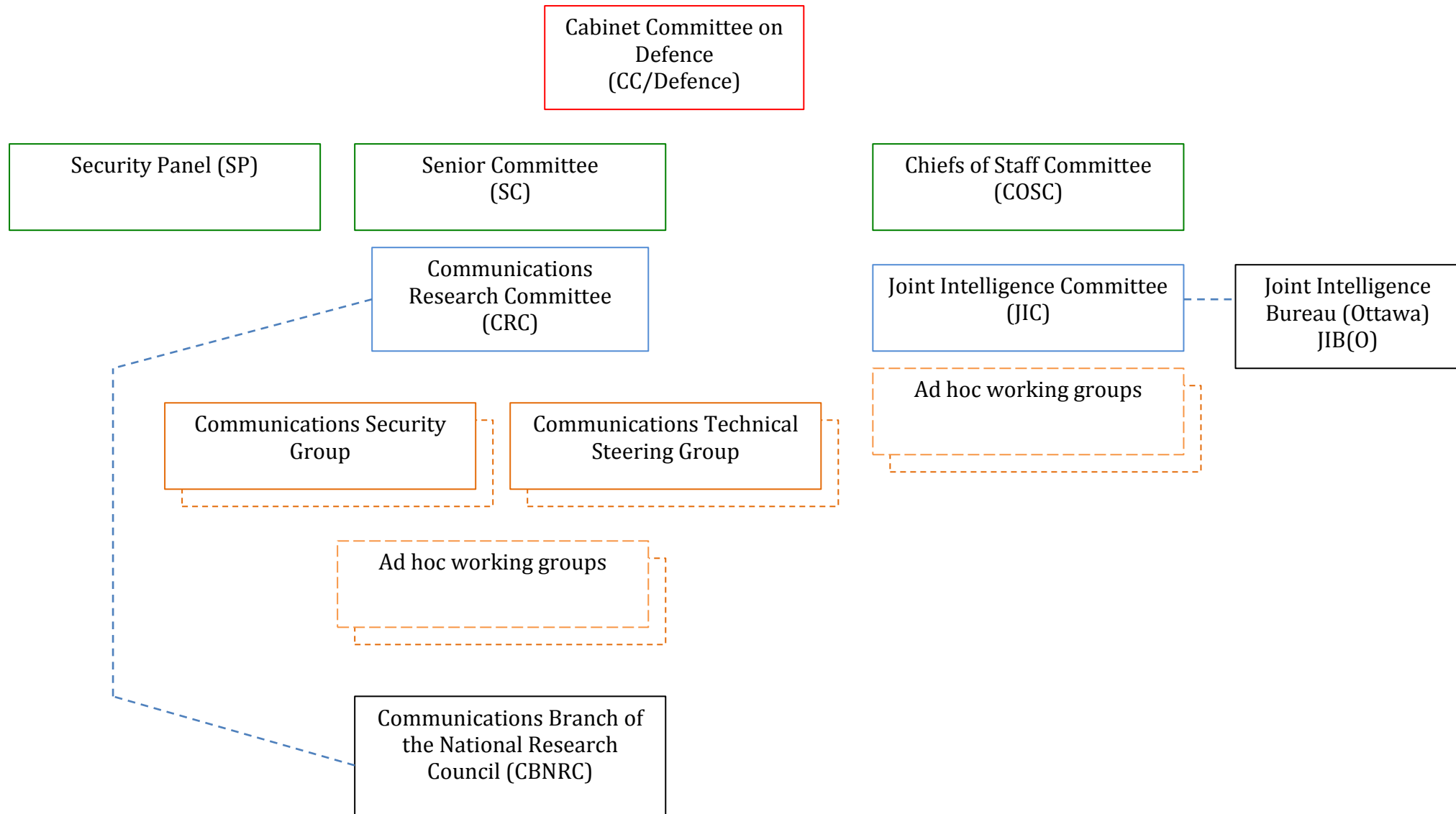


Cabinet War Committee, and the Establishment of a Canadian Cabinet Secretariat During the Second World War' *Archivaria*, No.46, pp.147-174.

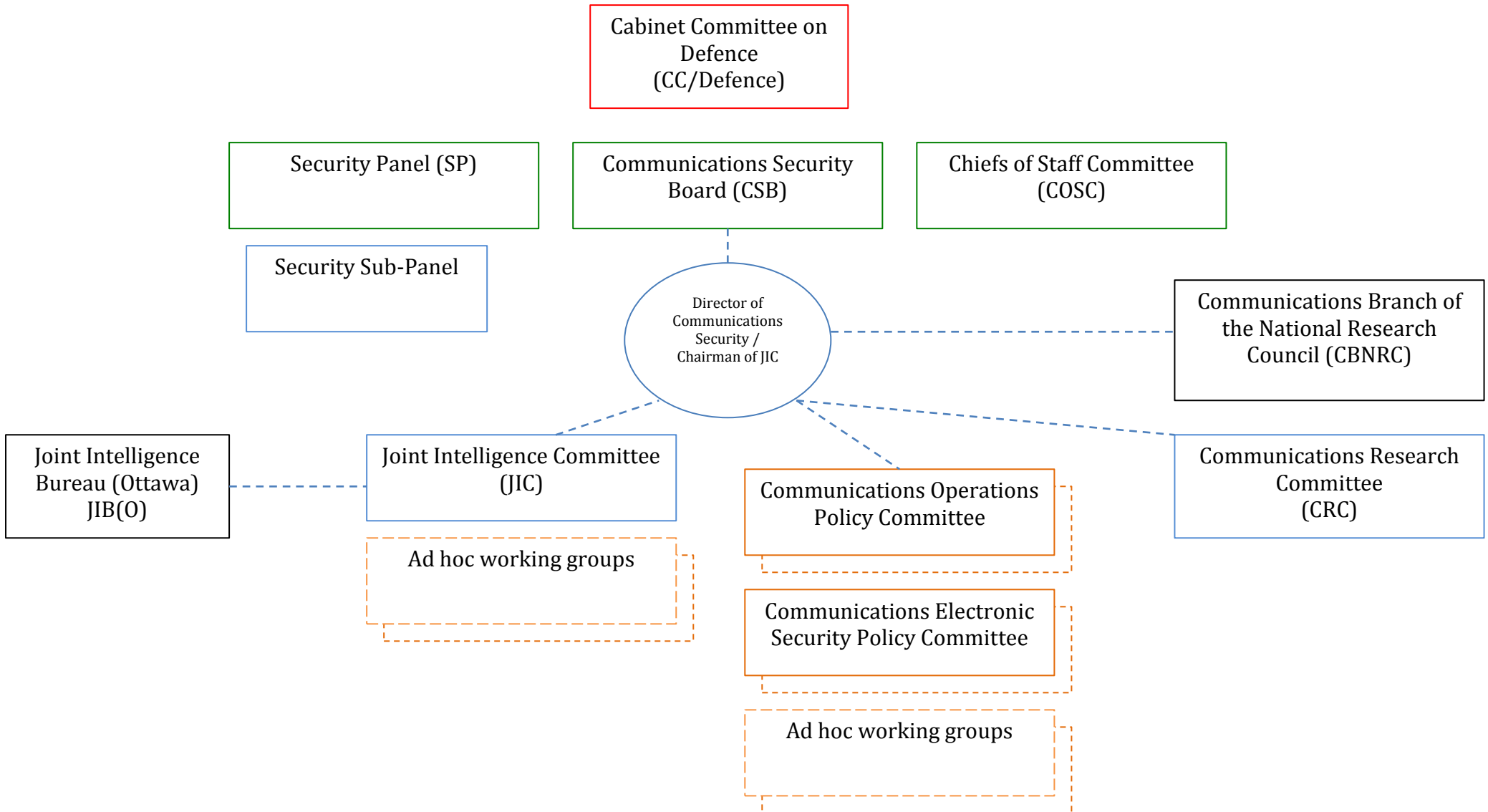
²² Masschaele, 1998.

²³ LAC: <http://data2.collectionscanada.gc.ca/ap/a/a023309.jpg> (Accessed January 2016)

Figure 1.5.3: Canadian Committee Structure related to IC Management
--1950—



**Figure 1.5.4: Canadian Committee Structure Related to IC Management
--1954--**



A First Step Towards National Intelligence: The Intelligence Policy Committee

In late 1959, the USSEA, Norman Robertson, wrote to the Chairman of the CoS, suggesting that there needed to be stronger machinery within government to coordinate the exploitation of economic intelligence. This letter flowed from two things: first, an increase in Soviet economic and trade activity, and a dissatisfaction with JIB(O)'s economic reporting, which tended to be too long on page count and too short on analysis.²⁴ Specifically, Robertson suggested an informal intelligence committee of DMs to coordinate this effort, supported by a JIC working group on economic intelligence.²⁵ The Matter was considered initially at meetings of the CoSC in January and February of 1960 where a number of views were voiced. Expansion of the JIB(O) was considered, but the Chairman of the Defence Research Board voiced concern that an expansion of the JIB(O) "would affect DRB expenditures."²⁶ The Chief of the General Staff wondered if JIB could just be moved wholesale to DEA, and whether a separate position of Director General of Intelligence "not being under one department of Government but in the Cabinet Section" would be more sensible.²⁷ Finally, the venerable DM of DND, Frank Miller, weighed in, concluding that, while in agreement with DEA's proposal in principle, ultimately there should be consideration given to a broad 'National Intelligence Committee' covering the entire remit of Canadian intelligence activities.²⁸

Finally, on March 22, 1960, the CoSC met to consider the issue of intelligence machinery. Present were the key mandarins responsible for the secret state: Norman Robertson (USSEA), Robert Bryce (Clerk of the PCO), Frank Miller (DM of DND), Cliff Harvison (RCMP Commissioner), and the military and

²⁴ Wark, W. (no date) Draft official history of the Canadian intelligence community, 'Ch.7 Part II 'The Joint Intelligence Bureau in the 1960s,' SECRET/CEO, Released to the author under ATIA.

²⁵ Ibid and Minutes of the 655th Meeting of the CoSC (January 28, 1960) TOP SECRET, DND DHH 2002/17 Box 71 File 7.

²⁶ Minutes of the 656th Meeting of the CoSC (February 4, 1960) TOP SECRET, DND DHH 2002/17 Box 71 File 7. It is unclear whether the DRB Chairman meant that an increase in JIB(O) resources would take away from DRB resources, or whether part of JIB(O)s costs were included in DRB's expenditures and therefore an increase would cause questions to be asked.

²⁷ Ibid. The Chief of the General Staff cited the example of the US CIA, but the placement in the 'Cabinet Section' (i.e. PCO) would indicate an organisation more comparable to Britain's JIC Chairman.

²⁸ Ibid.

civilian members of the CoSC itself. There was broad consensus that more needed to be done to exploit economic information for intelligence purposes; the key question was how this should be achieved. Robertson, Bryce, and Harvison were of the opinion that the system could be tweaked, but that a significant reorganisation should be avoided. On the issue of a committee under the purview of PCO, Bryce “expressed some reluctance, because of other heavy commitments, to having a National Intelligence committee responsible to the Cabinet Secretariat.” Bryce also highlighted perhaps the key problem: “In addition, Canada had no intelligence tradition and had a very inexperienced user community. Government departments, other than the [DEA] and the [DND], had little interest in intelligence information.” Bryce suggested that the JIC could be expanded to include representatives from the economic departments (Bank of Canada, Department of Trade, and the Department of Finance), but in response to a suggestion that the JIC should be upgraded to be more commensurate with its US and UK counterparts, he voiced concern that Canada would have enough high-level officials experienced in intelligence matters to fill the seats. Ultimately, Bryce concluded, Cabinet would continue to look to the DEA and DND for expertise on intelligence matters, not to the PCO.²⁹

Robertson then weighed in stating that JIC products were already provided to the Prime Minister, and perhaps what was needed was clearer and more consistent policy guidance to the JIC. Bryce agreed, and suggested that the CSB could be expanded to include the DMs of the economic departments and given a wider remit to “supervise all Canadian intelligence activities” and “would provide intelligence objectives and guidance to the [JIC].” The Chairman of the CoS also agreed that there was a need to regularise the policy guidance on the national intelligence effort.³⁰ Ultimately, what the officials had in mind was better guidance on requirements, handed down by DMs that could ascertain both departmental and ministerial needs at the strategic level. It was thus agreed that:

The [CSB] should be reconstituted as the authority responsible for directing all intelligence effort in Canada. It would retain its present

²⁹ Minutes of the 657th Meeting of the CoSC (February 23, 1960) TOP SECRET, DND DHH 2002/17 Box 71 File 7.

³⁰ Ibid.

*responsibilities and in addition would direct the activities of the Joint Intelligence Committee. It would be the advisor to the Government on all matters pertaining to intelligence.*³¹

This was the beginning of the Intelligence Policy Committee (IPC), which formally came into existence in May 1960. As John Starnes has stated, the creation of the IPC was an important step: “For the first time in Canada there was a forum at the most senior level to decide questions involving intelligence collection and dissemination of the products derived from it. The totality of Canada’s intelligence effort, in terms of money and personnel, could be laid out and discussed.”³² DND and DEA were both winners in the new arrangement. The USSEA chaired the IPC, while the Chairman of the CoS, who had not been a member of the CSB, became the vice-chair.³³ The membership and terms of reference for the IPC are outlined in Figure 1.5.5 below.

| Figure 1.5.5: Intelligence Policy Committee³⁴ | |
|---|--|
| Membership | |
| Under-Secretary of State for External Affairs (Chair) | |
| Chairman, Chiefs of Staff (Vice-Chair) | |
| Secretary to the Cabinet | |
| Chief of the Naval Staff | |
| Chief of the General Staff | |
| Chief of the Air Staff | |
| Deputy Minister, DND | |
| Chairman, Defence Research Board | |
| President, NRC | |
| Commissioner, RCMP | |
| Deputy Minister, Department of Finance | |
| *The Chairman of the JIC/Director of Communications Security would also normally attend although was not a standing member. | |
| Secretariat | |
| Secretary of the Cabinet Defence Committee (later the Cabinet Committee on Security & Intelligence) (PCO) | |

³¹ Minutes of the 657th Meeting of the CoSC (February 23, 1960).

³² Starnes, J. (1998) *Closely Guarded: A Life in Canadian Security and Intelligence*, Toronto: University of Toronto Press, p.102.

³³ O’Neill, 1987, para.2.23.

³⁴ Info in Figure 1.5.4 is found in IPC/1-60 ‘Canadian Intelligence Organization’ April 28, 1960, found in O’Neill, 1987, Ch.2 Annex D.

| |
|---|
| The Canadian Joint Staff (DND) and CBNRC provided secretariat support as required. |
| Terms of Reference |
| <p><i>“Subject to such directions as it may receive from time to time from Ministers, the Intelligence Policy Committee shall:</i></p> <ul style="list-style-type: none"><i>a) maintain general control and policy direction over all aspects of the work of the Joint Intelligence Committee, determine what general intelligence objectives and priorities should be set to the JIC, recommend what financial and manpower priorities and resources it should be given in order to carry out its tasks and assess its performance in carrying out these tasks;</i><i>b) maintain general policy control over all aspects of collection, processing and dissemination of SIGINT and exercise such control through the Director of Communications Security (DCS);</i><i>c) maintain general policy control over all aspects of communications-electronic security and exercise such control through the Communications-Electronic Security Policy Committee.”</i> |

Additionally, a subcommittee of the JIC was created to address economic intelligence matters, which was titled the Economic Intelligence Committee (EIC). This committee was chaired by the Director of the JIB(O), and had a membership more reflective of the economic departments. However, as Starnes noted, the EIC was never a very successful endeavour, mainly because of disinterest in the economic departments about intelligence matters.³⁵

Focusing Ministerial Attention: The Cabinet Committee on Security & Intelligence

As previously stated, into the early 1960s either the Cabinet Defence Committee or *ad hoc* groups of ministers were the source of cabinet guidance on intelligence matters. Robert Bryce, many years later, summarised the general approach to ministerial interaction with intelligence issues at the time, specifically security intelligence issues, by stating:

In those days there was no cabinet committee concerned with security. There were fewer cabinet committees generally. We reported to the [PM], to the Minister of Justice, and to other ministers as appropriate—to, say, the Secretary of State for External Affairs or, on occasion, the Minister of Citizenship and Immigration, or whatever he or she was called in those days.³⁶

Bryce continued that at that time, the role of the PCO was relatively small, and that the concerned departments often dealt directly with specific ministers when

³⁵ Starnes, 1998, pp.101-102.

³⁶ Bryce, R.B. (October 4, 1983) Evidence to the Special Committee of the Senate on the Canadian Security Intelligence Service, Senate of Canada, Issue No.15, 1st Session, 32nd Parliament, p.42.

issues arose: “The Prime Minister was usually informed by External affairs, the Minister of Justice or the RCMP. I believe I informed the Prime Minister of a few such cases in my nine or ten years in the PCO.”³⁷ However, by the early 1960s it was becoming apparent that ministers needed to turn their attention to security and intelligence matters in a more organised fashion.

Firstly, the newly-elected Prime Minister, Lester Pearson, was very aware of the damage that could be done by mismanaged security intelligence matters. A close friend of Pearson and experienced DEA intelligence official, Herbert Norman, had committed suicide in 1957 after his name had been smeared by US authorities in the search for Communist sympathisers, partly as a result of flawed RCMP information provided to the FBI.³⁸

Additionally, Canada, and particularly the DEA, had been engaging in more aggressive intelligence gathering operations in concert with its Five Eyes allies through the late 1950s and early 1960s. Don Munton has detailed that Canada began more aggressive diplomatic HUMINT efforts in early 1961 after the US embassy in Havana was closed. Munton and Jensen have also detailed Canada’s intelligence operations as part of the International Commission for Supervision and Control in Indochina.³⁹ While these were relatively focused efforts, they still entailed considerably high risk for Canadian personnel and international relations.

Lastly, the Pearson government wanted to take a new approach to cabinet committees in general, using them in a more systematic and formalised way than previous governments to handle the increasing pace and scope of government business. From September to December 1964, the government revised the cabinet committee system, building nine permanent committees that would

³⁷ Bryce, 1983, p.43.

³⁸ Whitaker et al., 2014, pp.211-217, and Lyon, P.V. (1990) *The Loyalties of E. Herbert Norman: A Report Prepared for External Affairs and International Trade Canada*, Ottawa: External Affairs and International Trade Canada.

³⁹ Munton, D. (2015) ‘Our Men in Havana: Canadian Foreign Intelligence Operations in Castro’s Cuba’ *International Journal*, 70:1, pp.23-39; Munton, D. and Jensen, K. (2014) ‘Early Years of the Canada-United States Foreign Intelligence Relationship’ in Bulhak, W. and Friis, T.W. (eds) *Need to Know: Eastern and Western Perspectives*, University Press of Southern Denmark, pp.207-228.

cover the range of government policy and operations. Whereas previously the cabinet committees had been based around ad hoc issues, now they were responsible for governance of particular policy or operational areas such as defence and external affairs, social issues, and economic issues.⁴⁰

Following an internal review of security, and in the larger context of the Pearson government's changes to the cabinet committee system, the Cabinet Committee on Security and Intelligence (CC/S&I) was formed to allow ministers to play a more direct role in governing Canada's national intelligence effort.⁴¹ John Starnes indicates that the original idea for a dedicated cabinet committee had come from Robert Bryce during his time as Clerk of the PCO.⁴² Figure 1.5.6 illustrates the committee structures, as they existed following these reforms in the early 1960s.

Supporting the New Structures: The Creation of a Dedicated PCO Secretariat

With the new committees, PCO began to play a slightly bigger role in coordinating. There was agreement that the secretary for the IPC should be the officer of the PCO cabinet secretariat that also supported the Cabinet Defence Committee. This allowed for a linkage between the cabinet secretariat machinery and the IPC, which was important given that the Clerk of the PCO chaired the Security Panel. However, the secretariat support for the IPC still came from departments, and varied depending on the agenda item. For most issues, the JIC's joint intelligence staff provided support, given that the JIC now fell directly under the IPC. For SIGINT-specific issues, the CBNRC would also provide some support.⁴³

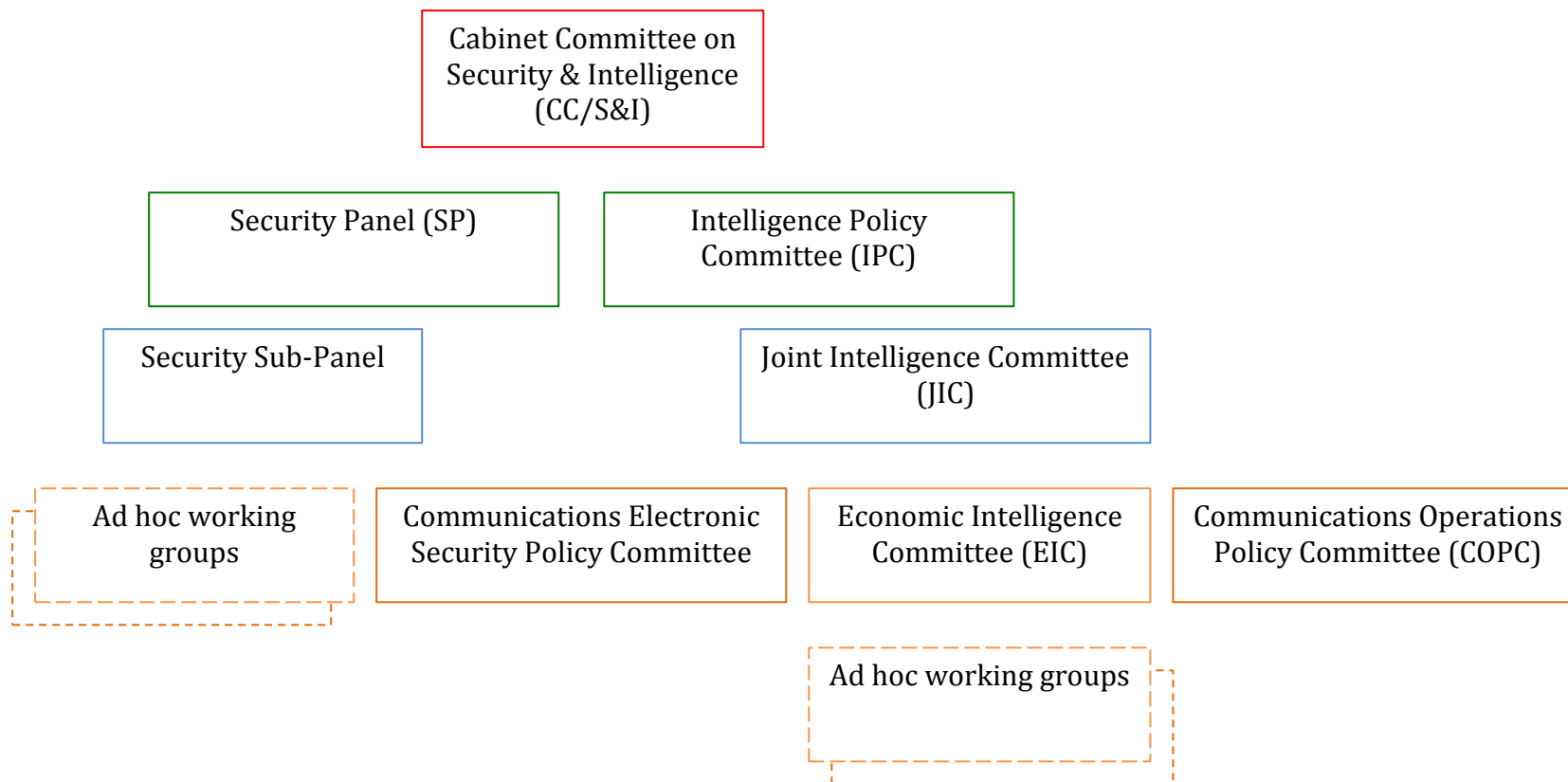
⁴⁰ Robertson, R.G. (1971) 'The Changing Role of the Privy Council Office' *Canadian Public Administration*, 14:4, pp.489-490.

⁴¹ Bryce, 1983, p.43.

⁴² Starnes, 1998, pp.102-103.

⁴³ O'Neill, 1987, para.2.23 and Minutes of the 659th Meeting of the CoSC (March 22, 1960) TOP SECRET, DND DHH 2002/17 Box 71 File 7.

Figure 1.5.6: Canadian Committee Structure Related to Management of the IC
--1964--



The more significant change to PCO's role was when the CC/S&I was created. With this change, a dedicated Assistant Secretary position, called the Assistant Secretary for Security and Intelligence (Asst. Secretary S&I) was created in the cabinet secretariat to provide a focal point of support to CC/S&I and its two supporting committees of officials, the SP and IPC.⁴⁴ This shift was in line with the usual trend in the central coordinating agencies: as the cabinet (either through the PM or ministerial committees) takes a greater direct role, so too will the central agency.

However, by 1969, PCO was forced to re-examine its support to these committees. Several security scandals, including the Spencer and Munsinger affairs, had wracked the Pearson government through the early 1960s, causing great public attention, and casting the government in a bad light.⁴⁵ Intelligence, and particularly security intelligence, had once again become a *political* issue for the government. As Whitaker, Kealey, and Parnaby pointed out in their analysis of security intelligence in Canada, both the Spencer and Munsinger affairs "were formally about 'security' but steeped in partisan considerations."⁴⁶ In an effort to bring the issue back into neutral political territory, the Pearson government appointed Maxwell Mackenzie to oversee the Royal Commission on Security (known as the Mackenzie Commission).

The Mackenzie Commission issued his final report in 1969, and, while much of it had to do with security screening operations and policies, it did make a specific machinery-related recommendation. The Commission felt that the central coordinating machinery should play several roles, including: determining government-wide policies, priorities, and resourcing; arbitrating between national and departmental interests; supporting review mechanisms; and acting as the nexus between the operational, policy, and public spheres. These were substantial tasks, and the Commission argued that the two individuals in the cabinet secretariat (the Asst. Secretary S&I and one cabinet officer) devoted to

⁴⁴ O'Neill, 1987, para.2.26.

⁴⁵ Both cases are discussed in Whitaker et al, 2014, pp.233-234, 262-264.

⁴⁶ Ibid, p.265.

supporting the SP in these roles were, while highly capable, under-resourced.

The Commission concluded:

At present, the [SP] and concerned officers in the [PCO] make an attempt to perform most of these functions, but they do so without executive authority or adequate resources, and with an approach which is necessarily permissive rather than compelling.⁴⁷

Additionally, the Commission found that the principle of individual ministerial accountability for their departments contributed to a natural fragmenting of the system:

The basis for of the Canadian security organization is the principle that individual ministers, deputy ministers and agency heads are entirely responsible for the security of their agencies, and this principle is reflected in the fact that all coordination is entirely permissive. Even Cabinet Directives relating to security appear to be merely advisory in the sense that only the most informal arrangements exist for ensuring compliance or consistency in departments.⁴⁸

In response to these observations, the Commission recommended that a more substantial and permanent security secretariat be formed in PCO with the ability to both coordinate the formulation of policy and oversee its implementation across government. Mackenzie drew a direct comparison to the existing PCO secretariats on science and bilingualism. In instances where departmental interests were prevailing, “the Secretariat would press the security case on deputy ministers through the Secretary to the Cabinet or on ministers through its designated minister.”⁴⁹ Importantly, having recourse to the Clerk/Secretary ultimately gave the secretariat recourse to the PM if it was needed. Mackenzie’s recommendation led to the creation of a permanent Security Secretariat within PCO.

Taking a Hard Look at Intelligence: The Isbister Report

Through the late 1960s, several factors coalesced to drive a significant review of the machinery used to manage the IC. Firstly, there was a shift in the national political environment, resulting in commensurate policy shifts. On

⁴⁷ Mackenzie, M. (1969) *Report of the Royal Commission on Security* (Abridged), Ottawa: Minister of Supply and Services Canada, p.17.

⁴⁸ Mackenzie, 1969, p.17.

⁴⁹ *Ibid*, p.18.

coming into government in 1968, the Trudeau government had initiated reviews of defence and foreign policy. There were significant reductions in defence expenditure, followed by a shift in foreign policy thinking towards a more multi-polar outlook. It was no secret that the Trudeau government had no great love for the 'old' foreign policy and defence establishments, and this resulted in foreign and defence policy being driven from the Prime Minister's Office much more than it had been previously.⁵⁰

During the first Trudeau government, the influence of the DEA significantly diminished in favour of the PMO and PCO. On one hand, this was partly due to Trudeau's resentment of DEA's dominance of the foreign policy agenda and elitist attitude. Because of his desire to have alternative advice on foreign policy, Trudeau built up PMO's ability to deal with international matters directly. Ivan Head, a former Foreign Service officer, became the PM's advisor in the PMO on foreign policy matters and became very influential.⁵¹

On the other hand, however, the late 1960s and early 1970s saw larger environmental trends that decreased DEA's influence naturally: international relations were becoming more centred on trade and economic matters, and national leaders were taking a more direct role in international affairs. Granatstein captured the sense of the DEA through the 1950s and 1960s:

Some of the change in the department was psychological. In the era of Lester Pearson, Hume Wrong, Norman Robertson, and Arnold Heeney, External Affairs was 'the Department,' the repository of all bureaucratic wisdom in Ottawa. Small and exclusive, the External club had almost unchallenged control of access to the levers of power that it wanted to grasp—an important limitation that excluded trade and economics generally. [...] And though it was strong on the political side, External Affairs was much less so in economics.⁵²

However, by the late 1960s and into the early 1970s, the essence of Canada's international relations had begun to shift. Granatstein quotes one former DM as

⁵⁰ On the Trudeau foreign and defence policies, see Granatstein, J.L. and Bothwell, R. (1990) *Pirouette: Pierre Trudeau and Canadian Foreign Policy*, Toronto: University of Toronto Press.

⁵¹ See, Head, I. and Trudeau, P. (1995) *The Canadian Way: Shaping Canada's Foreign Policy 1968-1984*, Toronto: McClelland & Stewart.

⁵² Granatstein, 1990, p.222.

stating “ITC [Department of Industry, Trade and Commerce] and Finance dominated” concluding that “all DEA did was provide the glassware.”⁵³ This shift had an important, if indirect, impact on the Canadian IC. The older generation of mandarins who had experience with intelligence from the war years, such as Robertson, Heeney, and to an extent Bryce, were no longer in government. The principal departments that had overseen Canada’s IC, specifically the DEA and DND, were now under substantial fiscal strain and waning in influence under a government who viewed them with suspicion. With demands for budget cuts across the foreign and defence policy sector, it was necessary to take a hard look at Canada’s intelligence effort to determine how it should fare through the fiscal pinch.

Secondly, Canada’s threat environment was broadening. Previously, Canada’s experience with terrorism had been tied to the violent wing of the Quebec separatist movement, and was, therefore, a predominantly domestic concern. By the late 1960s, however, it became apparent that foreign conflicts and foreign actors could spur acts of violence domestically. Canadian authorities were noting international links between like-minded extremist groups, and the increase in Palestinian-linked terrorist attacks through the late 1960s did not go unnoticed. Additionally, there had been a steady increase in small-scale terrorist acts in Canada or targeted at Canada through the 1960s, stemming from foreign movements.⁵⁴

These different factors coalesced in the Spring of 1970 when the IPC asked Claude Isbister, a senior DM, to review the Canadian intelligence effort. Isbister submitted his final report, entitled *Intelligence Operations in the Canadian Government* (referred to hereafter as the Isbister Report), on November 9, 1970, while the country was still reeling from the FLQ crisis. Isbister ultimately found that the IC was hollow; it lacked strong machinery at the centre of government to consistently pull together the different departments and agencies and define IC-wide responses to IC-wide questions. Isbister concluded:

⁵³ *ibid*, p.227.

⁵⁴ McDonald (1981) *Freedom and Security Under the Law: Second Report—Volume 1*, pp.268-269.

What is lacking is at the core; there is insufficient ability to formulate purposes and objectives on a continuing basis at the governmental (as distinct from the departmental) level. This is not a criticism of persons or organizations because occasions have never arisen in the past to define such responsibilities or to create the requisite machinery. With new concepts of leadership and coordination the entire system would improve in tone, tempo and results. This is my theme.⁵⁵

Isbister found that the IPC had been quite inactive, going for six years without meeting in person. Some decisions had been made “by telephone canvass”, but overall the IPC’s tempo was almost non-existent.⁵⁶ Isbister suggested that the IPC’s lack of activity was partially because of the time demands on the DMs involved, and also because there had not been a need to articulate a ‘national’ intelligence program separate from what departments were already doing. However, he concluded that the JIC and the DCS were no substitute for the authority of the IPC, and as such, the system suffered from an inherent weakness at the centre.⁵⁷ Specifically, Isbister found that there was a need to more closely align the ‘security’ and ‘intelligence’ spheres:

The terms of reference of the [IPC] are broad enough to allow it to consider the related aspects of domestic security matters and of criminal intelligence in addition. This has not been done. [...] It seems quite wrong to have no intelligence group anywhere in the Government with the responsibility of examining all aspects from a general and comprehensive point of view.⁵⁸

Isbister felt that stronger interdepartmental management at a high level was important for several reasons. First, there were intelligence organisations that were ‘national’ assets, such as CBNRC, and the DEA’s Special Research Bureau (SRB, the successor to the JIB(O)), and needed to be provided guidance from a national context. Secondly, Isbister noted that “departments [needed] to make substantial demands on other departments or agencies for information and judgments.” In other words, departments needed to manage the exchange of resources between them. Thirdly, Isbister noted that some intelligence activities were considered particularly valuable by Canada’s allies, and contributed to their

⁵⁵ Isbister, C.M. (November 9, 1970) *Intelligence Operations in the Canadian Government*, Privy Council Office, TOP SECRET, Released to the author under ATIA, p.4.

⁵⁶ Isbister, 1970, p.35.

⁵⁷ Ibid, pp.35-36.

⁵⁸ Ibid, p.36.

willingness to supply Canada with a much greater return on the country's intelligence investment. These activities and foreign relationships had to be carefully managed from a national perspective as they had implications for not just intelligence, but defence and foreign policies. Lastly, Isbister noted that intelligence collection activities could "involve risks of public or diplomatic protests or publicity of a type or extent which would be of concern to the Government." In short, the political risk in some intelligence collection was high, and required sound judgement at the national level.⁵⁹

Figure 1.5.7: Claude Isbister⁶⁰



Given these factors, Isbister concluded that the concept of a DM-level committee overseeing the entire national intelligence effort was fundamentally sound, with the USSEA being the right person to chair the committee, but recommended the IPC take a more active approach to its mandate. He also called

⁵⁹ Isbister, 1970, p.40.

⁶⁰ Photo: National Resources Canada.

on the PCO to take a more proactive role in IC coordination, becoming what he termed a 'centre of gravity' for the IC.⁶¹

Interestingly, Isbister then turned his attention to what he termed the 'middle-level' of IC management, which would be below the DM-level. He examined three options at this level: the possibility of a US-style central intelligence agency with a coordinator to manage across the IC; an intelligence community managed through an interdepartmental committee below the DM-level; and a series of *ad hoc* arrangements between departments. The *ad hoc* arrangements were rejected as they would present too much inconsistency for the IPC and force the bulk of on-going coordination to the DM level. In short, it was felt that *ad hoc* arrangements would not strengthen the centre of the IC at all. The idea of a US-style central agency and coordinator was also rejected, but for institutional reasons. Isbister concluded that this option was "not as compatible with the Cabinet system of government and ministerial responsibility" and that this option would "lead to intelligence being presented to senior official and political levels in isolation rather than blended with material from other sources and from all departments, as the proper role of intelligence would require."⁶² In short, Isbister felt that inclusiveness at the centre was needed to produce the most rounded 'national' intelligence products for DMs and cabinet ministers.

Ultimately, Isbister recommended the creation of an 'intelligence management committee' that would replace the JIC and sit underneath the IPC, operating at ADM or DG level. This committee would advise the IPC and CC/S&I on all intelligence matters, produce national-level intelligence assessments, and be responsible for oversight of Canada's intelligence relationships with foreign states, specifically within the Five Eyes.⁶³ The chairman of this committee, Isbister recommended, should be a foreign service officer who would serve

⁶¹ Ibid, pp.41, 45-46.

⁶² Ibid, p.42.

⁶³ Ibid, p.43.

between two and four years in the position to ensure continuity while not becoming wedded to particular viewpoints.⁶⁴

Isbister made several other recommendations relating to the management of Canada's overall intelligence effort, including several related to resource management that are covered in Chapter 11. Through 1971 the IPC reviewed Isbister's findings and planned its next steps, spurred on by the FLQ crisis of October 1970. While Isbister had focused on foreign intelligence, his conclusion that there needed to be more coherent management across both foreign and security intelligence was particularly poignant, coming at almost the same time as Canada's first modern terrorist emergency. These factors drove a significant restructuring of the Canadian IC's interdepartmental machinery early in 1972. The resulting machinery would form the basis for the management of Canada's IC for nearly 20 years.

The ICSI Machinery: Modernising the IC Structures

Following the Isbister Report, and in light of the FLQ crisis, the government went about reforming the interdepartmental structures to better manage the IC. The Security Secretariat in PCO produced a Memorandum to Cabinet (MC) that outlined the new IC management structure. The MC went to CC/S&I on January 17, 1970 and was ratified by Cabinet on February 3, 1970. The CC/S&I noted that "there had not been in recent years any significant change in the arrangements within the federal government for the development and implementation of policy with regard to security and intelligence" and concluded that "there was a need to achieve the closest possible coordination of policies with respect to these two closely related functions, and to this end Ministers might be better served by greater coordination of committee work at the senior official level." The CC/S&I also noted that there was a need for regular review by ministers of IC priorities, budgets, and program structure.⁶⁵

⁶⁴ Ibid, p.46.

⁶⁵ Cabinet Conclusions (February 3, 1970) 'Coordination of Security and Intelligence' Privy Council Office, SECRET, LAC: RG2, Series A-5-a, Volume 6395.

The new structure merged the IPC and SP into a single DM-level committee called the Interdepartmental Committee on Security and Intelligence (ICSI).⁶⁶ Under ICSI were two more specialised committees. The Intelligence Advisory Committee (IAC) replaced the JIC as the central committee on foreign intelligence matters, and also replaced the DCS. The Security Advisory Committee (SAC) became responsible for advising ICSI on security matters, including security intelligence and counter-terrorism policy.

There are a few explanatory points that need to be made regarding the ICSI machinery. While the IAC and SAC operated mainly at the ADM level, the membership was not entirely defined by rank. There were several DG and Director-level members of each committee (although these titles did not always equate with the general public service rank.) The focus was on getting the right people around the committee table that could speak to the relevant aspects of security or intelligence policy and operations. This was also true of the ICSI itself, which had a list of 'associate members.' The Cabinet Conclusion that noted the creation of the new machinery stated that these associate members would be from departments "which may have special or limited but not continuing interest in all aspects of the security and intelligence programs, their attendance at meetings to depend on the subject-matter under consideration."⁶⁷ Also, there were numerous cases of overlapping memberships between the IAC and the SAC. In fact, the majority of IAC members also sat on the SAC. This ensured a certain amount of coordination between the two committees, as did the fact that the PCO now provided the secretariat support for the ICSI and the IAC.⁶⁸

Supporting the ICSI Machinery

The creation of the ICSI machinery signalled a greater role for PCO in managing the Canadian intelligence effort at the national level, but also rationalised the chairmanship of the committees with the CC/S&I. Because the PM chaired the CC/S&I with the Clerk of the PCO as the secretary, it was a logical

⁶⁶ Cabinet Conclusion, February 3, 1970.

⁶⁷ Cabinet Conclusion, February 3, 1970.

⁶⁸ Memberships of these committees are found in O'Neill, 1987, Chapter 2.

decision to have the Clerk chair ICSI instead of the USSEA, as had been the case for the IPC. With the chairmanship of the key committees falling under the PCO's purview, there was a corresponding need to rationalise the committee support for the CC/S&I.

Reflecting the merger of security and intelligence functions under the CC/S&I and ICSI umbrellas, the PCO Security Secretariat became the Security & Intelligence Secretariat (S&I Secretariat).⁶⁹ The S&I Secretariat consisted of two core groups. One was comprised of four seconded officers from key intelligence departments and was responsible for supporting the IAC on foreign intelligence matters, particularly the production of all-source national assessments. The other was a small group of officers that supported the PCO's departmental and coordinating roles for protective and physical security.⁷⁰ Figure 1.5.8 illustrates the S&I Secretariat structure, circa 1975.

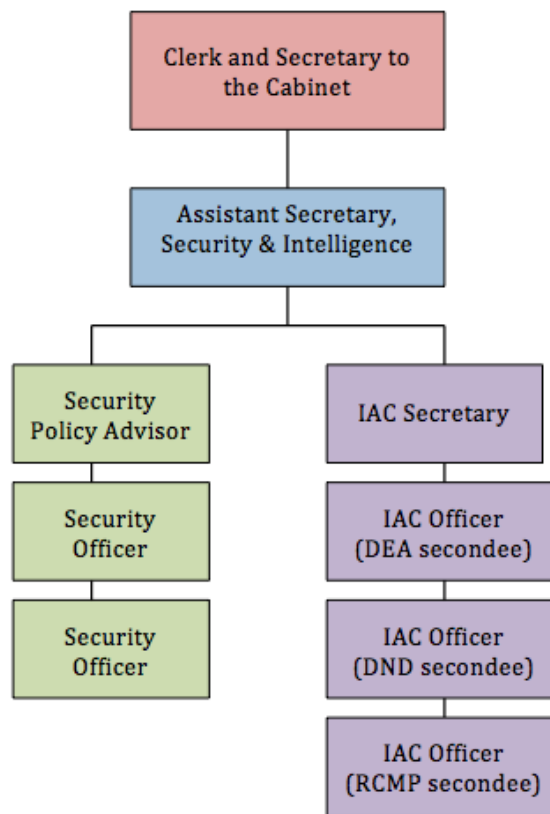
Importantly, the secretariat support for the SAC came not from PCO, but from the newly strengthened Security Planning and Research Group (SPARG) in the Solicitor General's Department (SGD). SPARG was set up after the FLQ crisis to help coordinate the government's counter-terrorism efforts and to provide support to the Solicitor General in overseeing the RCMP Security Service.⁷¹ In a sense, the secretariat reforms following the Mackenzie Commission and the Isbister Report were a mixed outcome. Whereas previously, PCO had provided direct support to the security-related committees but not to the intelligence-related committees, now the situation was reversed. Yet, as we shall see, this situation was not necessarily better.

⁶⁹ It should be noted that for a time, the secretariat was the Security, Intelligence, and Emergency Planning Secretariat to reflect a central emergency planning function. However, part of this function was later absorbed into the security side of the Secretariat, while the bulk of it went into other departments such as DEA and SGD.

⁷⁰ The composition of the S&I Secretariat in the 1970s is discussed in McDonald (1981) *Freedom and Security Under the Law: Second Report—Volume 1*, p.848.

⁷¹ Whitaker et al, 2012, p.302.

Figure 1.5.8: PCO S&I Secretariat, circa 1975⁷²



It is also necessary to note that, at this time, there was also a Cabinet Committee on Foreign and Defence Policy (CC/F&DP) and a corresponding Foreign and Defence Policy Secretariat (F&DP Secretariat) within the PCO. While not directly involved in intelligence, the F&DP machinery did represent the most consistent gathering of the major consumers of intelligence. Robin Bourne, who served as the Asst. Secretary in charge of the F&DP Secretariat from 1968 to 1972, indicated that the officers of the Secretariat received JIC (and later IAC) intelligence assessments.⁷³ Additionally, Bourne notes that it was “customary” the F&DP Secretariat to help out the S&I Secretariat if it was short-staffed, particularly in terms of taking minutes for committee meetings.⁷⁴

⁷² McDonald (1981) *Freedom and Security Under the Law: Second Report—Volume 1*, p.848.

⁷³ Bourne, R. (February 7, 1980) Evidence to the Commission of Inquiry Concerning Certain Activities of the RCMP, Volume No. C-83, TOP SECRET, Released under the ATIA, p.9447.

⁷⁴ Bourne, 1980, pp.11668-11669.

The Difficult Environment of the 1970s and Early 1980s: Besieged on all Sides

The environmental trends that were becoming apparent in first years of the Trudeau government became even more pronounced through the 1970s and into the 1980s. Canada's threat environment became more defined by international terrorism, which was even more pronounced following the 1972 Munich Olympics attack on Israeli athletes. The fact that Canada had been awarded the 1976 Olympics in Montreal brought the concerns of a similar attack on Canadian soil front and centre. A June 1976 SAC special assessment that examined the PLO and associated groups clearly showed that Canadian officials were worried about international attacks setting precedents for the 1976 Olympics. The assessment states, "Since the precedent was set at the 1972 Olympics, the threat potential for another spectacular incident involving or coinciding with the 1976 Olympics exists" and concludes "for dramatic effect and publicity, an attack at a Canadian airport, similar to Lod (1972) and Rome (1973) would achieve the desired results for terrorists."⁷⁵ A second SAC assessment only two months later similarly concluded, "It is valid to state that as conditions in the Middle East deteriorate so then will the prospects of Palestinian terrorism in the international sphere increase, thereby creating greater concern for any possible impact on Canada."⁷⁶ Soviet missile submarines and Quebec separatists no longer represented the most active threats to Canadian security.

The second significant trend that took shape through the 1970s was the need to bring accountability and organisational arrangements within the IC into fit with the new political reality. At the same time as the activities of the IC were becoming more varied, the secret state was becoming less secret and more controversial. This trend impacted both foreign and security intelligence efforts within the IC. In terms of foreign intelligence, as the internal history of the CBNRC makes clear, by February 1973 ICSI was already re-evaluating the

⁷⁵ Security Advisory Committee (June 1976) 'Special Assessment: The Palestine Liberation Organization (PLO) and International Terrorism - 1974/76: Implications for Canada' SA/76/4, SECRET/Canadian Eyes Only, Released to the author by LAC under ATIA.

⁷⁶ Security Advisory Committee (July 1976) 'Prospects for International Terrorism: Implications for Canada' SA/76/6, SECRET/Canadian Eyes Only, Released to the author by LAC under ATIA.

administrative and ministerial home for Canada's SIGINT organisation.⁷⁷ Throughout most of CBNRC's history, the NRC had taken very little interest in the organisation; the principal reason for keeping SIGINT under the administrative umbrella of NRC was to maintain its secrecy. However, by 1973 the 'cover' was beginning to wear thin. In the US, increased media attention on the activities of the US IC during the Vietnam War years was having a commensurate effect in Canada; public attention was beginning to wear away the IC's veil of secrecy, particularly where SIGINT was concerned. In late 1973, the government sanctioned a revised official statement on CBNRC that avowed the organisation's COMSEC role, but maintained silence on its SIGINT role.⁷⁸ While this *official* silence would remain in place for several years, the reality was that CBNRC's SIGINT role remained secret for only a few more months.

In January 1974, the Canadian Broadcasting Corporation (CBC) aired a documentary entitled *The Fifth Estate: The Espionage Establishment*, which made public the CBNRC's role in SIGINT collection, and Canada's intelligence relationship with the US.⁷⁹ While the government had already been looking into the best ministerial and administrative arrangements for CBNRC prior to the CBC documentary, the public attention brought significant *political* urgency to the issue. In order to modernise accountability for SIGINT, and following substantial work in both DND and CBNRC through 1974 to make administrative arrangements, the Cabinet agreed on January 16, 1975 that the Minister of Defence would be accountable for CBRNC (known from that point as the Communications Security Establishment, or CSE).⁸⁰

Security intelligence went through a seismic shift in Canada through the 1970s and 1980s, which, when the dust settled, left a new organisation in the IC:

⁷⁷ O'Neill, 1987, p.27 and chronology.

⁷⁸ Ibid, p.30.

⁷⁹ See Robinson, B. (March 1, 2015) 'The Fifth Estate: The Espionage Establishment' *Lux Ex Umbra*, <http://luxexumbra.blogspot.ca/2015/03/the-fifth-estate-espionage-establishment.html> (Accessed November 2015). While the CBNRC's role in SIGINT had been alluded to in the US publication *Ramparts* by one of the same sources for the documentary, it was the CBC documentary which brought significant Canadian attention on the issue.

⁸⁰ Cabinet Conclusion, (January 16, 1975) 'Ministerial Responsibility and Policy Guidance for CBNRC and the SIGINT and COMSEC Programs' Privy Council Office, LAC: RG2, Series A-5-a, Volume 6456, Item 40178.

the Canadian Security Intelligence Service (CSIS). Redoubled efforts to counter the radical elements of Quebec separatism following the 1970 October Crisis coupled with vague direction from cabinet ministers, led the RCMP to carry out several operations that were of questionable legality through the 1970s, which in turn led to the Commission of Inquiry into Certain Activities of the Royal Canadian Mounted Police (hereafter 'the McDonald Commission'). These operations and their implications have been documented at length in other sources,⁸¹ so it is not necessary to do so again here. What is important, however, is the fact that the McDonald Commission's principle outcome was the creation of the Canadian Security Intelligence Service (CSIS), which increased the organisational complexity *within* the IC. The *Canadian Security Intelligence Service Act, 1984* (the *CSIS Act*) gave CSIS the authority to investigate threats to the security of Canada and advise ministers and other government departments of the nature and intention of those threats. The *CSIS Act* also gave CSIS a limited mandate to collect foreign intelligence within Canada, at the request of the Minister of Foreign Affairs or the Minister of Defence.⁸² The success of Canada's newest intelligence agency would greatly depend on being able to forge effective interdepartmental relationships across a wide range of departments and agencies.

The MacDonalld Commission did not stop at security intelligence, but made recommendations aimed at the central IC machinery.⁸³ McDonald found that the separation of security and foreign intelligence assessment responsibilities between the SAC and the IAC respectively was out of fit with the increasingly transnational nature of threats. Indeed, the declassified examples of separate SAC and IAC assessments on terrorism through the 1970s and 1980s prove repetitive.⁸⁴ The Commission also felt that the government's capacity to

⁸¹ Most recently, Whitaker, R., Kealey, G.S., and Parnaby, A. (2012) *Secret Service: Political Policing in Canada from the Fenians to Fortress America*, Toronto: University of Toronto Press, pp.271-364.

⁸² These roles are known as the 'Section 12 mandate' and the 'Section 16 mandate' respectively after the sections of the *CSIS Act* that enable them.

⁸³ The issue of national intelligence requirements and priorities is discussed at length in Chapter 8.

⁸⁴ For instance, see SAC, July 1976, SA/76/6 and Intelligence Advisory Committee (May 13, 1981) 'Trends in International Terrorism' IAC/SA7/81, CONFIDENTIAL//AUST,NZ,UK,US,CAN EYES ONLY, released by LAC to the author under the ATIA.

produce strategic national intelligence assessments and effectively define intelligence requirements at the national level was weak. McDonald stated that the Commission's findings in regard to the central machinery were much the same as those of Justice Hope's 1976 Royal Commission in Australia. The Commission also held up the example of the Australian ONA as an effective way of strengthening the centre, promoting all-source national intelligence assessments, and more effectively defining national intelligence requirements. In the same vein as Hope, McDonald recommended the creation of a Bureau of Intelligence Analysis, which would be responsible for national intelligence assessments and help define national requirements. However, McDonald recommended that the Bureau be a semi-autonomous part of the PCO instead of a stand-alone agency, making it more akin to New Zealand's External Intelligence Bureau than Australia's ONA.⁸⁵ The Commission also recommended that PCO's Asst. Secretary S&I should chair the IAC, rather than a DEA official, and that the IAC membership should be expanded to fully integrate the Department of Finance and the Treasury Board Secretariat.⁸⁶

Implementing the McDonald Commission's findings came up against a very tangible complication however: money. During the early 1980s, Canada was in the midst of a major recession. Government spending was cut, and the DEA and DND were hit particularly hard. Chapter 11 goes into the financial management at the time in some detail, but for now it is suffice to say that the recommendations of the McDonald Commission sat awkwardly with the government's fiscal reality.

In summary, by 1984 the Canadian IC was facing several different environmental demands. First, the threat of terrorism, which could affect Canadians at home and abroad, continued to evolve and place a greater demand on Canada's IC. Secondly, the national political environment was defined by public scepticism towards intelligence, which had grown worse through the 1970s. The organisational arrangements of the IC had become more complex

⁸⁵ On the recommendation to create the Bureau of Intelligence Analysis, see McDonald (1981) *Freedom and Security Under the Law: Second Report—Volume 1*, pp.852-856.

⁸⁶ *Ibid.*

with the creation of a new agency (CSIS) in 1984, and there were still outstanding recommendations for greater coherence across the national intelligence enterprise from the McDonald Commission. Encompassing all of this was a particularly tight fiscal environment for the Government of Canada.

Creating the Intelligence and Security Coordinator: A Play in Three Acts

With a range of environmental factors at play, and a recognised need to bring greater coherence to the national intelligence effort, PCO began a series of three reviews that would have a significant effect on the management of the IC. All three reviews dealt with more than the IC machinery. Each review made important points about programme management, resources, and the definition of intelligence requirements and priorities; these issues will be addressed throughout the subsequent chapters. For now, we will focus on the aspects of the reviews that address IC machinery. The first two reviews were preparatory in nature, setting out the options for change and assessing their merits. The third review was evaluative, and assessed how the changes had worked. The most substantial reform that came out of these reviews was the creation of a new DM-level position within the PCO to coordinate intelligence and security matters. This role and its subsequent evolution still have direct importance for the discussions of IC management in the Canadian government today.

Act 1: The Fadden Report

The first of the three reviews was conducted in early 1984 by Richard Fadden, who was at the time the Director of Policy in the S&I Secretariat.⁸⁷ ICSI had been asked to recommend significant expenditures in both intelligence assessment and SIGINT collection following the McDonald Commission, but at the same time, there was a growing consensus that the foreign intelligence effort was not meeting the government's requirements. In short, the government was looking at how it could improve the return on investment.

⁸⁷ Fadden would go on to be the S&I Coordinator in PCO, the Director of CSIS, and finally the National Security Advisor to the PM.

Fadden's report, entitled *Foreign Intelligence for Canada* (hereafter referred to as the Fadden Report), was finalised in April 1984 and examined shortcomings in the central machinery for IC management, and options for change going forward. Fadden noted that the Canadian intelligence effort had been defined by two contrasting trends. The first trend was that intelligence had mainly been the purview of a small number of strong departments (namely the DEA and DND). The second trend was the strong central role of the PM, derived from, first, the PM's overall responsibility for the smooth functioning of cabinet government, and second, the PM's overall responsibility for the security of the state.⁸⁸ Fadden pointed out that while there was a need for intelligence to meet specific 'national' requirements of the PM and Cabinet, the traditional departmental coordination of the IC had militated against any sustained effort to meet these national needs.⁸⁹

Fadden pointed out that, theoretically, there were two levels used to manage the IC: a policy level and a management level.⁹⁰ The policy level dealt with community-wide issues such as priorities, resources, programme approval and evaluation, the effectiveness of national assessments, safeguards to control the intelligence effort, and independent policy advice to the PM.⁹¹ Put simply, the policy level helped Cabinet provide community-wide governance. The management level dealt with the programme elements of the IC and was dispersed amongst departments. Fadden pinpointed that the anchor around which both levels operated, and which linked both levels, was the CC/S&I and ICSI machinery.⁹² In discussing the importance of the interdepartmental machinery, Fadden stated:

The role of cabinet committees and of their mirror committees of [DMS] is largely the same throughout the government. They are responsible for policy questions, new programs and methods. There is no apparent reason why the foreign intelligence sector should be excluded from this

⁸⁸ Fadden, R.B. (April 1984) *Foreign Intelligence for Canada*, Privy Council Office, TOP SECRET, Released to the author under the ATIA, pp.7-8.

⁸⁹ Ibid, pp.6-7. For a more detailed look at the intelligence requirements and priorities system, see Chapter 8.

⁹⁰ Fadden referred to a policy 'system' and a management 'system', however as the term 'system' is used in a specific sense in Parts 2 and 3 of this work, the term 'level' is used here to avoid confusion.

⁹¹ Fadden, 1984, p.9.

⁹² Ibid, pp.8-10.

form of oversight; indeed, there is every reason to suggest that it is critically important to the effective control of the sector. There is no reason to exempt the intelligence sector from this arrangement and, because the sector requires management of the kind provided by the Cabinet Committee, [CC/S&I and ICSI] should be retained whatever other organizational changes are decided upon. Indeed the present-day roles of [CC/S&I and ICSI] are appropriate for the sector and only require that line deputies and their departments make use of the committees to enable them to play a useful role.⁹³

However, Fadden found significant shortcomings in how CC/S&I and ICSI were supported by the IAC. Firstly, Fadden noted that the IAC was heavily weighed towards intelligence producers, rather than consumers, leaving the possibility that requirements were defined by what producers could produce, rather than what consumers needed. Secondly, Fadden noted that the members of IAC had been “unable to detach themselves from their departmental/agency roots,” and that any authority of the IAC over collection policy or the national assessment programme was undercut by the fact that the primary assessment organisations, mainly DEA and DND all-source assessment units, were departmentally based. Fadden noted that the saving grace for the IAC had been the DEA’s leadership in the foreign intelligence effort. However, this was a double-edged sword. Because of the DEA’s influence, the IAC was never truly ‘national’ in nature, and Fadden concluded that, “In fact, the IAC has functioned as a DEA committee in inter-departmental clothing.”⁹⁴ Fadden concluded that the main characteristic of the Canadian machinery was that it was centralised in theory, but decentralised in practice. In short, the foreign intelligence effort was hollow at the centre; the IC architecture was still geared towards meeting departmental goals and, as a result, was not serving the national interests of Cabinet and the PM.⁹⁵

However, Fadden recognised that the situation was complicated by the institutional imperatives of the Westminster parliamentary system, and the operational imperatives of security and departmental requirements. For instance, Fadden noted that the convention of individual ministerial accountability meant that any effort to build up the central machinery would

⁹³ Fadden, 1984, pp.10-11.

⁹⁴ Ibid, pp.20-21.

⁹⁵ Ibid, pp.20-22.

have to carefully balance the need to retain ministerial accountability for specific components of the IC. Additionally, efforts to make the machinery more inclusive would have to balance the requirements of security and the sensitivity of particular aspects of the IC's activities. Additionally, departments still had very real operational requirements for intelligence to support their specific mandates, and any effort to build up the central machinery had to ensure that departmental requirements were still being met.⁹⁶

Figure 1.5.10: Richard Fadden, while Deputy Clerk, Counsel, and S&I Coordinator in PCO, 2001⁹⁷



Fadden examined five options for reform. The first he termed the 'Department/Advisor Model,' which envisioned a DM-level advisor in the PCO who would provide independent advice to the Clerk and the PM. In this model, the all-source assessment units would stay within departments and

⁹⁶ Fadden, 1984, p.

⁹⁷ Photo: Canadian Press.

departmental DMs would retain management responsibility for them. Fadden noted that this model could only work if the PCO advisor and departmental DMs had a clear distinction in their responsibilities and were properly empowered. However, Fadden also questioned whether a PCO advisor without line authority over the assessment units could really ensure that they responded to national requirements. Ultimately, he considered this option a slight improvement over the status quo.

The second and third options were termed the 'Manager Model' and the 'Manager Model Plus.' These options involved a much more radical change in IC management: a DM within PCO would have formal policy responsibility of the different IC organisations within line departments. The IC organisations would reside within departments purely for administrative purposes. The Manager Model Plus was the same general option, but with the PCO S&I Secretariat also reporting directly to the PCO advisor. While Fadden noted that these options presented significant operational improvements, it was directly at odds with the convention of ministerial responsibility and the wider institutional role played by the PM. Fadden stressed these points strongly, and it is worth quoting him at length:

The manager model presents a number of clear advantages but [...] a further major argument against it stands out and this relates to fundamental principles which underlie the Canadian system of government. Except in time of war or crisis, it has been a constant practice to apply the principles of ministerial responsibility to all the functions of government. In the field of national security (taken in the broadest sense, this principle has found application in the dispersal among several departments and agencies of the functions related thereto. Even in the case of security where the Prime Minister is ultimately responsible, there is a lead minister, the Solicitor General, but he is far from alone in the field (e.g. Justice, National Defence, Immigration, etc.). This principle would be violated if an intelligence co-ordinator/manager were created with line authority over all components of the foreign intelligence community. Given the absence of a minister responsible for foreign intelligence, the principle would be violated all the more because ministerial responsibility would have to be assumed by the Prime Minister (to appoint a separate Minister for this purpose would be unworkable).⁹⁸

⁹⁸ Fadden, 1984, p.38.

Additionally, Fadden cautioned that this option would see significant intrusive powers vested in the hands of a single public servant, and that the balance between national and departmental requirements may swing too far in the opposite direction, leaving departmental operations with inadequate intelligence support. Fadden concluded, “this model does not appear to provide benefits commensurate with the disruption it would cause in the traditional arrangements for ministerial and departmental responsibility.”⁹⁹ In this sense, while operational aspects of the IC could be improved, there were significant institutional drawbacks that could, in the long term, negate any benefits.

Fadden’s fourth option was called the ‘Departmental Management/Central Assessment Model.’ In this option, line departments retained full authority for their own intelligence units to meet departmental requirements; the departmental units would no longer be responding to both departmental *and* national requirements. The second change, however, was that the IAC secretariat within the PCO would be expanded to create a much stronger all-source assessments staff that would respond to national requirements of cabinet and the PM. This assessments staff would be “in but not of PCO.” The IAC itself would be reformed into a “board of assessments composed mostly of intelligence users,” and would be chaired by a senior official who would also head the assessments staff and act as the IC’s chief assessments officer.¹⁰⁰ There are striking similarities between this option and the Australian ONA/NAB model or, to a greater extent, the New Zealand External Intelligence Bureau and National Assessments Committee. Fadden concluded that this option held several advantages. It involved little organisational disruption, but at the same time addressed the imbalance between departmental and national requirements, which was identified as the fundamental deficiency in the IC. Additionally, this option maintained the S&I Secretariat as a source of independent advice to the Clerk and the PM on intelligence matters.

⁹⁹ Ibid, pp.34-35.

¹⁰⁰ Ibid, pp.36-37.

The last option that Fadden examined was the ‘Modified Ministry of State Model,’ in which a DM-level official within a line department would be given an explicit government-wide mandate to coordinate the activities of the IC. However, Fadden found that this option would likely result in more confusion than improvements. Fundamentally, Fadden considered it unlikely that this model could right the imbalance between departmental and national requirements, and he wrote that it “raises a number of difficulties as concerns the exercise of extra-departmental authority.”¹⁰¹ It is worth noting that the Trudeau government had recently experimented with Ministries of State to help coordinate government business, but these organisations had only succeeded in confusing things further and were soon disbanded. While not explicitly addressed in Fadden’s report, it is likely that this past experience would have tainted this option. Ultimately, Fadden concluded that the Ministry of State Model represented few improvements for the likely difficulties.¹⁰²

While Fadden did not make an explicit recommendation between the five options, he concluded by noting that there were three fundamental requirements for improving Canadian foreign intelligence going forward. First, the direction and control of the IC needed to be made more coherent. Specifically he felt that “CSE should be subject to normal ministerial/deputy-ministerial control.”¹⁰³ At that time, administrative responsibility for CSE rested with the DM of DND, while policy control was formally vested in ICSI.¹⁰⁴ This arrangement effectively meant that the DM for CSE policy was the Clerk of PCO, who chaired ICSI.¹⁰⁵ Fadden felt that this divided accountability weakened guidance of the national SIGINT effort and needed to be simplified. The second fundamental requirement was that the “quality, relevance, and timeliness” of intelligence products needed to be improved. Fadden felt that this could be achieved through more effective management of the intelligence effort that better reflected both departmental and national requirements. Finally, and closely connected to the second

¹⁰¹ Fadden, 1984, pp.29-30.

¹⁰² Ibid, p.30.

¹⁰³ Ibid, p.41.

¹⁰⁴ IAC (August 24, 1977) ‘SIGINT Memorandum No.1: Control of Signal Intelligence (SIGINT) in Canada’ IAC/S #1, SECRET, found in O’Neill, 1987, Chapter 2/Annex G.

¹⁰⁵ Fadden, 1984, pp.19,28.

requirement, Fadden felt that more emphasis needed to be placed on the needs of the PM and cabinet ministers as the principle national consumers of intelligence. In short, if the IC was going to be more than simply the sum of its parts, it had to be able to focus on the intelligence questions of national importance. The natural corollary to this was that the IC had to be able to discern what senior policymakers thought those national issues were; the machinery, as it existed, had not provided that interaction on a consistent enough basis.

Act 2: The Kroeger Report

Following Fadden's examination of the management of the IC and articulation of the options for change, the government commissioned Arthur Kroeger, considered the 'dean of deputy ministers', recommend a way forward. Kroeger's report, entitled *Management of the Canadian Foreign Intelligence Program*, was completed in August 1984. Kroeger concurred with Fadden's diagnosis of the problems in IC management, although he was somewhat more explicit in some instances. For instance, Kroeger makes clear that part of the problem for officials in making intelligence products more relevant and timely for ministerial consumers is that officials were often left unsure about what ministers' interests were. Compounding this was the fact that the secrecy surrounding the foreign intelligence effort had left large parts of the IC isolated from their consumers and unable to proactively gauge requirements.¹⁰⁶

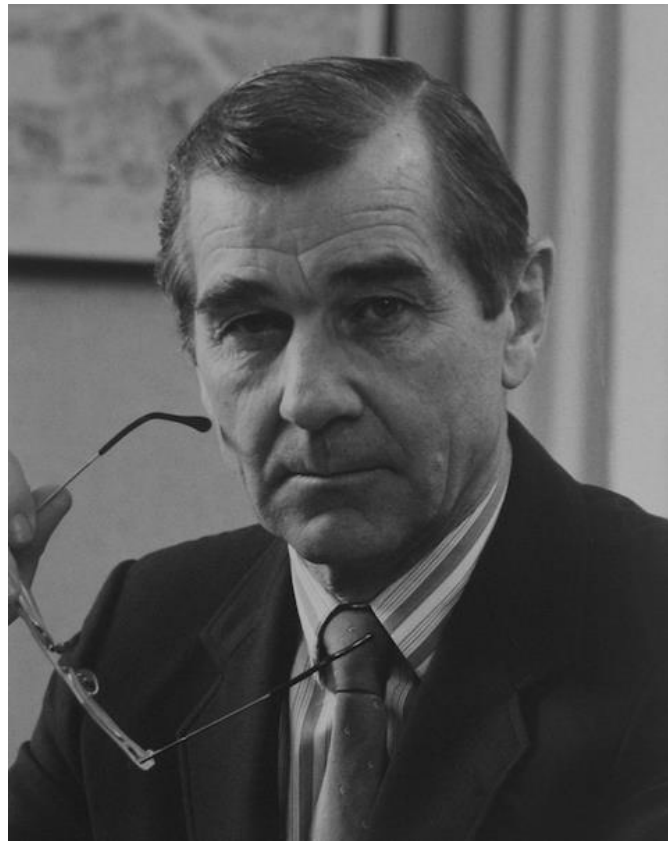
Kroeger also agreed with Fadden's conclusion that policy guidance for CSE was problematic. Kroeger stated that, while the Secretary to the Cabinet was ultimately responsible for CSE policy as chairman of ICSI, "experience over the years has demonstrated, however, that the Secretary to the Cabinet is handicapped in the discharge of his responsibility in this field by the numerous other claims on his time."¹⁰⁷ The growth of PCO through the 1960s and 1970s had progressively placed greater demands on the time of the Clerk. It has been noted that Michael Pitfield's tenure as Clerk through the Trudeau governments

¹⁰⁶ Kroeger, A. (August 14, 1984) *Management of the Canadian Foreign Intelligence Program*, Privy Council Office, TOP SECRET, Released to the author under the ATIA, p.6.

¹⁰⁷ *Ibid*, p.7.

increased the role of the Clerk as the 'PM's Deputy Minister' in addition to their traditional role as Secretary to the Cabinet. Also, the press of business towards the PM impacted the Clerk by default. For instance, Gordon Robertson, Clerk from 1963-1975, became heavily involved in supporting the PM on constitutional and federal-provincial matters, witnessed by the fact that Robertson became DM of the new Federal-Provincial Relations Office after leaving PCO.¹⁰⁸ Ultimately, as Kroeger recognised, the Clerk's responsibilities had grown substantially through the latter half of the Cold War, and the time they could commit to overseeing the IC was increasingly limited.

Figure 1.5.11: Arthur Kroeger¹⁰⁹



Also, Kroeger recognised the increased organisational complexity within the IC resulting from the creation of CSIS. He stated that, “the requirement for a more effective system has become pressing with passage of the Bill C-9, the [CSIS] Act,” and explicitly pointed to CSIS’ Section 16 mandate as a contributing

¹⁰⁸ Robertson, R.G. (2000) *Memoirs of a Very Civil Servant: Mackenzie King to Pierre Trudeau*, Toronto: University of Toronto Press, pp.211-298.

¹⁰⁹ Photo: National Resources Canada.

factor.¹¹⁰ The interdependencies between actors had become more complex, and to be operationally effective there was a greater imperative on the organisations to share resources between them. Indeed, Section 16 of the CSIS Act is exactly that: a mechanism for allowing the Minister of External Affairs and the Minister of National Defence to draw on CSIS' unique capabilities when needed. This exchange of resources (authority for capability) increased the requirement for interdepartmental management of the resource exchange.

Kroeger recommended that, instead of significant and immediate change, the government should take an "evolutionary approach." The first step would be the creation of a new 'Foreign Intelligence Coordinator' within the PCO. Kroeger stated that this individual should be an experienced DM, who would "be an alternate to the Secretary to the Cabinet for the purpose of providing central guidance to the foreign intelligence program." Kroeger stressed that the Coordinator would be engaged in the foreign intelligence effort on a full-time basis and would "come to play something of a leadership role in the inter-departmental foreign intelligence community." The Coordinator, once engaged with the IC, could then bring forward to ministers proposals for further improvements as needed to manage the intelligence effort effectively.¹¹¹

Kroeger noted that the Coordinator's role in security intelligence matters would need to be nuanced. Unlike foreign intelligence, there was a clearer lead minister for security (the Solicitor General) and, following the McDonald Commission, there had already been an oversight regime created that was anchored in the *CSIS Act*.¹¹² However, Kroeger also stated that there were several good reasons why the Coordinator "should be kept well informed about security matters and be in a position to influence certain kind of decisions in this field."¹¹³ Firstly, security and foreign intelligence efforts needed to be closely aligned to tackle transnational threats, such as terrorism. Secondly, with the creation of CSIS, there would be a requirement to monitor the organisational

¹¹⁰ Kroeger, 1984, p.7.

¹¹¹ Kroeger, 1984, p.8.

¹¹² Ibid, p.9.

¹¹³ Ibid.

relationships and build the right mechanisms for cooperation. Lastly, the Coordinator's proximity to the PM meant that if the Clerk was not available and urgent security matters arose, the Coordinator would be the best-placed official to provide necessary access or guidance.¹¹⁴

Kroeger also addressed the role of the Coordinator in relation to the committee machinery. He recommended that, while the Clerk should continue as the chair of ICSI, the Coordinator should be appointed the vice-chair and should be responsible for reviewing and coordinating any proposals going to CC/S&I on foreign intelligence. Ultimately, the key role for the Coordinator would be in relation to the IAC. Kroeger felt that all of the IAC's core roles (review and approval of national assessments, advising on priorities and resources, and coordination of the foreign intelligence programme) would be strengthened having the Coordinator closely involved in all aspects of the IAC's business.¹¹⁵ To this end, Kroeger recommended that the Coordinator be appointed the chairman of the IAC, and be supported by a small office of officials as well as the IAC Secretariat. The Coordinator would chair the IAC whenever there was discussion of programme or priority-related items, while the vice-chair, who would be a senior DEA official, would chair whenever there were discussions of national assessments.¹¹⁶

However, Kroeger differed in a key respect from the Fadden Report. For instance, he rejected the option of moving all or part of the assessment effort into the centre of government, thus allowing DEA and DND to retain control of their all-source assessment units. Kroeger's rationale for this was that the Coordinator would bring enough clout to the centre in order to reset the balance between departmental and national intelligence requirements.¹¹⁷

On the issue of CSE's policy guidance, the Kroeger Report represented a middle ground. Kroeger recommended that responsibility for exercising policy

¹¹⁴ Ibid, pp.9-10.

¹¹⁵ Kroeger, 1984, pp.10-11.

¹¹⁶ Ibid, p.13.

¹¹⁷ Ibid.

oversight of CSE on behalf of ICSI should be transferred from the Clerk to the Coordinator, and that the Coordinator should be “given the role of ensuring the Minister [of National Defence] is kept appropriately informed of CSE’s activities and of providing advice to the Minister as required.”¹¹⁸ On the face of it, these were not major changes. However, the fact that the Coordinator was engaged with intelligence on a full-time basis meant that CSE’s policy guidance would be more consistent. Additionally, the Coordinator could more effectively serve as a second DM for the Minister of National Defence, with a specific responsibility for CSE.

The government accepted the broad outline of the Kroeger Report’s recommendations in late 1984 with one subtle change. While the Coordinator’s role would be predominantly focused on foreign intelligence matters, it would also have a peripheral role in coordinating security matters, as required by ICSI. The first PCO Intelligence and Security Coordinator (I&S Coordinator) was J. Blair Seaborn, a veteran DM who had spent much of his career in the DEA. While he was not an ‘intelligence practitioner,’ Seaborn had been in positions at DEA or postings abroad that made him a consistent intelligence consumer.¹¹⁹ Additionally, having been DM of Consumer and Corporate Affairs, DM of Environment Canada, and Chairman of the International Joint Commission, Seaborn had substantial experience in government policy and administration outside the world of intelligence. The I&S Coordinator’s mandate was laid out in a letter from Clerk of the Privy Council, Gordon Osbaldeston, on November 27, 1984. While the letter itself is still classified, we know from other sources that the mandate was closely aligned with the recommendations of the Kroeger Report, empowered the new I&S Coordinator to bring forward reforms as necessary to improve the foreign intelligence effort, and to evaluate the system again after a few years.¹²⁰

¹¹⁸ Ibid.

¹¹⁹ DEA documents indicate that Seaborn was the head of the Eastern section in the Europe Division, and subsequently the Director of the Far East Division. Subsequently, he was the Canadian representative to the International Control Commission on Vietnam, where he worked closely with the US government on sensitive missions to negotiate with North Vietnam.

¹²⁰ Marchand, D.M. (January 23, 1987) *Foreign Intelligence Assessment: A Review*, Privy Council Office, SECRET, Released to the author under the ATIA, p.7-8.

In short order, Seaborn found himself busy. The Coordinator became the chair of the IAC and vice-chair of ICSI. In a break from the recommendations of the Kroeger Report, however, Seaborn chaired the IAC at all times, whether the agenda covered programme matters or national assessments.¹²¹ Additionally, Seaborn began to institute measures to better determine the intelligence requirements of senior consumers, including ministers and other DMs.¹²²

Figure 1.5.12: J Blair Seaborn¹²³



Seaborn was equally busy on the security front. Just over six months after taking office, in March 1985, Armenian terrorists attacked the Turkish embassy in Ottawa. The government's response to the attack was largely seen as a debacle, and ICSI engaged in a cross-government review of counter-terrorism (CT) arrangements, which Seaborn was closely involved in.¹²⁴ Three months

¹²¹ Ibid, p.21.

¹²² For details on these measures, see Chapter 8 on requirements and priorities.

¹²³ Photo: International Joint Commission.

¹²⁴ Bartleman, J.K. (May 3, 2007) Evidence to the Commission of Inquiry into the Investigation of the Bombing of Air India Flight 182, Vol.22, pp.2102-2104, 2116, 2124-2125; Major, J. (2010) *Air*

later, Canada faced its worst act of terrorism when a bomb planted by Sikh militants brought down Air India Flight 182 just off the coast of Ireland, killing over 300 people. ICSI undertook a major review of airline security following the bombing, and Seaborn was responsible for producing the final report, which went on to have significant implications for the airline security regime in Canada.¹²⁵

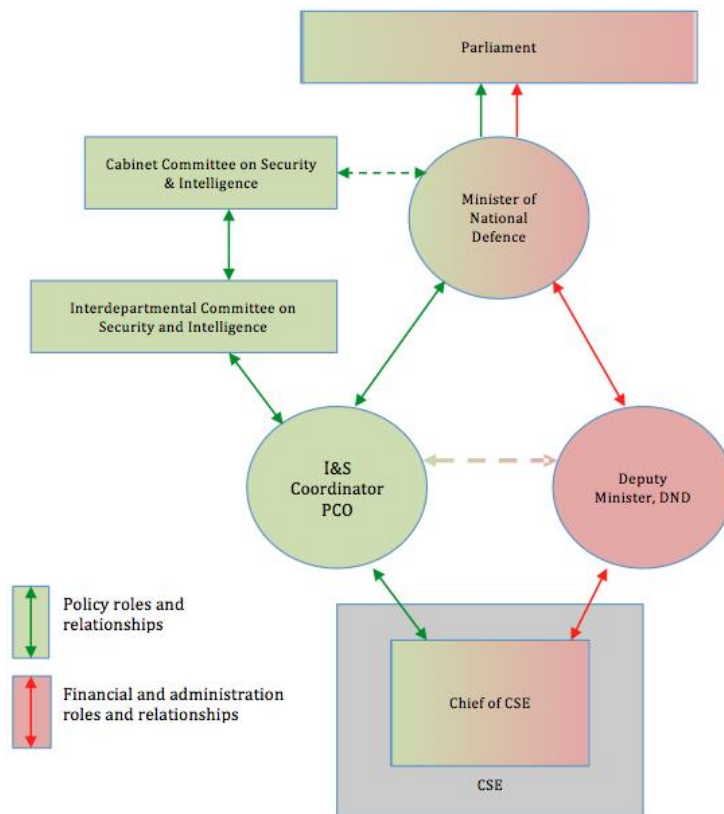
Finally, as suggested by Kroeger, Seaborn took over responsibilities for oversight of CSE's policy and operations from the Clerk. Seaborn's evidence to the Special Committee on the Review of the CSIS Act (the Thacker Committee) reflected a role that was very much in line with the role laid out in the Kroeger review.¹²⁶ The difference between the Coordinator's role in CSE's 'policy and operations' and the DM of DND's role in 'finances and administration' deserves some explanation. The Coordinator was responsible for providing guidance to CSE on the government's requirements and priorities for SIGINT, and on monitoring the ability of CSE to deliver on those requirements. Also, the Coordinator would bring to the attention of the PM, Minister of Defence, or CC/S&I particular operational activities that required ministerial approval or wider government consideration given their risks. Although started prior to the creation of the Coordinator's position, a good example of such an activity would be the CSE's involvement in embassy collection. The DM of DND, alternatively, was responsible for oversight of CSE's financial position (expenditure and accounting), as well as administrative matters such as capital projects, facilities, and human resources. These relationships are mapped out in Figure 1.5.13.

India Flight 182: A Canadian Tragedy, Volume 2—Part 1: Pre-Bombing, Commission of Inquiry into the Investigation of the Bombing of Air India Flight 182, pp.140-141.

¹²⁵ Major, J. (2010) *Air India Flight 182: A Canadian Tragedy, Volume 4: Airline Security*, Commission of Inquiry into the Investigation of the Bombing of Air India Flight 182.

¹²⁶ Seaborn, J.B. (February 20, 1990) Evidence to the Special Committee on the Review of the CSIS Act and the Security Offences Act, Issue No.16, House of Commons, 2nd Session, 34th Parliament.

Figure 1.5.13: CSE Oversight Arrangements, 1985



Act 3: The Marchand Report

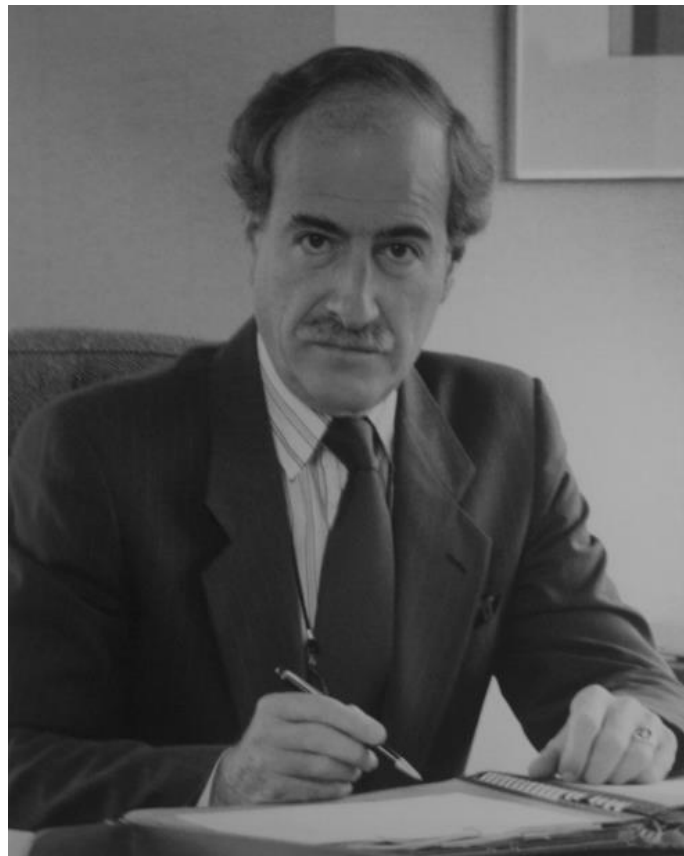
In late 1986, the ICSI commissioned another review to evaluate the changes that had been put in place from 1984 to 1986. PCO brought in a senior DM, De Montigny Marchand, as Special Advisor to complete the review prior to taking an ambassadorial appointment. Marchand had experience in PCO (as Deputy Secretary to the Cabinet for Operations from 1975-1979) and in several line departments. Most importantly, Marchand had been the Associate DM at foreign affairs responsible for foreign policy issues, including security and intelligence matters, from 1980-1985.¹²⁷

Marchand's review, entitled *Foreign Intelligence Assessment: A Review* (referred to hereafter as the Marchand Report), focused on the assessment function and the Coordinator's role from a machinery perspective. Marchand

¹²⁷ As part of government reorganisations in 1982-1983, DEA had absorbed the international trade responsibilities of the former Department of Industry and Trade. After this reorganisation, the DEA employed two Associate DMs under the USSEA, one being focused on foreign policy matters and one being focused on trade matters.

found that there was a broad consensus that the creation of the I&S Coordinator “had provided the ‘firmer interdepartmental leadership’ that had been lacking under previous arrangements” and that “foreign intelligence assessment generally has much improved in the last two years.”¹²⁸ Marchand noted that the 1984 reforms “gambled” on leaving the all-source assessment units within DEA and DND, and instead emphasising increased leadership at the centre of government. However, he found that the gamble had largely paid off; the Coordinator in PCO had been able to right the balance and place much greater emphasis on national requirements while still ensuring departmental requirements were satisfied.¹²⁹

Figure 1.5.14: De Montigny Marchand¹³⁰



Marchand noted positively that several changes to the committee structures had increased the quality of the national assessments. The IAC membership had been reduced, but now represented a greater balance between producers *and consumers*. Additionally, IAC products went through a much more

¹²⁸ Marchand, 1987, p.2.

¹²⁹ Ibid, p.5.

¹³⁰ Photo: Natural Resources Canada.

rigorous review and consultation process. An Assessment Review Group (ARG) had been created at the DG or Director level that would meet prior to IAC meetings in order to “resolve any unreconciled interdepartmental disagreements on judgments or conclusions in assessments” and provide a final quality review.¹³¹ Under the ARG, several Special Assessment Review Groups (SARGs) focused on particular topics or regions. Each SARG was chaired by a member of the IAC secretariat, and would review initial drafts of IAC assessments.¹³² The SARGs were more free-flowing than the more formal senior committees. They would highlight trends and future areas of interest and, interestingly, Marchand notes that the SARGs were not limited to intelligence practitioners, but also brought in academics and other outside experts.¹³³ Figure 1.5.15 shows the committee structures as they existed in 1987 following the IC reforms through the 1980s. Figures 1.5.16 to 1.5.19 show the memberships and terms of reference for the CC/S&I, ICSI, IAC, and SAC in early 1987. Figure 1.5.20 shows the PCO S&I units as they were organised in 1987 under the I&S Coordinator.

However, while the more methodical IAC process had produced higher quality products, it was also time and resource intensive. This was problematic for the all-source assessment units, particularly within the DEA, who were at the same time facing significant budget and personnel cuts through wider government spending cuts. Because of this, the DEA had argued for a streamlining of the IAC process and fewer interdepartmental IAC products. Marchand rejected the DEA’s arguments, citing that the very idea of the reforms had been to *increase* the national assessment products. However, he also concluded that the resource problems facing the assessment units were acute, and required a second look.¹³⁴ Ultimately, Marchand recommended that these all-source units needed to be viewed as government-wide assets, instead of simply departmental units, and that this view should be reflected in resourcing decisions on these units.¹³⁵

¹³¹ Ibid, p.10.

¹³² SIRC (1987) *The Security and Intelligence Network in the Government of Canada: A Description*, Study 86/87-03, SECRET, Released under the ATIA, p.14.

¹³³ Marchand, 1987, pp.11-12.

¹³⁴ Ibid, pp.15-17, 22-26, 31-33, 38-43. The resourcing problem is addressed in detail in Ch.11.

¹³⁵ Ibid, p.45.

Marchand also examined whether the interdepartmental machinery created 'lowest-common-denominator' outcomes in order to achieve consensus. He found that, while lowest-common-denominator outcomes were a theoretical risk, the Coordinator "is not only conscious of these risks but does not hesitate to lead when the circumstances so dictate, while he also does not hesitate to adjourn for further reflection when this is the prudent course."¹³⁶ Marchand noted that interdepartmental review of assessment products "is bound to improve the quality of the resulting product" assuming that the right requirements have been identified, that the committee members work collegially, and that the chair has the authority and inclination to pursue judgements that go beyond a consensus view when required. Ultimately, he found that all three elements were present in the IAC process.¹³⁷

Ultimately, the Marchand Report showed that a relatively small investment at the centre of government, particularly in terms of leadership, had significantly lifted the overall national intelligence effort. While the architecture was not perfect, the largest problems identified by Marchand were not actually intelligence problems; they were policy problems where the arbitrary effects of larger government and departmental decisions, mainly in terms of resources, had undercut the efforts to bring greater coherence to the IC. However, the core element of the 1984-1985 reforms was successful. The creation of a full-time Coordinator in the PCO, with access to the PM, cabinet ministers, and the Clerk, provided greater leadership at the centre and drove subsequent improvements across the IC. Arguably for the first time, the centre was not passive when it came to intelligence and the benefits showed.

¹³⁶ Ibid, p.21.

¹³⁷ Ibid, pp.32-33.

Figure 1.5.15: Canadian Committee Structures Related to Management of the IC
--1987--

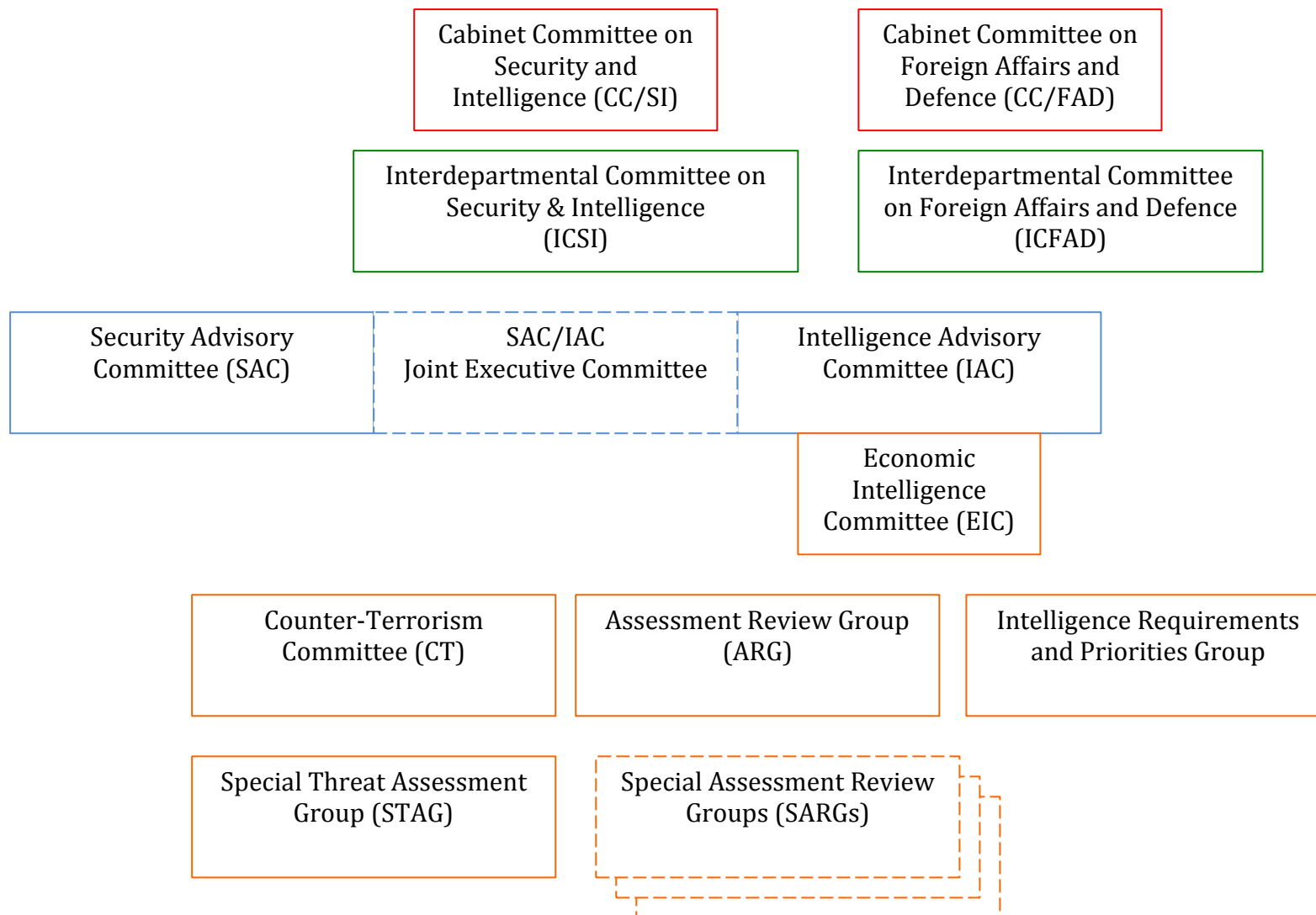


Figure 1.5.16: Cabinet Committee on Security and Intelligence, 1987¹³⁸

| Membership |
|---|
| <p><u>Chair:</u> <i>The Prime Minister</i></p> <p><u>Members:</u> <i>Deputy Prime Minister (Vice-chair)</i> <i>Secretary of State for External Affairs</i> <i>Solicitor General</i> <i>Minister of National Defence</i> <i>Minister of Justice and Attorney General</i> <i>Minister of Finance</i> <i>President of the Treasury Board</i> <i>Minister for International Trade</i> <i>Minister of Employment and Immigration</i></p> <p><u>Secretary:</u> <i>PCO Intelligence & Security Coordinator</i></p> <p><i>Frequency: As Needed</i></p> |
| Terms of Reference |
| <p><i>"The [CC/S&I] considers policy proposals on issues arising from the security intelligence sector. The Cabinet Committee decides on the security and intelligence priorities for the Government of Canada."</i></p> |

Figure 1.5.17: Interdepartmental Committee on Security and Intelligence, 1987¹³⁹

| Membership |
|--|
| <p><u>Chair:</u> <i>Clerk and Secretary to the Cabinet (or his designate)</i></p> <p><u>Permanent Members:</u> <i>Intelligence and Security Coordinator (Vice-chair)</i> <i>Under-Secretary of State for External Affairs</i> <i>Deputy Minister of National Defence</i> <i>Deputy Minister of Justice</i> <i>Deputy Solicitor General</i></p> |

¹³⁸ Info is taken directly from SIRC, 1987, Study 86/87-03, pp.5-6.

¹³⁹ Info is taken directly from SIRC, 1987, Study 86/87-03, pp.9-10.

| |
|---|
| <p><i>Secretary of the Treasury Board</i></p> <p><i>Director, CSIS</i></p> <p><i>Chief of the Defence Staff</i></p> <p><i>Commissioner of the RCMP</i></p> <p><u><i>Associate Members:</i></u></p> <p><i>Deputy Minister of Supply</i></p> <p><i>Chairman of the Public Service Commission</i></p> <p><i>Deputy Minister of Communications</i></p> <p><i>Deputy Minister of Employment and Immigration</i></p> <p><u><i>Secretary</i></u></p> <p><i>Asst. Secretary for Security & Intelligence, PCO</i></p> <p><i>(The Chairman of the SAC and the IAC and directors of other agencies principally concerned will attend as technical advisors, as required.)</i></p> <p><i>Frequency: As Needed</i></p> |
| <p>Terms of Reference</p> |
| <p><i>"The [ICSI] is under the general direction of the [CC/S&I]. The role of ICSI is to 'keep under review the Canadian security and intelligence organization and activities.'</i></p> <p><i>The Committee attempts to ensure that Ministers are provided with the information and advice they require to make decisions affecting the preservation and enhancement of the security and integrity of Canada, both domestically and in relationships with other nations. To accomplish this, the ICSI provides general guidance to the [SAC] and the [IAC]."</i></p> |

Figure 1.5.18: Intelligence Advisory Committee, 1987¹⁴⁰

| |
|---|
| <p>Membership</p> |
| <p><u><i>Chair:</i></u></p> <p><i>Intelligence & Security Coordinator</i></p> <p><u><i>Members:</i></u></p> <p><i>ADM for Political and International Security Affairs, DEA (Vice-chair)</i></p> <p><i>Chief of Intelligence and Security, DND</i></p> <p><i>Chief of CSE</i></p> <p><i>Executive Secretary, PCO IAC Secretariat</i></p> <p><i>ADM, International Finance, Department of Finance</i></p> <p><i>ADM, Immigration, Department of Employment and Immigration</i></p> <p><i>Deputy Director for Intelligence Production, CSIS</i></p> |

¹⁴⁰ Info is taken directly from SIRC, 1987, Study 86/87-03, pp.14-17.

| |
|--|
| <p><u>Secretary:</u> <i>S&I Secretariat, PCO</i></p> <p><i>(Additional representatives of the Departments of External Affairs and National Defence and representatives of other departments and agencies of government, notably the Departments of Finance and the Ministry of the Solicitor General, as required)</i></p> <p><i>Frequency: Weekly</i></p> |
| <p>Terms of Reference</p> |
| <p><i>“Under the guidance and direction of the ICSI, the [IAC]:</i></p> <ul style="list-style-type: none"> <i>a) provides coordinated advice to departments and agencies concerned with the collection and assessment of external intelligence on the government’s intelligence requirements in order to assist in the formulation and implementation of government policies in the areas of national sovereignty and external threats to Canada’s security, immigration, foreign affairs and defence and international economic relations;</i> <i>b) co-ordinates, for approval of the [ICSI], programmes, plans and budgets for the collection, collation, analysis and distribution of intelligence within the stipulated requirements of the IAC;</i> <i>c) advises the [ICSI] on the setting of priorities and the allocation of resources for the provision of required intelligence;</i> <i>d) assembles, evaluates and presents jointly such intelligence as may be required by Cabinet Committees, individual Ministers, the Chief of the Defence Staff, the [ICSI] or the [SAC], or as the [IAC] may, on its own initiative, propose.”</i> |

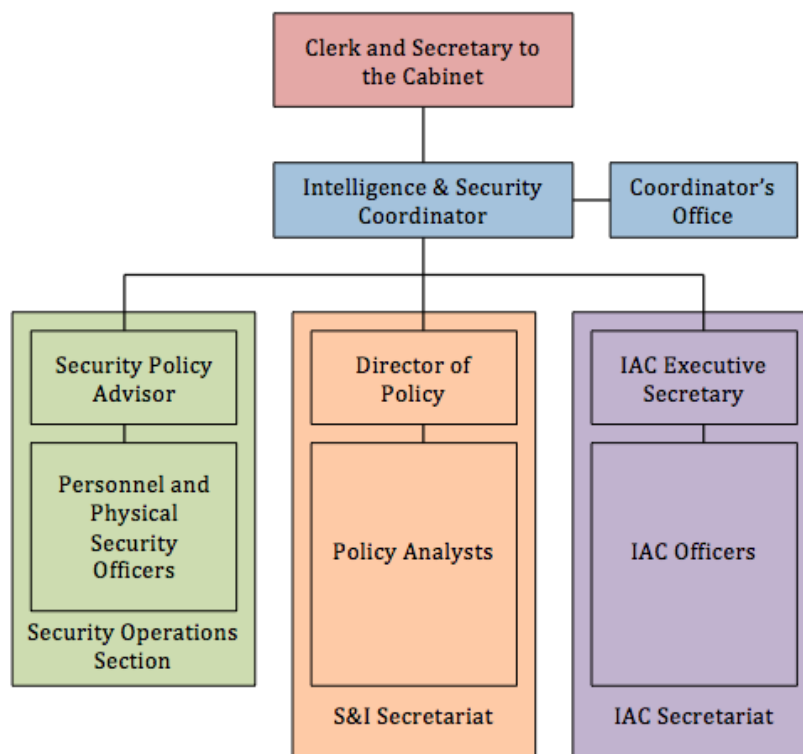
Figure 1.5.19: Security Advisory Committee, 1987¹⁴¹

| |
|--|
| <p>Figure 1.5.19: Security Advisory Committee, 1987¹⁴¹</p> |
| <p>Membership</p> |
| <p style="text-align: center;"><u>Chair:</u></p> <p style="text-align: center;"><i>Senior Assist. Deputy Solicitor General, Police and Security Branch, Ministry of the Solicitor General</i></p> <p style="text-align: center;"><u>Members:</u></p> <p style="text-align: center;"><i>CSIS Senior Representative</i></p> <p style="text-align: center;"><i>Assistant Commissioner, RCMP</i></p> <p style="text-align: center;"><i>Assistant Deputy Attorney General</i></p> <p style="text-align: center;"><i>DG, Security Services Bureau, DEA</i></p> <p style="text-align: center;"><i>Chief of Intelligence and Security, DND</i></p> <p style="text-align: center;"><i>DG, Staffing Branch, Public Service Commission</i></p> <p style="text-align: center;"><i>Director of Security Services, Department of Supply and Services</i></p> <p style="text-align: center;"><i>Special Assistant to the ADM, Immigration, Department of Employment and Immigration</i></p> <p style="text-align: center;"><i>Asst. Secretary to the Cabinet, S&I Secretariat, PCO</i></p> <p style="text-align: center;"><u>Secretary:</u></p> |

¹⁴¹ Info is taken directly from SIRC, 1987, Study 86/87-03, pp.11-12.

| |
|--|
| <p><i>Senior Representative of the Police and Security Branch, Ministry of Solicitor General</i></p> <p><i>(Additional representatives of department and agencies attend SAC meetings as required. For Example, Transport Canada representation often takes place when SAC meetings discuss terrorism)</i></p> <p><i>Frequency: Monthly</i></p> |
| <p>Terms of Reference</p> |
| <p><i>“Under the guidance and direction of ICSI, the [SAC]:</i></p> <ul style="list-style-type: none"> <i>a) provides periodic reports to ICSI, and to the [CC/S&I] if required, of joint assessments of the internal security situation in Canada;</i> <i>b) considers and provides co-ordinated advice to ICSI on proposals for security policies and procedures put forward by any of the departments and agencies represented thereon and on any matters referred to it by ICSI;</i> <i>c) formulates, for the approval of ICSI, general regulations and, procedures for the protection of classified material in all departments and agencies of government, including security of communications;</i> <i>d) provides assistance and advice to all departments and agencies on the application of such general regulations and procedures, including the review of individual cases or incidents prior to their referral to the Security Intelligence Review Committee.</i> <i>e) provides, as necessary, a link between the investigative and operational security service and government departmental agencies; and</i> <i>f) provides advice and guidance for the resolution of conflicts between the interests of security and departmental and other interests.”</i> |

Figure 1.5.20: PCO S&I Units, 1987¹⁴²



¹⁴² SIRC, 1987, Study 86/87-03, pp.5-6.

Intelligence Machinery in the 1990s: Hollow Governance?

Just as the Canadian IC was experiencing real leadership from the centre of government for the first time, another series of significant environmental changes occurred that fundamentally altered the global and political environments in Canada. The first change was global and unexpected: the Cold War ended. The breakdown of the Warsaw Pact caught both policymakers and the Canadian IC by surprise. An IAC assessment dated December 7, 1989 opened with the judgement “We do not believe East Germany is on the brink of collapse.”¹⁴³ In under a year, East Germany had ceased to exist. The belief that the world would become simpler and safer led to calls for a ‘peace dividend’ and progressive cuts in defence, intelligence, and foreign service budgets ensued in order to try and pay down some of the national deficit.¹⁴⁴ The domestic political message was clear: national security was on the back burner; the priority was to right the economic situation.

The second change was a shift in the political environment. Prime Minister Mulroney stepped down in 1993 and left the reins of government to Kim Campbell. Mulroney had a record-setting 40 ministers, and up to 14 cabinet committees. As Savoie has noted, there was a general consensus that the core executive had become unwieldy and fragmented. Campbell’s short-lived government represented an opportunity for change, and when the new PM came into power, PCO put forward a series of substantial changes to government organisation including a major consolidation of portfolios.¹⁴⁵ Campbell nearly halved the number of cabinet ministers to 25 and abolished all but five cabinet committees, including CC/S&I and the powerful Cabinet Committee on Priorities and Planning (CC/P&P). The idea was that the full Cabinet would again become the central point for decision-making on strategic national issues, including

¹⁴³ Intelligence Advisory Committee (December 12, 1989) ‘East Germany: Leadership in Disarray’ Special Intelligence Report 21/89, Released under the ATIA. The author would like to thank Alan Barnes for providing a copy of this document.

¹⁴⁴ Rioux, J-F. and Hay, R. (1997) ‘Canadian Foreign Policy: From Internationalism to Isolationism?’ Discussion Paper No.16, Norman Paterson School of International Affairs, Carleton University, pp.25-26. The impacts of the ‘peace dividend’ are discussed in Chapter 11.

¹⁴⁵ Savoie, 1999, pp.144-146; Aucoin, P. and Bakvis, H. (1993) ‘Consolidating Cabinet Portfolios: Australian Lessons for Canada’ *Canadian Public Administration*, 36:3, pp.392-420.

foreign and defence policy and national security.¹⁴⁶ Public administration experts applauded the overall thrust of the changes at the time, but also questioned the abolition of CC/P&P. One of the lessons learned from similar experiences in Australia was that prime ministerial leadership and agility was key to government management reform. Trying to manage a similar exercise through full cabinet, some warned, presented intractable problems and would likely result in an informal 'inner cabinet.'¹⁴⁷ Virtually the same argument could be made about national security matters. The sensitivity of issues like intelligence priorities and programmes and the efficient use of ministers' time worked against the use of full Cabinet as a consistent decision-making body for intelligence issues.

When Jean Chretien came to power following the national election in late 1993, he largely continued the reforms begun under Campbell and further reduced the number of policy-focused cabinet committees to two: Social Development and Economic Development.¹⁴⁸ Chretien's reasoning was sound: he wanted more efficiency in decision-making. He had been scarred by Trudeau's cabinet meetings, which ran for hours and more resembled graduate school seminars than corporate board meetings. Chretien later recounted:

When you have too many committees and too many documents, everyone gets dragged down in the details and fewer decisions get made. Moreover, there's little to be gained from having the minister of fisheries, for example, perpetually involved in the business of the Department of Veterans Affairs, or vice versa. I wanted the ministers to be spending most of their time in their own office, looking after what needed to be done and making decisions, rather than behaving like quasi-prime ministers trying to tell the whole government what to do.¹⁴⁹

For this reason, Chretien balanced the two standing cabinet committees with ad hoc committees as needed, such as one on National Unity that worked out a strategic plan for the government following the 1995 referendum.¹⁵⁰ In a similar vein, CC/S&I was replaced by the Meeting of Ministers on Security & Intelligence

¹⁴⁶ Aucoin and Bakvis, 1993, pp.412-413.

¹⁴⁷ Ibid.

¹⁴⁸ Savoie, 1999, pp.42-45, 146-147. In Chretien's second mandate, these were renamed to Social Union and Economic Union.

¹⁴⁹ Chretien, J. (2007) *My Years as Prime Minister*, Toronto: Vintage Canada, pp.31-32.

¹⁵⁰ Ibid, p.153-154.

(MMSI). While MMSI's existence was more consistent than many of the ad hoc cabinet committees, it was used on a purely as-needed basis. In reality, this usually translated into a single annual meeting to review and approve intelligence priorities, and provide decisions on any other significant issues that required collective ministerial attention.¹⁵¹ Intelligence policy matters that came up and between MMSI meetings could be handled through numerous other informal channels, including through the PM himself, through the Deputy PM (specifically when Herb Gray was Deputy PM), through ad hoc meetings of concerned ministers, or through meetings of the full Cabinet.¹⁵² While the abolition of CC/S&I helped to streamline Cabinet machinery overall, it led to a reliance on informal and ad hoc machinery for cross-community management.

Intelligence Machinery in the 1990s: Officials Keeping things Running

Below the Cabinet level, there was some evolution of the officials' committees through the 1990s. ICSI continued to function as it had before, however given its role mirroring MMSI, and with less focus at the political level, it met much less frequently. In the later half of the 1990s, an ICSI 'Executive Committee' was formed, chaired by the PCO Coordinator (at that time known as the Deputy Clerk, S&I) and comprising the DMs from the core IC departments and agencies. The idea behind the Executive Committee was to have a smaller group of DMs that could address urgent or very sensitive matters without pulling in other members of ICSI whose departments were not affected.¹⁵³

Additionally, in 1993 the IAC/SAC structure was revised in order to separate intelligence policy and assessment more clearly and to do away with the foreign-domestic divide that had characterised the IAC/SAC machinery. In their place, PCO created the Intelligence Policy Group (IPG) and the Intelligence Assessment Committee (confusingly, also with the acronym IAC). The IPG

¹⁵¹ Office of the Auditor General (1996) 'Chapter 27: The Canadian Intelligence Community—Control and Accountability' 1996 November Report of the Auditor General of Canada, http://www.oag-bvg.gc.ca/internet/English/parl_oag_199611_27_e_5058.html (Accessed 2010).

¹⁵² Ibid and I-11.

¹⁵³ Fadden, R.B. (October 29, 2001) Evidence to the Standing Committee on Defence and Security, Senate of Canada, Issue No.6, 1st Session, 37th Parliament, p.12; S&I Secretariat (circa 1999) 'The Security and Intelligence Secretariat Orientation Manual' Ottawa: Privy Council Office, p.38.

operated at the ADM level and supported ICSI on any intelligence policy matters; it met once or twice a month depending on the tempo of the agenda.¹⁵⁴

The creation of the Intelligence Assessment Committee reflected the move of the all-source assessment function from DFAIT to PCO in 1993 after a particularly fraught episode driven by the post-Cold War budget cuts.¹⁵⁵ The IAC, which was supported by the new Intelligence Assessment Secretariat (IAS) in PCO, focused exclusively on the production of national assessments and was chaired by the Executive Director of the IAS. The IAC membership was a mix of ADMs, DGs, and Directors that had responsibility for the analytical units across the IC.¹⁵⁶ The IAC was supported by thematically and geographically focused Interdepartmental Expert Groups (IEGs)¹⁵⁷ that filled essentially the same function as the SARGs had under the IAC/SAC machinery.

Lastly, there was a small committee formed to manage the approval process for CSIS Section 16 operations. These operations involved the collection of foreign intelligence within Canada under the *CSIS Act* and were particularly sensitive given the risks involved.¹⁵⁸ Known as the 'Section 16 Committee', this body was chaired by PCO's Asst. Secretary for S&I and comprised representatives from CSIS, DFAIT, DND, CSE, Solicitor General's Department, and the Department of Justice.¹⁵⁹ In comparison to the IPG and IAC, the Section 16 Committee was focused on sensitive operational matters that could have impacts for Canada's international relations. Figure 1.5.21 shows the committee structures as of 1999, and Figures 1.5.21 to 1.5.24 shows the committee memberships and responsibilities at the same period.

¹⁵⁴ S&I Secretariat, 1999, pp.38.

¹⁵⁵ The creation of the IAS is covered in detail in Ch.11.

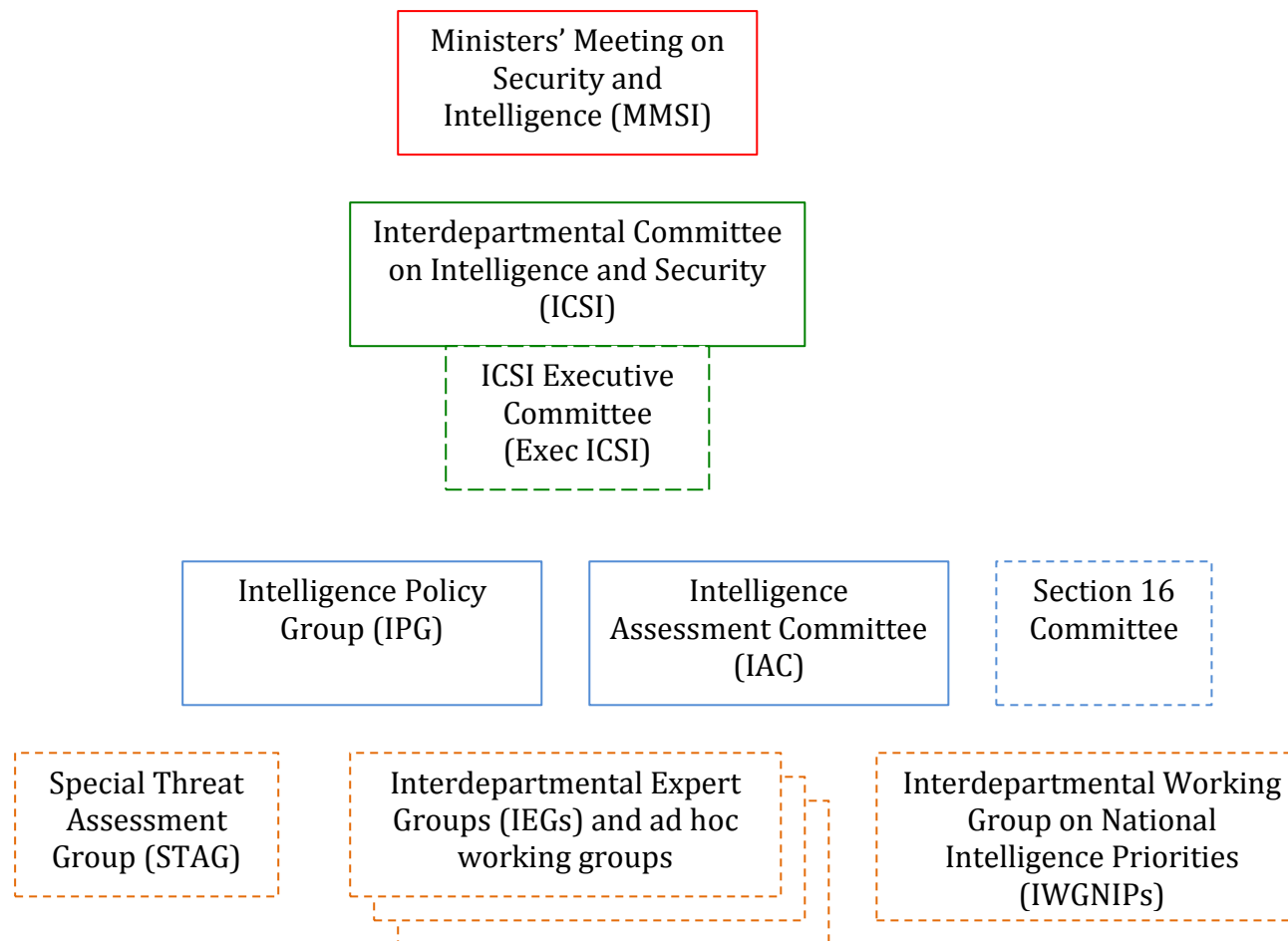
¹⁵⁶ Ibid, pp.39-40.

¹⁵⁷ Ibid, pp.11-12.

¹⁵⁸ Named after Section 16 of the *CSIS Act*.

¹⁵⁹ S&I Secretariat, 1999, p.50; Milne, G and Last, D. (2004) "National Security Decision-Making for Crises and Strategic Threats," *Choice of Force: Special Operations for Canada*, David Last and Bernd Horn, (eds.) Montreal: McGill-Queen's Press, p.9.

**Figure 1.5.21: Canadian Committee Structures Related to Management of the IC
--1999--**



| Figure 1.5.21: Meeting of Ministers on Security & Intelligence, 1999 ¹⁶⁰ |
|---|
| Membership |
| <p><u>Chair:</u> <i>The Prime Minister</i></p> <p><u>Members:</u> <i>Deputy Prime Minister (Vice-chair)</i> <i>Minister of Foreign Affairs and International Trade</i> <i>Minister of National Defence</i> <i>Minister of Justice</i> <i>Solicitor General</i> <i>Minister of Citizenship and Immigration</i></p> <p><i>Frequency: As needed, but at least once a year</i></p> |
| Responsibilities |
| <p><i>"This committee sets the security intelligence, foreign intelligence and defence intelligence priorities annually. In addition, MMSI is informed of criminal intelligence priorities."</i></p> |

| Figure 1.5.22: Interdepartmental Committee on Security & Intelligence 1999 ¹⁶¹ |
|---|
| Membership |
| <p><u>Chair:</u> <i>Clerk and Secretary to the Cabinet</i></p> <p><u>Members:</u> <i>Deputy Secretary, S&I (Vice-chair)</i> <i>DM of Foreign Affairs and International Trade</i> <i>DM of National Defence</i> <i>DM of Justice</i> <i>Deputy Solicitor General</i> <i>DM of Citizenship and Immigration</i> <i>DM of Transport</i> <i>Deputy Clerk and Counsel, PCO</i> <i>DM and Attorney General of Canada</i> <i>Director, CSIS</i> <i>Chief, CSE</i></p> |

¹⁶⁰ Info is taken from S&I Secretariat, 1999, p.37.

¹⁶¹ Info is taken from S&I Secretariat, 1999, pp.37-38. Names highlighted in red are members of the ICSI Executive Committee.

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|--|
| <p><i>Chief of the Defence Staff</i></p> <p><i>Commissioner of the RCMP</i></p> <p><u>Secretary</u></p> <p><i>Asst. Secretary for Security & Intelligence, PCO</i></p> <p><i>Frequency: As needed</i></p> |
| <p>Responsibilities</p> |
| <ul style="list-style-type: none"> • <i>maintains an overview of security and intelligence community;</i> • <i>provides interdepartmental support for the ministers in the community;</i> • <i>discusses policy, resources and other issues that affect the community; and</i> • <i>reviews proposals destined for Cabinet.</i> <p>ICSI Executive Committee responsibilities:</p> <ul style="list-style-type: none"> • <i>addresses issues affecting the intelligence and security community;</i> • <i>reviews intelligence priorities;</i> • <i>maintains overview of Canada's intelligence relationships;</i> • <i>reviews resources devoted to intelligence;</i> • <i>supports ICSI and MMSI; and</i> • <i>discusses, on emergency basis, issues requiring senior level interdepartmental response.</i> |

Figure 1.5.23: Intelligence Policy Group, 1999¹⁶²

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|--|
| <p>Membership</p> |
| <p><u>Chair:</u></p> <p><i>Asst. Secretary S&I, PCO</i></p> <p><u>Members:</u></p> <p><i>Deputy Director of Operations, CSIS</i></p> <p><i>Chief of CSE</i></p> <p><i>Senior Asst. Deputy Solicitor General, Policing and Security, SGD</i></p> <p><i>DG of Intelligence, DND</i></p> <p><i>ADM Policy Planning, DFAIT</i></p> <p><i>ADM Criminal Law, DoJ</i></p> <p><i>Deputy Commissioner, RCMP</i></p> <p><i>ADM Policy and Programme Branch, Citizenship and Immigration</i></p> <p><i>ADM Customs and Trade Administration Branch, Revenue Canada</i></p> <p><i>Exec. Director, Ministerial and Exec Services, TBS</i></p> <p><i>ADM Safety and Security, Transport Canada</i></p> <p><i>Exec. Director IAS, PCO</i></p> |

¹⁶² Info is taken from S&I Secretariat, 1999, pp.38-39.

| |
|---|
| <p><u>Secretary:</u> <i>Director of Operations, S&I Secretariat, PCO</i> <i>Frequency: Bi-weekly</i></p> |
| <p>Responsibilities</p> |
| <p><i>“The [IPG] is the principal policy coordination forum. [...] The IPG epitomizes the horizontal management of the sector. The members focus on those issues which have a broad impact and identify course of action, solutions, or the way ahead.”</i></p> |

Figure 1.5.24: Intelligence Assessment Committee, 1999¹⁶³

| |
|--|
| <p>Membership</p> |
| <p style="text-align: center;"><u>Chair:</u> <i>Executive Director IAS, PCO</i></p> <p style="text-align: center;"><u>Members:</u> <i>Director, Foreign Intelligence Division, DFAIT</i> <i>Director of Requirements, Priorities, & Customer Services, CSE</i> <i>DG, CSIS</i> <i>Director of J2 Operations, DND</i> <i>Officer in Charge, Criminal Analysis Branch, RCMP</i> <i>DG Refugees, Citizenship and Immigration</i> <i>DG Contraband and Intelligence Service, Revenue Canada</i> <i>Director of Strategic Analysis, DND</i> <i>DG International Trade and Finance Branch, Dept of Finance</i> <i>Director of Operations, S&I Secretariat, PCO</i> <i>Foreign Policy Advisor and Asst. Secretary to the Cabinet, Foreign and Defence Policy, PCO</i></p> |
| <p>Responsibilities</p> |
| <p><i>“This committee:</i></p> <ul style="list-style-type: none"> • <i>provides interdepartmentally coordinated intelligence analysis and assessments to senior decision makes;</i> • <i>promotes and facilitates coordination of interdepartmental analytical activities, priorities and views;</i> • <i>provides a liaison and a channel for exchanges with foreign intelligence analysis organizations; and</i> • <i>is supported by various interdepartmental expert groups.”</i> |

¹⁶³ Info is taken from S&I Secretariat, 1999, pp.39-40.

Intelligence Machinery in the 1990s: What Happened to the Coordinator?

As we have seen, through the 1980s multiple important studies by external and internal reviewers found that the national intelligence effort was hindered by a lack of strength at the centre. Following the Marchand Report, it was clear that the creation of a full-time I&S Coordinator had significantly improved the situation. Given this, a puzzling trend of the 1990s was the downgrading of the Coordinator's position. This downgrading happened through two means: combining the position with other roles in PCO (i.e. 'multi-hatting'), and varying the seniority of the position.

Beginning in 1989 with Blair Seaborn's successor, Ward Elcock, the Coordinator's title was changed to reflect the standard title for a branch head in PCO, becoming the Deputy Clerk, S&I and Counsel. While on the face of it, this name change seems a simple standardisation, in reality it signalled that the S&I Coordinator was now also the PCO's chief legal advisor. In addition, later organisation charts for PCO indicate that the Deputy Clerk, S&I and Counsel also had the task of managing the Legislation and House Planning/Counsel Secretariat and the Machinery of Government Secretariat.¹⁶⁴ Even when the Coordinator's role was not combined with the Counsel role, it was often an additional responsibility grafted onto others. For instance, John Tait, who was Senior Advisor to the PCO and headed the DM Task Force on Public Service Values and Ethics, took on the additional role of Coordinator in 1996.¹⁶⁵ Figure 1.5.25 shows the individuals who held the Coordinator's position through the 1990s and into the early 2000s, including the additional roles held.

| Figure 1.5.25: Evolution of the I&S Coordinator Role, 1985-2003¹⁶⁶ | | |
|--|---------------------|---------------------------------------|
| Years in Position | Individual | Position Title |
| 1985-1989 | J Blair Seaborn | Intelligence and Security Coordinator |
| 1989-1994 | Ward Elcock | Deputy Clerk, S&I and Counsel |
| 1994-1996 | Margaret Bloodworth | Deputy Clerk, S&I and Counsel |

¹⁶⁴ PCO Organisation Chart, January 2002, Released to the author under the ATIA.

¹⁶⁵ Jocelyne Bourgon to John Tait (October 11, 1996), Draft Mandate Letter, Privy Council Office, SECRET, Released to the author under the ATIA.

¹⁶⁶ Information in Figure 1.5.25 taken from Government of Canada Directories.

| | | |
|-----------|-----------------|---|
| 1996-1998 | John Tait | Senior Advisor, PCO and S&I Coordinator |
| 1998-2001 | Margaret Purdy | Deputy Secretary, S&I |
| 2001-2002 | Richard Fadden | Deputy Clerk & Counsel & S&I Coordinator |
| 2002-2003 | Ronald Bilodeau | Assoc. Secretary to the Cabinet, DM to the Deputy PM, and S&I Coordinator |
| 2003 | Rob Wright | Assoc. Secretary to the Cabinet, DM to the Deputy PM, and S&I Coordinator |

The Coordinator’s position also varied in seniority through the 1990s. For the most part, the position was held by a junior DM who had just been appointed into the DM ranks (for example a DM-1) instead of a senior DM who was on their second or third appointment as a deputy head, as had been the case with Seaborn.¹⁶⁷ An exception to this was John Tait, who had already spent several years as the Deputy Solicitor General and DM of the Department of Justice (DoJ) before going to PCO in 1994. However, Tait’s tenure as Coordinator was somewhat an anomaly: he had to leave the DoJ due to illness and moved to PCO as the Senior Advisor to continue as a DM without the burden of a department to manage.¹⁶⁸ This meant that when Margaret Bloodworth left in 1996, there was a relatively senior DM already in PCO with an excellent legal and security background that could take on additional duties. The key issue facing the IC at the time was the November 1996 OAG report on the IC that had highlighted shortcomings in community management. Tait’s legal, constitutional, and security experience left him particularly well qualified to address the OAG’s findings. In her mandate letter to Tait, the Clerk of the Privy Council, Jocelyne Bourgon, highlighted the response to the OAG, stating: “One of your early challenges will be the follow-up to the November 1996 report of the [OAG] on control and accountability within the intelligence sectors. I will count on you to bring forward realistic proposals to deal with the [OAG’s] recommendations.”¹⁶⁹

¹⁶⁷ There are four DM ranks: DM-1 through DM-4. DM-1 is usually an Associate DM, while DM-2 and DM-3 make up the bulk of the DM ranks. DM-4 positions are limited to the central agency DMs, particularly the Clerk and the DM of Finance. See Government of Canada submissions to the Judicial Compensation and Benefits Commission, http://www.quadcom.gc.ca/pg/Jcjc_QC_06-eng.php (Accessed January 2016).

¹⁶⁸ On Tait’s background, see Jocelyne Bourgon’s dedication in Tait, J.C. (1996, 2000 reprint) *A Strong Foundation: Report of the Task Force on Public Service Values and Ethics*, Ottawa: Canadian Centre for Management Development, p.iii.

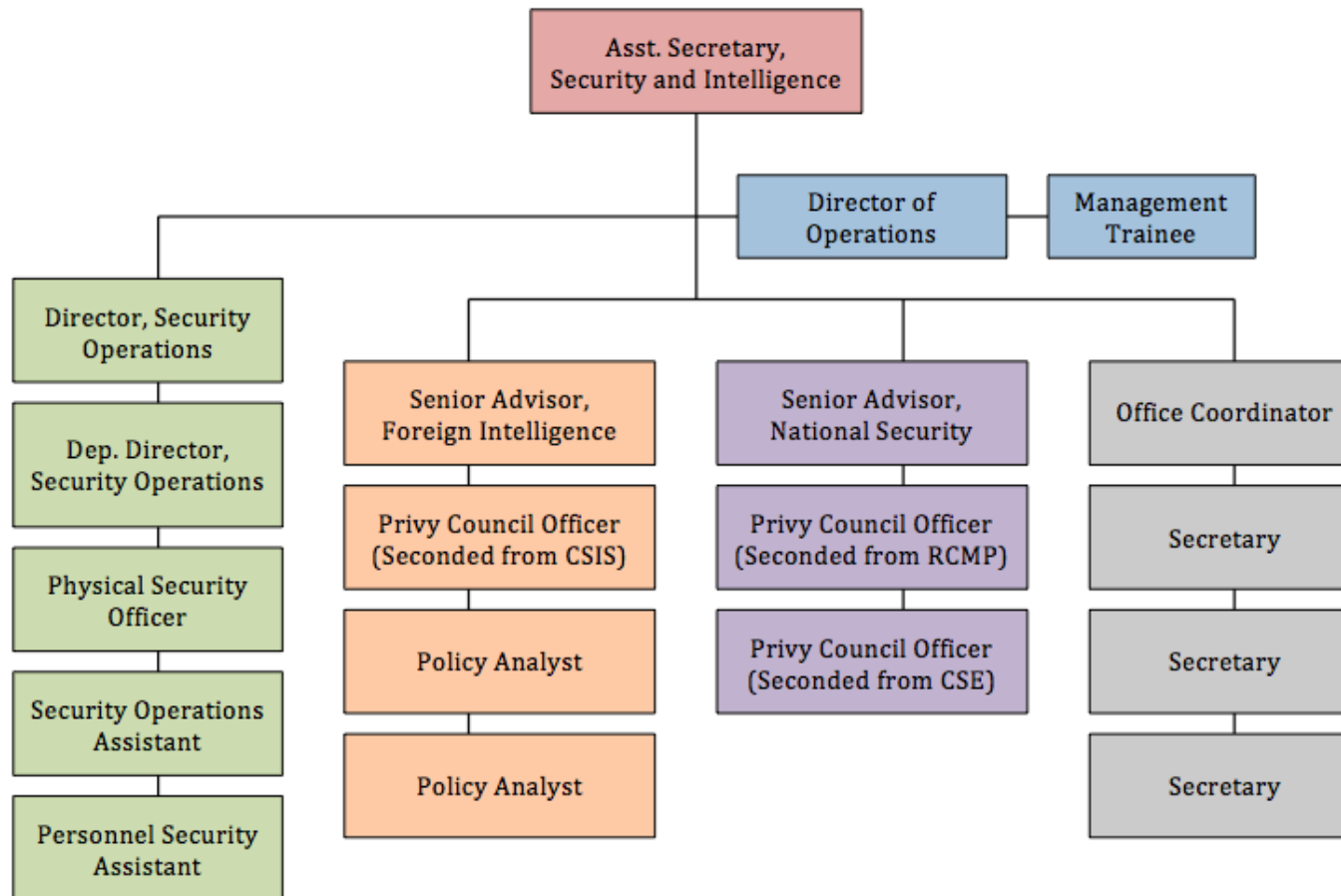
¹⁶⁹ Jocelyne Bourgon to John Tait (October 11, 1996), Draft Mandate Letter, SECRET, Privy Council Office, Released to the author under the ATIA.

However, the case of John Tait aside, the Coordinator's role within the PCO was notably downgraded through the 1990s mainly to a DM-1 level.

The trend in the Coordinator's position through the 1990s is less puzzling when it is properly contextualised. Firstly, as we have seen, security and intelligence issues were not a government priority through the 1990s. This meant that, barring particular issues such as the 1996 OAG report, there was a risk of having a senior DM in the role with not enough to do or, worse still, it would look like inflation of the executive ranks within the 'PM's own department.' Secondly, PCO was reducing its budget to meet commitments under the Program Review exercise, just like every department around Ottawa. The prospect of combining senior executive positions where possible or rationalising the ranks, and hence saving salary dollars, was fiscally prudent.

It is worth, at this point, addressing the organisation of the PCO S&I Secretariat, given the important coordinating role played by the Asst. Secretary S&I. By 1999, the Secretariat was built around three core teams: Security Operations, Foreign Intelligence, and National Security. Security Operations dealt mostly with the physical and personnel security for PCO and the PM. The foreign intelligence team and the national security team made up the policy capability of the Secretariat and consisted of 7 policy advisors and analysts. Interestingly, each team had secondees from the opposite 'side' of the IC; the foreign intelligence team had a seconded from CSIS, while the national security team had a seconded from CSE. This cross-posting of secondees would have helped familiarise both the secondees and the teams with the other side of the community. As in most PCO secretariats, the Director of Operations represents the 'second in command' of the secretariat, acting essentially as a chief of staff to the Asst. Secretary. Figure 1.5.26 illustrates the S&I Secretariat as it appeared circa 1999.

Figure 1.5.26: PCO Security & Intelligence Secretariat, circa 1999¹⁷⁰



¹⁷⁰ Org chart is adapted from S&I Secretariat, 1999, p.28.

The Canadian IC and the 9/11 Decade: Getting Serious about National Security

The 9/11 attacks on the US, followed in short order by Canada's involvement in Afghanistan, made Canada something that it was not used to being: a wartime country. Prime Minister Chretien recounted in his memoirs that the day the towers fell in New York, he thought to himself that the world would be very different following the attacks.¹⁷¹ Chretien's recollection indicates the impact of the 9/11 attacks on Canadian policymakers; the world was divided into a before and after. Apart from personal impacts, the 9/11 attacks shifted the Canadian policy environment. There was an economic and political imperative to ensure that Canada was not seen by the US as a weak link in homeland security.¹⁷² However, the government needed to modernise its national security regime quickly while also balancing legal requirements and civil liberties.¹⁷³ The 9/11 attacks, and the immediate fallout, made national security a political priority in Canada in a way that it had not been since the McDonald Commission.

To coordinate Canada's response to the new security environment, the government struck a new ad hoc Cabinet Committee on Public Security and Anti-Terrorism (CC/PSAT) chaired by the Minister of Foreign Affairs (and subsequently Deputy PM), John Manley. CC/PSAT's immediate priorities were twofold. First, it needed to introduce new legislative measures to modernise the national security community's CT powers. The *Anti-Terrorism Act* (ATA) was passed in December 2001, which, among other things, amended the *National Defence Act* to put CSE on a legislative foundation and modernised its' authorisation regime to better reflect the transnational nature of terrorism. Secondly, CC/PSAT had to work out new resources for the national security community to meet the increased demands of the post-9/11 environment. To accomplish this, the government tabled an off-cycle budget in December 2001 that pumped \$7.7 billion into national security initiatives.¹⁷⁴

¹⁷¹ Chretien, 2007, p.293.

¹⁷² Goldenberg, E. (2006) *The Way it Works: Inside Ottawa*, Toronto: McClelland and Stewart, pp.264-265.

¹⁷³ For a survey of the issues, see Daniels, R.J., Macklem, P., Roach, K. (eds.) (2001) *The Security of Freedom: Essays on Canada's Anti-Terrorism Bill*, Toronto: University of Toronto Press.

¹⁷⁴ Goldenberg, 2006, pp.265-267. The December 2001 budget is covered in detail in Chapter 11.

What evolved following 9/11 were, formally, two parallel sets of committees. One series of committees worked to CC/PSAT and dealt with wider national security policy issues. At the DM level was a mirror PSAT committee (DMPSAT), which was supported by ADM-level committees run by SGD. The second set of committees was the ICSI machinery working to MMSI on intelligence-specific matters (ICSI, IPG, IAC, and Section 16). However, informally, these parallel sets of committees blurred together significantly given their overlapping memberships. The key link between DMPSAT and ICSI was the PCO Deputy Clerk, Counsel and S&I Coordinator, Richard Fadden, who chaired both DMPSAT and the ICSI Executive Committee. There were also overlapping memberships at both DM and ADM level between the committees, which helped to sync the national intelligence effort with the national security policymaking process.¹⁷⁵

When Paul Martin succeeded Jean Chretien as PM in December 2003, one of his first acts as PM was to substantially revise the central machinery to align with the government's platform commitment to have a better 'whole-of-government' response to security issues. As part of this reorganisation, Martin created 7 standing cabinet committees to address different policy sectors, and reconstituted the CC/P&P as an 'inner cabinet.' One of these permanent cabinet committees was the Committee on Security, Public Health, and Emergencies (CC/SPHE), which replaced the ad hoc CC/PSAT. Deputy PM Anne McClellan chaired CC/SPHE, and the committee's mandate was to handle national security and intelligence matters, and to coordinate Canada's response to any crises.¹⁷⁶ Interestingly, as the name implies, CC/SPHE represented a wider 'all-hazards' approach to national security.¹⁷⁷ This wider approach reflected the growth of

¹⁷⁵ Milne and Last, 2004, pp.8-9; Office of the Auditor General (March 2004) 'Chapter 3: National Security in Canada—The 2001 Anti-Terrorism Initiative' *Report of the Auditor General of Canada*, Ottawa: PWGSC, pp.4-7.

¹⁷⁶ Prime Minister's Office (December 2003) 'Cabinet Committees Mandates and Memberships' Ottawa: http://www1.pm.gc.ca/eng/Cab_Com-biling.pdf (Accessed 2004).

¹⁷⁷ Prime Minister's Office (December 12, 2003) 'Changing Government: Prime Minister Announces Appointment of Cabinet' Ottawa

transnational terrorism, but was driven by Canada's experience with the global outbreak of Severe Acute Respiratory Syndrome (SARS).¹⁷⁸

Interestingly, CC/SPHE did not deal with all intelligence-related matters. The government retained an Ad Hoc Committee on Intelligence Priorities (AH/IP, which replaced MMSI), chaired by the PM when it met, to review and approve the national intelligence R&Ps.¹⁷⁹ Given the wider membership of CC/SPHE and that it was chaired by the Deputy PM, retaining a smaller group of ministers chaired by the PM was sensible; it limited the distribution of sensitive operational information, ensured that only the ministers directly responsible for the IC's activities were engaged, and ensured the PM remained engaged in the overall activities of the IC.

The Creation of the National Security Advisor and the Reorganisation of the S&I Secretariat

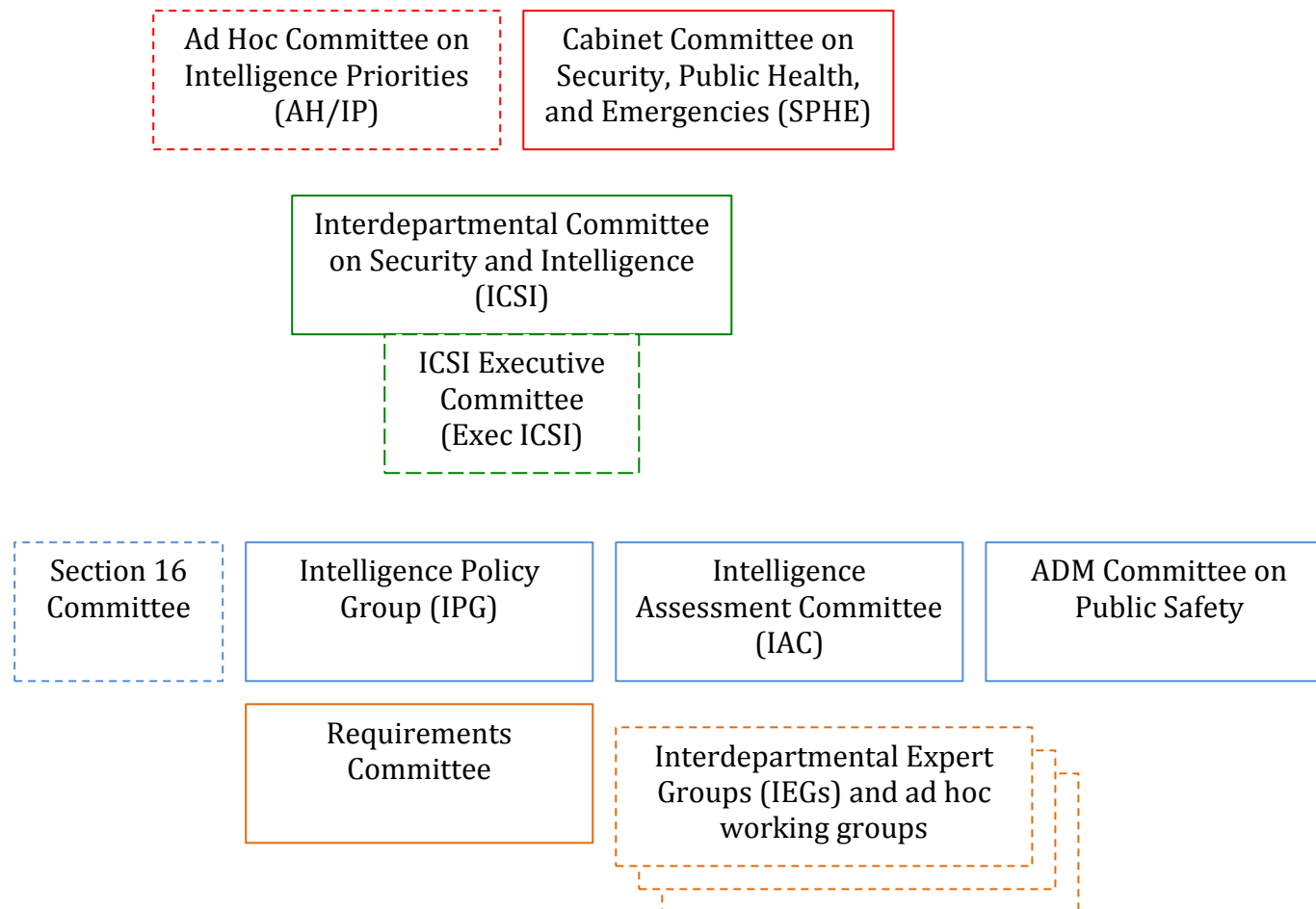
Following 9/11, in addition to supporting the PM as the chair of MMSI, the Coordinator also supported the Deputy PM as chair of CC/PSAT. This increase in responsibility raised two issues. First, supporting the PM and the Deputy PM on national security issues as well as managing four PCO secretariats was a substantial span of control for a DM-1. Secondly, the Deputy PM was already supported within PCO by the Deputy Clerk and Associate Secretary to the Cabinet, a senior DM who assisted the Clerk in key files and acted as Clerk in their absence. When Richard Fadden moved from the S&I Coordinator position in 2002, the Coordinator role was added to the responsibilities of the Deputy Clerk and Assoc. Secretary to the Cabinet.¹⁸⁰ This revised arrangement simplified the support to the Deputy PM, evened out the span of control within PCO, and made the S&I Coordinator a more senior position within PCO (equivalent to a DM-3).

¹⁷⁸ Martin, P. (2009) *Hell or High Water: My Life in and Out of Politics*, Toronto: Emblem, pp.295-298; National Advisory Committee on SARS and Public Health (2003) *Learning from SARS: Renewing Public Health in Canada*, Ottawa: Health Canada.

¹⁷⁹ Communications Security Establishment Commissioner (2004) *Annual Report 2003-2004*, Ottawa: PWGSC, p.3; McLellan, A. (February 15, 2005) Evidence to the Standing Committee on National Security and Defence, Senate of Canada, Issue No.12, 1st Session, 38th Parliament, p.131.

¹⁸⁰ Bilodeau, R. (February 25, 2003) Evidence to the Subcommittee on National Security, Standing Committee on Justice and Human Rights, House of Commons, 2nd Session, 37th Parliament.

**Figure 1.5.27: Canadian Committee Structure related to Management of the IC
--2004--**



When Paul Martin created CC/SPHE in December 2003 to reflect a wider definition of national security, there were commensurate adjustments within PCO to ensure that the government's new policy direction was supported. Firstly, Martin created several advisor positions within PCO and PMO to support particular policy priorities, including an Aboriginal Affairs Advisor and a National Science Advisor. Similarly, Martin announced that the S&I Coordinator would be replaced with a high-level National Security Advisor (NSA) in PCO to support the work of the PM and the work of the CC/SPHE national security matters, including the coordination of the IC. Specifically, the NSA would "strengthen the capacity of the PCO to support the development and implementation of an integrated policy for national security and emergencies."¹⁸¹ The 'integrated policy' that Martin referred to was released in April 2004, and represented Canada's first formal national security policy statement.¹⁸²

With regard to intelligence, the NSA's responsibilities were very similar to those of the S&I Coordinator. The NSA became responsible for CSE's policy and operations, and had responsibility for coordinating the IC's national R&P process. There were some notable differences between the roles, however. One difference was that the NSA was a more senior deputy head. From 2003 to 2015, with one exception, those who have held the NSA position have been DM-3s.¹⁸³ The seniority of the NSA has been important for several reasons. Firstly, the NSA took over the remaining national security functions from the Clerk, including chairing ICSI, supporting Cabinet in national security decision-making, and advising the PM on operational or policy matters in national security. The effectiveness of the NSA is tied to their direct relationship with the PM; this relationship is sensitive, and requires experience working directly to senior Ministers. Secondly, but in a related vein, a senior DM has experience managing line departments, with all the accountabilities that entails, and working within

¹⁸¹ Prime Minister's Office (December 22, 2003) 'New Structures in the Prime Minister's Office and Privy Council Office' Ottawa: Prime Minister's Office.

¹⁸² Government of Canada (2004) *Securing an Open Society: Canada's National Security Policy*, Ottawa: Privy Council Office.

¹⁸³ Information provided to the author by PCO. The one exception was William Elliot, who was a DM-1. Elliot was Asst. Secretary S&I in PCO and was promoted to NSA, making it his first DM appointment.

the Ottawa policy village. In short, they have greater *experience* in how ‘the town’ works and how to make it work.

The experience and knowledge that a senior DM brings to the NSA role is an important consideration, given that the NSA has no line authority over any of the national security organisations outside the PCO. The lack of any ‘command authority’ for the NSA has been a point of consistent debate, but it misses the subtle exercise of authority that is the hallmark of the central agencies. Central agency officials exercise their authority through their management of the coordinating machinery and through the implied authority of their political masters: the PM and Cabinet. Rob Wright, the first NSA, explained this subtle approach to coordination to the Senate Committee on National Security and Defence in 2004:

I will use and abuse the connection to the cabinet committee [CC/SPHE] and the [PM] and the government’s commitment to develop a national security policy to ensure that all the arms of government are working cooperatively to get a result. That is how the [PCO] works. During my previous time in the [PCO], some 15 years ago, we worked to coordinate the [P&P] committee of cabinet, the expenditure review committee of cabinet—we had eight people do that. We were able to do that because the entire government was ready to respond to Prime Ministerial priorities. That is how I will manage the process here, by connecting it to a cabinet committee. I can also tell you that the [PM] takes my title literally. When there are things happening, he phones me and expects answers. I try to share the enthusiasm of his phone calls with the rest of the community, and to create new forums for ensuring effective coordination.¹⁸⁴

Later, when asked about whether the NSA had the right resources to coordinate the national security effort, Wright alluded to the fact that PCO was scrutinised for being too muscular, and reiterated the preference to keep the PCO light, channelling prime ministerial and cabinet authority to ensure coordination amongst line departments:

Could we use more resources? Yes. Am I seeking additional resources? Yes. Although last time I was before a committee I was inundated with comments from a very tough chair of the day, Mr. Reg Alcock, about

¹⁸⁴ Wright, R. (February 23, 2004) ‘Evidence to the Standing Committee on National Security and Defence,’ Senate of Canada, 3rd Session, 37th Parliament, p.38.

why these resources existed in PCO and where there were smarter ways of us connecting to the community effort. I think there probably are. It is extremely busy, and we are trying to stay focused and to use a cabinet committee process to focus that effort. I could use some additional resources but I do not want to build the bulk of intelligence within [PCO]. Rather, I want to keep it strategic and coordinating and to use the cabinet committee and the Prime Minister's very strong interest in these areas to ensure that we get the right products we need.¹⁸⁵

Wright's comments are important because they indicate that PCO's approach to coordination of the national security sector (including the IC) is very much in line with how it coordinates the rest of government business: through the cabinet machinery and through prime ministerial authority. Conversely, and in true core executive fashion, Wright's comments also show how PCO's coordinating capacity weakens if cabinet and prime ministerial attention wanes, as was the case through the 1990s.

Within PCO, the S&I Secretariat and the IAS have supported the NSA since the position was created in 2003. The S&I Secretariat was reorganised in early 2004 to bring it into fit with several operational realities. Firstly, the increase in committee activity at both the ministerial and officials' levels required more operational support from the Secretariat; however, this increase in operational work could not detract from the Secretariat's ability to provide policy analysis and coordination. Secondly, when dealing with transnational threats, security intelligence and foreign intelligence were increasingly interdependent, which meant that intelligence policy had to be more holistic. Having the Secretariat divided between security intelligence and foreign intelligence did not reflect the reality of the policy work anymore. Given these demands, the 2004 reorganisation led to the 'national security' and 'foreign intelligence teams' being restructured into an Operations Division (SI/OPS) and a Strategic Policy and Planning Division (SI/SPP).¹⁸⁶ SI/OPS provides secretariat services to the national security committee structure and works closely with the PCO Foreign and Defence Policy (F&DP) Secretariat. SI/SPP works with the IC departments

¹⁸⁵ Ibid, pp.55-56.

¹⁸⁶ Grinius, M. (PCO) to O'Brien, K. (DND), (April 16, 2004), Email 'Subject: PCO RESTRUCTURE,' Released to the author under the ATIA; Marjerrison, A. (PCO) to Monette, P. (PCO), (July 7, 2004), Email 'Subject: RE: Security and Intelligence re-organization' Released to the author under the ATIA.

and agencies to coordinate intelligence and security policy, provides independent policy analysis to the NSA, the Clerk, and the PM, and has responsibility for coordinating the national intelligence priority-setting exercises.¹⁸⁷ Additionally, a Client Relations Section (SI/CLIENTREL) was added to the Secretariat to account for the CSE Client Relations Officers embedded within PCO.¹⁸⁸

Pulling the Afghanistan Mission into the Centre: Intelligence Support to Policymaking on Afghanistan

Through the Chretien and Martin governments, and into the first Harper mandate, the government had coordinated Afghanistan policy through existing machinery, and had left operational coordination to the concerned line departments. However, it became increasingly apparent that Canadian policymakers had not comprehended the complexity and intensity of the mission in Afghanistan, and particularly in Kandahar.¹⁸⁹ Harper had already injected more direct prime ministerial interest into the mission and formed a task force led by DFAIT to coordinate interdepartmentally, but the outcomes were mediocre. In 2007, the question of Canadian treatment of detainees in Afghanistan damaged the government's credibility and the trust between key departments, including DND and DFAIT.¹⁹⁰

Finally, following the recommendations of the Manley Panel in early 2008 and the extension of the Afghanistan mission into 2011, it became imperative for the government to have a more coordinated and effective cross-government approach. In short, the Afghanistan mission had become too politically important to let the departments muddle through. This realisation, and a more defined policy focus, led to a significant shift in machinery as the government pulled the coordination of the Afghanistan mission into the centre. The creation

¹⁸⁷ PCO (May 2007) *The Role and Structure of the Privy Council Office*, Ottawa: Privy Council Office, p.10.

¹⁸⁸ Email from Marjerrison to Monette, July 7, 2004, 'Subject: RE: Security and Intelligence re-organization.' See Ch.8 for further discussion of CSE Client Relations Officers.

¹⁸⁹ See Stein, J.G. and Lang, E. (2007) *The Unexpected War: Canada in Kandahar*, Toronto: Penguin Canada; Gammer, N. (2013) 'The Afghanistan Task Force and Prime Ministerial Leadership: Tactical Retreat or a New Direction in Managing Canadian Foreign Policy?' *American Review of Canadian Studies*, 43:4, pp.462-476.

¹⁹⁰ Gammer, 2013, pp.463-466.

of the Cabinet Committee on Afghanistan (CC/Afghanistan) in February 2008 signalled the start of this shift. The CC/Afghanistan was supported by a high-powered interdepartmental secretariat called the Afghanistan Task Force (ATF) housed in PCO. The head of the ATF was David Mulroney, a DM with close involvement in the Afghanistan file who had previously been the PM's F&DP Advisor.¹⁹¹ In keeping with the standard support for cabinet committees, Mulroney chaired a DM-level committee on Afghanistan (DM Afghanistan) that directly supported the CC/Afghanistan.

As PCO drew the Afghanistan file into the centre, this shift was also reflected in the intelligence machinery. The PM and CC/Afghanistan required consistent intelligence support to monitor the progress of the mission in Kandahar and to make policy decisions, so the NSA strengthened the role of the IAS in coordinating the intelligence effort. The Executive Director of the IAS, Vincent Rigby, was named the Afghanistan Intelligence Lead Official (AILO), with responsibility for coordinating the IC's analysis in support of the CC/Afghanistan machinery.¹⁹² In his capacity as AILO, the Executive Director chaired an ADM-level committee, ADM-AILO, to bring the key intelligence producers together and coordinate production on the Afghanistan target. Overseeing the total intelligence effort was a DM-level committee chaired by the NSA, predictably titled DM-AILO.¹⁹³

While not directly related to Afghanistan, it should be noted that through this period, the names of several of the intelligence-related committees were standardised to match the same terminology being used for other interdepartmental committees. For instance, ICSI became the DM Committee on National Security (DMNS) with sub-committees on intelligence assessments (DMIA) and intelligence policy (DMS&I).¹⁹⁴ The creation of DMNS represented a

¹⁹¹ Gammer, 2013, pp.467-469; Saideman, S.M. (2016) *Adapting in the Dust: Lessons Learned from Canada's War in Afghanistan*, Toronto: University of Toronto Press, pp.76-78.

¹⁹² Cox, J. (2011) *Lighting the Shadows: An Evaluation of Theory and Practice in Canadian Defence Intelligence*, PhD Thesis, Royal Military College of Canada, p.145; Privy Council Office (2009) *Departmental Performance Report 2008-2009*, Ottawa: Privy Council Office, p.16.

¹⁹³ Cox, 2011, pp.143,145.

¹⁹⁴ I-22 and PCO (2008) *Departmental Performance Report 2007-2008*, Ottawa: Privy Council Office, p.26.

move to broaden the DM level discussions of national security issues. The IPG became the ADM Committee on Intelligence (ADM(Intelligence)), and the ADM committee dealing with CT and security policy became the ADM Committee on Public Safety (ADM(Public Safety)).

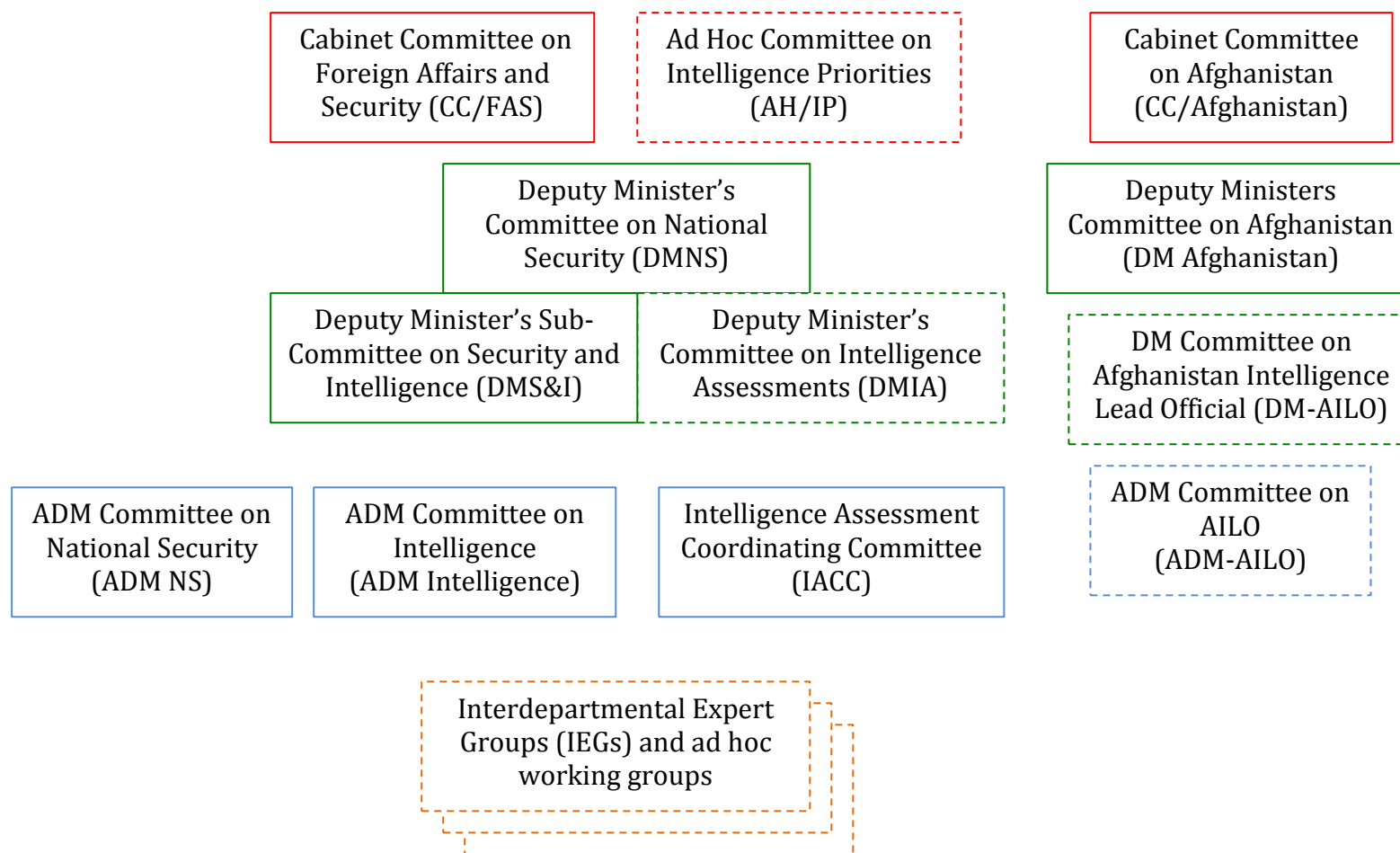
No Longer a Hollow Community: The Evolution of the National Security Advisor

As noted, Prime Minister Harper took a more direct interest in national security than many of his predecessors. In part, this was driven by significant trends in the global threat environment that occurred during Harper's mandate. One trend was the weakening of state control and sovereignty signified by Russia's covert invasion of the Ukraine and the Arab Spring engulfing the Middle East and North Africa and resulting in significant chaos in Libya and Syria. Additionally,

A second trend was the increased variation and unpredictability of the terrorist threat. Al Qaeda, still a threat in itself, had devolved into smaller regional off-shoots (such as Al Qaeda in the Islamic Maghreb, or AQIM) and home-grown networks. This meant that there were more targets for intelligence, and those targets were more difficult to keep track of. Additionally, the conflict in Syria had fuelled the growth of the potent Islamic State in Iraq and al-Shaam (ISIS) terrorist group. ISIS succeeded in attracting foreign fighters at an impressive rate, including many radicalised citizens from Western countries. Additionally, ISIS had a particular knack for inspiring, however loosely, home-grown violence. These attributes led to a consistent series of small- and medium-scale attacks in France, Belgium, Canada, Australia, the US, and other countries outside the Middle East, along with several disrupted plots.¹⁹⁵

¹⁹⁵ On ISIS, see Warrick, J. (2015) *Black Flags: The Rise of ISIS*, New York: Doubleday.

**Figure 1.5.28: Canadian Committee Structures related to Management of the IC
--circa 2008-2009--**



There was a political driver as well, however, for greater interest from the centre of government. The coordinating power of the centre had become a political question for the government following the report of the Commission of Inquiry into the Investigation of the Bombing of Air India Flight 182 (the Major Commission). The Major Commission criticised the government's coordination of the national security sector, and particularly the IC, finding that a lack of coordination and information-sharing had contributed to the bombing in 1985 and the problematic investigation that followed. Major recommended that the NSA's role should be expanded, but at the same time more focused on national security coordination with a particular emphasis on intelligence.¹⁹⁶

In response to these trends, when Stephen Rigby was appointed NSA in November 2010 he was the first NSA that was not 'double-hatted' as the Associate Secretary to the Cabinet. This meant that the NSA could devote their full day to national security and intelligence issues, unencumbered by other responsibilities. While this was a subtle change, practitioners have noted its significance in shifting the role of the centre from one that is passive to one that is active in managing the IC.¹⁹⁷ Rigby had a resume that matched the trends in the threat environment and the recommendations of the Major Commission. He was a senior DM (DM-3)¹⁹⁸ with consistent experience in both national security and foreign affairs, having held DM-level posts in CBSA and DFAIT from 2006-2010. Just as importantly, he had been Asst. Secretary S&I in PCO from 2005-2006, and was acting NSA in the last months of that assignment. This background meant that Rigby came into the NSA position already having a good grasp of intelligence issues. In 2011, a subtle reorganisation within PCO brought the F&DP Secretariat under Rigby's authority, ensuring coherent support to the PM and Cabinet across the foreign, defence, and national security policy sectors. In short, Rigby was arguably the first NSA to possess a key formula:

- consistent prime ministerial interest and support;

¹⁹⁶ Major, J. (2010) *Air India Flight 182: A Canadian Tragedy, Volume 3—The Relationship Between Intelligence and Evidence and the Challenges of Terrorism Prosecutions*, Ottawa: PWGSC, pp.26-46, 333-334.

¹⁹⁷ For instance, see Fyffe, G. (2011) 'The Canadian Intelligence Community After 9/11' *Journal of Military and Strategic Studies*, 13:3, pp.14,17.

¹⁹⁸ Staff information provided by PCO under the ATIA.

- experience and seniority within the national security community; and
- a mandate focused entirely on national security.

This formula allowed Rigby to shift the NSA position into a *leadership* role, instead of simply a coordination role.

In keeping with true PCO style, this leadership role was not exercised through blunt commands. The exercise of authority was subtle, but anchored in the very real power of the PM and Cabinet. With this anchor understood by all the players, there was no need to command. Rigby explained this subtle exercise of authority when asked by Senators in 2014 whether he needed more explicit US-styled line authority over his peers:

What I can say without reservation, as my role has evolved—and it has evolved in the three and a half years I have been in it, from pure security and intelligence to broader function for defence and foreign affairs—I have never found difficulty in working with my colleagues. You are absolutely right. It is an extremely collegial, team-like atmosphere that is pursued. As well, I work in the [PCO]. I am a senior deputy in the Privy Council, and I am the adviser to the [PM]. There is a certain moral suasion that goes with that positioning that, in my humble opinion, I have found more than adequate to achieve cooperation and a cooperative effort with my fellow DMs.

Pressed on whether this translated into periods of conflict or crisis, Rigby continued that:

My convening authorities, such as they are, my ability to convey the [PM's] direction and my ability to ensure that people are working within the confines of cabinet direction, I have never found to be limited. I have the ability to call deputies together. I have the ability to ensure that direction is being followed closely. Sometimes that is tactical; sometimes that is strategic. But I have not found my ability to convene, gather, discuss and, to a certain extent, direct, ever to be compromised either on a full wartime footing or on the extremely important crises across the array of threats that Canada faces today.

Rigby's answer resembles Rob Wright's answer to similar questioning in 2002 (quoted previously). The key difference between the two, at the end of the day, was the interest of the PM and Cabinet in national security affairs and Rigby's previous experience within the national security community. Both could rely on 'moral suasion', but it was the intensity and focus of the moral suasion that shifted the NSA's role in Rigby's case.

Figure 1.5.29: Stephen Rigby¹⁹⁹



No Longer a Hollow Community: Strong Machinery at the Centre

In terms of cabinet machinery, the Harper government began by having a unified Cabinet Committee on Foreign Affairs and Security (CC/FAS) chaired by the Minister of National Defence, and retaining the AH/IP chaired by the PM for more sensitive intelligence matters.²⁰⁰ Following the 2011 election, the government formalised the AH/IP as the Cabinet Committee on National Security (CC/NS), still chaired by the PM. Some interpreted the CC/NS as a sign the PM was moving to micro-manage the national security effort.²⁰¹ However, this view misses the fact that a similar body had already existed in an ad hoc form for several years. The *formal* existence of CC/NS was a short-lived experiment; in

¹⁹⁹ Photo: LinkedIn.

²⁰⁰ Prime Minister's Office (October 30, 2008) 'Cabinet Committee Mandates and Memberships' Ottawa; Cox, 2011, pp.143-144.

²⁰¹ Nautmetz, T. (May 18, 2011) 'Harper Extending Personal Control to Oversight of National Security and Intelligence Gathering' *The Hill Times*, http://hilltimes.com/dailyupdate/printpage/harper_extending_personal_control_to_oversight_o_national_security_and_intelligence_gathering_05-18-2011, (Accessed May 2011).

2013 the government reverted to having a Cabinet Committee on Foreign Affairs and Security (CC/FAS) and the CC/NS no longer appeared on the list of standing cabinet committees. This said, in 2014 it became apparent that there was still an *ad hoc* CC/NS, chaired by the PM, addressing sensitive national security matters.²⁰² It appears that the government had abandoned the idea of CC/NS as a *standing* cabinet committee, but, in keeping with previous tradition, had not abandoned the concept of the committee itself.

At the DM level, DMNS continued through the changes to the cabinet committees, and was supported by two DM-level sub-committees dealing directly with intelligence: the Deputy Ministers' Committee on Intelligence Assessment (DMIA) and the Deputy Ministers' Committee on Intelligence Collection (DMIC). DMNS, DMIA, and DMIC each met on a monthly basis and were chaired by the NSA.²⁰³ DMIA acted as a rough Canadian equivalent of the UK's JIC, reviewing national intelligence assessments, considering the implications of their judgments for policy, and coordinating the strategic direction of the all-source assessment effort. DMIA's membership was focused more on intelligence consumers and was supported by the IAS.²⁰⁴ DMIC was focused on intelligence collection issues such as national R&Ps and sensitive collection activities. DMIC's membership was focused on intelligence producers and the S&I Secretariat provided support. As is often the case, there is significant cross-pollination between the two sub-committees; many DMs are members of both committees and see each other regularly through DMNS and other forums.

Particularly under Rigby, used the DMNS to drive discussions of strategic issues facing the national security community. With DMNS as the umbrella committee, the NSA struck several *ad hoc* sub-committees to address particular

²⁰² Meyer, C. (September 3, 2014) 'Questions Raised over Ad Hoc National Security Cabinet Committee' *Embassy News*, <http://www.embassynews.ca/news/2014/09/03/questions-raised-over-ad-hoc-national-security-cabinet-committee/45981> (Accessed September 2014).

²⁰³ Meeting Note for the Deputy Minister of Foreign Affairs (January 31, 2013) 'NSA's Monthly Policy Meeting, February 1, 2013,' DFAIT, SECRET/CEO, Released under the ATIA; Public Safety Canada (2012) *Deputy Minister Transition 2012—Volume 2: Departmental Context*, 'Deputy Minister Meetings and Upcoming Events', SECRET/ADVICE TO THE DM, Released under the ATIA.

²⁰⁴ I-22, and Public Safety Canada, *Deputy Minister Transition 2012—Volume 2: Departmental Context*, 'Deputy Minister Meetings and Upcoming Events.'

issues. For instance, there was a 'DMNS Legal Subgroup' that looked at national security legislative proposals and complex legal matters.²⁰⁵ Also, in trying to follow through on some of the Major Commission's recommendations, the NSA struck a DM Committee on National Security Information Sharing to reform the information-sharing framework across the national security community.²⁰⁶ The ultimate outcome of this DM Committee's work was the *Security of Canada Information Sharing Act* (SCISA), passed in 2015.²⁰⁷ Also, the NSA used the DMNS as the vehicle to promote cross-community projects. For instance, after Canadians were implicated in several attacks overseas, PCO began the 'Canadians Abroad Initiative' to coordinate the IC's efforts to identify and monitor Canadian foreign fighters that had gone to warzones abroad.²⁰⁸

When the government recombined foreign, defence, and national security policy under the CC/FAS in 2013, it became more important to coordinate between these sectors at the DM level. CC/FAS was not only supported by DMNS, but also by the DM Committee on Global Trends, Foreign Affairs, and Defence (DMGTFAD), which was chaired by the DM of Foreign Affairs and supported by a secretariat within DFAIT.²⁰⁹ In order to more closely coordinate the work of DMNS and DMGTFAD, starting in February 2013 the NSA would host the 'NSA's Monthly Policy Meeting' on the first Thursday of each month. The Monthly Policy Meeting included DMs from PCO, DND, Public Safety, DFAIT, and the Canadian International Development Agency, and was meant to cue up the forward agenda between GTFAD and DMNS to more efficiently support CC/FAS and the PM.²¹⁰

Of course, the strong DM machinery was supported by equally strong machinery at the ADM level. Within PCO, the F&DP Advisor, who was the de

²⁰⁵ Ellis, R.A. (circa June 2012) Memorandum to the Director: 'Meeting of the DM National Security Committee, Legal Subgroup' CSIS, SECRET, Released under the ATIA.

²⁰⁶ Venner, T. (circa January 2014) Memorandum to the Director: 'Deputy Minister Meeting on National Security Information Sharing' CSIS, SECRET, Released under the ATIA.

²⁰⁷ The common perception was that SCISA was a reflexive response to the October 2015 attacks on Canadian soldiers in Ottawa and Quebec. In reality, SCISA had a much longer lineage stemming back to the Major Commission.

²⁰⁸ Meeting Note for the USS (April 8, 2013) 'Deputy Ministers' National Security Meeting, April 9, 2013, DFAIT, SECRET/CEO, Released under the ATIA.

²⁰⁹ Meeting Note for the Deputy Minister of Foreign Affairs, January 31, 2013.

²¹⁰ Ibid.

facto deputy NSA, chaired the Senior Officials' Committee (SOC), which was meant to cue up issues for the DMNS forward agenda. Additionally, ADM(Intelligence) continued to support DMIC, as well as DMNS more broadly, on intelligence policy issues. In 2012, the IACC was replaced by the ADM Committee on Intelligence Assessments (ADM(IA)), which was chaired by the head of the IAS and coordinated the planning and production of national intelligence assessments for DMIA.²¹¹ A key forum for *operational* coordination of the intelligence effort was the ADM Committee on National Security Operations (ADM(NSOps)). ADM(NSOps) was chaired by the Senior ADM for National and Cyber Security at the Department of Public Safety, and consisted of ADM-level representatives from the operational side of the national security community, such as the CSIS Deputy Director of Operations or the RCMP's Asst. Commissioner for National Security Criminal Investigations. As one RCMP official described it:

*[ADM(NSOps)] comes together whenever there is an incident or an event that requires that close collaboration amongst all the agencies in finding a solution to make sure that we keep Canadians safe, and usually that is at the government level where we will come together on those highly sensitive type of operations, where more than one department can contribute to resolving the issue.*²¹²

This committee would play a central role in cross-community coordination in the event, for instance, of a terrorist incident abroad targeting or implicating Canadians where there would be a need to coordinate a response, an investigation, and provide intelligence support to both. Figure 1.5.30 shows the committee machinery in late 2013, and Figure 1.5.31 shows the NSA's branch in PCO in 2014, including the S&I Secretariat, the IAS, and the F&DP Secretariat.

²¹¹ I-22.

²¹² Michaud, G. (June 18, 2012) Evidence to the Special Senate Committee on Anti-Terrorism, Senate of Canada, Issue No.5, 1st Session, 41st Parliament, p.58.

Figure 1.5.30: Canadian Committee Structure related to Management of the IC
--circa 2013--

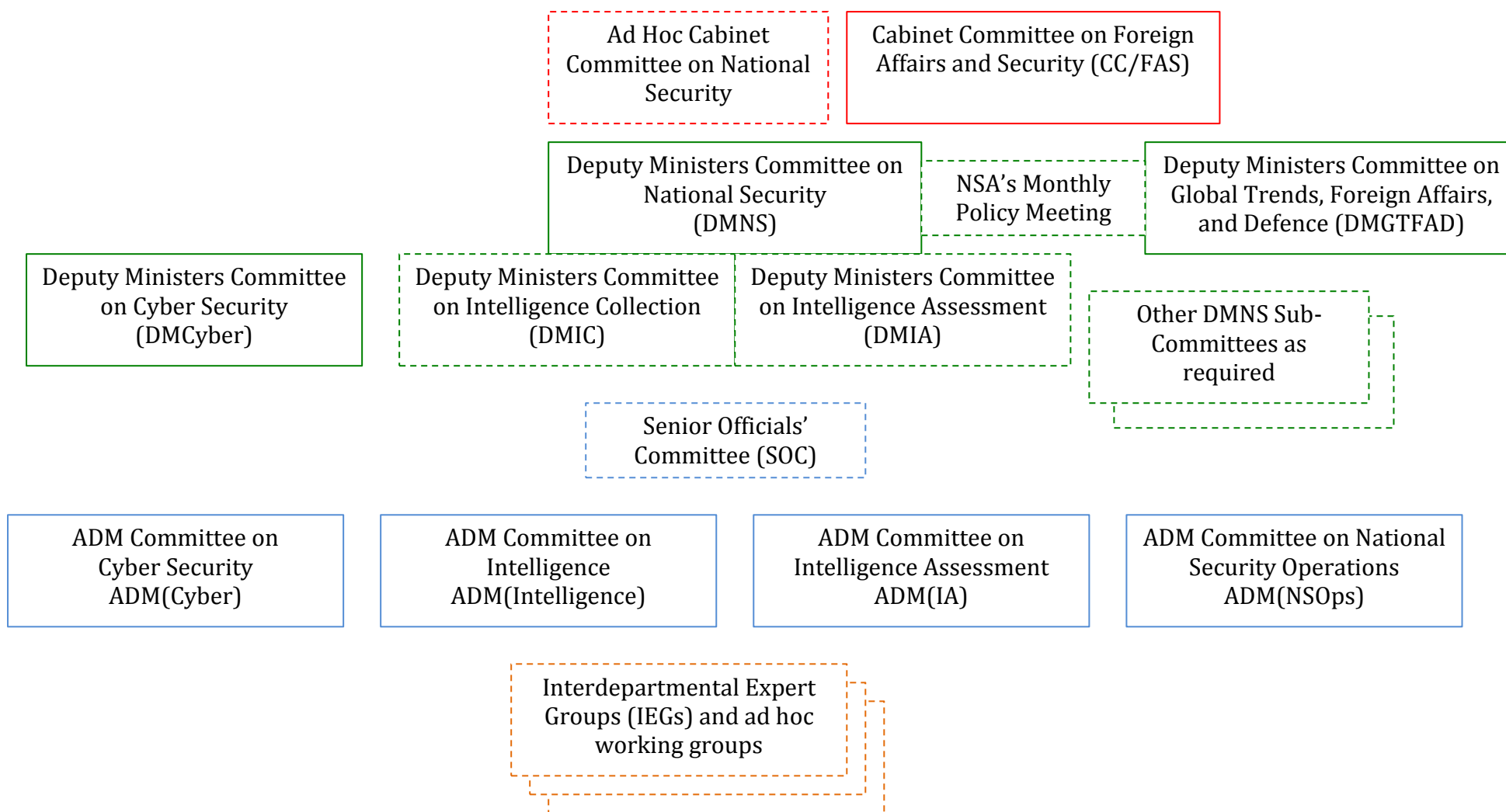
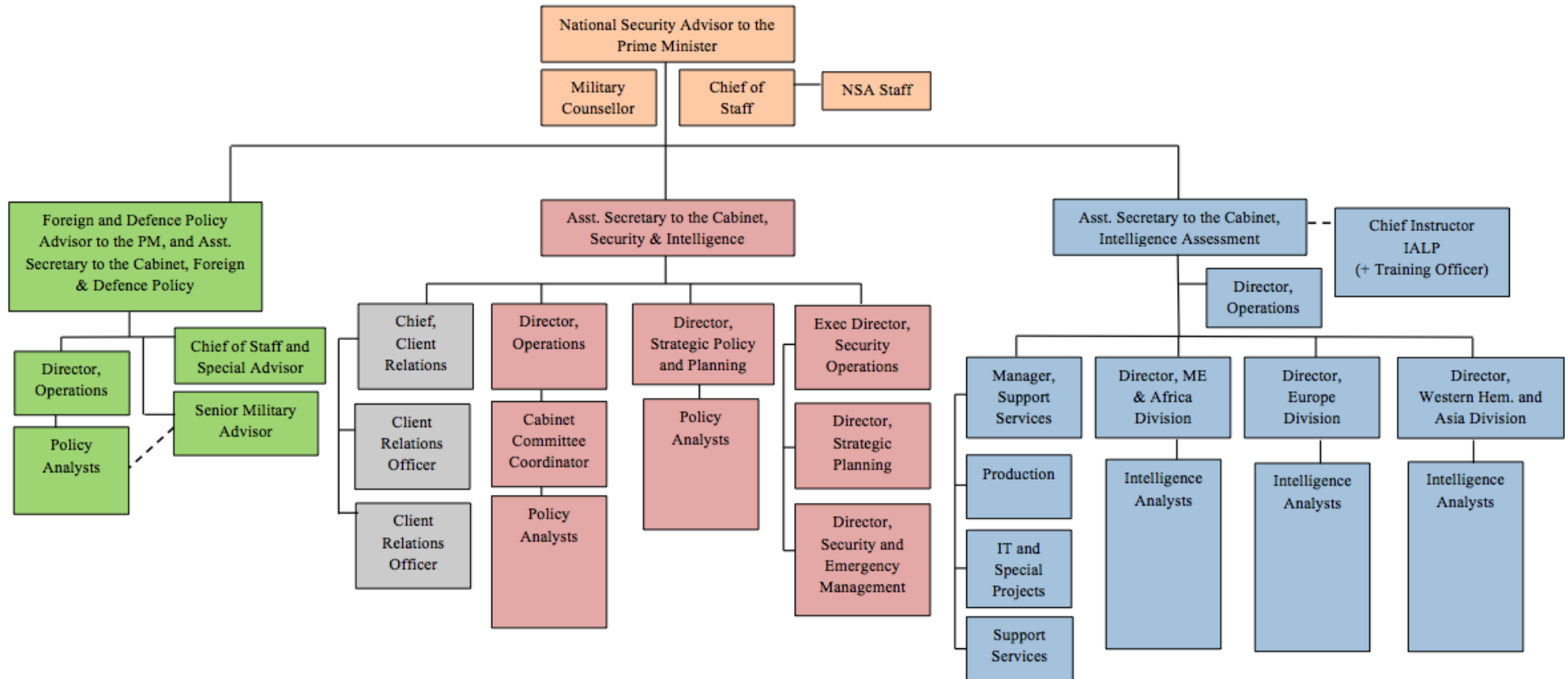


Figure 1.5.31: National Security Advisor's Branch in PCO, circa 2014



The Evolution of the Machinery of IC Management in Canada: Substantial but Fragile Progress

When we trace the evolution of IC management in Canada, a few broad conclusions become clear. First, there have been significant improvements in the management of the IC, particularly in the last 15 years. The appointment of a senior, full-time NSA in PCO since 2010 has done much to drive further improvements in community management by plugging the IC more closely into the highest decision-makers in the Canadian government. Also, the 9/11 generation of ministers and public servants have better recognised the importance of intelligence to the security and prosperity of Canadians at home and abroad.

Secondly, however, we can conclude that these improvements may be fragile and prone to reversal, depending on changing government priorities and attention to national security issues. In this fashion, the gains of the 1980s were reversed through the 1990s for exactly these reasons. The end of the Cold War and the resulting shift in political mood weakened the commitment of ministers to IC coordination and led to a period of stagnation for the IC. The PM was disinterested in national security matters and, with the slight exception of a few crises such as the 1995 fishing dispute with Spain, the government's attention was elsewhere. This lack of policymaker interest, combined with progressive budget cuts, took its toll. Committees met less frequently, or, in the case of CC/S&I, disappeared altogether. With the requirement to support other government priorities, continuing expenditure restraint, and a PM and Clerk disinterested in national security affairs, the central role of the PCO in IC management became constrained and inconsistent. While the situation today is greatly improved due to a sustained period through the 9/11 decade where national security policy was a political priority, the gains are still susceptible to reversal should subsequent governments choose not to commit time and energy to national security matters.

As posited in the beginning of Part 1, the nature of the interdepartmental machinery at the centre of government is defined by: the government's policy priorities; the complexity, sensitivity, and persistence of the policy issues; and

the constraints on ministers and senior officials. We can see all of these factors at work in Canada, just as in Australia and New Zealand. As different governments have placed different levels of priority on national security policy, the role of the centre has waxed and waned accordingly. In periods where national security considerations have been central to the government's agenda, whether planned or unplanned, the centre of government has been more active, and the machinery used to bring the actors to the table collectively has been more robust.

Intelligence issues have been complex and sensitive, from both an operational *and political* perspective, in the Canadian government. The design of the interdepartmental machinery has shown a consistent attempt to balance these considerations. In Canada, there has always been a distinct line between the management responsibilities of officials and the governance responsibilities of ministers, and both have been quite happy to maintain the line where it is for pragmatic and political purposes.

Finally, the constraints on ministers and senior officials have also consistently played a role in the design of the Canadian interdepartmental machinery. The need to limit the knowledge of sensitive intelligence efforts in a system where the representational imperative has led to large Cabinets has placed greater emphasis on smaller groups of ministers. The time demands on ministers and senior officials has, as in other jurisdictions, placed a great focus on ensuring that they meet only when needed, on the most complex or imperative issues, and that only those who need to be at the table ('need' defined broadly or narrowly depending on context) are there. However, there are also more institutional constraints. The tradition of individual ministerial accountability has defined Canadian approaches to IC management very heavily. In this sense, the popular view that the agencies are not accountable is somewhat ironic given that direct lines of ministerial accountability have always been treated as sacrosanct within the Canadian system. Ultimately, the machinery for IC management has been defined by the nature of the Canadian government itself, and the policy preferences of the government of the day. The machinery at the centre of government has evolved to balance competing

operational, political, and public demands that are ever changing, and require equally consistent adaptation from the public sector. Far from being separated from democratic governance, the secret state in Canada is consistently defined *by* it, with all the complexity, costs, and benefits that it brings.

Part 2

Systems of Intelligence Community Governance: Setting Requirements and Priorities for National Intelligence

Part 1 has explored the high-level interdepartmental structures that have evolved as the forums for intelligence governance, and the central coordinating agencies that pull actors together within the core executive. However the ‘architecture’ of intelligence communities is not simply about structures. The act of governing revolves around key systems, including setting national-level policy and effectively managing resources. But how does the world of clandestine intelligence intersect with the seemingly mundane systems of policy-making and budgets? How do these systems *work* when it comes to intelligence, and why do they work the way they do? In examining the key systems, we see not only what the machinery of government looks like, but, more fundamentally, *how it functions*. Parts 2 and 3 focus on these two key systems as they relate to the intelligence communities. By examining the system for setting national requirements and priorities for intelligence, we can determine how each of the government maintains *policy* control over their intelligence community. By examining the financial management system, we can determine how each government maintains *financial* control of their intelligence community. Exploring these systems, in the context of the earlier discussion of structures allows us to paint a much more complete picture of intelligence community governance in each state.

The Idea of Intelligence Requirements and Priorities

Clandestine intelligence is a politically sensitive and financially costly element of a state’s national security effort. Because of these traits, it is important to direct a nation’s intelligence effort at the most important questions for intelligence consumers.¹ Setting this direction generally involves two

¹ In this chapter, the term ‘producers’ refers to those organisations that produce intelligence either in raw form (i.e. the national collection agencies) or in analysed or assessed form (i.e. the analysis and all-source assessment organisations). ‘Consumers’ refers to those who use single- or all-source intelligence reporting to formulate policies, to target operations, or to produce further intelligence reporting (ministers, senior officials, policy departments, and operational

interrelated efforts. The first is determining what topics or questions are most relevant to intelligence consumers and, hence, what intelligence is useful to them (i.e. their 'requirements'); the second is to determine how important each topic or question is, in comparison to the others (i.e. the 'priorities'). By knowing how important each requirement is compared to the others, IC managers can target their expensive resources at the most important requirements. At the national level, the term 'requirements and priorities' actually translates roughly into three broad types of direction that are interrelated:

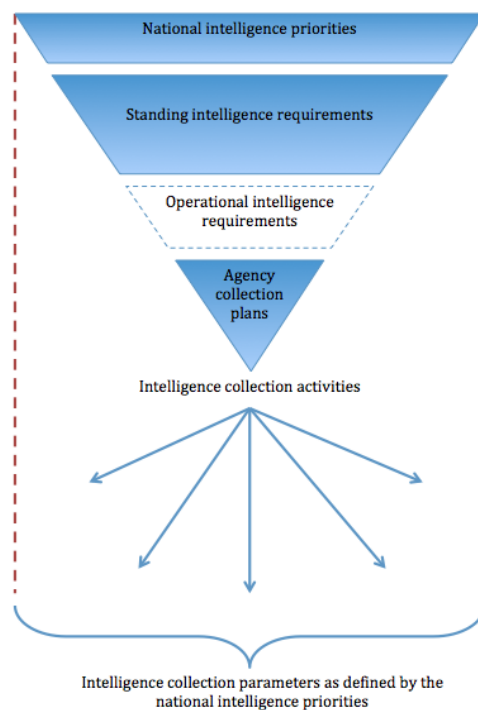
1. *National-level intelligence priorities*: National intelligence priorities are a statement of broad topics that are of most concern to national decision-makers. The national priorities are also parameters to the intelligence producers; collection and assessment efforts must fit within the national priorities. The topics are derived from, and should reflect, the government's national security *policy* priorities. A hypothetical example of such a national priority would be 'Terrorist threats to citizens at home and abroad.'
2. *Standing Intelligence Requirements*: These are usually narrower subjects or questions, underpinning the national intelligence priorities, for which consumers have an identified and on-going need for intelligence. The intelligence producers will actively plan how to produce intelligence meeting the standing requirements. Continuing with the above hypothetical example, a standing requirement under the 'Terrorist Threats' priority might be intelligence on the recruitment activities of Al Qaeda affiliates, particularly efforts to recruit or radicalise domestically.
3. *Operational Intelligence Requirements*: These are more specific subjects that are identified through on-going interaction between intelligence consumers and producers, usually at the departmental level. Operational requirements represent the *specific* intelligence that is needed by consumers to support operational needs, and are often communicated as 'requests for information' (RFIs). Operational requirements must always fit within the standing national requirements, and be in line with the

departments or agencies such as the police or military forces). Note that intelligence analysis and assessment organisations are also included as 'consumers.'

national intelligence priorities as approved by cabinet ministers. Again, to continue with the above hypothetical example, an operational requirement would develop if Western powers decided to back a round of peace negotiations in an attempt to end the Syrian civil war. The operational requirement, in this case, would be for intelligence on any effort by jihadist groups to disrupt the peace negotiations

This discussion of the broad types of directive, while admittedly brief and imperfect, gives an idea of the major moving parts within the R&P system. It is necessary to keep these distinctions in mind in the following discussion of the R&P systems. Figure 2.0.1 provides a simplified illustration showing how the R&P system 'frames' intelligence collection within set parameters. While the national statement of intelligence priorities sets the overall parameters, each subsequent type of direction becomes more specific until finally the agencies design dedicated collection plans to satisfy consumer requirements. Subsequent intelligence collection operations, while carried out under the expertise of the collection organisations, must fall within the overall parameters set out by the national priorities.

Figure 2.0.1
How Requirements and Priorities Frame Intelligence Collection

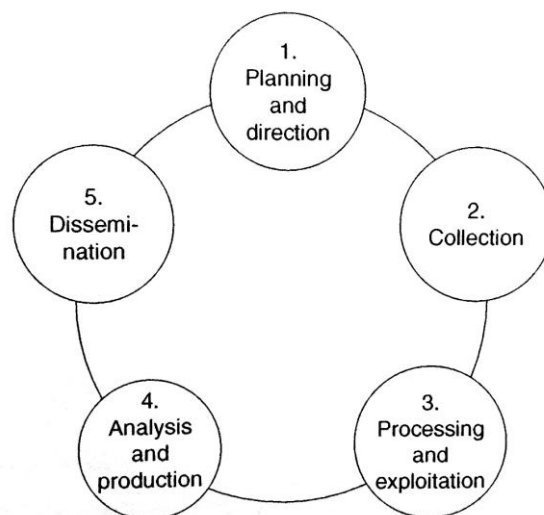


Defining R&Ps can help to ensure a high return on financial investment, to coordinate the multiple agencies within the IC towards the same outcomes, and to ensure that the use of the state's clandestine capabilities are kept within legitimate bounds. This said, R&P systems can vary in design and practice, and how they vary can tell us much about the governance of national intelligence in a particular state.

What kind of System?

The traditional intelligence cycle has long been the subject of study and debate. Generally there is agreement that the cycle is more a theoretical construct than accurate representation of the intelligence business.² Even within the traditional intelligence cycle, some have identified variances between national systems that point to different ways of doing business.³ Figure 2.0.2 shows a general depiction of the traditional intelligence cycle. This debate about how intelligence *actually* works includes debates around how governments define requirements and priorities for the national intelligence effort.

Figure 2.0.2⁴
A Depiction of the Traditional Intelligence Cycle



² Omand, D. (2014) 'The Cycle of Intelligence' in R. Dover, M.S. Goodman, and C. Hillebrand (eds.) *Routledge Companion to Intelligence Studies*, London: Routledge, pp.59-70.

³ Davies, P.H.J (2004) *MI6 and the Machinery of Spying*, London: Frank Cass, pp.13-14.

⁴ Figure 2 from Omand, 2014, p.59.

As indicated in the traditional intelligence cycle, theoretically, intelligence consumers (prime ministers, ministers, deputy heads, departmental officials, and analysts) will identify their priority concerns and intelligence needs based on policy questions and 'direct' the intelligence producers (national collection organisations and all-source assessment organisations) to produce intelligence on subjects that will help answer their questions. However, this is a simplistic view that rarely reflects the reality for several reasons. Henry Rowen, a former Deputy Secretary of the US State Department, argued that the 'market' for intelligence can be determined by either a 'pull' dynamic from intelligence consumers, or a 'push' dynamic from intelligence producers. Rowen argued that a 'pull' dynamic (i.e. top-down direction, as illustrated in the intelligence cycle) was invariably better because it ensured that the consumers got what they needed when they needed it.⁵

However, the task of 'finding the right question' (or in this case, the right requirement) is not an easy one for many reasons. One challenge has to do with the relative knowledge or interest of the intelligence consumer. Michael Herman discussed some years ago that a decision-makers' ability to define their own intelligence requirements is, in many cases, quite limited. Herman stated that, "[Intelligence] users do not think in broad terms about the information needs of their whole department. Most of them welcome anything that can help them immediately but are not discriminating 'requirers', especially when intelligence is only one source of information among others."⁶ Indeed, much of the conceptual thinking on R&P processes has come from the operational level, specifically in NATO militaries, which inherently assumes a decision-maker (or staff supporting a decision-maker) with a regular interest in, and knowledge of, intelligence.⁷ Also, more basic problems can inhibit the clear definition of intelligence requirements and priorities, such as the differences in culture and

⁵ Rowen, H.S. (1995) 'Reforming Intelligence: A Market Approach' in R. Godson, E.R. May, and G. Schmitt (eds.) *US Intelligence at the Crossroads: Agendas for Reform*, London: Brassey's, pp.233, 241. For a discussion of the British R&P system that includes a discussion of the market dynamic, specifically as it relates to SIS, see Davies, P.H.D. (2004) *MI6 and the Machinery of Spying*, London: Frank Cass.

⁶ Herman, 1996, p.289.

⁷ This point has been raised by Herman, 1996, and Kovacs, A. (1997) 'The Nonuse of Intelligence' *International Journal of Intelligence and Counterintelligence*, 10:4, pp. 386.

professional language between intelligence consumers and intelligence producers.⁸ Indeed, the construction of a question or requirement *itself* is still the topic of research and refinement.⁹

Herman also points to the importance of the direct interaction between producers and consumers because it allows the producers to gauge the preferences of their consumers. This is important because intelligence producers can often sense their consumers' preferences *even if the consumer is not entirely able to articulate them*. As Herman states, "user requirements may be incomplete or unreliable, but users have *reactions* (positive and negative) to what they get. They know if a report they get is useful or wastes their time," and, it might be added, will often be willing to say which it is.¹⁰ Intelligence producers will use this feedback to better target their reporting, in order to better satisfy consumer requirements. Herman referred to this as a kind of 'entrepreneurship,' where the intelligence producer is as much a salesman as a servant.¹¹ Given this, intelligence producers themselves are inescapably involved in the process of 'directing' the intelligence effort, helping to define or trying to decipher consumer requirements. Because of these realities, as Herman first suggested in 1996, the R&P process for intelligence is rarely defined by agencies simply taking *direction* from intelligence consumers.

Others have pointed out that the idea of 'national' R&Ps are, in reality, a relatively new concept. Philip Davies, in his discussion of the British accountability system for intelligence, stated "prior to the mid 1960s the national agencies were tasked directly by their consumers through horizontal lines of communication with the JIC as a sort of arbiter and referee when consumer demands threatened to overwhelm them." In his work on the British SIS, Davies showed that there were actually strong bilateral relationships between SIS and its consumer departments operating beneath the senior-level interdepartmental

⁸ Kovacs, 1997, pp.386-389.

⁹ Manning, B. and Wheaton, K.J. (2013) 'Making "Easy Questions" Easy: The Difficulty of Intelligence Requirements' *International Journal of Intelligence and Counterintelligence*, 26:3, pp.597-611.

¹⁰ Herman, 1996, p.293.

¹¹ Herman, 1996, 294.

machinery.¹² Subsequently, through the 1970s, with the pinch of public sector expenditure reductions being felt across government, the Cabinet Office felt that a more centralised and regular approach to requirements and priorities was needed “in order to manage the multiplying demands being placed on the agencies by the Cabinet and Whitehall.”¹³ In the British system, the JIC machinery led this central discussion, acting as a kind of filter, and ensuring that the intelligence producers had a coherent set of requirements placed on them that adequately reflected ‘national’ level concerns. This central discussion that occurred within the interdepartmental committees was meant to regulate the demand for intelligence and govern the bilateral exchanges that occurred directly between consumers and producers.

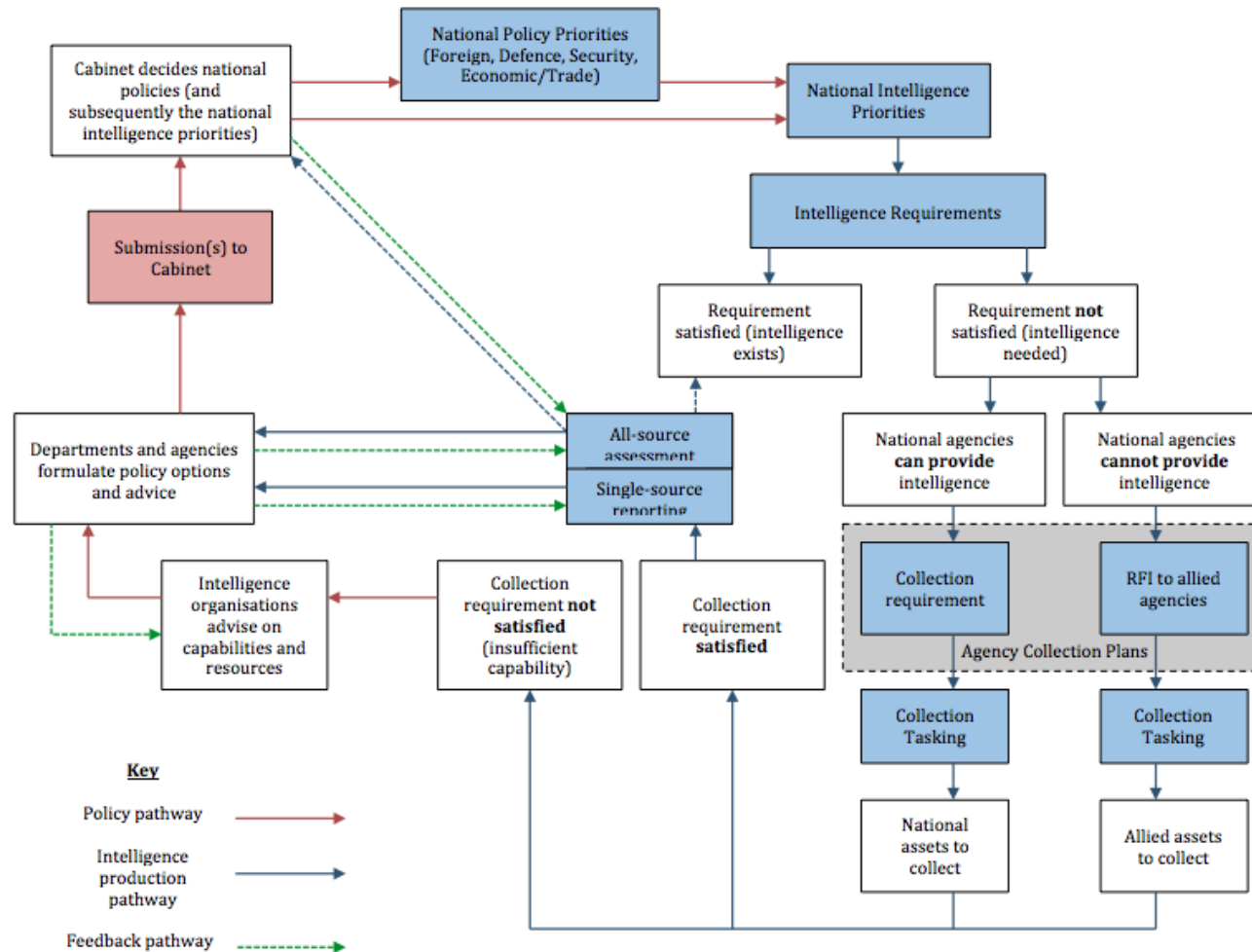
Given these factors, then, we can conclude that an R&P system is a continuous *conversation* between intelligence producers and intelligence consumers, which plays out at multiple levels, encompasses both formal and informal elements, and contains both bilateral and multilateral avenues of discussion. One way to picture this wider conversation is to expand on agency-specific processes for collection management, in order to reflect the ‘national’ system. The UK military’s *Joint Doctrine Publication 2-00: Understanding and Intelligence Support to Joint Operations* includes a figure showing the collection management process within a department or agency. If we expand this to reflect the wider ‘national’ R&P system in a Cabinet system, including policy and resourcing discussions, the result is a general flow chart that captures the much greater complexity of the system and the interaction between the different elements of the R&P ‘conversation’ at the national level. Figure 2.0.3 shows this flow chart.¹⁴

¹² Davies, P.H.J (2000) ‘MI6’s Requirements Directorate: Integrating Intelligence into the Machinery of British Central Government’ *Public Administration*, 78:1, pp.29-49.

¹³ Davies, P.H.J (2010) ‘Britain’s Machinery of Intelligence Accountability’ in Daniel Baldino (ed.) *Democratic Oversight of Intelligence Services*, Sydney: The Federation Press, p.143.

¹⁴ For the basis for Figure 3, see Development Concepts and Doctrine Centre (2010) *Joint Doctrine Publication 2-00: Understanding and Intelligence Support to Joint Operations* (3rd Ed.), Shrivenham, UK: Ministry of Defence, chapter 3 p.12.

Figure 2.0.3: General Flow Chart Representing a National System for Requirements and Priorities in a Cabinet System



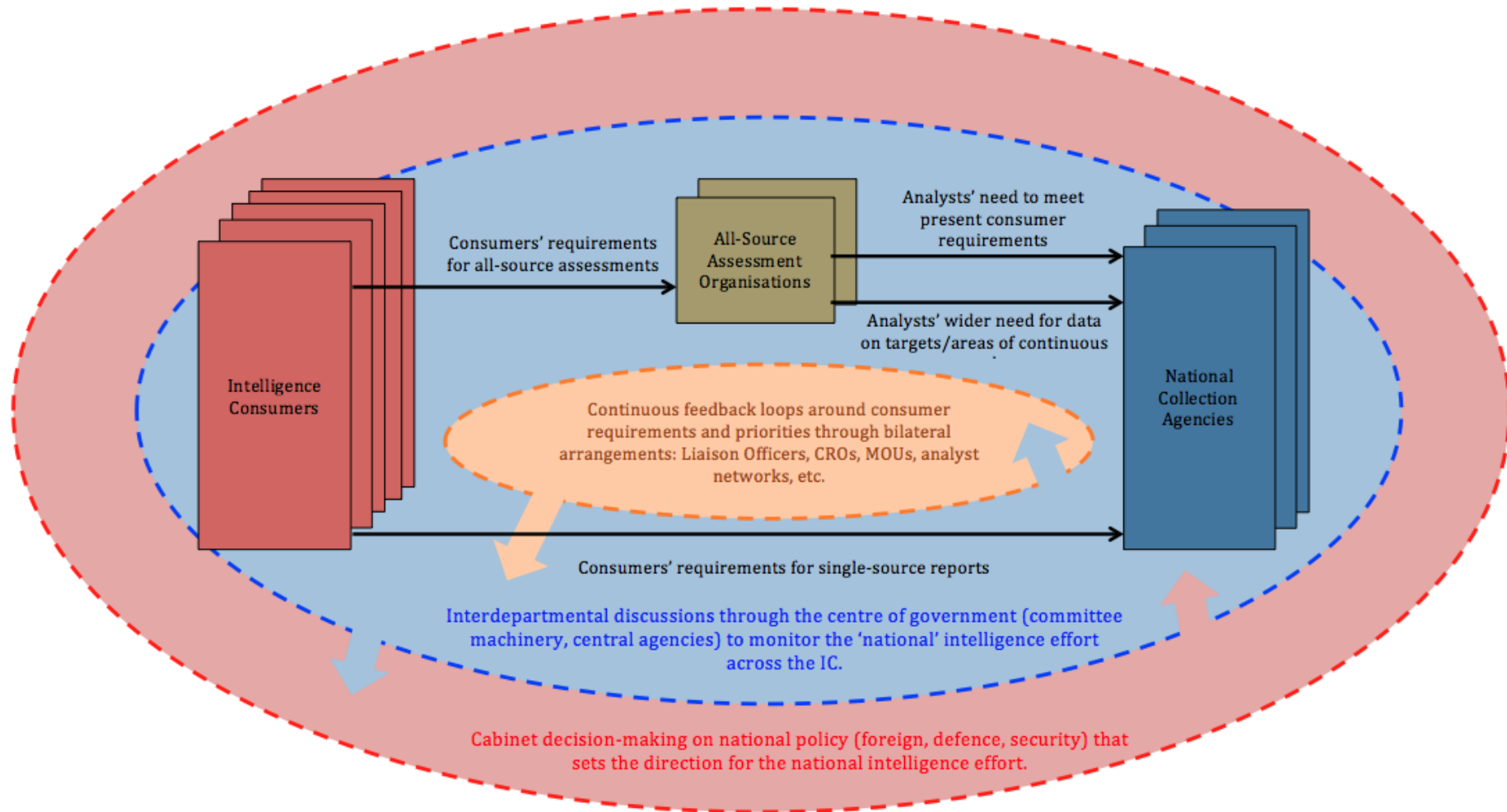
Alternatively, we can show the different expanding 'levels' of the conversation, as they exist around the bilateral interaction between consumers and producers over requirements. Figure 2.0.4 expands on Michael Herman's original depiction of the complexity of requirements to illustrate this multi-level conversation swirling around the consumers and producers.¹⁵ It includes the different avenues through which the conversation takes place at each level, and illustrates the fact that these levels are not static, but interact with one another. *Ideally*, the conversation consistently and coherently links the national intelligence effort to the wider national security policymaking process and the financial management system in a coherent way. The conversation will be structured and active enough to provide clear direction to intelligence producers, but flexible enough to allow for regular adaptation if there are changes in the threat environment. However, the complexity of the conversation means there is significant room for national nuances to play into the system. The conclusion that all R&P systems work the same way cannot be taken as a given.

The Nature of Demand

Because the R&P systems are mechanisms for governing supply and demand of clandestine intelligence, then the nature of the system is defined by both the intelligence producers (i.e. the 'supply' of intelligence) and the consumers (i.e. the 'demand' for intelligence). As demand for intelligence grows, and particularly if demand grows in both volume and *breadth*, then a centrally negotiated system of requirements becomes more necessary to avoid duplication of effort and unreasonable demands on the intelligence producers. We can hypothesise, then, that the form and evolution of an R&P system is inextricably tied to the nature of the *demand* for intelligence, including the extent and consistency of that demand.

¹⁵ For Herman's original depiction of the complexity of requirements, see Herman, 1996, p.291.

Figure 2.0.4: The On-going Conversation around Intelligence Requirements and Priorities at Multiple Levels



While this seems like an intuitive point, the nature of demand in a national intelligence system inherently defines the direction given to intelligence producers. If demand for intelligence is ad hoc and inconsistent, then intelligence producers are limited in how they can position themselves to effectively manage their operations. Conversely, if demand is overwhelming but not accompanied by guidance on prioritisation, then this too makes it difficult for intelligence producers to know how to position themselves. Given this, it is important to explore how the nature of demand within a government affects the conversation around intelligence requirements and priorities.

Key Questions about the R&P Systems

Ultimately, the form and evolution of an R&P system provides important insight into the relationship between a government and its secret servants. By examining the R&P systems in each government, we can answer the following key questions:

1. *How does the 'conversation' between intelligence producers and consumers over requirements and priorities occur? Specifically:*
 - a. *How does it occur at different levels, and what is the emphasis at each level?*
 - b. *What are the formal and informal elements of the conversation and how do they factor into the conversation as a whole?*
 - c. *What role does the 'national' machinery (i.e. the interdepartmental committees and the central agencies) play, and what role does the bilateral arrangements between intelligence consumers and producers play?*
 - d. *Who is involved at what stages of the conversation?*
2. *What do the R&P systems tell us about the relationship between the intelligence communities and the governments they serve, particularly in relation to the demand for intelligence?*
3. *What factors have influenced the design and evolution of the R&P systems?*
4. *How does the R&P system connect to other key systems, particularly the financial management system?*

Because the R&P system is at the heart of the policy framework that governs intelligence producers, the answers to these questions are important for understanding intelligence community governance within Australia, New Zealand, and Canada, and comparatively across the three governments.

Chapter 6

The National Requirements and Priorities System in Australia

The Unique Position of Security Intelligence

Before delving into the R&P system in Australia, it is necessary to address an important characteristic that largely sets ASIO apart from the rest of the IC. While Australia's foreign intelligence organisations are entirely subject to government direction, ASIO is a different beast in terms of its tasking.

As Christopher Andrew noted in his official history of the UK Security Service, a fundamental premise of the Security Service's charter was that it not be influenced by political direction in order to safeguard against any politicisation of its operations. The Security Service was to follow the threats as it saw them, not as politicians saw them. This premise was first made explicit in the Maxwell-Fyfe Directive of 1952 and subsequently by the *Security Service Act, 1989*. As Andrew notes, this essentially made the Security Service self-tasking.¹⁶ ASIO, closely modelled on its British counterpart, adopted the same stance for the same reasons. The *ASIO Act 1956* reflected this principle by vesting control of ASIO solely with the Director-General.¹⁷ The ASIO Act 1979 refined this premise somewhat, by indicating that the Director-General is "subject to the general directions of the Minister," but that the Minister cannot overrule the Director-General in determining "whether the collection of intelligence by the Organisation concerning a particular individual would, or would not, be justified by reason of its relevance to security."¹⁸ Similar to its UK counterpart, this means that ASIO is self-tasking in its security intelligence mandate, and not subject to direct government requirements and priorities. While the government cannot 'direct' ASIO in its security intelligence mandate, the Organisation is not entirely removed from the R&P system. In fact, ASIO has increasingly come to work

¹⁶ Andrew, C. (2009) *The Defence of the Realm: The Authorized History of MI5*, Toronto: Penguin Canada, p.323.

¹⁷ *Australian Security Intelligence Organisation Act 1956*, No.113, 1956, http://www5.austlii.edu.au/au/legis/cth/num_act/asioa19561131956506/ (Accessed November 2015).

¹⁸ *Australian Security Intelligence Organisation Act 1973*, No.113, 1979, <https://www.comlaw.gov.au/Details/C2004A02123> (Accessed November 2015).

under the same R&P framework as Australia's foreign intelligence organisations because the fluid nature of transnational threats, such as terrorism and human smuggling, has eroded the divide between 'foreign' and 'domestic.'¹⁹ How the evolution of the R&P system has affected ASIO will be discussed further in subsequent pages but, for now, it is suffice to point out that ASIO's security intelligence mandate has historically been treated somewhat separately.

A Rocky Start: 1945 to 1977

As discussed in Chapter 3, the DoD dominated the post-war Australian intelligence system until the late 1960s. This meant that the intelligence producers focused on foreign and defence intelligence (namely DSD, ASIS, JIB, and the Joint Intelligence Staff that supported JIC) essentially had one primary consumer: the DoD and its Minister. As the Department of External Affairs became more closely involved (e.g. through chairing JIC), the primary consumers for intelligence product in Australia expanded slightly. In the immediate post-war environment, however, JIC's role as an all-source assessment organisation was minimal because it was dominated with policy matters stemming from the creation of the new Australian intelligence community.²⁰ However, R.H. Mathams, a long-time Australian intelligence analyst, recounted that during this period the government's guidance to the IC on its direction was lacking:

It is my understanding that the JIC did not receive a great deal of direction from higher authority as to the matters to which it should give its attention. The initiative for the Committee's programme seemed to come mainly from the Committee itself, to be acted on after the agreement of the Defence Committee had been obtained.²¹

The small and concentrated nature of the Australian IC in the immediate post-war years meant that the producers of foreign intelligence (JIB, DSD, and ASIS) dealt directly with a very small circle of principal consumers, namely senior officials in the DoD and to a lesser extent the DEA, to try and gauge what was useful. ASIO, as the principal supplier of security intelligence to the government

¹⁹ ASIO's involvement in the national R&P process will be discussed more fully in following pages.

²⁰ Mathams, R.H. (1982) *Sub Rosa: Memoirs of an Australian Intelligence Analyst*, Sydney: Allen and Unwin, p.40.

²¹ Mathams, 1982, p.43.

also dealt bilaterally with its primary consumers, namely the Prime Minister and the Attorney General.

Trial and Error: 1970-1977

Following the Wilton Report, and the creation of the National Intelligence Committee in 1970, there was a more concerted effort to create a 'national' R&P system. The centerpiece was to be a NIC paper, drafted by the National Assessments Staff, on Australia's national intelligence requirements and priorities. On sending a draft of the paper to the Director of the JIO (who was also chairman of the NIC) in March 1970, the head of the NAS, C.G. Woodard, wrote that the idea of the paper was to provide guidance "based on the [NAS] understanding of the likely list of priority subjects for contribution and assessments by the Australian Intelligence Community over the next two years." He added, that the paper, "also attempts to take into account the longer-range requirements for intelligence accumulation, including in this regard the special circumstances affecting covert collection."²² While the paper itself is still classified, the evolution of the general format can be ascertained through several statements in archival records. The initial draft of the NIC paper covered many countries that were important to Australia's regional interests. For each country, the paper listed specific intelligence requirements, which were then prioritised based on the importance of the topic.²³ This paper, entitled NIC No.2/1970 'Australia's Intelligence Priorities,' was issued in September 1970.²⁴

However, questions soon arose over the NIC paper's prioritisation of the requirements. Even before the NIC 2/1970 was released, minutes of a NIC meeting on March 11, 1970 state:

The Committee agreed that standing lists of priorities by countries and of priorities by subject-matter headings were of only limited assistance to collectors and to the Intelligence organization as a whole. Day-to-day working priorities for the organization were governed by the adequacy of current 'holdings', and priorities for individual collectors had to take

²² Head of NAS to Director of JIO, March 6, 1970, NAA: A12381/4/14.

²³ These details can be pieced together through papers contained in NAA: A12381/4/14.

²⁴ RCIS, Third Report, Appendix 3-T 'Establishing Intelligence Priorities', NAA: A8908/3A.

*account of the scope, flexibility and limitations of their targeting and of the techniques at their disposal.*²⁵

In short, there was a sense that the prioritisation of the requirements in the NIC paper did not adequately reflect what intelligence was already available, what gaps there were in collection, and what was feasible with the capabilities that would be in place over the two-year period that the paper was meant to cover. In short, there was a need for more consistent operational discussion between consumers and producers in order to adjust production as needed and reflect the limited resources of the collectors and assessment organisations. The compromise solution was that the day-to-day interaction between JIO and the collection organisations “should be supplemented, perhaps every three months, by a special meeting of the NIC at which the overall state of intelligence could be reviewed and any necessary *ad hoc* guidance give to collectors.”²⁶ This was a recognition that the NIC paper as an IC-wide direction on production was not flexible enough, and had to be supplemented by ongoing discussion around R&P. A second issue with the NIC paper on R&P was that it gave little sense of how producers should manage their resources. N.L. Webb, a DoD policy planner, noted that the priorities did not give a clear sense of how resources should be allocated. Webb stated, “The main difficulty is the inability of absolute priorities to provide any guidance for the marginal allocation of resources. In other words, some sort of cost-benefit analysis (or its equivalent) is needed.”²⁷ Finally, there was also question as to the balance between departmental and national requirements. Alexander Duncan Black, a Royal Australian Navy officer who was part of the JIO, commented in November 1970 that, “It would be quite unreasonable to expect the NIC to dictate internal priorities within departments. The Department of Foreign Affairs, for instance, could not be expected to accord the provision of intelligence to the JIO a higher priority than the tendering of advice to its own Minister.”²⁸ This indicated that there was at least some tension between departmental and ‘national’ imperatives, which is unsurprising given

²⁵ ‘Minutes of the National Intelligence Committee Meeting – 11th March 1970’, NAA: A12381/4/14.

²⁶ *Ibid.*

²⁷ Minute from PEO/PP to AS/PP, September 23, 1970, quoted in JIO File, NAS 401 part 1, NAA: A12381/4/14

²⁸ Black, A.D. ‘NIC/JIO Intelligence Requirements/Priorities,’ NAA: A12381/4/14.

that the JIO was still very much a DoD construct with a thin 'national' mandate grafted onto it.

In a second paper, drafted in early 1971, the NAS and JIO attempted to address the issue of resource allocation by using two scales: one scale would identify the importance of a requirement (using a scale of A through D, with A being the most important); another scale would indicate the effort to be expended by producers on meeting each requirement (using a scale of 1 to 4, with 1 being an on-going and intensive effort).²⁹ Additionally, each country section of the paper included a statement of the importance of that country to Australia's national interest. In essence, this statement laid out the rationale for the country's inclusion as a 'national intelligence priority.'

However, at a NIC meeting on April 14, 1971, the decision was made to take a more general approach. Each country in the NIC paper would have, first, "a statement of interests in two parts – the first giving the long term view, and the second giving a short-term focus" and, second, "a statement of requirements derived from these interests." The requirements would be grouped under headings, identifying those that were 'vital', 'important', and 'desirable' in order to provide some guidance on the allocation of scarce resources.³⁰ The NIC's reasoning for going in this direction is somewhat illuminated in a memo from the head of the NAS, C.G. Woodard, to his staff:

*They [the members of NIC] are aware that this will represent a very broad statement of intelligence requirements rather than a specific statement of priorities. However, they believe that the priorities aspect would be met (by implication rather than by specific statement) if the statements of Australia's national intelligence interests are all satisfactory.*³¹

²⁹ The A1 to D4 scales are alluded to in Woodard, C.G. to NAS staff (March 17, 1971), Minute Paper 'Intelligence Priorities', NAA: A12381/4/14. An almost identical scale can be seen in Director's Memorandum No. 112/71, 'JIO-Intelligence Priorities' October 18th, 1971, NAA: A12389/D44, although the scales found in this document includes one additional category each, E and 5, indicating very low priority and effort.

³⁰ Author unknown, 'Record of NIC Meeting – 14th April 1971, Discussion of Priorities' NAA: A12381/4/14.

³¹ Woodard, C.G. to NAS staff (March 17, 1971), Minute Paper 'Intelligence Priorities', NAA: A12381/4/14.

Additionally, the NIC struck a five-person Working Party on Intelligence Priorities, chaired by Robert Mathams,³² to re-examine the requirements paper and report back as soon as possible to the committee with any recommendations for revision. This sub-committee was also instructed to maintain informal links with the DoD Joint Staff to ensure that DoD requirements for intelligence to support forward planning were accounted for.³³

The Working Party submitted a revised version of the NIC requirements paper to the Chairman of NIC in July 1971, and made several comments in a covering memo that accompanied the draft. Firstly, the Working Party indicated that the Statements of Interest that described Australia's intelligence interest in each country (i.e. the national priority), was meant to balance a longer-term outlook with more immediate concerns: "The intention has been to make these statements sufficiently general to be lasting, i.e. subject to review every two years, but not so general as to lack direction."³⁴ Additionally, the Working Party indicated that the list following each country's Statement of Interest should be referred to as 'requirements' rather than 'priorities' given that there was now only a general ranking of priority. Elaborating on this point, the Working Party stated that it was "impractical to allot an order of priority that would give a meaningful statement of the relevant importance of one category of requirement versus another in a particular country or—even more difficult—of a category in one country versus a different category in another country."³⁵ Additionally, the Working Party recommended to the NIC that the paper should not be taken as a rigid statement of priorities. Instead, the all-source assessment organisations were expected to use the paper "as a framework within which they should establish their own priorities for collection and research, taking into account their own limitations in terms of staff, available expertise, and so on." Similarly, the Working Party stated that the national collection agencies should use the paper "as a basis for general planning but should arrange their detailed

³² Mathams was Director of Scientific and Technical Intelligence in JIO.

³³ Author unknown, 'Record of NIC Meeting - 14th April 1971, Discussion of Priorities' NAA: A12381/4/14.

³⁴ Mathams, R.H. (Chairman, Working Party) to Chairman NIC (July 9, 1971) Minute Paper: 'NIC Working Party on Priorities', NAA: A12381/4/14.

³⁵ *Ibid.*

operations in relation to the priorities of the assessing agencies.”³⁶ The Working Party’s recommendations were largely accepted by the NIC on August 4, 1971, with the addition that a working party would be permanently established to “provide guidance on a regular basis and as required to all concerned.”³⁷ The creation of a standing working party on R&P was recognition that a forum for interdepartmental discussion was needed to address the on-going operationalisation of the R&P guidance. This second NIC paper was released as NIC Report No.4/1971 ‘Australia’s Intelligence Requirements’.³⁸

The NIC’s efforts through the early 1970s to create a more ‘national’ system for R&P could arguably be described as ‘trial and error,’ but illustrates the beginning of some of the key elements of the Australian R&P system. The ‘Statements of Interest’ that began each country’s entry in the NIC paper were, if taken together, a statement of national intelligence priorities. The corresponding lists of standing requirements were generally prioritised, but left flexible enough to allow for shifts in the operational environment.

Hope’s Critique of the Requirements and Priorities System

When Justice Hope looked at the R&P system as part of his first Royal Commission, he found that the early R&P efforts left much to be desired. Hope found that the most recent iteration of the NIC requirements paper, NIC (401), specifically avoided the idea of prescriptive priorities, opting instead for an informal process whereby priorities emerged through day-to-day working. NIC (401) reads:

*The lists of requirements are not static; the NIC Standing Group on Intelligence Priorities provides continuing guidance on changes arising from new developments, and the National Assessments Staff undertakes and submits to the NIC annually a review of this document. It is from this activity and review, and from the continuous process of consultation at all levels and between policy areas and collecting agencies, that priorities emerge.*³⁹

³⁶ Ibid.

³⁷ Mills, R. (Secretary) ‘National Intelligence Committee: Minutes of the Meeting held on 4th August 1971’, NAA: A12381/4/14.

³⁸ RCIS, Third Report, Appendix 3-T ‘Establishing Intelligence Priorities’, NAA: A8908/3A.

³⁹ Preface of NIC (401) as quoted in RCIS, Third Report, Appendix 3-T ‘Establishing Intelligence Priorities’, NAA: A8908/3A.

Hope also opined that the NIC Standing Group on Intelligence Priorities had only met six times between mid-1973 and late 1976, and had only a limited mandate to “indicate important inadequacies, *if any*, in the *current* intelligence effort and identify any new areas of intelligence concentration.”⁴⁰ Hope obviously felt that the NIC had been too passive about R&P. However, when one considers the broadness of the priorities and the geographic layout of the NIC papers, it is also likely that, in the grand scheme, Australia’s intelligence needs identified in the NIC papers did not shift in any significant way between 1973 and 1976.

A more important problem identified by Hope was that the R&P system was not truly ‘national.’ The intelligence producers, Hope found, did meet the needs of their most significant consumer departments (their parent departments, DoD and DFAT), through bilateral arrangements. However, there was no apparent mechanism through which other departments could levy requirements on the intelligence producers. One significant gap that Hope identified was that the Standing Group on Intelligence Priorities did not include any representatives from ASIO or the economic departments (particularly the Treasury or Trade and Industry).⁴¹ Additionally, NIC products were approved by the Defence Committee (a committee of deputy heads) rather than through Cabinet. Although the Defence Committee did have interdepartmental representation, it did not carry the same ‘national’ weight as a cabinet committee. Hope ultimately concluded that, “Australia’s intelligence collection both domestic and foreign has been conducted without the benefit of overall guidance as to priorities. By default, determining priorities has been left to the agencies. They have not been adequately equipped to find out consumers’ needs.”⁴² Hope did find that the Defence Committee recognised the problem and had tried to fill the gap, but the intelligence structures at the time, being centred within the DoD, were inherently departmental. Hope argued that what was needed most was machinery that would allow the government to set national

⁴⁰ NIC minutes quoted in RCIS, Third Report, Appendix 3-T ‘Establishing Intelligence Priorities’, NAA: A8908/3A.

⁴¹ RCIS, Third Report, Appendix 3-T ‘Establishing Intelligence Priorities’, NAA: A8908/3A.

⁴² *Ibid.*

requirements and priorities “at the highest level,” and by this he meant cabinet ministers.⁴³

ONA Takes the Reins at the Centre: New Mechanisms for Managing the Requirements and Priorities Conversation

Following Hope’s first Royal Commission, the creation of a standing committee of cabinet ministers chaired by the PM, a standing committee of deputy heads chaired by the Secretary of DPMC, and the creation of ONA within the PM’s portfolio was the beginning of a significant evolution in the R&P system. The ONA, as the lead agency within the IC, created new central mechanisms through which to manage a more national R&P system, specifically the National Foreign Intelligence Assessment Priorities document, the National Intelligence Collection Requirements papers,⁴⁴ and, later, the Foreign Intelligence Planning Document.

The National Foreign Intelligence Assessment Priorities

As the name implies, the National Foreign Intelligence Assessment Priorities (NFIAPs) document laid out the Australian government’s foreign intelligence priorities “both by topic and by country”.⁴⁵ What is known about the format of the document itself must be pieced together from several sources. Former ONA analyst Andrew Wilkie wrote in his memoirs that the NFIAP document was “as little as a page or two.”⁴⁶ The items outlined were prioritised in four categories, ‘A’ through ‘D’, with items under Category A being the most important intelligence topics. In 1996, the Deputy DG of ONA, Ken Heydon, stated that 50 percent of ONA’s reporting targeted NFIAP Category A subjects, while another 30 percent of ONA’s effort was directed at Category B subjects.⁴⁷

⁴³ RCIS, Third Report, para.254-257, NAA: A8908/3A.

⁴⁴ NICRC is discussed in Chapter 3 on Australia’s intelligence machinery.

⁴⁵ Samuels and Codd, 1995, p.77. NFIAPs were initially referred to as the National Intelligence Assessment Priorities (NIAPs) through the 1980s, see Cabinet Minute (October 30, 1989) Security Committee, No.13284(SEC), Memorandum No.6824 – SCIS Report to Ministers on the Activities of the Intelligence and Security Agencies in 1988-89, NAA: A14039/6824.

⁴⁶ Wilkie, A. (2010) *Axis of Deceit*, Melbourne: Black Inc. Agenda, p.42.

⁴⁷ Heydon, K. (September 23, 1996) Evidence to the Finance and Public Administration Legislation Committee, Official Committee Hansard, Canberra: Commonwealth of Australia, p.383.

Procedurally, the NFIAP document was drafted by ONA and then refined through interdepartmental discussion at the NIC, which incorporated major intelligence consumers and the national collection agencies in an advisory capacity.⁴⁸ Once the NIC had cleared the NFIAPs from an IC perspective, they were submitted for review by the Secretaries on SCIS (or SCNS after 1996), and then submitted for endorsement by ministers at SEC (or NSC after 1996).⁴⁹

However, the NFIAPs were not *entirely* national. DIO ran a parallel Defence Intelligence Assessment Priorities (DIAPs) process, which was specifically targeted at DoD/ADF intelligence consumers. It was stressed that the DIAPs were *informed by* the NFIAPs through DIO's involvement at the central committees, specifically NIC, NICRC, and HIAM.⁵⁰ For instance, the DIAPs were presented to other intelligence producers at HIAM, to inform wider IC discussions.⁵¹ Similarly, ASIO ran a separate internal priority-setting system for security intelligence. This arrangement, to an extent, reflected ASIO's arms-length status as a security service and its leading role on security matters. When ASIO was given a limited foreign intelligence collection mandate following RCASIA in the 1980s, the NFIAP process governed ASIO's foreign intelligence collection programme. For this reason ASIO representatives sat on ONA's committees (NIC and NICRC) so that it could effectively merge foreign intelligence requirements into its own operational planning.⁵² While the NFIAPs were a significant step towards a more 'national' R&P system, the intelligence reviews that occurred through the 9/11 decade would raise significant questions over the efficacy of the three parallel national priority systems (NFIAPs, DIAPs, and security intelligence priorities).

⁴⁸ See Ch.3, pp.37-38 on the NIC. Samuels and Codd, 1995, pp.15,77.

⁴⁹ Samuels and Codd, 1995, pp.15,77.

⁵⁰ Flood, 2004, p.117.

⁵¹ Samuels and Codd, 1995, p.83.

⁵² ASIO (1998) *Report to Parliament 1997-98*, Canberra: Commonwealth of Australia, p.40; ASIO (1997) *Report to Parliament 1996-97*, Canberra: Commonwealth of Australia, p.24.

The Foreign Intelligence Planning Document

One of the inherent questions in setting intelligence priorities is whether they should reflect the priorities of the day (which are invariably of greater interest to policymakers), or longer-term priorities (which are of greater use for planning purposes.) As Hope had stated in 1976, "Intelligence activities cannot be turned on and off like a tap. To get a reliable human source in place calls for a long and delicate process of recruitment and source development. SIGINT collection will only happen if ground equipment and operators are in place."⁵³ The difficulty, then, is to anticipate consumer requirements with enough lead-time to ensure the producers can build the necessary capabilities. This tension was identified in the Richardson Report of 1992, which found that the NFIAPs, while useful for setting mid-term national priorities, were "not an adequate vehicle for setting strategic directions."⁵⁴

The result was the creation of the Foreign Intelligence Planning Document (FIPD), which had a five-to-seven year outlook. As the Commission of Inquiry into ASIS stated in 1995:

*[The FIPD] provides a long-term, strategically-oriented view of Australia's foreign intelligence needs, integrating judgments about changes in the international environment with resource planning and programs. The document aims to look ahead over a five-to-seven year period and is to be reviewed on a rolling basis, every three years.*⁵⁵

The production of FIPD was coordinated by ONA and approved by SCNS and the NSC. The FIPD was a hybrid document: it was one part national assessment, one part R&P paper, and one part capability plan. While the details of the FIPD's demise are unclear, it is likely that its function has now been subsumed into other planning mechanisms such as the ONA annual all-hazards assessment and the coordinated national security budget (both of which will be discussed in later pages.)

⁵³ RCIS, Third Report, para.249.

⁵⁴ Quoted in Samuels and Codd, 1995, p.77.

⁵⁵ Ibid, pp.77-78.

National Intelligence Collection Requirements Papers

While the NFIAPs were framed as *assessment* priorities, they provided a policy framework for clandestine intelligence collection. The NFIAPs themselves were too broad to provide effective direction to collection agencies, however, so there was a need for a more fine-grained identification and prioritisation of collection requirements. To achieve this, a second set of documents was produced at the level of the NICRC, called National Intelligence Collection Requirements papers (NICR papers).⁵⁶ The NICR papers “list the most important collection requirements in priority order.” In describing the NICR papers as they would have existed around 2003, Andrew Wilkie states:

These too are highly sensitive documents, for it is within them that detailed requirements for intelligence are assigned to specific collection agencies. For instance, the NICR on terrorism includes specific requirements for collection agencies to report on any links between foreign governments and the broad Islamic extremist network linked to al Qaida. So too the NICR on Iraq spelled out in detail all that needed to be collected for the threat posed by Iraq to be assessed accurately.⁵⁷

Procedurally, after ministers at the NSC approved the NFIAPs, the ONA would draft NICR papers in consultation with those departments and agencies represented on NICRC. At least early on, the NICR papers were submitted to the NIC as a “double check” with the major consumer departments.⁵⁸ Once the NICR papers were set, they were reviewed at the monthly NICRC meetings to ensure they remained current. Additionally, at the monthly NICRC meetings, intelligence topics of immediate interest were discussed which provided collectors with short-term guidance on what the ‘hot issues’ were.⁵⁹ Finally, after 1992, DSD and ASIS reported monthly to NICRC on the bilateral tasking they had received directly from consumer departments in order to minimise the possibility of wasteful overlap.⁶⁰

⁵⁶ Wilkie, 2010, p.50.

⁵⁷ Ibid, p.50.

⁵⁸ Cabinet Minute (October 30, 1989) Security Committee, No.13284(SEC), Memorandum No.6824 – SCIS Report to Ministers on the Activities of the Intelligence and Security Agencies in 1988-89, NAA: A14039/6824.

⁵⁹ Samuels and Codd, 1995, p.87.

⁶⁰ Ibid, pp.85-86.

The Bilateral Feedback Loops between Intelligence Consumers and Producers

Through the 1980s and the 1990s, the Australian IC invested significantly in greater outreach in order to better educate consumers on what the IC could do for them, and also get a better sense of consumer requirements. This bilateral interaction was very important because the central R&P process needed to be refined at the margins for operational reasons. For instance, the 1995 report of the Commission of Inquiry into ASIS (CIASIS) identified that there were inherent differences in what type of tasking worked best for each collection agency:

ONA identified the main limitation of requirements papers as being that they do not always provide the best tasking format for the different agencies. While they are suitable for DSD tasking, the requirements papers are less useful for ASIS which 'prefers its tasking to be in the form of a set of questions to which it can pursue answers.'⁶¹

Generally, the report found that ASIS tasking was usually at a much more detailed level than was included in the NICR papers. While the Commission endorsed the NFIAP/NICR process as providing an important policy framework, it also found that bilateral interaction was key to ensuring the agencies met consumer requirements with precision.⁶²

The collection agencies themselves have implemented several means by which they can identify and refine consumer requirements based on continuous feedback on reporting. Firstly, agencies ask for written feedback from consumers on their reporting. In the mid-1990s, the CIASIS report found that ASIS would attach comment sheets to its' reporting. Part A of the comment sheet gave the consumer a chance to numerically rank the quality of the ASIS report, but Part B provided the consumer "space for supplementary comment and for follow-up questions." CIASIS also noted "Where such comments are made, there are usually follow-up questions placing a further requirement on the Service. Officers take greater note of the comments and follow-up questions on the sheet than the

⁶¹ Ibid, p.87.

⁶² Ibid, p.88.

numerical rating.”⁶³ ASIO has also instituted mechanisms for written feedback from consumers. Since the 2000-01 fiscal year, ASIO has carried out a significant annual survey that solicits feedback from a wide range of consumers (both operational agencies and policy departments) on overall engagement with ASIO as well as the utility of ASIO reporting.⁶⁴ ASIO’s annual report for 2011-12 made clear that “ASIO maintains a rolling program of direct engagement to facilitate the provision of feedback on ASIO reporting. All ASIO products offer readers the opportunity to provide feedback through a variety of mechanisms.”⁶⁵ However, one weakness with written feedback is that clients, especially senior clients, often do not take the time to provide it. Michael Keating, the Secretary of DPMC, identified the lack of written feedback as a problem to CIASIS:

*Customers are often unable or unwilling to provide adequate commentary on intelligence reporting. Lack of time often prevents senior policy makers from providing any commentary at all, let alone commentary that is useful...Customers often will not have thought carefully about what the criteria should be for judging the value of a secret report...Critical assessment requires careful thought by customers, and so is time consuming and leads to uneven responses from customers.*⁶⁶

This low rate of feedback received from consumers seems to have been a problem for ASIO as well into the 2000s. ASIO’s 2011-12 annual report indicates that out of 3000 reports published through the year, the Organisation only received 350 pieces of feedback.⁶⁷ While any amount of feedback helps the producers adjust their reporting to meet shifting consumer requirements, written feedback, because of its shortcomings, must be augmented by more proactive means.

To augment written feedback, regular personal contact between individuals in producer and consumer organisations has allowed producers to gain a more

⁶³ Samuels and Codd, 1995, p.91.

⁶⁴ It is now known as the Stakeholder Satisfaction Survey, but was previously known as the Client Feedback Survey. The survey was first carried out in a limited form in FY1995-96, but was instituted regularly in FY2000-01. For instance, see ASIO (2001) *Annual Report to Parliament 2000-01* and ASIO (2002) *Annual Report to Parliament 2001-02*, both of which discuss the surveys throughout, and ASIO (2012) *Annual Report to Parliament 2011-12*, p.56.

⁶⁵ ASIO (2012) *Annual Report to Parliament 2011-12*, Canberra: Commonwealth of Australia, p.17.

⁶⁶ Samuels and Codd, 1995, p.91.

⁶⁷ ASIO *Annual Report to Parliament 2011-12*, p.17.

complete understanding of what their consumers' concerns were, which then feeds the formal R&P system. For instance, the CIASIS report indicated that the ASIS "Director of Customer Liaison and desk officers from Intelligence Branch [maintained] regular personal contact with analysts in the major customer agencies" adding that "such discussions frequently give rise to requirements in writing."⁶⁸ Subtle evidence also indicates that DSD uses a 'face-to-face' approach to maintain contact with its consumers, similar to Canada and New Zealand's SIGINT Client Relations Officers (which will be discussed later). 2008 and 2009 job postings for DSD 'Customer Services Officers' (CSOs) state the positions are part of "the Customer Relations team of the Intelligence Production Branch which is responsible for the management of intelligence requirements and the distribution of reports within the Directorate and for its external clients." The job postings go on to state that the CSOs are specifically responsible for, "ensuring the timely distribution of reports to customers, and liaising with internal and external clients on a daily basis."⁶⁹ However, perhaps the most humorous evidence of direct DSD interaction with consumer departments comes from DSD lore. In 1994, Ken Barnes, a former Deputy Director of DSD, wrote an article about DSD in the ADF's internal journal. At one point, Barnes discusses how DSD's move to Canberra in the early 1990s allowed its officers to more effectively respond to changing requirements by interacting directly with consumers. To enliven his point, Barnes tells a short anecdote:

It has been noted around town that DSD's customer relations people often travel in pairs, each clad in a dark suit and carrying a thin brief case. After waiting patiently outside the entrance to one department's high-security area, the two DSD proselytisers were greeted by a rat-like face half hidden by a partly opened door. 'We already gave' said the face.⁷⁰

⁶⁸ Ibid, pp.89, 90.

⁶⁹ APS Jobs, Vacancy N.N. 10440974, Customer Services Officer, Department of Defence, 2009, <https://www.apsjobs.gov.au/SearchedNoticesView.aspx?Notices=10440974%3A1&mn=JobSearch> (accessed November 2015); APS Jobs, Vacancy N.N. 10416717, Customer Services Officer, Department of Defence, 2008, <https://www.apsjobs.gov.au/SearchedNoticesView.aspx?Notices=10416717%3A1&mn=JobSearch> (accessed November 2015).

⁷⁰ Barnes, K. (1994) 'The Defence Signals Directorate—Its Role and Functions' *Australian Defence Force Journal*, No.108, September/October 1994, pp.3-7.

ASIO also garners feedback from its consumers through personal interactions. For instance, ASIO has regularly carried out interviews with key consumers since the mid-1990s. ASIO's annual report for 1995-96 states that during these interviews, "clients were also asked to identify their information requirements, so as to help ASIO's analysts improve the content and presentation of product."⁷¹ These arrangements have been strengthened more recently by the adoption of fusion centres and joint teams, such as the Joint Counter-Terrorism Teams (JCTTs), the Australian Counter-Terrorism Centre, and the Australian Cyber-Security Centre.⁷²

These formal and informal bilateral interactions between producers and consumers create feedback loops that operate at a dull hum beneath the interdepartmental committee machinery. Because of these interactions, Australian intelligence producers have an awareness of their consumers' requirements; there are consistent conversations that allow producers to adjust and prioritise requirements according to what they believe the consumers want. The discussions within the committee system, then, become more an exercise in confirming and rationalising requirements, judging general priorities, and ensuring coherence with the policy and resourcing discussions going on in other forums.

A National System for National Priorities

The creation of ONA in 1977, followed in the 1990s by the creation of the NSC, which brought the heads of agencies into the same cabinet room as their most senior consumers (the PM and NSC ministers), greatly increased the centralisation of the R&P system. However, through the early 2000s, it became apparent that the link between Australia's intelligence producers and their defence consumers needed to be closer. In his 2004 review, Philip Flood found that the separate NFIAP and DIAP priority-setting systems were not effectively

⁷¹ ASIO (1996) *Annual Report to Parliament 1995-96*, Canberra: Commonwealth of Australia, p.13.

⁷² The ACTC and the ACSC are discussed in Chapters 3 and 9. On the JCTTs, see Street, L., Brady, M., Moroney, K. (2008) *The Street Review: A Review of Interoperability between the AFP and its National Security Partners*, Canberra: Australian Federal Police, <http://www.afp.gov.au/~media/afp/pdf/t/the-street-review.pdf> (Accessed November 2015).

linked, which left room for a disconnect between producers and consumers and limited the ability of ministers to make whole-of-community decisions. Flood concluded:

A separate system which set intelligence priorities specifically for Defence clients has fallen into disuse and, when it operated, it contained no link to the national priority system. The effect of maintaining separate national and Defence priorities is that ministers do not have the opportunity to judge the relative weight to be given to issues in the Defence priorities and those in the national priorities. Further, the absence of an integrated Defence and national priorities system means that individual collectors are left to decide what takes priority between Defence and national priorities. An important function of the priorities system is to ensure that collectors themselves are not forced into the difficult position of deciding between the needs of different clients.⁷³

Flood recommended that the defence intelligence priorities should be integrated into the national intelligence priorities to provide more coherent guidance to the intelligence producers and allow ministers a better overall view of the national intelligence effort. Following Flood's review, the DoD confirmed that the DIAPs were being integrated into the NFIAP framework to do away with the parallel processes.⁷⁴

While the Flood Report spelled the end of a separate defence intelligence priorities process, the Smith Review of homeland and border security ended the separate security intelligence priorities process. Smith concluded, rather unsurprisingly, that "the increasingly enmeshed nature of foreign, defence, security and law enforcement intelligence points to the need for a single, overarching framework for national intelligence coordination and priority setting."⁷⁵ Smith identified the national intelligence priority-setting process as one of the key areas where a whole-of-government view should permeate the national security policymaking process.⁷⁶

⁷³ Flood, 2004, p.65.

⁷⁴ Department of Defence (2004) *Annual Report 2003-2004*, Canberra: Commonwealth of Australia, p.19.

⁷⁵ Smith, 2008, p.3.

⁷⁶ Ibid.

Following the Smith review, but ultimately in response to general tenor of both the Flood and Smith reviews, the government replaced the NFIAPs with National Intelligence Priorities (NIPs), which combined defence, foreign, security, and criminal intelligence priorities under one framework document. While there is little information available on the format of the NIPs, it is known that they are prioritised into tiers, with the first two tiers being the most important intelligence priorities to Australia's national interests.⁷⁷

Procedurally, the move to the NIP process was an evolution rather than a revolution. The most significant change was that there was more central involvement of 'homeland security' agencies on the NICMC, which is the renamed and expanded NICRC, and stronger evaluation of the collection effort. Annually, the ONA coordinates the drafting of an all-hazards national assessment that forecasts "changes in the strategic environment that might affect Australia's national security over the following three to five years."⁷⁸ Using the ONA national assessment as a guide, the NSIP Group in DPMC then drafts the NIPs, with reference to the government's national security policy priorities.⁷⁹ The NIPs are discussed at the NICC and, after any necessary revisions and subsequent review by SCNS, are submitted to ministers at the NSC.⁸⁰

Following approval of the NIPs by ministers, the national priorities are turned over to the NICMC, where lead agencies draft collection requirements papers, which turn the NIPs into more specific and prioritised collection requirements that guide all IC intelligence collection organisations. According to a publication by the National Security Advisor in 2010, "ONA has lead responsibility for developing papers on 70% of the NIPs, with the Australian Security Intelligence Organisation responsible for 10% and other agencies the remainder."⁸¹ Given the increased overall importance of the NICMC process for

⁷⁷ ASIO (2011) *Annual Report to Parliament 2010-11*, Canberra: Commonwealth of Australia, p.23.

⁷⁸ Lewis, D. (2010) 'Australia's National Security Framework' Canberra: Office of National Assessments/Department of Prime Minister and Cabinet, http://www.ona.gov.au/media/3731/lewis_nsa_aust-national-security-framework_25-mar-10.doc (Accessed March 2010).

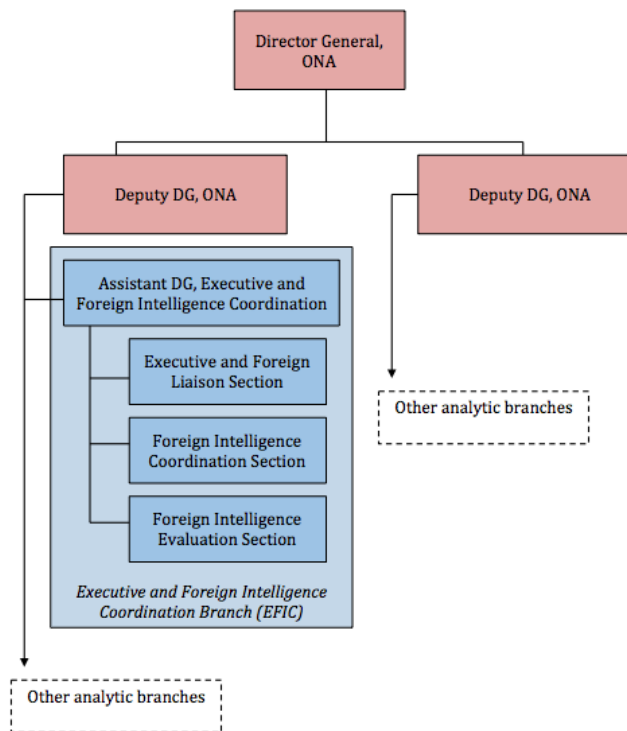
⁷⁹ Ibid.

⁸⁰ Ibid.

⁸¹ Lewis, 2010.

defining IC requirements, and the central role of the ONA in that process, the Deputy DG that was responsible for ONA's Executive and Foreign Intelligence Coordination (EFIC) Branch was restyled 'Deputy Director General *and Head of Mission Integration*,' with a mandate to "improve priority setting, intelligence collection strategy development and evaluation across the national intelligence priorities."⁸² As the ONA's important coordinating role is often overlooked in favour of its assessment role, it is worth illustrating the EFIC Branch in more detail, as found in Figure 2.6.1.

Figure 2.6.1: ONA's Executive and Foreign Intelligence Coordination Branch, circa 2009



The principal difference in the process is that the NICMC has been 'nationalised.' Its predecessor, the NICRC, had predominantly been a committee focused on foreign-intelligence. Following the changes after the Smith Review, foreign, defence, security, and criminal intelligence requirements are now all defined at the same table, under the same national process. While ONA still leads

⁸² APS Jobs (March 2012) Vacancy N.N. 10565399 'Deputy Director-General and Head of Mission Integration', Office of National Assessments, <https://www.apsjobs.gov.au/SearchedNoticesView.aspx?Notices=10565399%3A1&mn=JobSearch> (Accessed November 2015).

on defining foreign intelligence requirements, other agencies such as ASIO and the Australian Crime Commission (ACC) have lead responsibility for parts of the NICMC process (namely, defining security intelligence and criminal intelligence requirements).

The NICMC also has responsibility for evaluating the collection effort against the NIPs, drawing heavily on ONA's coordination mandate. On a regular basis, the NICMC produces Collection Evaluation Reports (CERs), which provide an overview of the collection effort against each of the national priorities. The CERs, in turn, feed into ONA's annual Foreign Intelligence Evaluation Report (FIER) and ASIO's Current Priorities and Work Environment document, which evaluate foreign and security intelligence efforts across the IC. While it may seem problematic that the ONA and ASIO evaluate what is partly their own work, final evaluation of the IC's performance has been done by the NSA, through an annual memorandum to NSC ministers on the performance of the IC.⁸³ With the quiet abolishment of the NSA position in late 2015, these responsibilities have been taken over by the Deputy Secretary for National Security in the DPMC.⁸⁴ Figure 4 illustrates the R&P system developed following the Flood and Smith reviews, including the National Intelligence Priorities and the NICMC requirements process.

Ultimately, the Australian R&P system has evolved to meet changes in the intelligence community itself and the evolving demand for intelligence. As consumers have responded to changing environmental demands and recognised the need for an integrated intelligence effort, the R&P system has been moulded to match those expectations. However, this evolution has not been without challenges. The Australian IC has needed to adapt to oscillations in consumer interest and strike a balance between providing direction to producers that is specific enough to be useful, but flexible enough to adapt to unexpected demands and differences between intelligence disciplines (SIGINT, HUMINT, etc.) Importantly, the existence of critical mass at the centre, both in terms of the

⁸³ Lewis, 2010.

⁸⁴ McKinnon, A. (October 19, 2015) Evidence to the Senate Finance and Public Administration Legislation Committee, (Estimates), Canberra: Parliament of Australia.

coordinating remit of ONA and the strength of the cascading committee machinery under the NSC, has driven consistency in the Australian R&P system. While the system has not always been perfect, it has been *consistently applied*. The consistent application of the R&P system is, in large part, due to ONA's legislative mandate to coordinate the foreign intelligence effort and, more importantly, the consistent interest of ministers and deputy heads in the national intelligence effort. In this sense, the R&P system in the Australian IC has been shaped by the demand for not just intelligence, but *better* intelligence.

Chapter 7

The National Requirements and Priorities System in New Zealand

New Zealand's R&P system was very limited in the immediate post-war period, because of both structural and cultural factors. New Zealand's foray into coordinated intelligence collection during the war years had largely foundered because of differing collection priorities amongst the Service branches.¹ Following the war, New Zealand's foreign and defence intelligence collection effort was integrated with its larger Australian partner. New Zealand's SIGINT effort was almost entirely combined with Australia's DSB, and the JIB(W) was essentially an outpost of Australia's JIB(M).² The DSB in Melbourne was responsible for disseminating SIGINT reporting to Australian, New Zealand, and British consumers, and the JIB(W) would collect research information to feed into JIB(M) analytic products.³ Importantly however, the two governments agreed that New Zealand would have representation on all the major committees when intelligence policy matters affecting New Zealand were discussed. When the agenda called for it, New Zealand would have representation on the Defence Council (at the level of High Commissioner), the Defence Committee (at the level of head of Service Staffs), and on the JIC(M).⁴

Even after the formation of the NZCSO in 1955, which solidified New Zealand's SIGINT capability, requirements and priorities were set from Melbourne with the overarching concurrence the New Zealand government. Hager quotes one former NZCSO analyst as stating, "a lot of what we collected did not concern New Zealand. There was no significant input into priorities or targets."⁵ Organisationally, the NZCSO was purely a collection and distribution organisation, limited to those operating the NR1 and NR2 intercept stations and

¹ Tonkin-Covell, 2000, p.433

² Chifley, J.B. Acting Minister for Defence, 'Agendum for Cabinet Committee: Joint Intelligence Organisation – Post War' June 10, 1947, Top Secret, NAA: A5954/2363/2.

³ Ibid.

⁴ Kuskie, B. (for A.R. Cutler, High Commissioner of Australia) to Fraser, P. (Prime Minister), December 2, 1946, Top Secret, NAA: A5954/2363/2.

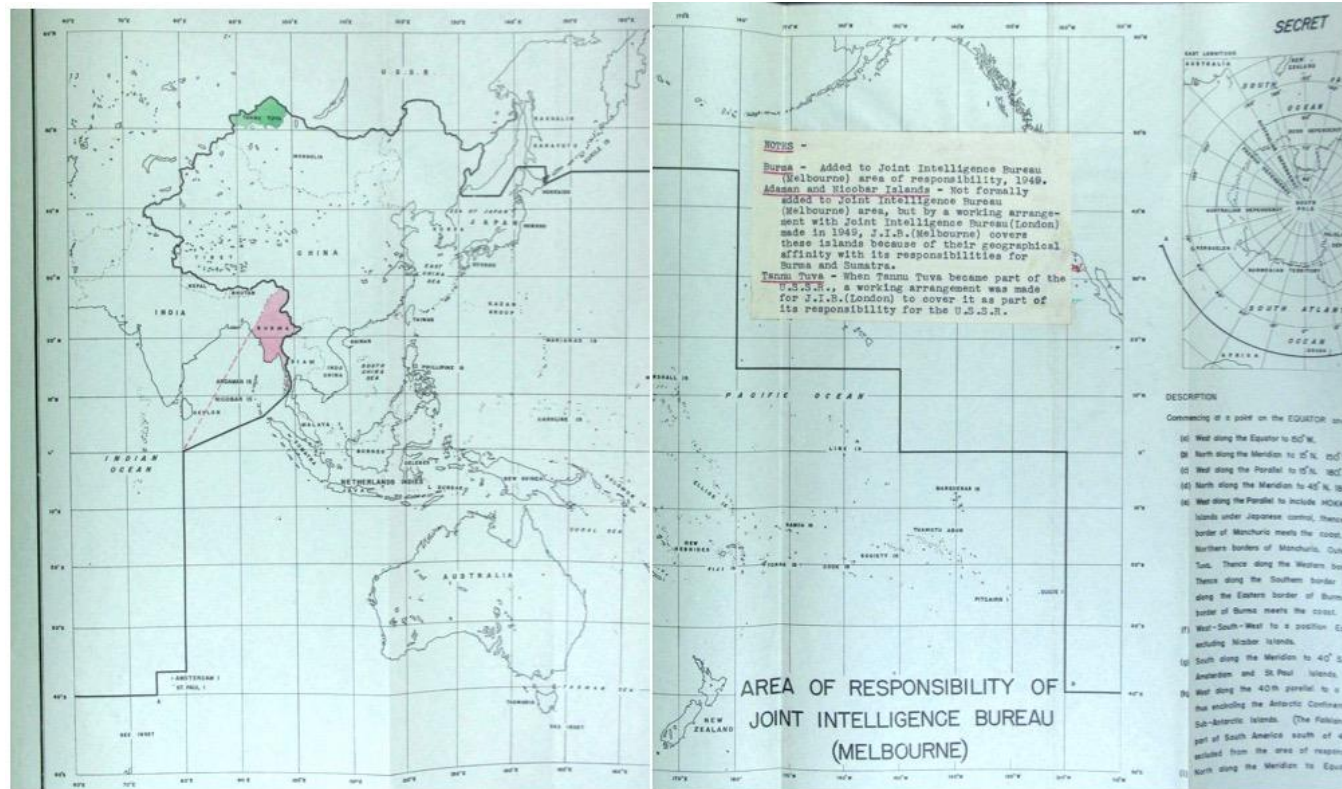
⁵ Hager, 1996, p.67.

the SIGINT distribution staff inside Defence House in Wellington; there was no policy or planning staff, as there was no operational policy or planning.⁶

While this arrangement may seem surprising, in the near-term it made sense for New Zealand. Figure 2.7.1 shows a declassified map of the Australian JIB(M)'s area of analytic responsibility as of 1952, which corresponded to the geographic area of Australia's collection responsibilities under the UKUSA Agreement. It is quite apparent that Australia's area of responsibility, covering the South Pacific, Southeast Asia, China, and Japan, also covers the geographic sphere of greatest importance to New Zealand. Australia's overarching policy interests in the Pacific, such as the protection of territorial sovereignty, the containment of Soviet influence, and general regional stability, were broadly in line with New Zealand's own foreign and defence policies. While some have argued that New Zealand had simply kowtowed to American and British interests, the reality is that New Zealand's security interests in the Pacific were, in the immediate post-war years, naturally aligned with its larger allies. Because of this, New Zealand's integration of its intelligence effort with Australia satisfied its foreign and defence intelligence requirements with a minimum of financial cost and political risk.

⁶ Hager, 1996, pp.68-69.

Figure 2.7.1: JIB(M) Area of Responsibility, circa 1952⁷



⁷ Original map is an attachment to Chifley, J.B. Acting Minister for Defence, 'Agendum for Cabinet Committee: Joint Intelligence Organisation - Post War' June 10, 1947, Top Secret, NAA: A5954/2363/2. The Map shown is an amended version showing changes in area of responsibility up to 1952, and is found in NAA: A5954/2363/3.

While New Zealand's foreign and defence intelligence requirements had been interwoven with its larger Australian neighbour, its security intelligence requirements were only being determined. For instance, the NZ Police Special Branch had declined to interview Soviet intelligence officer Vladimir Petrov after his defection to ASIO in 1954, even though Petrov had indicated that the Soviet's had a source in the New Zealand Prime Minister's Department.⁸ As Miriam Wharton has pointed out, the failure to interview Petrov "demonstrated a lack of appreciation about New Zealand's intelligence requirements independent of Australia[...]."⁹ The Petrov defection, and the possibility of a Soviet source in the PMD, did serve as a stark illustration to New Zealand's policymakers that they could not intertwine the country's foreign and defence policies with the larger allies and still remain passive in security intelligence. For this reason, the Petrov affair galvanised Prime Minister Holland into the eventual creation of the NZSS in 1956.¹⁰

Requirements and Priorities Through the 1970s and 1980s

As discussed earlier, while the early decades of the Cold War saw the threat environment dominated by state actors, the 1970s saw the growth of international terrorism and the beginning of much more *variability* within intelligence requirements. Very little is openly known about how the New Zealand IC *procedurally* managed its requirements and priorities through the 1970s, or the format of key documents. What is clear, however, is that the formation of the NZIC and the EIB (the terms of reference for both are referenced in Chapter 4) were meant to bring stronger central governance to New Zealand's intelligence requirements. Particularly telling is the foundational statement in the NZIC terms of reference that the Council should coordinate the IC to ensure that "the New Zealand Government's requirements in the intelligence field are met effectively."¹¹ Also, while the NZSIS would maintain its own priority-setting arrangements in line with its statutory independence as a security service, the Powles report made clear that the NZIC should maintain broad oversight of the

⁸ Wharton, 2012, p.77.

⁹ Ibid.

¹⁰ Hunt, 2007, pp.206-231.

¹¹ Powles, 1976, Appendix E.

Service's prioritisation between CT, CI, and CS work, and have input into the Service's work priorities at regular intervals, and with regular opportunities to evaluate performance.¹²

Available information indicates that requirements were likely handled informally. Gerald Hensley, as head of the PMD and chair of the NZIC, recounts that he met with the heads of the three agencies (NZSIS, GCSB, and EIB) on a weekly basis. Hensley, as the PM's deputy head and chief intelligence advisor, would have been an important avenue through which the agency heads could gauge cabinet and prime ministerial interest in particular issues, and hence the requirements of senior decision-makers.¹³ The physical proximity of the key departments and agencies within Wellington also enabled a more informal approach. When Hensley was DESC Coordinator in the 1980s, the fact that his office was inside GCSB headquarters in the Freyburg building allowed a close connection between GCSB and one of its primary consumers (Hensley, and through him, the PM.)¹⁴ Also, even when not quartered in the same building, the principal intelligence producers and consumers have all been within walking distance of each other in downtown Wellington. Figure 2.7.2 shows the current or former locations of the key producers and consumers, all within a close radius, including the NZDPMC, MoD, MFAT, NZSIS, and GCSB.

¹² Powles, 1976, p.31, 63.

¹³ Hensley, 2006, p.225.

¹⁴ Ibid, p.295. Also see Chapter 4,

Figure 2.7.2: Location of Principal Intelligence Producers and Consumers in Downtown Wellington



1- 'The Beehive' (currently houses PMO, NZDPMC, and previously housed PMD)

2- Old Defence House (previously housed MoD, DDIS, and NZSIS)

3- Ministry of Foreign Affairs and Trade

4- Freyburg Building (previously housed GCSB)

5- Current Defence House (currently MoD, DDIS, and previously also housed NZSIS)

6- Pipitea House (currently houses NZSIS, GCSB, NZDPMC S&I Group)

7- The Terrace (currently the Treasury, and previously also housed NAB and Intelligence Coordinator)

While the 1970s showed increased variability in New Zealand's intelligence requirements, the 1980s directly reinforced that New Zealand had its own intelligence requirements, separate even from its close allies. Perhaps the most acute example of this was during the ANZUS dispute during the mid-1980s. During the negotiating between the Lange government and the United States over visits by US Navy ships to New Zealand's ports, EIB and the NZDF were required to produce assessments gauging which US Navy ships were capable of carrying nuclear weapons, and hence would be in contravention of New Zealand's non-nuclear stance.¹⁵

The expansion of interdepartmental machinery in the 1980s, with the creation of the DES/ODESC committee structures, partially recognised that there was a more formal role to be played by the centre of government in the determination of intelligence requirements and priorities. The Intelligence Requirements and Assessments Committee (IRAC), which met weekly, acted in a similar fashion to the British JIC in that it centrally mediated the requirements placed by multiple consumer departments on the national intelligence collectors. The IRAC was also responsible for approving the EIB's assessment programme, which gave the centre of government influence over not only the national collection effort, but also the production of assessed intelligence.¹⁶

Setting Requirements and Priorities after the Cold War

The later years of the Cold War showed that the weakening bipolar world order and the trend towards globalisation could bring varied risks, even to a country as geographically remote as New Zealand. In short, geography mattered less and the flow of people and ideas mattered much more. Through the 1980s, the global debate over apartheid in South Africa would manifest itself in New Zealand in the 'Springbok Tour' protests, which NZSIS monitored to sense any hint of violence amongst varied protest groups.¹⁷ Similarly, the question of

¹⁵ Hensley, 2013, pp.99, 103, 109-110.

¹⁶ Hager, 1996, p.271.

¹⁷ On the Springbok Tour protests and NZSIS' related intelligence effort, see Hunt, 2007, pp.261-266; Yska, R. (July 9, 2011) 'Inside the 1981 Springbok Tour' *New Zealand Listener*, <http://www.listener.co.nz/current-affairs/historical/inside-the-1981-springbok-tour/>

nuclear weapons and nuclear testing would result in a major act of international terrorism (the bombing of the Rainbow Warrior) and New Zealand's own rift with the United States that directly impacted its intelligence arrangements. In the 1990s, intelligence began to play a greater role in protecting New Zealand's economic and natural resources during a period of greater global economic competition. Former Prime Minister Geoffrey Palmer detailed in 2000 how GCSB SIGINT reporting had enabled New Zealand to achieve an international treaty against driftnet fishing, protecting New Zealand's own fishing industry in the process.¹⁸ Also, in 1997, NZSIS security intelligence reporting allowed customs officers to stop an attempt by a Chinese scientific delegation to steal samples of the new Pacific Rose apple. If the Chinese attempt had been successful, it could have had grave implications for New Zealand's \$1.6 billion apple export industry.¹⁹

The evolving environmental factors, led to commensurate changes in the R&P system to handle more varied demands for intelligence. While the IRAC focused on both intelligence requirements and national assessments, the subsequent split of IRAC into the FIRC and the NAC resulted in more specialised committees for each. It should be noted however that these two committees were not entirely separate; often the departmental representatives from one would sit on the other, providing a consistent linkage between the governance of the all-source assessment effort and the definition of foreign intelligence requirements. For instance, the Director of the MoD's Policy Planning Division represented the MoD as a consumer on both the NAC and the FIRC.²⁰ The FIRC played a central role in the New Zealand IC's R&P system for the better part of 20

(Accessed November 2015); and the NZSIS declassified records found at NZSIS (December 21, 2011) 'Release of NZSIS Reports on 1981 Springbok Rugby Tour Protests,' <http://www.nzsis.govt.nz/publications/news-items/springbok-tour/> (Accessed November 2015).

¹⁸ See Palmer's introduction in DESS, 2000, pp.10-11.

¹⁹ On the 'Pacific Rose' case, see (No Author) 'Bid Made to Hush Smuggling' (June 2, 1997) *The Christchurch Press*, p.38; (No Author) 'New Zealand Spies Caught Chinese Apple Smugglers, says Former PM' (March 30, 2000) *Agence France Presse*; Palmer, G. (April 1, 2000) 'Caught, the Apple Spies who Sneaked in to Scrum' *The Express*.

²⁰ See 'Profile of Andrew Renton-Green' in Grand Priory of New Zealand, (March 2010) *Grand Priory Bulletin*, Order of St. Lazarus of Jerusalem, 8:1, p.16. http://www.stlazarus.org.nz/media/Bulletin_Mar_2010.pdf (Accessed January 2015). Renton-Green was a Colonel in the NZDF, and had a long career in military intelligence, including as Deputy Director of DDIS.

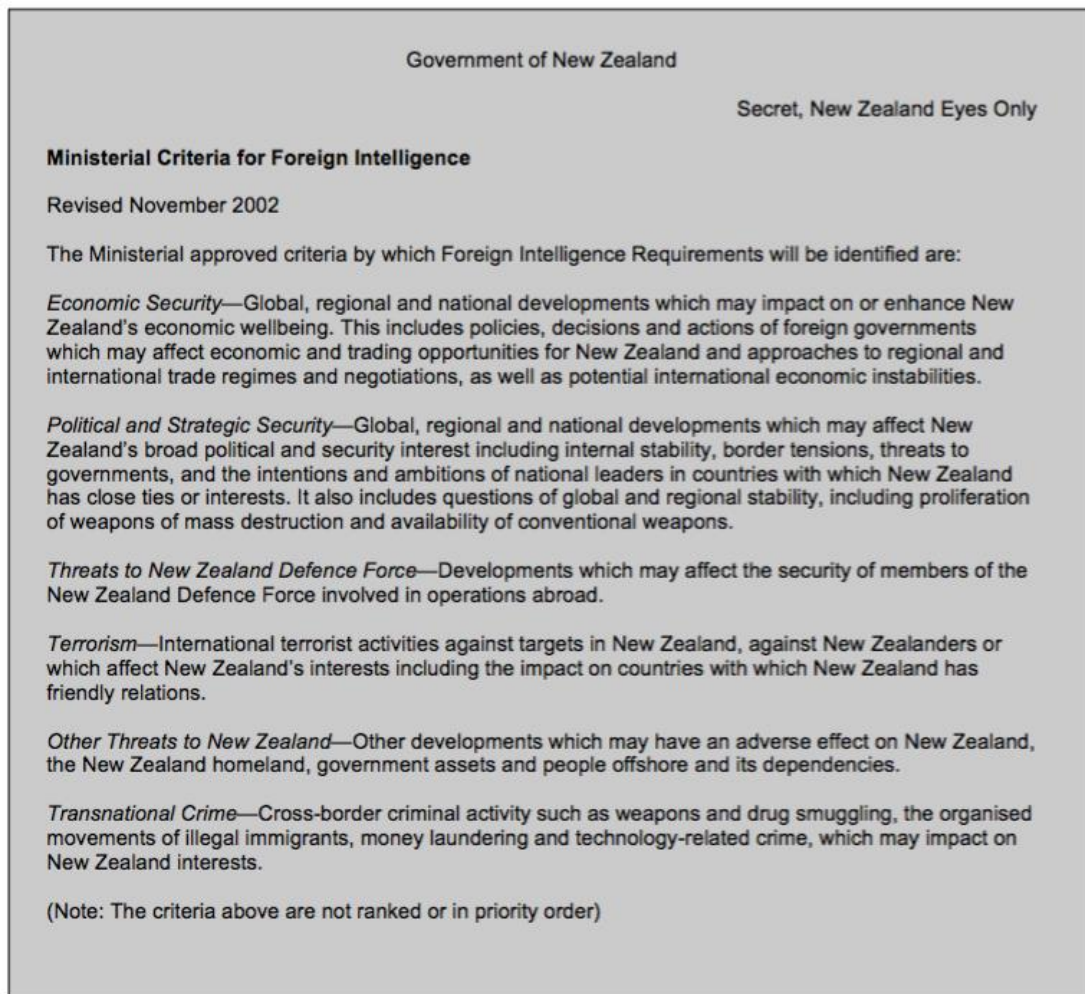
years, through the 1990s and 9/11 decade, and while it was not the only part of the R&P system, it was an anchor for the system at the centre of government.

Procedurally, in a process formalised in 1996,²¹ broad national intelligence priorities were drafted by NZDPMC officials through consultation with other departments represented on ODESC and its relevant subcommittees. These priorities, known as the Ministerial Criteria for Foreign Intelligence ('the Ministerial Criteria') set out the key areas where the IC was to focus its resources and produce intelligence for decision-makers. In format, the Ministerial Criteria were roughly equivalent to Australia's NFIAPs, except that they were not prioritised. Importantly, as the ministerial statement of direction to the IC, the Ministerial Criteria set the parameters for intelligence collection. No collection could take place if it did not pertain to one of the subjects outlined in the Ministerial Criteria. Investigative writer Nicky Hager obtained a copy of the Ministerial Criteria as updated in November 2002 and cited the document verbatim in his book *Other People's Wars*. Given the importance of the document in governing the IC, and that very few examples of similar documents are public, it is worth including the text in its entirety here (see Figure 2.7.3). Hager criticised the *Ministerial Criteria* for their broadness, insinuating that the Criteria were not a real check on the IC's activities.²² Indeed, if used on their own, the *Ministerial Criteria* were so broad as to be meaningless. However, Hager had mistakenly conflated two steps of the R&P process. The *Ministerial Criteria* were never the government's only statement of intelligence requirements; they were, as the name suggested, the *criteria* that governed the *subsequent* definition of more detailed intelligence requirements.

²¹ Hager, 2011, p.292.

²² Ibid, p.292-93.

Figure 2.7.3: Ministerial Criteria for Foreign Intelligence, 2002²³



Once ministers at DES approved the *Ministerial Criteria*, they became the framework under which FIRC developed Foreign Intelligence Requirements (FIRs). FIRs were more detailed statements of national intelligence collection requirements that were meant to guide collection of foreign intelligence by GCSB, NZSIS, and elements of the NZDF. In short, the FIRs represented the operationalisation of the *Ministerial Criteria*, and therefore the operational governance of the IC's collection activities. Procedurally, intelligence consumers and producers would come together at FIRC to compile a list of FIRs that were consistent with the *Ministerial Criteria*. The aim of this process was to “[provide] to the GCSB and the NZSIS a comprehensive list of New Zealand's foreign intelligence needs.”²⁴ The FIRs were prioritised and then used to govern the

²³ Full text found in Hager, 2011, pp.417-18 n97, and classification marking is cited on p.292.

²⁴ Controller and Auditor General, 2003, p.55.

collection of foreign intelligence across the different agencies. Importantly, GCSB annual reports produced through five fiscal years include some statistical data related to the FIRs and the Bureau’s SIGINT reporting, which is summarised in Figure 2.7.4. Unfortunately, the data has not been consistently presented, making trend analysis difficult. However, there are still valuable conclusions to be drawn from the data.

| Figure 2.7.4: GCSB Reporting Against Foreign Intelligence Requirements ²⁵ | |
|---|--|
| Year | Number of SIGINT End Product Reports Against Number of Foreign Intelligence Requirements |
| FY 2009-10 | 1867 EPRs produced against 137 FIRs |
| FY 2008-09 | 1747 EPRs produced against 154 FIRs |
| FY 2007-08 | 2206 EPRs produced against 139 FIRs |
| FY 2006-07 | 2893 EPRs produced against unknown number of FIRs, however GCSB states that its EPRs pertained to 35.7% of the FIRs |
| FY 2005-06 | 2540 EPRs produced against unknown number of FIRs |

Firstly, the data makes clear that there were over 100 FIRs that governed the IC’s foreign intelligence collection activities. This refutes Hager’s conclusion that the Ministerial Criteria were the only guidance provided to the IC on the national intelligence collection effort. Secondly, the data indicates that GCSB’s SIGINT production is mapped directly to consumers’ requirements. The current Director of GCSB, Una Jagose, expanded on how, at the analyst level, SIGINT work in GCSB is mapped back to the government’s FIRs:

Work conducted under those [surveillance] warrants and authorisations does not commence until an analyst has a customer requirement for intelligence. That requirement is linked into an internal plan (how will we service the customer request), which itself links to the Government’s foreign intelligence requirements. Before conducting work under an authorisation, analysts must enter all this data (what they are doing, for what purpose, under what plan and customer

²⁵ The data in figure 8 is found in the GCSB Annual Reports covering FY 2005-06 to FY 2009-10, which can be found here: <http://www.gcsb.govt.nz/publications/annual-reports/> (Accessed January 2015).

*requirement, what foreign intelligence priority) into the database before they begin.*²⁶

To clarify Jagose's statement somewhat, once the FIRs are determined, they are mirrored in the GCSB Output Plan, which provides the foundation for the Bureau's internal prioritisation of consumer requests for information (RFIs).²⁷ Lastly, the statement that GCSB's total EPR production pertains to less than half of the FIRs indicates that the Bureau's capability cannot meet all of the requirements placed on it by government departments, and that its capability is selectively used.

NZSIS operated under the FIRC process for its limited foreign intelligence mandate, however, because the NZSIS was legislatively independent from political direction and therefore self-tasking, the Service operated its own parallel R&P system for security intelligence. The Controller and Auditor General (CAG) 2003 report into the government's management of domestic security threats includes some discussion of the R&P process for security intelligence:

*The NZSIS consults a range of other agencies in the areas of its operations in which it shares responsibilities—such as counter-terrorism—or in which it collects intelligence in support of the requirements of other agencies—as in illegal immigration.*²⁸

Based on these consultations, and the NZSIS' own analysis of the threat environment, the Service would produce its Objectives and Requirements Plan (ORP). This plan would be set annually, and reviewed half way through the year to adjust for any significant changes in the threat environment.²⁹ The ORP, like GCSB's Output Plan, was how the Service turned more general intelligence requirements into specific collection planning. However, unlike the GCSB plan, the NZSIS ORP was ultimately a product of the Service's own judgement on requirements and priorities.

²⁶ Jagose, U. (Sept 29, 2015) 'Speaking Notes: Speech to the Technology and Privacy Forum' Wellington: GCSB, <http://www.gcsb.govt.nz/publications/news/speaking-notes-for-speech-to-the-technology-and-privacy-forum-by-una-jagose-acting-director-government-communications-security-bureau/> (Accessed September 2015).

²⁷ GCSB (2014) *Annual Report for the Year Ended 30th of June 2013*, Wellington: GCSB, p.3 <http://www.gcsb.govt.nz/assets/GCSB-Annual-Reports/GCSB-Annual-Report-2013.pdf> (Accessed November 2015).

²⁸ Controller and Auditor General, 2003, p.56.

²⁹ Ibid.

However, through the 9/11 decade, consensus grew that the process for setting security intelligence R&Ps was not ideal, and needed wider input from the growing range of intelligence consumers. The 2003 CAG report concluded:

We believe that more interaction with other relevant agencies would be likely to lead to plans that better reflect wider intelligence requirements. Greater interaction could include invitations to other domestic security agencies to submit their needs for input into the objective-setting process. These additions would not alter NZSIS control over the process. The final decisions on what information is to be collected would remain with the Director, consistent with his independence in these matters.³⁰

The CAG report recommended that the process for setting security intelligence R&Ps should be formalised along the lines of the FIRC process, where consumers had regular input into the production process. Warren Tucker, while Director of NZSIS in 2007, publicly agreed with the thrust of the CAG report:

Having been directly involved in establishing the arrangements for setting our Foreign Intelligence Requirements and priorities more than a decade ago, I came firmly to the view that a similar process would be appropriate for identifying and testing our domestic security intelligence needs and priorities, and subjecting these to the rigour of inter-agency consultation and debate. I believe that while it would be important the NZSIS retain the final say on these, because of its clearly identified statutory responsibilities in this area, the end result of such a collaborative requirements-setting process would be more transparency and better understanding and 'buy in' by other agencies such as Police and Customs, as well as arguably a better set of requirements.³¹

Wider reviews of the IC found that both the foreign and security intelligence R&P processes were problematic. Murdoch's 2009 review concluded that there was a need to "develop a more dynamic process for priority setting, adjusting and monitoring; don't just impose a hierarchy on a plethora of 'subjects of possible interest' to consumers, but evaluate risk and set/reset collection and assessment tasks..."³² Also, at the same time as Murdoch's review, the IC was also undergoing

³⁰ Controller and Auditor General, 2003, pp.56-57.

³¹ Tucker, 2007, 'Director's Address to Wellington Intelligence Seminar.'

³² Murdoch, 2009, p.5.

two further reviews that more directly addressed the R&P system, however their conclusions are still classified.³³

Reforming the R&P System: Putting the Consumer First

As a cumulative result of these reviews, as well as a series of ‘customer surveys’ through 2013 and 2014, the R&P system was reworked to merge foreign and security intelligence R&Ps and promote a consumer-driven system. Similar to Australia, New Zealand has now integrated its foreign and security intelligence priorities under what are now termed the National Intelligence Priorities.³⁴ The NAC and FIRC have now been replaced by the NICC, which incorporates the mandates of both previous committees and is the central body that will oversee the national intelligence effort. Interestingly, the IC has also created a network of ‘issues coordinators’ and ‘relationship managers’. Relationship managers will connect consumer departments directly into the IC. They will be the focal point for communicating consumer requirements to all the intelligence producers, and for educating consumers on what the IC can do for them. Issues coordinators will coordinate efforts across the IC to address particular intelligence priorities and act as a focal point of expertise for consumers on a particular issue (for instance, terrorism). In short, while relationship managers are organisationally focused, issue coordinators are thematically focused. However, the goal across both positions is to keep the consumers directly ‘plugged in’ to what the IC can provide them, and the IC directly ‘plugged in’ to what the consumers need.

Bilateral Arrangements and Feedback Loops between Producers and Consumers

The new IC arrangements, and particularly the relationship managers and issue coordinators, are, in one sense, an expansion of bilateral arrangements that have existed for many years and have kept a consistent dialogue going between

³³ These two reviews are Michael Wintringham’s review entitled *A National Security and Intelligence Framework for New Zealand*, and the NZDPMC’s *Review of Foreign Intelligence Requirements*. See Murdoch, 2009, p.13 and Kitteridge, 2013, p.12.

³⁴ NZ Department of Prime Minister and Cabinet (2015), *Strategic Intentions 2015-19*, Wellington: Department of Prime Minister and Cabinet, p.18, <http://www.dpmc.govt.nz/sites/all/files/publications/dpmc-soi-2015-2019.pdf> (Accessed January 2016).

intelligence producers and consumers. While the new arrangements are more centralised, they are recognition of the value placed on face-to-face interactions within the New Zealand IC. Perhaps the most apparent ‘face-to-face’ approach to feedback has been GCSB’s Customer Relations Officers, or CROs. New Zealand appears to have imported the CRO concept in the late 1980s or early 1990s from Canada. Nicky Hager’s detailed study of the GCSB describes a programme identical to the Canadian one, running from at least 1993.³⁵ CROs from GCSB were embedded in the NZDPMC, MFAT, and the MoD and NZSIS (which were both headquartered in Defence House until 2011).³⁶ The CROs had access to secure computer terminals hooked up to GCSB’s reporting database, and would provide SIGINT EPRs directly to senior clients in consumer departments.³⁷ The CROs are still operating today. GCSB’s Annual Report for 2013-14 included a ‘Customer Outreach’ profile highlighting the role of GCSB’s Customer Outreach Team (COT), which includes the CROs. The profile states that the COT:

*[...] interacts daily, weekly, or as required, with multiple individuals from over twenty government departments. Through building relationships with customers and understanding their needs, the team feeds back requirements into the intelligence cycle to ensure that GCSB is working on the issues and topics of greatest importance to government.*³⁸

This shows that the GCSB does not view its CRO network simply as a personalised method for distributing SIGINT to senior clients, but also as a valuable source of feedback on consumer requirements. Based on what the GCSB has heard from consumers, the feeling is mutual. The profile goes on to state that in a survey of customers conducted by GCSB in 2013, “customers said that they particularly valued the relationship they had developed with their CRO from face-to-face contact, as well as the ongoing ability to refine their intelligence requirements through direct feedback.”³⁹ The CROs are viewed by both GCSB and its’ consumers as a valuable conduit for feedback on SIGINT reporting,

³⁵ Hager, 1996, pp.116-117.

³⁶ Ibid.

³⁷ Ibid.

³⁸ GCSB (2015) *Annual Report for the Year Ended 30 June 2014*, Wellington: Government Communications Security Bureau, p.18 <http://www.gcsb.govt.nz/assets/GCSB-Annual-Reports/GCSB-Annual-Report-2014.pdf> (Accessed November 2015).

³⁹ Ibid.

helping GCSB to further define consumer requirements and better target its SIGINT reporting.

NZSIS Reports Officers (ROs) perform a similar role to GCSB's CROs, except that they are not embedded in consumer departments. While not much has been publicly stated about the ROs, a job posting from 2015 does yield interesting information about the role. According to the job description, the RO "will engage with a wide range of New Zealand Government agencies to promote NZSIS reporting, refine intelligence requirements, and ensure that NZSIS reporting meets both customer demand and the NZSIS high standards."⁴⁰ Like the CROs, an RO would build a network of contacts amongst consumer departments, enabling them to gauge the utility of NZSIS reporting and refine consumer requirements through soliciting direct feedback.

Murdoch also noted that there were several informal mechanisms for interaction between the heads of agencies: "bilaterals occur 'as-required' and communication may occur via secure telephone. Formal meetings are scheduled irregularly between the agency heads who often 'catch up' immediately after ODESC meetings."⁴¹ Also, the heads of NZSIS, GCSB, EAB, DDIS and DESG would meet bimonthly for a 'Heads of Agencies' working lunch to "share issues and perspectives."⁴² In fact, Murdoch found that the IC's arrangements too often favoured informal bilateral ties. For instance, Murdoch noted that the Heads of Agencies working lunch had largely become dormant because of the "busyness of agency heads." While informal arrangements can avoid the bureaucracy of formal machinery, they are susceptible to the 'tyranny of the tactical' because there are only people and personalities holding them together, rather than institutional arrangements. These informal mechanisms can work well during periods of normal operations, but at periods of increased stress on the system, a time when these coordinating mechanisms are needed most, they can fall by the wayside when schedules and attentions of senior officials are dominated by

⁴⁰ NZSIS (September 9, 2015) 'Job Description: Reports Officer,' New Zealand Security Intelligence Service, published on: <http://jobs.mitula.co.nz/offer-detalle1/102982/6660128441919534761/11/2/intelligence-officer/Sellsgood> (Accessed January 2016).

⁴¹ Murdoch, 2009, p.53.

⁴² Ibid, pp.53-54.

more immediate demands. This was part of the rationale for the introduction of more formal machinery for IC governance following the Murdoch Review and, recently, the more formal manifestation of a 'national' R&P system.

Evolution to Meet New Zealand's Changing Experience

Like its Australian neighbour, New Zealand's R&P system has evolved to meet the changing nature of the demand for intelligence reporting. As consumers have consistently demanded more unified effort in response to both public administration trends and shifts in the threat environment, the IC's R&P system has evolved accordingly. The system has incorporated formal and informal, bilateral and multilateral, connections between producers and consumers that all contribute to an on-going conversation about consumer requirements and priorities. Unlike Australia, however, New Zealand's strategic geography and close alliance relationships through much of the Cold War led to a passive demand for intelligence from all but some key departments (namely MoD, MFAT, and NZDPMC), which ensured that the R&P 'conversation' tended to be centred around a small group that could interact informally. However, beginning in the later years of the Cold War, significant changes in New Zealand's policy stance and more variability in the threat environment led to a growing and more varied demand for intelligence, which, in turn, led to a more rapid evolution in the R&P system.

Chapter 8

The National Requirements and Priorities System in Canada

In the years immediately following the Second World War, Canada's approach to intelligence requirements and priorities was defined by comparative advantage and historical lineage. During the war, there had been a relatively *ad hoc* and informal system of intelligence requirements, mainly running at the operational level between departments. According to the internal history of Canada's wartime Examination Unit (XU),¹ two of the problems that haunted the XU throughout the war were its ad hoc interactions with consumers and the lack of high-level policy direction on SIGINT and cryptographic efforts.² The committee set up during the war to allow consumer departments to levy requirements on the XU, known as the Advisory Committee on the XU, was dominated by the DEA mainly because the Services had ready access to the more expansive intelligence being produced by Allied service branches and were, therefore, generally disinterested in the direction of XU reporting.³ Priorities, particularly in the SIGINT effort, were defined by areas of mutual interest with the US and UK allies and areas where the Canadians could gain access to material. For instance, Canada's SIGINT effort was focused on Japanese and Vichy French traffic, which were of mutual interest to Canada and its major allies. The Canadian government was concerned with Vichy intentions towards Quebec (although Vichy activity in Canada remained generally benign), while the defence of Canada's west coast rested on the ability to determine Japanese intentions and deployments in the Pacific.⁴ By taking on these tasks in the context of the overall allied effort, Canada was producing intelligence reporting that satisfied important elements of Canada's national requirements as well as contributing to the larger allied intelligence pool. This contribution justified Canada's reciprocal

¹ The XU was Canada's first cryptographic and SIGINT analysis unit.

² Robinson, G. deB. (1945) *A History of the Examination Unit, 1941-1945*, Ottawa: Communications Security Establishment, pp.37-38. The author would like to thank Alan Barnes for providing a copy of this document.

³ Ibid, pp.41-42. On the Advisory Committee, see Jensen, K.F. (2008) *Cautious Beginnings: Canadian Foreign Intelligence 1939-51*, Toronto: UBC Press, pp.49-50.

⁴ Robinson, 1945, pp.60-65

access to wider US and UK intelligence, which satisfied the rest of its intelligence requirements.

A similar dynamic prevailed for the first two decades following the war years. Canada's broad intelligence priorities were defined by the Soviet and Warsaw Pact threat (particularly as it pertained to continental defence) and national unity, all within the context of the government's fiscal position. Of course, this stance was in line with Canada's national policies. Canada's 1964 defence white paper was dominated by considerations of continental defence, Canada's contribution to NATO, and a rules-based global system (promoted through the UN).⁵ Similarly, Canada's 1968 white paper on foreign policy examined Canada's international efforts in the context of its federal nature, with a particular emphasis on maintaining the federal-provincial balance.⁶ In short, Canada's intelligence efforts broadly matched the government's policy thinking, which remained anchored around a small number of national interests that remained stable over two decades (and in some cases much longer).

Organisationally, this policy stability created an R&P system, which could best be defined as 'minimalist.' Even though the IPC had been created in 1960 with the intent of providing high-level direction to the IC, Isbister's 1970 review of the IC found that the IPC had met infrequently.⁷ The most consistent point of contact between departments was the JIC, which existed at the operational level to coordinate the intelligence efforts of the DND, the Services, the DEA, and to a lesser extent the RCMP. During one of the CoSC meetings in which the government's senior intelligence officials were debating the creation of the IPC, the Chairman of the CoS summarised the system as it existed: "Heretofore, problems have been handed to the [JIC] only when they came to the attention of the Chiefs of Staff. Most of the work of the intelligence community was a result of its own initiative."⁸ There was very little in terms of a system for setting national requirements and priorities, because, for many years following the Second World

⁵ Hellyer, P. (1964) *White Paper on Defence*, Ottawa: Government of Canada; Fetterly, R. (2005) 'The Influence of the Environment on the 1964 Defence White Paper' *Canadian Forces Journal*, Winter 2004-2005, pp.47-54.

⁶ Martin, P. (1968) *Federalism and International Relations*, Ottawa: Government of Canada.

⁷ Isbister, 1970, p.35.

⁸ Minutes of the 657th Meeting of the CoSC, February 23, 1960.

War, Canada's requirements and priorities did not drastically change at the national level. Consumers simply worked bilaterally with producers to set operational requirements under the mantra of stable national priorities.

Requirements and Priorities in the 1970s and 1980s: Stability Starts to Give Way

Chapter 5 discussed the major environmental trends facing the Canadian IC through the 1970s and into the 1980s, so it is not necessary to repeat these factors here. It is, however, necessary to point out that these trends drove a new level of complexity for the Canadian IC's R&P system. Firstly, the growth of international terrorism brought with it a larger number of intelligence consumers and a greater variance in consumers' demand for intelligence reporting. Secondly, the creation of CSIS in 1984 and its dual security and foreign intelligence mandates of CSIS meant that the DEA (later DFAIT), DND, RCMP, and others would be placing requirements on CSIS for intelligence reporting. In short, the need for a centrally regulated R&P system that could rationalise the supply and demand of intelligence was growing.

Slow Steps towards National Requirements and Priorities

The McDonald Commission had noted previously that the IC's R&P arrangements had been strengthened somewhat by the creation of the ICSI committee structures (including the IAC and SAC). However, the Commission also found that the government's R&P system was diffuse and inconsistent. The PCO's own internal assessment of the foreign intelligence effort, the 1984 Fadden Report, concluded "the ICSI had provided policy and priorities guidance only exceptionally. The IAC might have been expected to do so, but this has not been the case."⁹ The Marchand Review elaborated by stating that the IAC had been producer-focused and disconnected from policymakers, concluding that the committee was "handicapped by uncertainties about the kind of intelligence product that would be most useful, particularly to the Prime Minister and to

⁹ Fadden, 1984, p.20.

Ministers.”¹⁰ It was clear that there was a need to develop a more ‘national’ approach to intelligence requirements, led from the centre of government.

As discussed in Chapter 5, the mid-1980s saw changes within the PCO machinery in order to address these issues, namely the creation of the Intelligence and Security Coordinator’s position and a refresh of the committee machinery. Perhaps most importantly, the IAC’s membership was shifted towards stronger representation from consumers, including PCO, the Department of Finance, and the Department of Immigration.¹¹

However, Blair Seaborn, as Coordinator, also implemented a series of subtle measures that began to outline a more robust national R&P system. Firstly, the Coordinator and the IAC Secretariat regularly interviewed senior consumers, including Ministers, DMs, and other senior officials. According to the Marchand Report, “The interviewees were canvassed to express their current and long term preoccupations in policy evolution and program developments” in order to give the IAC Secretariat a sense of senior-level requirements.¹² Secondly, these views were then compiled into a regular paper entitled ‘Future Issues and Events.’ The Marchand Review described this paper as:

*[The IAC Secretariat’s] synthesis and understanding of Government policy priorities for the coming year and which lists major events of the next few months and standing requirements identified by various elements of the intelligence community. This document is updated quarterly and constitutes a kind of priority and tasking clearing house upon which addressees are invited to feed back comments thereby achieving a circuit loop which is meant to pin down some form of consensus on relevance and topicality.*¹³

Importantly, the ‘Future Issues and Events’ paper represented the first step towards a national-level R&P document, as it included a discussion of government policy priorities, resultant intelligence priorities, and a statement of standing requirements. While the paper was not as strategic as a formal IC R&P

¹⁰ Marchand, 1987, p.5.

¹¹ SIRC 86/87-03 (January 1987) ‘The Security and Intelligence Network in the Government of Canada: A Description’ Security Intelligence Review Committee, SECRET, Released by SIRC under the ATIA, pp.11-14.

¹² Marchand, 1987, p.8.

¹³ Ibid, p.9.

statement, all the pieces were there, and Marchand recognised that it was “a good blue print [sic]” for a national assessments programme. Lastly, the Coordinator would occasionally alert senior consumers personally “through a note, a phone call or even an ad hoc visit” to reporting or developments that were of particular interest to their responsibilities.¹⁴ While this was essentially an entrepreneurial approach to highlighting the utility of intelligence to consumers, it would have also given the Coordinator a good opportunity to gauge direct feedback from their counterparts in consumer departments.

Through the 1980s, it was becoming clear that the changing environment was resulting in intelligence requirements that were particularly Canadian. Also, more aggressive collection and dissemination, particularly of SIGINT, was increasing the utility of single-source reporting for senior consumers in Ottawa. For instance, at the request of the DEA and Department of Immigration, CSE constructed a clandestine SIGINT collection site at the Canadian embassy in New Delhi, codenamed DAISY, from which it intercepted the communications of Sikh radical groups.¹⁵ According to former CSE employee Mike Frost, the amount of intercepts was “staggering” and “we knew what they were up to in the Punjab, we knew what they were up to around the world [...] it was so good, the Immigration Department kept saying: ‘We want more, we want more!’”¹⁶ Because of this kind of effective collection, combined with more consumer-focused dissemination of SIGINT reporting, Marchand found that “a growing number of senior readers are getting hooked on the services provided by aggressive and clever CSE on site officers. [...] a few senior readers are even eagerly ‘mainlining’ on raw intelligence in support of pressing operational needs.”¹⁷ Additionally, the changes brought about by Seaborn and the PCO secretariats led to greater consumer interest in all-source assessment. By 1987, Marchand found that “Foreign intelligence as an aid to better decision making is gaining in importance in the senior echelons of the Canadian government.”¹⁸

¹⁴ Ibid, p.15.

¹⁵ Frost, M. and Gratton, M. (1994) *Spyworld: Inside the Canadian and American Intelligence Establishments*, Toronto: Doubleday, pp.179-197.

¹⁶ Ibid, p.183.

¹⁷ Marchand, 1987, p.15.

¹⁸ Ibid, p.19.

While the system was still more dominated by the ‘push’ from producers, rather than the ‘pull’ from consumers, there was a growing demand for what the IC could provide.

In response to better manage and meet consumer demands, the PCO did carry out a significant work programme through the later half of the 1980s aimed at formalising Canada’s national R&Ps. A paper prepared by Owen Davey of PCO’s S&I Secretariat in 1989 examined the conceptual foundations for intelligence R&Ps and some of the work done up to that point. Davey pointed out that, “over the period of fifteen years between 1970-1985, successive Canadian governments set out two remarkably similar lists of six basic national objectives for attainment in the international sphere. These agreed objectives define the operational focus of national intelligence.”¹⁹ These objectives were listed as:²⁰

1. National Unity
2. Sovereignty and Independence
3. Peace and Security
4. Justice and Democracy
5. Economic Prosperity
6. The Natural Environment

Davey’s point was that these were the *policy* objectives that provided the foundation from which national intelligence priorities and requirements were ultimately derived. Interestingly, Davey’s point that these policy objectives had not changed for 15 years, and remained stable through governments of different political stripes, pointed to a strong policy consensus that would have continued to maintain equally stable intelligence priorities. However, there had been a lack of intelligence requirements agreed at the *national level*, which integrated the many parts of the national intelligence effort towards the same priorities.

Davey’s paper indicates that, between 1985 and 1989, “for the first time, an attempt has been made to form an established and consistent intelligence

¹⁹ Davey, O.A. (February 1989) ‘An Idea of National Intelligence’ Privy Council Office, Security & Intelligence Secretariat, SECRET, released under ATIA, p.6. The author would like to thank Alan Barnes for providing a copy of this document.

²⁰ Ibid, pp.6-9.

community appreciation on the overall focus and concentration which should be given to intelligence sector efforts.”²¹ Although details are difficult to come by, the general thrust of the effort can be sketched out. First, from November 1985 to March 1987, there was a substantial examination of the foreign intelligence effort led by the Coordinator at the request of ICSI. According to Davey, the examination resulted in “some twenty recommendations including a definition of intelligence.”²² Following this, through 1987 the intelligence producers were canvassed on their intelligence collection priorities with a particular emphasis on identifying gaps in intelligence production. The ultimate outcome of this exercise was a document prepared by the IAC Secretariat entitled “Foreign Intelligence Requirements and Priorities: Annual Review,” which was submitted to ICSI in June of 1988.²³ This document represented the first *formal* statement of national foreign intelligence requirements and priorities. However, the eventual outcome of the ICSI review in 1988 is unclear. Further concrete action on R&Ps would not take place until the turbulent period spanning the collapse of the Soviet Union. Ultimately, the first security intelligence R&Ps were approved by Cabinet in 1989-90, while the first statement of foreign intelligence priorities was approved the following year in 1991.²⁴

A Formal System, but Just: Requirements and Priorities from 1990 to 2000

Procedurally, the formal system for setting security and foreign intelligence R&Ps in Canada ran along two parallel tracks. This resulted in a submission to cabinet ministers at MMSI that encompassed both security intelligence R&Ps and foreign intelligence R&Ps, linked at the highest level by a broad statement of the government’s national interests that would be the policy foundation for the national intelligence effort. For security intelligence, CSIS would first produce a national threat assessment outlining the contemporary threat environment facing Canada, and how it was evolving. The Service would use this as the foundation for compiling a list of more specific security intelligence requirements that would match what the Service saw as the priority

²¹ Davey, 1989, p.21.

²² *Ibid*, p.33.

²³ *Ibid*, pp.33-34.

²⁴ OAG, November 1996.

threats.²⁵ This document was known as the National Requirements for Security Intelligence, or NRSI.

For foreign intelligence, the major producers would compile lists of standing requirements, each drafted with an eye to prioritisation, and provide this input to PCO.²⁶ PCO's S&I Secretariat would then try to rationalise the different departmental inputs, work out any conflicts, and provide a short list of overarching national priorities. Depending on the input by the agencies, the final document, known as the Foreign Intelligence Priorities (FIPs), could vary from year to year in terms of its structure. If PCO analysts noted more common requirements across the departmental input, then it was easier to include an overarching 'national' flavour.²⁷

The cumulative cabinet submission, incorporating both NRSI and FIPs, would then be discussed at the IPG (for ADM level review) and subsequently ICSI (for DM level review), in order to allow departments and agencies to voice their views and signal whether they felt any changes were necessary.²⁸ Once the documents were approved through these officials' committees, they were submitted to ministers at the MMSI for formal approval.

Once approved by MMSI, the Cabinet Record of Decision (RoD) was used as the basis for turning the NRSI and FIPs into specific directives to the collection agencies. The NRSI were used as the basis for drafting the Solicitor General's annual *Ministerial Directive on National Requirements for Security Intelligence* (MD-NRSI), which was provided to CSIS and governed the Service's internal operational requirements and priorities.²⁹ In terms of format, in the early 1990s the MD-NRSI contained the statement of broad national interests. These national interests were the policy priorities that governed Canada's foreign and security intelligence efforts. Figure 2.8.1 shows the 1989-90 list of 'national interests', which remained relatively stable for several years as their breadth captured

²⁵ Solicitor General of Canada (1991) *On Course: National Security for the 1990s*, Ottawa: Minister of Supply and Services Canada, p.12.

²⁶ I-4; I-5; I-6; I-11.

²⁷ I-4; I-5; I-6; I-11.

²⁸ OAG, 1996.

²⁹ Ibid.

most shifts in the external environment. While the list was prioritised, and hence public safety remained the top priority, the prioritisation was loose.

| Figure 2.8.1: 'National Interests' from the National Requirements for Security Intelligence 1989-1990³⁰ |
|---|
| <ol style="list-style-type: none"> 1. Public Safety: <i>the ability of Canadians to engage in ordinary social activity without fear of harm, including the safety of air transportation.</i> 2. The Integrity of Canada's Democratic Process: <i>the functioning of those institutions, rights and freedoms fundamental to the well-being of Canada's democratic society.</i> 3. Security of Government Assets: <i>the responsibility of the Government to protect those human, intellectual and physical assets which it manages in trust for the people of Canada.</i> 4. Economic Security: <i>the conditions necessary to sustain a competitive international position for Canada, to provide productive employment, and to contain inflation.</i> 5. International Peace and Security: <i>the ability of the international system to evolve peacefully and assure Canada's continued security.</i> |

This short list of broad national interests was also accompanied by the more detailed set of standing intelligence requirements that CSIS was expected to deliver intelligence on. Based on information available in SIRC reports, it appears that the standing requirements were categorised under headings that generally matched CSIS' programme architecture.³¹ Figure 2.8.2 shows the categorisation of standing requirements within the MD-NRSI at different points through the 1990s.

| Figure 2.8.2: Categories of Standing Requirements in the National Requirements for Security Intelligence from 1993-1999 | | |
|--|------------------------------------|----------------------------------|
| 1993-1994 ³² | 1996-1997 ³³ | 1998-1999 ³⁴ |
| 1. Counter-terrorism | 1. Counter-terrorism | 1. Counter-terrorism |
| 2. Counter-intelligence | 2. Counter-intelligence | 2. Counter-intelligence |
| 3. Security screening | 3. Security screening | 3. Security screening |
| 4. Economic security | 4. Foreign intelligence support | 4. Foreign intelligence support |
| 5. Proliferation | 5. Transnational criminal activity | 5. Foreign influenced activities |
| 6. Assistance to foreign intelligence | | |

³⁰ The list in Figure 1 is taken verbatim from Solicitor General of Canada, 1991, p.12 and can also be found in condensed form in SIRC, 1990, p.7.

³¹ SIRC notes at several points in its annual reports that under the 'counter-terrorism' category, there is a list of organisations that CSIS is focusing its CT investigations towards, and that this list changes intermittently to reflect greater or lesser threats posed by specific groups.

³² SIRC (1994) *Annual Report 1993-1994*, Ottawa: Minister of Supply and Services Canada, p.51.

³³ SIRC (1997) *Annual Report 1996-1997*, Ottawa: Minister of Supply and Services Canada, 52.

³⁴ SIRC (1999) *Annual Report 1998-1999*, Ottawa: Minister of Supply and Services Canada, p.60.

| | | |
|---|--|---|
| 7. Developing relations with former adversaries | | 6. Environmental scanning 7. Intelligence liaison 8. Technology development |
|---|--|---|

Unlike the statement of national interests, which was broad enough to be stable, these standing requirements varied more frequently from year to year. SIRC reports make clear that there were shifts in the standing requirements to match changing government interests and perceptions of the threat environment. For instance, SIRC noted in 1991-92 that while the ‘national interests’ in the MD-NRSI had not changed from the previous year, the standing requirements had shifted significantly to place greater emphasis on the evolution of threats following the “transformation in East-West relations” and “the projected shift in foreign espionage in Canada from the political-military to the political-economic sphere.”³⁵ Additionally, the specific organisations included under the ‘counter-terrorism’ category shifted depending on which terrorist organisations were believed to pose higher or lower threats to Canada.³⁶

Similarly, the PCO S&I Coordinator, in their role as the DM for CSE’s policy and operations, issued the FIPs in writing to the Chief of CSE, but also to other members of ICSI involved in the foreign intelligence effort.³⁷ In contrast to the NRSI, which were predominantly geared towards CSIS, the FIPs governed the efforts of multiple organisations: CSE’s SIGINT efforts, CSIS’ Section 16 programme, DND collection and analysis (such as IMINT products), and DFAIT reporting (such as the ‘interview programme’). In the case of CSE, the FIPs were then used as the basis for the SIGINT business plan.³⁸

³⁵ SIRC (1992) *Annual Report 1991-1992*, Ottawa: Minister of Supply and Services Canada, p.48.

³⁶ For instance, see SIRC, 1998, p.65 and SIRC (2000) *Annual Report 1999-2000*, Ottawa: Minister of Supply and Services Canada, p.43.

³⁷ Office of the Auditor General (1998) ‘Chapter 28—Follow-up of Recommendations in Previous Reports’ *1998 December Report of the Auditor General of Canada*, Ottawa: Office of the Auditor General.

³⁸ OCSEC (1998) *Annual Report of the Communications Security Establishment Commissioner 1997-1998*, Ottawa: Minister of Supply and Services Canada, <https://www.ocsec-bccst.gc.ca/s21/s46/s3/d18/eng/findings> (Accessed November 2015), and OCSEC (2000) *Annual Report 1999-2000*, Ottawa: Minister of Public Works, pp.3-4.

However, through the 1990s it was clear that the R&P system had several shortcomings. Initially, the system was very producer-driven with consumers having input only intermittently through the process. This was highlighted in 1996, when the OAG concluded that many consumer departments were not consulted on R&Ps in a systematic way. In 1995, in an attempt to correct this, PCO began to systematically canvas a wider range of intelligence consumers to get broader input into the priority-setting process.³⁹ There was also a more consistent effort to bring criminal and defence intelligence into the R&P process, particularly through the later 1990s.

Additionally, and perhaps predictably, there was significant overlap between security intelligence and foreign intelligence R&Ps. Domestic security threats were often the local manifestations of foreign actors or conflicts, and so, as transnational threats grew, the overlap between foreign and security intelligence efforts became apparent.⁴⁰

Perhaps most importantly, there was a lag in issuing the direction to the agencies. The OAG noted in 1996 that “final approval of both foreign and security intelligence priorities has sometimes occurred late in the year to which the priorities are to apply.”⁴¹ SIRC noted in 1994 that the MD-NRSI for 1993-94 was not provided to CSIS until July 1993 (three months into the fiscal year).⁴² The MD-NRSI for 1994-95 was not issued until September of 1995, a full six months *after the end* of the fiscal year. To alleviate this, the government moved to a two-year cycle, where the directive was valid for two fiscal years instead of one. However, the OAG report recommended a closer link between priority-setting and budget-setting processes for the agencies, and more timely approval of priorities.⁴³ At least partially in response to the OAG report, the IC reverted back to an annual priority-setting cycle for fiscal year 1997-98.⁴⁴ However, the delay in approving national R&Ps pointed to a simple issue: it was difficult to get the attention of busy ministers on an issue that, for them, did not seem like a

³⁹ OAG, 1996.

⁴⁰ I-5; I-6.

⁴¹ Ibid.

⁴² SIRC, 1994, p.51.

⁴³ OAG, 1996.

⁴⁴ SIRC (1998) *Annual Report 1997-1998*, Ottawa: Minister of Supply and Services Canada, p.65.

priority.⁴⁵ It has been noted that through the Chretien government, both defence and national security policy were considered low priorities, and that the defence planning process suffered in the absence of guidance from ministers and even sometimes senior officials.⁴⁶ Intelligence policy suffered similarly. At the Cabinet level, CC/S&I had already been abolished by 1993 and MMSI was a very minimalist replacement. The lack of interest by ministers inevitably undercut R&P system and had a ripple effect.

Requirements and Priorities after 9/11: Getting Serious about the System

The 9/11 attacks and Canada's subsequent involvement in Afghanistan were tipping points for Canadian intelligence because they galvanised ministers and deputy ministers to take national security and intelligence seriously. Whereas before senior decision-makers could choose to focus their energy elsewhere and only address intelligence matters when they had to, the attacks in the US were a blunt signal that paying attention to intelligence was no longer a choice. In short, the culture of intelligence consumers began to change drastically, which had a commensurate effect on demand. This, in turn, drove greater change in the IC itself and the systems that governed it. The evolution of the Canadian R&P system following 9/11 had been defined by four interrelated trends: more consistent interest in, and demand for, intelligence from consumers; more consistent involvement by the centre of government in driving a 'national' system; more effective definition of national intelligence priorities; and a progressively more formalised system.

A New Level of Demand

As the national security environment changed more rapidly for Canada following 9/11, departments and ministers began to look to the IC more actively for intelligence reporting. One SIRC study that looked at CSIS' Intelligence Assessments Branch (IAB) stated that the demand was because of both increased

⁴⁵ I-3.

⁴⁶ Hartfiel, R.M. (2010) 'Planning Without Guidance: Canadian Defence Policy and Planning, 1993-2004' *Canadian Public Administration*, 53:3, pp.323-349.

awareness of the IC's functions and the growing complexity of the threat environment:

In recent years there has been an increased demand from across government for intelligence assessments and products. In part, this stems from the heightened sense of national security following the events of 9/11 and subsequent terrorist-related activities worldwide. At the same time, however, it represents a growing desire to understand increasingly complex security intelligence issues. For example, as one observer suggests, contemporary foreign intelligence operations aimed at western national are "...more diffuse, more aggressive, more technologically sophisticated, and potentially more successful than ever before."⁴⁷

While the post-9/11 demand for security intelligence was, perhaps, predictable, there was also an increasing demand for foreign intelligence. A 2009 SIRC review of the CSIS Section 16 programme found that "over the past decade Government demands for intelligence generally has grown (i.e. both for s.12 and s.16). In spite of the priority given to countering terrorism, SIRC found that demands for s.16 products have increased significantly across Government."⁴⁸ Additionally, the deployment of Canadian troops to Afghanistan increased CAF requirements for operational intelligence to support forces on the ground and, later, to support strategic management of the Canadian mission through the CC/Afghanistan, the PCO-led Afghanistan Task Force, and the IAS-led AILO.⁴⁹ Perhaps most importantly, Prime Minister Harper and his NSA, Stephen Rigby, were active intelligence consumers. On a weekly basis, Rigby would brief the PM on the key intelligence reporting identified by the 'core four' assessment organisations in the Canadian IC. Similar briefings would inform discussions at DM and ADM committees, specifically DMNS and ADM(NSOps).

⁴⁷ SIRC (2008) *Review of CSIS' Intelligence Assessments Branch*, SIRC Study 2007-03, TOP SECRET, Released to author under ATIA, pp.2-3.

⁴⁸ SIRC (2010) *Review of the Section 16 Program and the Use of Information Collected*, SIRC Study 2009-02, TOP SECRET, released to author under ATIA, p.9.

⁴⁹ See Chapter 5 for further details on Afghanistan-related machinery.

The Centre of Government and the R&P System

Because the PM, key ministers, and the DM community were growing consumers of intelligence, there was a need for PCO to play a more robust role in coordinating the national intelligence effort. There was a greater need to make sure the IC was producing the right products, and, as a result, the robustness of the R&P process took on added importance. The creation of a dedicated NSA position in 2010, with the S&I, Intelligence Assessment, and later the F&DP Secretariats under the NSA's purview strengthened PCO's ability to coordinate the R&P process by centralising the intelligence and policy 'feeds' of information into PCO under one senior DM with good access to the PM. The NSA's chairing of the DMNS and DMIC, encompassing both security and foreign intelligence issues, also helped drive the R&P process by ensuring closer coordination between the larger national security policy agenda and the national intelligence effort.⁵⁰

More Effective Definition of Intelligence Priorities

A significant change in the R&P system during the latter half of the 9/11 decade was that the government identified more tangible and unified national intelligence priorities. These priorities, known as the 'Government of Canada Intelligence Priorities' (GCIPs), are agreed by cabinet ministers, and form the basis for standing requirements across the IC.⁵¹

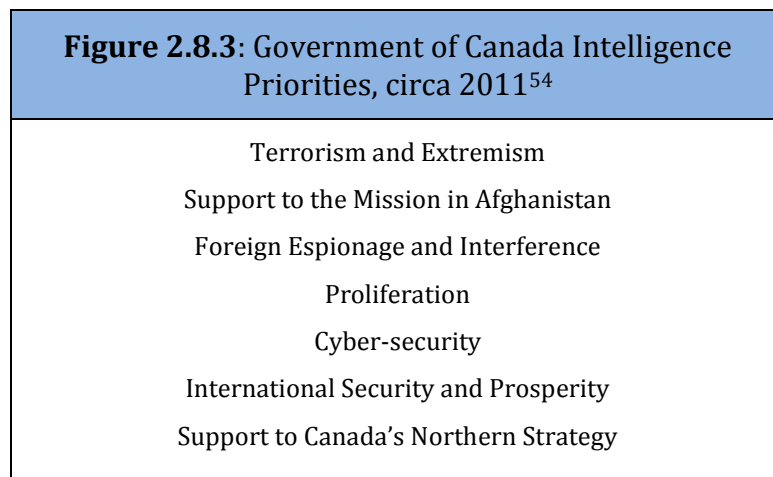
A close analysis of official documents provides a picture of the GCIPs around 2011. In a section on CSE buried in an online annex of the 2011-2012 DND Report on Plans and Priorities, there is a passage that lists the seven intelligence priorities handed down to CSE.⁵² These can be cross-referenced with a

⁵⁰ See Chapter 5 for larger discussion of these machinery changes.

⁵¹ It should be noted that in 2008, CSIS renamed the National Requirements for Security Intelligence to National *Priorities* for Security Intelligence, presumably to more closely reflect the language of the GCIPs. See SIRC (2010) *How CSIS Identifies and Addresses Intelligence Priorities*, SIRC Study 2009-01, TOP SECRET, released to the author under the ATIA, p.5

⁵² Department of National Defence (2012) *Report on Plans and Priorities 2011-2012* (annexes published online), <http://www.vcds-vcemd.forces.gc.ca/sites/page-eng.asp?page=10414> (Accessed June 2013). The list is: *Terrorism and extremism; Mission in Afghanistan; Proliferation of weapons of mass destruction; Cyber security; Foreign espionage and interference; Canada's Northern Strategy; and International security and prosperity interests.*

declassified copy of the CSIS Director's Letter to the Minister of Public Safety on CSIS operations, which lists the same seven GCIPs and indicates *some* standing requirements for FY2010-2011.⁵³ If the information presented in these official publications is combined, one is left with at least a partial list of the GCIPs and standing requirements around 2011, as shown in Figure 2.8.3.



As indicated in Figure 2.8.3, underpinning each of the GCIPs are more detailed standing requirements. In addition to the information provided in the 2011 CSIS Director's letter to the Minister, it is possible to glean some more recent standing requirements from official publications. For instance, SIRC noted in its 2011-2012 report that "the government has directed CSIS to provide intelligence on kidnappings of Canadians abroad when linked to extremist groups."⁵⁵ This standing requirement would fall under the GCIP 'Terrorism and Extremism.' Predictably, while the GCIPs often remain stable, the standing requirements can shift from year to year depending on developments in the threat environment. Interdepartmental discussions around the standing requirements and their prioritisation are meaningful, as they have significant implications for resources and operations. Additionally, there is a balance that is always struck between the annual planning cycle and the ability to adapt to

⁵³ Fadden, R. (Director, CSIS) to Toews, V. (Minister of Public Safety), (October 18, 2011), TOP SECRET, Released under ATIA.

⁵⁴ It should be noted that each agency's ministerial direction will also add agency-specific elements. For instance, CSIS' Ministerial Directive on Intelligence Priorities also includes direction on security screening, technical capabilities, and required legislative compliance reporting.

⁵⁵ SIRC, 2012, p.18.

global situations as they develop. Speaking of the standing requirements in 2001, Chief of CSE Keith Coulter stated:

Basically, our story is we cannot do this. We can do this new angle, but we will have to take something off our list. That is a very intense discussion because no one wants to take anything off the list. On the other hand, sometimes we have to shift gears when new requirements come up; troop deployment to a new location where the Canadian Forces needs intelligence, a new diplomatic crisis of some sort. We have to be able to shift gears. [...] We are able to give a description to a small group of interdepartmental people at a fairly high level of what we are doing. They can say, we would like you to do more of this, and we can get into that discussion about we will have to drop this or that or both to do that. People care a lot about the results of those discussions and that is what guides us.⁵⁶

What is important about the GCIPs is that they are more tangible than the 'national interests' that had previously underpinned the R&P system in the 1990s. The more tangible priorities give intelligence producers a better sense of how to allocate resources, and allow for better evaluation of the IC's performance. However, the R&P system is always a work in progress. For instance, SIRC noted that CSIS struggled to operationalize the GCIP on Canada's Northern Strategy because, in the face of a conflicting government demand for fiscal restraint, the Service did not have enough guidance from government to determine how best to prioritise its resources under this GCIP. This was alleviated in 2011 when government provided clearer guidance, and CSIS was able to internally reorganise to properly allocate its resources to meet government demand.⁵⁷

A More Formalised R&P System: Defining the GCIPs and Standing Requirements

In a relatively unnoticed development, when the passage of the *Anti-Terrorism Act* put CSE on a legislative footing immediately following 9/11, it also built into legislation the concept of national intelligence priorities. Section 273.64(1)(a) of the *National Defence Act* (CSE's 'Mandate A') permits CSE to

⁵⁶ Coulter, K. (April 11, 2005) Evidence to the Special Senate Committee on the Anti-terrorism Act, Senate of Canada, 1st Session, 38th Parliament.

⁵⁷ SIRC, 2013, p.23.

“acquire and use information from the global information infrastructure for the purpose of providing foreign intelligence, *in accordance with Government of Canada intelligence priorities*” (italics added).⁵⁸ While these words may seem simple, their importance in legislation was alluded to when Marie-Lucie Morin, NSA from 2008-2010, told the Standing Committee on Public Accounts, “Intelligence priorities for the community are established annually by cabinet *as required in the National Defence Act*” (italics added).⁵⁹ The addition of this text to the National Defence Act signalled the start of a faster evolution towards a more systematic and formalised approach to the establishment of R&Ps over the next decade.

Work on updating the GCIPs and standing requirements has progressively been based around IC-wide consultations. The consultations are led by PCO, specifically through the NSA and Asst. Secretary for S&I, and incorporate both wide-ranging discussions of the national security environment, as well as ‘deep-dive’ discussions of key issues at the ADM and DG levels. Discussing the system in 2009, Morin stated:

*As departments and agencies, we do take a full scan of security and intelligence challenges. We distil those, and on the basis of that analysis we are able on a yearly basis to present to the government recommendations in terms of intelligence priorities. [...] What we have done as well is we have struck a number of working groups on very specific issues that we believe require specific attention on the part of the community. So we have both very broad discussions around what I would call horizontal challenges from a security point of view—they’d be, for example, the situation today in Afghanistan or Pakistan—and we will also meet to discuss very discrete issues as they relate to national security and intelligence.*⁶⁰

With the reorganisation of the DM and ADM machinery in 2010, these consultations came to take place through DMNS, its sub-committees (specifically DMIC), and ADM(Intelligence). For instance, in 2013, work to update the GCIPs took place from September to December. Through late September and October,

⁵⁸ *National Defence Act*, R.S.C., 1984, c.N-5. See Part V.1 for the CSE mandate.

⁵⁹ Morin, Marie-Lucie (May 26, 2009) Evidence to the Standing Committee on Public Accounts, House of Commons, 2nd Session, 40th Parliament. It should be noted that the Act only indicates that the government have intelligence priorities, not specifically that they should be established annually.

⁶⁰ Morin, Marie-Lucie, 2009, Evidence to the Standing Committee on Public Accounts.

PCO drew together input on GCIPs from IC members, including retrospective information on successes and challenges against the existing Priorities.⁶¹ This would have included input on standing requirements and initial judgements on prioritisation, based on producers' analysis of the threat environment as well as tracking of consumer intelligence requirements. Review, discussion, and adjustment of the input was provided through November and early December, including discussion of 'key issues' at ADM(Intelligence).⁶² Once the GCIPs and standing requirements are finalised at the level of officials, and endorsed by DMs at DMNS, the GCIPs go to cabinet ministers for final approval.

A More Formalised R&P System: Turning the GCIPs into Guidance to the Intelligence Collectors

Once cabinet ministers approve the GCIPs, the Cabinet RoD is used by each of the collection organisations to draft a ministerial directive (MD) for their minister to approve and issue to the organisation as policy guidance. The MDs state the GCIPs that pertain to the organisation's production efforts and includes the standing intelligence requirements associated with each GCIP. For instance, once the GCIPs were approved for FY 2012-13, the Chief of CSE sent a briefing note to the Minister of Defence with a draft Ministerial Directive entitled *Communications Security Establishment: Government of Canada Intelligence Priorities for Fiscal Year 2012-2013*. The Chief asked for the Minister's approval of the draft Directive, stating that "the proposed Ministerial Directive is consistent with the approved Government of Canada Intelligence Priorities for 2012-2013 and the approach traditionally employed for the Minister of National Defence to provide direction to [CSE]."⁶³ Similarly, the CDI organisation within DND drafts an MD on defence intelligence priorities. The *Ministerial Directive:*

⁶¹ Meeting of the Deputy Ministers' National Security Committee, Agenda, December 13, 2013, SECRET, released to author under the ATIA.

⁶² Ibid.

⁶³ Memorandum for the Minister of National Defence (no date visible) 'Government of Canada Intelligence Priorities for Fiscal Year (FY) 2012-2013' Communications Security Establishment Canada, TOP SECRET//SI/CEO, released to author under the ATIA. Previously, intelligence priorities would be communicated to the Chief of CSE through the NSA in their capacity as the DM overseeing CSE's policies and operations. However, since the CSE became a stand-alone agency in 2011 reporting directly to the Minister of Defence, the Minister now directly provides guidance on priorities to the Chief of CSE. The draft MD is also copied to the National Security Advisor.

2011-2012 Defence Intelligence Priorities was drafted within the Intelligence Policy and Planning Division,⁶⁴ and approved through the CDI. However, after the CDI had approved the draft MD, it was also reviewed by the ADM for Policy, the Judge Advocate General, the CDS, and the DM, before making its way to the Minister. In all, six offices reviewed and approved the draft MD before it landed on the Minister's desk for final approval.⁶⁵ The Directive itself, addressed jointly to the CDS and DM, states that the defence intelligence priorities are "informed by the Government of Canada Intelligence Priorities" and "are outlined in subparagraphs a-g below." While the text of the Directive outlining the priorities and standing requirements remains classified, this confirms that there are seven priorities, which corresponds to the list found in the DND 2011-2012 Report on Plans and Priorities cited earlier. Finally, CSIS also drafts a *Ministerial Directive on Intelligence Priorities* for approval by the Minister of Public Safety, based on the approved GCIPs and associated requirements.⁶⁶

Once approved by their respective ministers, the collection organisations use the MDs in their own internal collection management processes. CSIS's Intelligence Assessment Branch (IAB) uses the MD as the basis for its Intelligence Requirements Document (IRD), which "acts as a framework to organise GoC intelligence priorities, Ministerial Direction, Section 16 agreements, and input from clients."⁶⁷ The IRD guides CSIS collection and assessment work by laying out detailed and prioritised collection and production requirements for IAB and the operational branches and regions.⁶⁸

Similarly, CSE uses its MD to provide a framework for the SIGINT business plan and, specifically, the National SIGINT Priorities List (NSPL). The NSPL contains operational SIGINT requirements communicated directly to CSE from consumers. In CSE's own words, "NSPL drives the entire SIGINT process." Each

⁶⁴ Now the Intelligence Plans and Programs Division.

⁶⁵ Memorandum for the Minister of National Defence (August 17, 2011) 'Ministerial Direction on Defence Intelligence Priorities for 2011-2012' Department of National Defence, SECRET//CEO, released to the author under ATIA. The information on approvals is drawn from the routing slip attached to the briefing note.

⁶⁶ SIRC (2013) *Annual Report 2012-2013*, Ottawa: PWGSC, p.31.

⁶⁷ SIRC (2012) *CSIS Intelligence Production and Dissemination*, SIRC Study 2011-09, TOP SECRET, Released to the author under ATIA, p.9.

⁶⁸ Ibid.

NSPL requirement is 'mapped' to a standing requirement under the GCIPs, and prioritised accordingly. NSPL has five 'tiers', with 'tier 0' requirements being the highest priority and 'tier 4' requirements being the lowest priority. The NSPL requirements are also divided between 'Standing Issues,' which are those requirements that have an active importance, and 'Watch Briefs,' which are those requirements that CSE monitors for significant developments (such as international hotspots).⁶⁹

A similar effort to turn the GCIPs into detailed collection plans occurs in CFINTCOM. The MD on defence intelligence priorities is used as the basis for the Defence Collection and Assessment Plans (DCAPs), which govern the production of GEOINT, IMINT, defence-specific HUMINT, and defence assessment products.⁷⁰

A More Formalised R&P System: Evaluating Effort against the GCIPs

Evaluating the contribution of intelligence to decision-making is often more art than science because intelligence successes are inherently difficult to measure. However, helped by clearer and more consistent policy guidance, progress has been made over the last decade in evaluating the effort of the IC against the GCIPs. Each year, the Director of CSIS submits a classified memorandum to the Minister of Public Safety, known as the 'Director's Letter' or the 'Director's Report', outlining the Service's operations over the preceding fiscal year. The Letter outlines:

- CSIS investigative efforts against each of the GCIPs;
- Any possible future efforts against each GCIP based on the evolution of the Priority;
- CSIS production statistics under each GCIP, outlining the number of Intelligence Reports and Intelligence Assessments addressing each GCIP.

⁶⁹ On the NSPL, see 'Introduction to SIGINT' PowerPoint deck included as part of the 'CSE Foundational Learning Curriculum' for 2013, TOP SECRET, released under the ATIA to Colin Feeze, <http://www.scribd.com/doc/194588575/Foundational-Learning-Curriculum-of-Communications-Security-Establishment-Canada-Globe-and-Mail-ATIP-partly-redacted> (Accessed January 2016.)

⁷⁰ Progress on the DCAPs is used as a performance indicator by DND; see DND/CAF, (2015) *Report on Plans and Priorities 2015-2016*, http://www.forces.gc.ca/assets/FORCES_Internet/docs/en/dnd-rpp-2015-16_eng.pdf (Accessed January 2016), p.38.

- Performance statistics related to security screening and security assessments;
- The number of domestic and foreign agreements under Section 17 of the *CSIS Act*, including the number of dormant agreements and those in abeyance because of concerns over reliability; and
- Reporting on operational governance issues, such as the approval authorities for domestic and foreign operations and the use of human sources.⁷¹

The Director's Letter provides the Minister, SIRC, and others with an overarching view of CSIS' performance against the GCIPs, and is validated each year by SIRC.⁷²

CSE also submits a classified annual report to the Minister of Defence, outlining the organisation's operations against each of the GCIPs. For instance, CSE's 2013-2014 Annual Report includes summary statistics of EPRs produced against each of the GCIPs. For each GCIP, the summary statistics include:

- The total number of SIGINT EPRs produced that address the GCIP;
- The number of EPRs produced as a percentage of total EPR production;
- Percentage of the EPRs read by at least one client;
- Percentage of the EPRs rated as satisfying a consumer need;
- Percentage of the EPRs rated as exceptional by a client; and
- Percentage of EPRs rated as 'actionable intelligence.'⁷³

The Annual Report also includes information on CSE's assistance to federal law enforcement and security agencies ('Mandate C' under the NDA), and performance information on its IT security efforts ('Mandate B' under the NDA).⁷⁴

⁷¹ This list is drawn from the contents of: Letter from CSIS Director Richard Fadden to Minister of Public Safety Vic Toews, October 18, 2011, TOP SECRET, Released under ATIA.

⁷² The Director's Letter was validated by the CSIS Inspector General until the IG's position was abolished in the 2012 federal budget.

⁷³ An EPR is rated 'actionable intelligence' if it "a) identified a threat to Canadian and/or allied interests, b) resulted in significant action being taken by the GC, or c) significantly influenced decisions by the GC, the CAF or an allied government." Communications Security Establishment (2014) *Annual Report to the Minister of National Defence, 2013-2014*, TOP SECRET//SI//CEO, Released to the author under the ATIA, p.2.

⁷⁴ Ibid.

The IC has also made a more formal effort to track financial and personnel commitments against each of the GCIPs. Every fall, ahead of the start of the federal budget cycle, Public Safety Canada leads an exercise to produce the National Security Expenditure Report (NSER) on behalf of DMNS and the IC. The NSER “is a retrospective annual report whose primary purpose is to provide a high-level view of how resources are allocated in response to Cabinet direction on the Government of Canada’s Intelligence Priorities.”⁷⁵ The major spenders across the IC (CBSA, CSIS, CSE, DFATD, DND, PCO, Public Safety and the RCMP) each prepare submissions outlining the organisation’s allocation of money and FTEs against each of the GCIPs, and across five types of intelligence activity: program management, program support, development, production, and dissemination.⁷⁶ Each submission is reviewed by the authoring organisation’s Chief Financial Officer (CFO) and approved by its DM. Public Safety then consolidates the submissions into the final NSER document. Figure 2.8.4 shows the format of CSE’s NSER submission for FY 2014-15. The final NSER document provides an overarching view of how the IC has committed financial and human resources toward the government’s intelligence goals. The NSER is used to guide discussions at ADM and DM committees around performance against the GCIPs, how to best allocate the IC’s resources going into the next fiscal year, and whether there should be adjustments through the budget process.

Bilateral Arrangements and Feedback Loops between Consumers and Producers

As in Australia and New Zealand, the Canadian IC has progressively instituted many bilateral arrangements between intelligence producers and consumers. These arrangements create feedback loops, some formal and some informal, that allow producers and consumers to work out intelligence requirements at the departmental level.

⁷⁵ Rochon, D. (Deputy Chief, Policy and Communications), (September 11, 2015) ‘Note for EXCOM: CSE NSER Submission for FY14/15’ SECRET//CEO, Communications Security Establishment, Released to author under the ATIA.

⁷⁶ Ibid.

Figure 2.8.4: CSE NSER Submission, FY 2014-15⁷⁷

| Fiscal Year 2015 Communications Security Establishment National Security Expenditure Report | |
|---|--|
| Activities | |
| Program Management | |
| Program Support | |
| Development | |
| Production | |
| Dissemination | |
| Internal Services | |
| Total by Activity | |
| Priorities | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| Total by Priority | |

The Way the CRO Flies: The CSE Client Relations Officer Programme

Through much of the Cold War, the involvement of senior Canadian officials in intelligence matters was sporadic.⁷⁸ Peter Hunt, the Chief of CSE during the 1980s, had complained that he “had been having great difficulty persuading Canadian policymakers of the value of CSE’s SIGINT product...”⁷⁹ By mid-1985 however, Hunt was able to tell his American counterpart that the situation “was improving.”⁸⁰ This improvement was largely due to the development of the Client Relations Officer, or CRO, programme. Very little was known about the CSE’s CRO programme until the individual responsible for its implementation, William ‘Bill’ Sheahan, who was also the first CRO at External Affairs from 1984-88, gave public evidence at the Air India Inquiry in 2007.

Approved on a trial basis in 1984 by ICSI, the CRO program was, in Sheahan’s words, “established to enhance the use of SIGINT by decision-makers and key government departments.”⁸¹ During the trial phase, SIGINT analysts from CSE were directly embedded in three departments around Ottawa: External Affairs, DND, and PCO. Through secure computer terminals, the CROs had direct

⁷⁷ Ibid. The figures have been redacted from the table, but the format is still notable.
⁷⁸ This is spoken to in Jensen, 2008.
⁷⁹ Aldrich, R.J. (2010) *GCHQ*, London: Harper Press, p.447.
⁸⁰ Ibid.
⁸¹ Sheahan, W. (December 5, 2007) Evidence to the Commission of Inquiry into the Investigation of the Bombing of Air India Flight 1982, Ottawa.

access to CSE's database of EPRs.⁸² Each CRO had a 'clientele' of senior departmental officials (DGs, ADMs, and DMs) and Ministerial staff, and their job was to provide these senior clients with tailored SIGINT reporting based on their personalised needs.⁸³ Based on conversations with their clients, CROs would compile lists of queries designed to pull relevant EPRs from CSE's database. Each day, the CROs would run these queries at their secure terminals and comb through the dozens of results, selecting only the most relevant reports to bring to their clients at their daily meetings.⁸⁴ At these meetings, CROs would provide the EPRs to their client, answer questions that the client had while reading the reports, and gain feedback on what was useful, what was not, and any new requirements that their client had. Sheahan stressed the importance of requirements: "we were always trained to ask if there were any new requirements they had."⁸⁵ This feedback from clients was compiled in weekly reports that were sent back to CSE, giving the collectors an idea of what the government's most senior clients were interested in.⁸⁶ While Sheahan indicated that, initially, the weekly reporting was viewed as unnecessary by CSE, and was only done at the insistence of External Affairs, the value of this formal record was recognised and a more formal feedback system was designed to "help guide report production for servicing clients."⁸⁷

The CRO programme was formalised in 1985, and through the late 1980s and 1990s, CROs began to service senior clients at CSIS, RCMP, Industry Canada, Agriculture, Fisheries & Oceans, and Finance.⁸⁸ As of 2007, 15 CROs managed a clientele spanning 31 government departments, with some CROs responsible for multiple departments where the appetite for SIGINT was not as great.⁸⁹ The important element of the CRO program is the client feedback, which informed

⁸² Sheahan, 2007 and OCSEC (2007) *Role of the CSE's Client Relations Officers and the Operational Policy Section (D2) in the Release of Canadian Identities*, Ottawa: Office of the CSE Commissioner, TOP SECRET/COMINT/CEO, Released to the author under ATIA, p.2.

⁸³ Sheahan, 2007. Sheahan notes that during his time as the CRO at External Affairs, he had a clientele of 19 officials ranging from ADMs to ministerial staff.

⁸⁴ *Ibid.*

⁸⁵ *Ibid.*

⁸⁶ *Ibid.*

⁸⁷ OCSEC, 2007, p.4.

⁸⁸ OCSEC, 2007, p.2.

⁸⁹ *Ibid.*, p.3

CSE of high-level consumer requirements. Even while direct consumer access to SIGINT EPRs was rising through the use of the secure MANDRAKE computer network, some departments such as PCO and Foreign Affairs remained avid users of the CROs' services. In at least one case, a department opted *against* using the electronic system altogether, in favour of using the CROs.⁹⁰ One senior official, when asked about the CRO programme, quickly stated "whoever came up with the CRO idea was a genius; it basically guaranteed the survival of CSE."⁹¹ The key to the CRO concept was the ability to gauge consumer requirements through direct feedback, and provide intelligence reporting that directly satisfied those requirements.

Figure 2.8.5: William Sheahan in 2007



The CSIS Government Liaison Office (GLO)

Following the Osbaldeston Report's criticisms of the CSIS intelligence prioritisation and production process in 1987 and a SIRC examination of the IAB in 1988,⁹² CSIS reorganised its internal requirements, analysis, and production functions in 1992. As part of this reorganisation, CSIS created a small unit that

⁹⁰ Ibid, pp.3,5.

⁹¹ I-20.

⁹² The central analysis branch of CSIS has gone through multiple names. Initially it was known as the Intelligence Assessment Branch (IAB). In 1992, it was renamed the Research, Analysis and Production Branch (RAP) to reflect its internal reorganisation. In the 2000s, the Branch was again renamed to the Intelligence Assessments Branch (IAB).

became known as the Government Liaison Unit (GLU).⁹³ In 1998, the GLU consisted of four individuals, three of which were Government Liaison Officers, or GLOs. According to a 1998-99 SIRC review, GLOs were similar in concept to CSE's CROs, in that they "meet with security officers and senior managers in government departments and agencies. Their purpose is to identify and review intelligence requirements, and to seek feedback on CSIS intelligence products."⁹⁴ To help track consumer requirements and priorities, CSIS also developed a computer system through the early 1990s called the Intelligence Requirements Management System (IRMS). IRMS allowed the GLU to track and prioritise consumer requirements, track production and dissemination of CSIS reporting against these requirements, and, importantly, collect and collate feedback from consumers. Interestingly, the first external government department with access to the IRMS system was PCO, through the IAS,⁹⁵ showing the importance placed on the PM as a consumer. A fourth individual within the GLU was responsible for maintaining IRMS.⁹⁶ GLU was also responsible for the dissemination of CSIS reporting to clients, either through CSIS couriers or through the secure MANDRAKE computer network.⁹⁷

However, even with the GLU's efforts, SIRC found in 1999 that CSIS' ability to satisfy consumer requirements was problematic. Many consumers indicated the CSIS products did not contain information directly relevant to their department's operations. In unpacking this further, the SIRC report states that consumers agreed that CSIS reporting was often useful *once adapted by departments to meet their specific operational needs*.⁹⁸ One CSIS client stated, "it was not the individual departmental requirements which drove the [CSIS] reporting, but rather, the general community-wide requirements that have little or no level of detail with regard to special departmental operational

⁹³ SIRC (1999) *A Review of Intelligence Production*, SIRC Study 1998-09, SECRET, Released under the ATIA. The initial name for the unit was the Marketing and Client Relations Unit.

⁹⁴ SIRC, 1999, p.10.

⁹⁵ Spencer, C.O. (1996) 'Intelligence Analysis Under Pressure of Rapid Change: The Canadian Challenge' *Journal of Conflict Studies*, 16:1, <http://journals.hil.unb.ca/index.php/JCS/rt/prINTERfriendly/4525/5348> (Accessed January 2016).

⁹⁶ SIRC, 1999, p.10 and Spencer, 1996.

⁹⁷ SIRC, 1999, p.22.

⁹⁸ *Ibid*, p.29.

requirements.”⁹⁹ CSIS’ response to the general criticism that it was not tailoring its reporting to individual departmental requirements was that its production efforts were not “intended to be a forum whereby external clients can task the Service for a tailor-made product to meet individual departmental needs, whether or not the request falls within the Service’s mandate.”¹⁰⁰ CSIS had a point. The Service’s resources would never allow tailored reporting to each of 54 client departments, and legislatively it had to respond to the general guidance handed down by its minister.¹⁰¹ Consumers had to meet CSIS half way, particularly because CSIS reporting was, by nature, often less specific than SIGINT products. This shows the give-and-take of the R&P system: intelligence reporting is often judged based on unrealistic consumer expectations about the level of detail that can be obtained. However, with more active and informed engagement of consumers, intelligence reporting can be adapted to departmental operations, or made more relevant.

Following 9/11 and the substantial increase in demand for CSIS reporting, the GLU was strengthened and renamed the Government Liaison Office (GLO). A 2007-08 SIRC review found that GLOs frequently meet with consumers across government “to determine client requirements” and “attempt to ascertain how products can be tailored to meet client needs.”¹⁰² SIRC found that in the last quarter of 2006, GLOs met with just over half of CSIS’ consumers across the government, but stated that “resource constraints limit the number of personal visits [GLOs] can make at any one time.” Like counterpart organisations, CSIS uses feedback forms attached to CSIS products and regular correspondence between GLO staff and departmental contacts to solicit feedback from consumers in between face-to-face meetings, yet consumers rarely take the time to provide written feedback.¹⁰³ Overall, however, these efforts, combined with more educated consumers, has had noticeable impact. SIRC reported in 2008 that, unlike its 1997-98 report, consumers were generally in agreement

⁹⁹ Ibid.

¹⁰⁰ SIRC, 2009, p.24.

¹⁰¹ At the time of SIRC’s review, the Service had 54 client departments in the Canadian government.

¹⁰² SIRC (2008) *Review of CSIS’ Intelligence Assessments Branch*, SIRC Study 2007-03, TOP SECRET, Released under the ATIA, pp.17-18.

¹⁰³ Ibid, p.19.

that CSIS reporting was useful and relevant, and often requested further products.¹⁰⁴

The Evolution of the R&P System in Canada: Progress as a Function of 'Consumer Culture'

Canada's R&P system has ultimately been defined by the stability or variability of the global environment and by the perception of intelligence by consumers. Through the Cold War, a relatively stable threat environment led to an R&P system that operated predominantly at the departmental level; demand changed little and was easily managed informally by bilateral arrangements. Cabinet ministers and senior officials did not pay much attention to defining priorities, because Canada's priorities remained relatively constant. Partly as a result, intelligence producers were more concerned with operational requirements at the departmental level than they were with what *really* concerned national policymakers.

With more variability in the threat environment starting in the later years of the Cold War and increasing through the post-Cold War period, the definition of R&Ps took on an added importance. However, efforts to reform the system were fighting ingrained cultures. Intelligence consumers, particularly at the senior levels of government, did not know how to use intelligence and were slow to dedicate the time and effort to learn. Conversely, but in direct relation to the view of senior intelligence consumers, intelligence producers were slow to learn how to gauge consumer requirements, and then tailor their efforts to meet those requirements.

While there was slow evolution of the R&P system through the 1980s and 1990s, the watershed moment was September 11, 2001. The dramatic change in Canada's external environment drove a new focus on national security by ministers and senior officials, and a new appreciation for intelligence. This new policy space at the centre of government, in turn, allowed a much more rapid evolution of the R&P system. Ministers and senior officials became more interested, and more knowledgeable, consumers of intelligence partly out of

¹⁰⁴ Ibid.

necessity, so it became more important to define their intelligence priorities and requirements.

Whereas the period of 2001 to 2006 was defined by a policy focus on national security borne out of necessity, the period from 2006 to 2015 was defined by a policy focus driven by interest, and particularly the interest of the Prime Minister himself. This empowered the PCO, and particularly a full-time NSA, to do more to formalise the R&P system at the national level, with the participation of ministers and DMs across the community. In short, the Canadian R&P system has been invariably defined by the nature of the threat environment, and the government's policy response (or lack of response) to that environment. When policymakers have been unwilling or unable to focus on national security, the system has devolved largely to the departmental level. However, during the times when policymakers have focused on national security, either out of necessity or out of interest, the system has evolved more rapidly and become more effective.

PART 3

Systems of Intelligence Community Governance: Expenditure Management and National Intelligence in Australia, New Zealand, and Canada

In any activity in government, money matters. Promises can be made, and ideas put forward, but it is the ability of a government to plan spending, obtain parliamentary approval of funds, and effectively manage the expenditure of those funds that ultimately turns promises and ideas into action. The spending decided on by cabinet ministers, detailed in the main and supplementary estimates, and finally itemised in the public accounts are an indication of government priorities and operations, and are the public manifestation of a process that is at the heart of government life: expenditure management.¹ Particularly important within expenditure management is the expenditure budget process, which is where policy meets politics in the spending of public money. Donald Savoie characterised the expenditure budget process as the government's "nervous system" because it signalled to all stakeholders the issues prioritised to receive public money.² For individual public sector organisations, such as intelligence agencies, the expenditure management system defines the 'treasury line' on expenditure that they must live within, and significantly guides how they are expected to live within that line.

While the mention of words such as 'budget,' 'estimates,' 'expenditure,' and 'accounting' usually conjures up images of thick documents full of financial figures, the expenditure management system in government is much more than figures; expenditure management is a nuanced and complex process of consultation, negotiation, and decision-making that involves all key actors in government.³ One official from Canada's Treasury Board Secretariat (TBS) aptly summarised the budget process when they stated, "The budget process is about people competing for scarce resources, about the interplay of people, ideas

¹ Revenue and expenditure are reverse sides of the budgetary coin. Because intelligence communities are recipients of public funds, the expenditure aspect is of principle importance and therefore the revenue element of the budget process is not discussed here.

² Savoie, D.J. (1990) *The Politics of Public Spending in Canada*, Toronto: University of Toronto Press, p.3.

³ It should be noted that 'expenditure management' includes the budget process, but also includes the on-going effort to manage and prioritise departmental expenditures.

and goals and finally about decisions, real decisions, that lay down who won and who lost.”⁴ In this sense, the figures contained in the budget and estimates are only the final outcome of a substantially more involved process. In fact, the final dollar figures in budgets and estimates are arguably less important than the dynamics of the system that determined those figures.

Expenditure management systems are central to the strategic functioning of government and comparative analysis of these systems provides valuable explanatory and diagnostic conclusions. In the case of Canada, Australia, and New Zealand, the lack of a comparative analysis of expenditure management in the ICs leaves several important, overarching questions unanswered. In answering these overarching questions, David Good’s framework of spenders, guardians, priority-setters, and watchdogs⁵ (discussed further shortly) allows us to break down this research problem.

- *How do the politics and processes of the expenditure management systems enable or restrict coherence across the national intelligence effort?*

Specific guiding questions that follow from this are:

- *What role do priority-setters and guardians play in the governance of intelligence expenditure?*
- *How are resources exchanged within the expenditure management system?*
- *To what extent does the government make expenditure decisions based on an overall fiscal picture of the intelligence community?*

These are the core questions that underpin the research presented in Part 3. From the research, we can draw several concluding points. Firstly, contrary to the popular image of intelligence agencies as ‘rogue elephants’, expenditure guardians in the Canadian, Australian, and New Zealand governments keep a tight rein on spenders through controlling the overall level of intelligence expenditure. There is little ability for intelligence actors to pursue their individual budgetary interests without the concurrence of central ministers (specifically prime ministers, ministers of finance, and treasurers) and

⁴ Ibid, p.3.

⁵ Good, D.A. (2007) *The Politics of Public Money*, Toronto: University of Toronto Press.

their central policy and budgetary agencies. The intelligence actors are not shielded from the budgetary politics of the Canberra, Ottawa, or Wellington 'villages'. In fact, the intelligence organisations in all three governments have increasingly had the same demands levied on them for efficiency savings, programme reviews, financial reporting, fiscal prudence and other elements of expenditure management. In some instances, there is a greater danger of *under-resourced* intelligence organisations, rather than budgetary 'rogue elephants.'

Secondly, below this macro-level control that is relatively common across all three governments, the expenditure management systems have developed in subtly different ways. We can see that the design of expenditure management processes within the three ICs has been influenced by a similar set of considerations: the balance between central coordination and individual ministerial accountability; the need to control total levels of government expenditure while maintaining effectiveness in programmes; the balancing of political demands with environmental realities; and the balancing of operational secrecy with collective decision-making. In navigating these environmental demands, each government's 'intelligence portfolio' has taken on unique characteristics. Australia has a structurally dispersed IC, but there is critical mass at the centre of government driven by priority-setters and central guardians, leading to a centrally driven process focused on powerful and permanent cabinet structures. New Zealand's IC is structurally centralised, leading to a 'portfolio by structure'. In New Zealand, this structural centralisation has enabled clear decision-making and coordination authority by a small number of ministers and senior officials that have acted through both standing and *ad hoc* machinery. Finally, Canada's IC is structurally dispersed, with a expenditure management system dominated by guardians at the macro level. Intermittent interest in the health of the national intelligence effort at the ministerial level has allowed guardians and spending departments to degrade intelligence capabilities during times of fiscal pressure. In recent years, however, this trend has begun to change, resulting in healthier and more coherent resourcing of the national intelligence effort. However, the informal nature of the changes leaves recent gains at risk; further changes in external environments (especially the political environment) could reverse these gains again result in fragmentation.

Each system is designed for its government to take into account multiple environmental factors, define their expenditure 'package' in the annual budget, and commit public funds to those programmes that most reflect the priorities of the government of the day. In this sense, the expenditure management system fundamentally influences the shape and coherence of the ICs, with the key factor being whether intelligence, as a government activity, is considered a priority at the cabinet table, and particularly with the prime minister. The ICs can work *within* the 'treasury line', but that line and how it is defined is ultimately a product of the larger political and policy environment.

Previous Study of Expenditure Management and Intelligence

The politics of expenditure management in Canada, Australia, and New Zealand have received significant attention in public administration literature, much of it focused on the budget cycles.⁶ However, research on the Canadian, Australian, and New Zealand ICs has generally avoided consistent treatment of expenditure management and, as discussed in Chapter 1, public administration scholars studying expenditure management have failed to provide any consistent treatment of the ICs. Part of this lack of research on intelligence-related expenditure management is a result of the focus of researchers on the expenditure *figures* (i.e. the dollar values of the agency budgets). Some agencies, particularly the security intelligence agencies such as ASIO, CSIS, and NZSIS have consistently published 'top-line'⁷ expenditure figures. While these figures allow for some budgetary analysis to be done on individual agencies, the ability to measure or compare spending across ICs has been limited because large portions of the ICs (particularly the SIGINT agencies) have traditionally not published any expenditure figures.⁸ Hence, research efforts that are

⁶ Wildavsky, A. (1964) *The Politics of the Budgetary Process* Boston: Little, Brown; Savoie (1990); Kelly, J. and Wanna, J. (1999) 'Once More into Surplus: Reforming Expenditure Management in Australia and Canada' *International Public Management Journal*, 2:1, pp.127-146; Wanna, Jensen, and de (Vries eds.) (2003) *Controlling Public Expenditure* Cheltenham, UK: Edward Elgar; Good, D.A. (2007) *The Politics of Public Money*, Toronto: University of Toronto Press.

⁷ The 'top-line' budget figure refers to the aggregate expenditure of an agency. For example, Canada's CSE now publishes a single aggregate budget figure, but does *not* break down this figure into 'line-items' showing amounts allocated towards specific activities.

⁸ This has begun to change, with most agencies now publishing top-line figures, including the SIGINT agencies. However, this is a relatively new phenomenon, and it will be several years until enough expenditure figures are available to do meaningful quantitative analysis.

limited to expenditure figures are often left with either mismatched and inconsistent data or large gaps in data.

However, the study of expenditure management can be approached a second way. The alternative, and arguably more meaningful, approach is to focus on the *management* element of expenditure management; that is to say, focus on the processes and actors instead of the dollar figures. For instance, Loch Johnson and Kevin Scheid examined the nature of post-Cold War intelligence expenditure in Washington, focusing heavily on expenditure figures.⁹ However, Johnson and Scheid's analysis was limited to the US context, and there are key differences in Westminster systems, as shown in Philip Davies' more recent analysis of intelligence systems in the US and the UK.¹⁰

The comparative study of expenditure management as a system can yield valuable explanatory conclusions. An influential model was Aaron Wildavsky's typology of 'spenders' and 'guardians,' which provided a valuable foundation for subsequent examinations by capturing key roles of budgetary actors and their involvement in the system.¹¹ However, Wildavsky's original typology became (and arguably always was) too simplistic. For instance, it does not explicitly account for actors engaged in priority-setting, such as the prime ministers and central coordinating agencies. Partially in response to this, David A. Good identified new roles in addition to Wildavsky's original two: *spenders*; *guardians*; *priority setters*; and *financial watchdogs*.¹² In expanding on Wildavsky's typology, Good's analysis of the Canadian expenditure budget process captured important roles being played by the Prime Minister's Office (PMO), the Privy Council Office (PCO), and the Office of the Auditor General (OAG). Recent studies of budget processes and actors in

⁹ Johnson, L.K. (1997) 'Spending for Spies: Intelligence Budgeting in the Aftermath of the Cold War' *Public Budgeting and Finance*, 17:4, pp. 7-27.

¹⁰ Davies, P.H.J (2012a) *Intelligence and Government in Britain and the United States: Volume 1-Evolution of the US Intelligence Community*, Oxford: Praeger; Davies, P.H.J (2012b) *Intelligence and Government in Britain and the United States: Volume 2-Evolution of the UK Intelligence Community*, Oxford: Praeger.

¹¹ Wildavsky, 1964.

¹² Good, 2007.

Australia and New Zealand also take into consideration important roles played by a wider range of actors.¹³

The comparative study of expenditure management processes can also yield valuable diagnostic conclusions. For instance, even in governments that share common structural elements and common contextual pressures or traditions, analysis of similarities and differences in the organisational design and operationalisation of expenditure management systems can help identify larger cultural conclusions and diagnose weaknesses and strengths in governance. A particularly relevant example is Kelly and Wanna's comparative examination of budget systems in Canada and Australia, which concluded that, even while the Canadian and Australian governments outwardly shared similar organisational design, political traditions, and political demands, the operationalisation of the budget processes showed marked differences which resulted in different outcomes.¹⁴

Importantly for the purposes of this study, expenditure management systems can increase or decrease coherence across the national intelligence effort as one of the mechanisms of 'real control' identified by Davies, Morrison and Glees. The interactions that occur within the expenditure management system are where actors determine how much overall intelligence capability is needed to meet national requirements, assess trade-offs in order to ultimately determine a national balance of capabilities, and design and implement community-wide programmes. In short, the way that intelligence actors participate in the expenditure management system and their interaction with other budget actors is a key determinate of how coherent the national intelligence effort is, and how intelligence is viewed as a function of government.

Within scholarly study, there has been recognition that the dynamics of expenditure management are important points of investigation when looking at the capacity of a government to coordinate the national intelligence effort. Davies' comparative analysis of the US and UK national intelligence systems highlights how the US National Intelligence

¹³ Blondal, J.R. *et al.* (2008) 'Budgeting in Australia' *OECD Journal on Budgeting*, 8:2, 1-64; Jensen, Gwenda (2003) 'Zen and the Art of Budget Management: The New Zealand Treasury' in Wanna, Jensen, and de Vries eds. *Controlling Public Expenditure*, Cheltenham, UK: Edward Elgar, pp.30-56.

¹⁴ Kelly and Wanna, 1999.

Program (NIP) and Military Intelligence Program (MIP) mechanisms and the UK Single Intelligence Account (SIA) mechanism are fundamentally different beasts, and that this matters significantly for the coordination of the respective national intelligence efforts. Davies suggests that the US NIP/MIP mechanism has been *subtractive* in nature, where “departments received central funds from public coffers, only to have the [Director of Central Intelligence] try to claw those funds back and direct their expenditure, in many cases contrary to the needs and preferences of the department in question.”¹⁵ In short, departmental budgets are awarded with the allocation of funds to programmes being negotiated after the fact.¹⁶ This model puts guardians and national priority-setters at a substantial disadvantage as the spenders have already ‘won’ and have no incentive to dance to a national tune. This is contrasted to the UK SIA, which Davies characterises as *additive* in nature, “with moneys being allocated according to previously agreed expenditure programs.”¹⁷ In this case, the national collection agencies (the Security Service, SIS, and GCHQ) engage in substantial negotiation both as a group and with the priority-setters in the Cabinet Office and the guardians in HM Treasury in order to decide programme allocation prior to funding being awarded. This, as Davies points out, negates much of the friction found in the US expenditure management system. This type of qualitative analysis indicates the importance of understanding the expenditure management system when studying national intelligence architecture.

Within governments, there has also been recognition that the expenditure management systems are key processes for strategically coordinating ICs. The UK Cabinet Office has explicitly stated the role of the Single Intelligence Account (SIA, formerly known as the ‘Secret Vote’) as a tool of strategic governance.¹⁸ A policy paper published by the Cabinet Office in 2009 stated that the SIA and strategic financial governance were used to provide assurance to the government that there is “a strategic framework for funding and monitoring the capabilities being paid for.”¹⁹ Similarly, the US NIP/MIP budgets,

¹⁵ Davies, 2012a, p.135

¹⁶ Davies, 2012b, p.59

¹⁷ Ibid.

¹⁸ Cabinet Office (2009) *Improving the Central Intelligence Machinery*, London: Cabinet Office, pp.4-6.

¹⁹ Ibid, p.5

constructed under programme management concepts, are meant to provide the Office of the Director of National Intelligence (ODNI) and the Undersecretary of Defense for Intelligence (USDI) the management tools to coordinate programme resources.²⁰

As is often the case when doing comparative organisational studies, one of the more confusing elements is simply keeping the players straight, as names and roles can differ across the jurisdictions. Figure 3.0.1 lays out the key guardians within the Australian, Canadian, and New Zealand governments, in an effort to provide a single point of reference on names and functions.

Figure 3.0.1²¹
Comparative Expenditure Guardians in Australia, Canada, and New Zealand

| | Australia | Canada | New Zealand |
|--|--|---|---------------------|
| Economic Policy <i>(How big is the public expenditure pie?)</i> | Treasury | Department of Finance | NZ Treasury |
| Expenditure and Estimates <i>(How big is each piece of the pie and when/how can it be spent?)</i> | Department of Finance (from 1976-present) | Treasury Board Secretariat (from 1962-present), partially shared with the Department of Finance | NZ Treasury |
| Minister responsible for Economic Policy | Treasurer | Minister of Finance | Minister of Finance |
| Minister responsible for Expenditure and Estimates | Minister of Finance | President of the Treasury Board | Minister of Finance |

As there is a strong tradition in Australian, Canadian, and New Zealand public administration research of examining the general workings of expenditure management systems, it is unnecessary to retrace the entirety of the systems. Instead, emphasis is placed on analysing the development of expenditure management as it relates directly to the ICs. This can be most clearly accomplished by using Good's expanded typology of actors

²⁰ Davies, 2012a, pp.31, 134-35; Davies, 2012b, pp.59-60

²¹ Table 3.0.1 reflects formal roles in each government. As will be discussed in the following pages, the roles of these actors can shift over time, subject to numerous environmental drivers.

discussed earlier, and applying it across the three communities. The principle focus will be on the interaction between the three types of actors who dominate the expenditure management systems, particularly from an expenditure budget perspective:

- *Spenders*: The national intelligence organisations involved in collection and analysis or assessment of intelligence.
- *Guardians*: The organisations and individuals responsible for macro- and micro-economic management of the public purse.
- *Priority-Setters*: The organisations and individuals responsible for setting a government's strategic policy priorities.

Good's fourth category of budgetary actor, the external financial watchdog, is not covered in detail here for two reasons. Firstly, external financial watchdogs are not involved in the on-going expenditure decision-making process. Audit offices verify departmental accounting and engage in occasional in-depth examinations of programmes. While these efforts often yield valuable conclusions, they are not part of the annual expenditure budget cycle. Secondly, in the jurisdictions being examined, financial watchdogs are agents of the legislature; they are outside the executive.²² The purpose of this research is to examine the architecture for IC governance *as it exists at the centre of government*. External financial watchdogs are therefore part of the external environment that interacts with the executive's decision-making.

When discussing the roles of *spender*, *guardian*, and *priority-setter*, it is important to note that these roles are not mutually exclusive. A deputy head of a department or agency can, at different times, be a spender (when they propose new spending), a guardian (if they have accounting officer responsibilities for their organisation), and a priority-setter (when participating in the cabinet advisory process). This overlapping of roles will be explored more fully in subsequent pages. For now, it is suffice to say that, while these typologies may not be perfectly distinct, they do accurately characterise significant roles, and thus help to break down a complex system.

²² The Canadian Office of the Auditor General (OAG), the Australian National Audit Office (ANAO), and the New Zealand Controller and Auditor General (CAG) are all parliamentary offices, making them arms-length from (and therefore not influenced by) the executive.

Chapter 9

Expenditure Management and National Intelligence in Australia

The Priority-Setters in Canberra

While guardians enforce expenditure discipline over a finite public purse, priority-setters enforce the government's priorities. They try to make sure that the trade-offs that are made during the budget process are consistent with the government's overall programme. This is an inherently a nuanced task, as political priorities (the domain of the Prime Minister's Office) and policy priorities (the domain of the Department of Prime Minister and Cabinet) may not always coincide. Ultimately, the cabinet system is where these discussions happen and where a final balance is pursued.

The expenditure management system in Australia is dominated by central actors, who have complimentary roles within the system. The system itself is *driven* by a small number of powerful cabinet committees. In Australia, the relationship and coordination between the PM, the Treasurer, and the Minister of Finance, known as 'the troika,' (and some other senior ministers, such as the Deputy PM) is of particular importance.²³ While these senior ministers ultimately drive the system, their power is exercised collectively through a small number of cabinet committees. At the beginning of the budget cycle, the PM sends letters out to ministerial colleagues requesting New Policy Proposals (NPPs). The PM has then chaired three key committees involved in expenditure decision-making, namely the Strategic Budget Committee (SBC), the Expenditure Review Committee (ERC, although the PM usually only attends the first meeting), and, most importantly for the intelligence community, the National Security Committee of Cabinet (NSC).²⁴ The Treasurer and the Minister of Finance are either standing members of these committees, or are co-opted onto the committees for expenditure items. Through these cabinet committees, the troika

²³ For instance, see the dynamics between Ministers, Treasury, DPMC, PMO, and Finance in Goldfinch, S. (2000) *Remaking New Zealand and Australian Economic Policy: Ideas, Institutions, and Policy Communities*, Wellington: Victoria University Press, Chapters 6, 7, and 8.

²⁴ Blondal, J.R. *et al*, 2008, pp.9-28.

ministers and their central agencies can ensure that the centre of government pursues coherence across the national intelligence effort.

Driving from the Centre: The Cabinet Committees and Cabinet Process

Academic study of the Australian budget system has tended to focus on the powerful Expenditure Management Committee (EMC) as the crucible of expenditure decision-making.²⁵ However, in the national security arena, the crucible is the National Security Committee of Cabinet (NSC). The NSC's decisions are binding, meaning they do not require Cabinet's endorsement, and this extends to expenditure decisions.²⁶ While the ERC examines NPPs for the rest of government, the NSC examines most NPPs from DoD and the intelligence agencies. This separate system for review of the intelligence agencies' expenditure has been in existence since Hope's royal commissions.²⁷ The terms of reference for the Cabinet Committee on I&S included, among other responsibilities, the determination of the "broad allocation of resources" within the IC.²⁸ This carried through I&S' successors to the present-day NSC.²⁹ It should be stressed that while the system is *structurally* separated from the normal budget machinery, there is no less rigour.

Departments or agencies seeking NSC approval of NPPs would first submit their proposal to SCNS. Permanent heads at SCNS would review the proposal and ensure there has been necessary coordination, that the options are clear, and that the proposal is consistent with IC priorities and extended planning, as defined through numerous documents. Standing documents such as the National Security Strategy, the Cyber Security Strategy, or the Defence White Paper indicate the government's priority themes for addressing the threat environment. Successful NPPs would be expected to strengthen government efforts under one of the identified themes. For instance, the ASD's expenditure

²⁵ For a detailed examination of the Australian budget system, see Blondal, J.R. *et al.* (2008) 'Budgeting in Australia' *OECD Journal on Budgeting*, 8:2.

²⁶ Blondal *et al.*, 2008, p.11.

²⁷ Samuels, G.J. and Codd, M.H. (1995) *Report on the Australian Secret intelligence Service: Public Edition*, Commission of Inquiry into the Australian Secret Intelligence Service, Canberra: Commonwealth of Australia, pp.15,71.

²⁸ Cabinet Minute (April 5, 1977) Decision No. 2485 (FAD) 'Royal Commission on Intelligence and Security—Implementation of Third Report', NAA: A12909/1142.

²⁹ Samuels and Codd, 1995, p.71.

of \$14.5 million in 2010 on a new Cray supercomputer supported the 2009 Defence White Paper's commitment to upgrade intelligence and cyber security capabilities.³⁰ One document that SCNS could draw on to identify and coordinate intelligence-related proposals was the Foreign Intelligence Planning Document (see Chapter 6). Additionally, reports such as the Taylor Review provide an agenda for future NPPs in response to recommendations. It is up to the Secretaries on SCNS (or its predecessors) to coordinate these NPPs to ensure coherence. A good example of this type of budgetary coordination in response to a major review was the PHCIS' coordination of cabinet proposals in response to the recommendations of the Hope royal commissions. Once proposals are approved by SCNS, they progress to NSC for ministerial review and final approval (or amendment).

In terms of *capital* expenditure and procurement, NSC governance rests on a 'two-pass' system determined by thresholds. If a capital project meets a risk threshold as defined by the DoF or is above a certain dollar threshold, then the project requires a two-pass review. For example, in terms of defence capital projects, the following thresholds apply:

- Projects up to \$20 million = Minister of Defence approval.
- Projects between \$20-\$100 million = Two-Minister Two-Pass approval (joint approval by Minister of Defence and Minister of Finance.)
- Projects above \$100 million = NSC approval.³¹

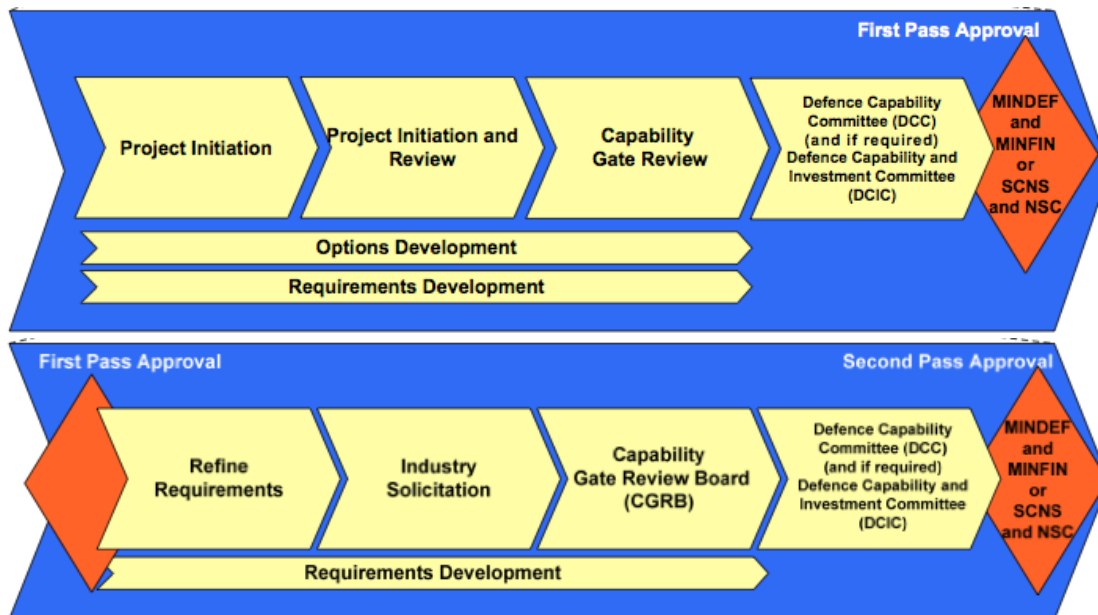
Two-pass approval involves essentially what the term implies: a proposal is passed before ministers twice for review and approval. Figure 3.9.1 illustrates the two-pass process for two-minister or SCNS/NSC approval on major defence capital expenditure projects. In preparation for the first pass, a department will draw up a submission that outlines the requirements for the capital project and several options. Each option in the submission is accompanied by its own business case and costing, constructed in conjunction with the

³⁰ Combet, G. (Minister for Defence Material and Science) (2010) 'Commissioning of New Supercomputer at the Defence Signals Directorate' News Release, <http://www.defence.gov.au/minister/94tpl.cfm?CurrentId=10053> (accessed Sept 2014); Tay, L. (2010) 'DSD Receives New Cray Supercomputer' *IT News* (online) <http://www.itnews.com.au/News/169890.dsd-receives-new-cray-supercomputer.aspx> (Accessed Sept 2014).

³¹ Thresholds are found in Department of Defence, (2009) *The Response to the Report of the Defence Procurement and Sustainment Review*, Canberra: Commonwealth of Australia, p.21.

DoF. In examining the first pass submission, ministers are asked to choose a preferred option, and their decision forms the basis for further planning. The second pass involves a more concentrated business case and costing of the approved option, focusing on the cost, risks, and strategies associated with acquisition and implementation of the preferred option.³²

Figure 3.9.1³³
Two-Pass Approval Process for Major Defence Capital Expenditure



It is important to note that the Australian government is now using a two-pass approval system for major ICT systems across government as well, although national security or defence proposals are still handled through the NSC process.³⁴

Because much of the discussion of the two-pass process has been around the procurement of major defence systems, the applicability of the process to the intelligence community must be pieced together from fragmentary information. As Flood pointed out in

³² For an overview of how the two-pass system works in relation to DoD capital procurement, see Department of Defence (2012) *Defence Capability Handbook*, Canberra: Commonwealth of Australia, chapters 3 and 4.

³³ Adapted from process graphic found in Department of Defence, 2012

³⁴ Department of Finance, (2008) 'ICT Two Pass Review webpage' Canberra: Commonwealth of Australia, <http://www.finance.gov.au/policy-guides-procurement/ict-investment-framework/ict-two-pass-review/> (Accessed Sept 2014); Department of Finance, (2008) *Guidance on Costing for First and Second Pass Government Consideration for Defence ICT Projects*, Canberra: Commonwealth of Australia, http://www.finance.gov.au/files/2012/04/First_and_Second_Pass_Costing_Guidance_for_Defence_ICT_Projects.pdf (Accessed Sept 2014)

2004, the budgets of the intelligence agencies within the defence portfolio (ASD, AGO, and DIO) form part of the overall DoD budget. However, occasionally specific matters related to these agencies have been considered by the NSC or the ERC.³⁵ In a 2011 session of the Senate Foreign Affairs, Defence, and Trade committee, the head of the DoD's Capability Development Group, Air Marshal John Harvey, was asked whether development of cyber warfare systems are dealt with through a separate expenditure process. Harvey responded, "All projects, even the classified projects and intelligence-related processes, follow through the normal two-pass process."³⁶ Warren King, the Acting CEO of the Defence Material Organisation, added, "Obviously, the exposure of some of those to the broader community is not done for security reasons, but they follow the same management ad rigour that we would expect."³⁷ While this confirms that the intelligence agencies in the defence portfolio are subject to the NSC two-pass process, the remaining key question is whether the two-pass process also applies to the civilian intelligence agencies.

Perhaps the most significant major capital project undertaken by ASIO has been its' new central office in Canberra, now known as the Ben Chifley Building. After cost overruns during the construction of the Christmas Island Immigration Detention Facility in the early 2000s, the Australian government instituted a two-pass approval process for major public works projects in 2008.³⁸ In a written response to a question from the Senate Legal and Constitutional Affairs Committee, ASIO confirmed that its new central office had been subject to the two-pass approval process, however it is unclear whether the submissions were made to the NSC or another cabinet committee, such as the ERC.³⁹

Confirmation that ASIS is subject to the two-pass approval process is found in past job postings for ASIS personnel. A 2013 selection document for an ASIS Resource

³⁵ Flood, 2004, pp.65-66.

³⁶ Foreign Affairs, Defence, and Trade References Committee (Oct 7, 2011) 'Procurement Procedures for Defence Capital Projects' *Official Committee Hansard*, Canberra: Commonwealth of Australia, p.53.

³⁷ Ibid.

³⁸ Australian National Audit Office (2009) *Approval of Funding of Public Works*, Audit Report No.20 2008-09, Canberra: Commonwealth of Australia, p.45.

³⁹ ASIO, (2014) Response to Question on Notice No.33, Attorney General's Portfolio: Supplementary Budget Estimates 2013-2014, Senate Legal and Constitutional Affairs Committee.

Coordinator states that one of the key responsibilities of the position is “drafting ASIS’ first and second pass business cases.”⁴⁰ The 2011 selection document for the Assistant Director-General, Executive, states that a key responsibility of the position is “coordination of New Policy Proposal development including, where required, management of the Department of Finance and Deregulation’s ICT Two Pass and Gateway Review processes.”⁴¹ These documents indicate that ASIS is also subject to the two-pass processes for capital expenditure. Ultimately, the evidence indicates that the cabinet processes for major capital expenditures apply to the Australian intelligence agencies just as they do to the DoD or other government departments.

The Department of Prime Minister and Cabinet and the Coordinated National Security Budget

As noted in Chapter 3, the Department of Prime Minister and Cabinet (DPMC) has come to play an increasingly large role in national security matters, including intelligence management. This role has extended into the expenditure management process. In response to the 2008 *Review of Homeland and Border Security*, the government formalised a strategic policy framework for national security, which included a parallel system to coordinate, prioritise, and evaluate expenditure on national security issues. The expenditure element of the process is known as the Coordinated National Security Budget (CNSB).⁴² This process was viewed as necessary in light of the build-up of national security issues that required horizontal coordination across many actors, including border security, counter-terrorism, cyber security, and serious organised crime.

The CNSB process is led by the DPMC, specifically the Associate Secretary, National Security and International Policy (Associate Secretary NSIP, formerly the National Security

⁴⁰ ASIS (Feb 2013) Selection Document: Resource Coordinator, Level 6-Executive Level 1, Job Reference 1350/1, <https://careers.asis.gov.au> (Accessed Sept 2014).

⁴¹ ASIS (June 2011) Selection Document: Assistant Director-General, Executive, Job Reference 1212/2, <https://careers.asis.gov.au> (Accessed Sept 2014).

⁴² An overview of the strategic policy framework is provided in Rudd, K. (Dec 4, 2008) *National Security Statement to the Australian Parliament*, Address by the Prime Minister of Australia, Canberra: Commonwealth of Australia.

Adviser).⁴³ In preparation for the federal budget, departments put forward their NPPs, which are housed in a separate database on the secure CABNET system managed by the Cabinet Secretariat.⁴⁴ The Assoc. Sec. NSIP, in consultation with colleagues on the SCNS and the NICC, and in light of their attendance at NSC meetings, “provides a consolidated national security budget memorandum to government, prioritising all national security budget proposals.”⁴⁵ Margot McCarthy, the current Associate Secretary NSIP, described the process as “[providing] Ministers with a very useful overview of all proposed national security spends and saves. It has grouped them according to a broad set of national security priorities. And it has provided some advice on relative priorities.”⁴⁶ This memorandum gives NSC ministers a sense of priority between NPPs, acting as a structured ‘shopping list’ from which they can choose combinations of initiatives to be funded through the budget. Which combinations are chosen would ultimately depend on the government’s priorities as determined by ministers. For instance, the Commonwealth Budgets of 2004-05 and 2005-06 saw substantial investment in the IC following the Flood and Taylor reviews, while the Commonwealth Budgets of 2009-10, 2010-11, and 2011-12 saw substantial reallocation towards border security and countering illegal migration.⁴⁷ Once decisions are made by the NSC on what NPPs will be funded through the budget, the decisions are confirmed as a package to the full Cabinet for inclusion in the overall budget planning, along with decisions made in other sectors by the ERC.⁴⁸

The Guardians in Canberra

The Treasury and the Department of Finance have been the central guardians of expenditure within the Australian government. The Royal Commission on Australian Government Administration (RCAGA) stated in 1976 that one of the more important

⁴³ See Chapter 3 for more details on the Assoc. Sec. NSIP / NSA.

⁴⁴ Department of Prime Minister and Cabinet (2012) *Cabinet Handbook, 7th Edition*, Canberra: Commonwealth of Australia, pp.19, 46.

⁴⁵ Lewis, D. (2010) *Australia’s National Security Framework*, Canberra: Department of Prime Minister and Cabinet, http://www.ona.gov.au/media/3731/lewis_nsa_aust-national-security-framework_25-mar-10.doc (accessed 2012).

⁴⁶ McCarthy, M. (June 15, 2012) *National Security: Past, Present, and Future*, Address to the DPMC and National Security College, Canberra.

⁴⁷ These dynamics are discussed more fully in the section on spenders.

⁴⁸ Blondal, J.R. *et al*, 2008, pp.28.

constraints on the freedom of ministers and departments arises from “the fact that programs and activities of each minister and his department require resources which could be used for the programs and activities of other ministers other levels of government or for non-governmental purposes.”⁴⁹ The Commission goes on to state, “In the exercise of discipline arising from these constraints the role of the Treasurer and the Treasury has traditionally been predominant.”⁵⁰ However, like any central budget agency, or, in fact, any central agency, the ability of these guardians to police expenditure is dependent on its ability to obtain and comprehend one critical resource within the core executive: information.

Early Treasury Control and the Treasury Defence Division

As noted earlier, the Treasury’s involvement in the formulation of ASIO’s estimates was ad hoc, and largely dependent on ASIO. However, there was more consistent involvement of the Treasury in the distribution of ASIO’s funds. Once allocated to ASIO through the Appropriation Acts, the funds for both No.1 and No.2 account were held and disbursed by the Treasury. Funds held by the Treasury for the No.1 account were disbursed directly towards items such as salaries and pension payments for ASIO personnel, while funds for the No.2 accounts were disbursed to ASIO upon receipt of a signed request from the DG and approval by the Treasurer. Therefore, theoretically, while the Treasury held little sway in terms of ASIO’s estimates, it could exercise significant financial control through post-allocation expenditure. However, there is little evidence of the Treasury attempting to directly contest expenditure in the early decades of ASIO’s existence. Similarly, available evidence indicates that the Treasury’s control over ASIS was relatively passive in the early years. The Prime Minister and the Minister of Defence consulted the Treasurer during the formation of ASIS, but this appears to have been more a formality than an invitation to have the Treasury actively involve itself in ASIS’ expenditure. Like the process with ASIO, the Treasury worked out with ASIS leadership a compromise approach to the expenditure and accounting of operational funds. The

⁴⁹ Coombs, H.C. (1976) *Royal Commission on Australian Government Administration: Report*, Canberra: Australian Government Publishing Service, p.363.

⁵⁰ Ibid.

Treasury, through intermediary banks, remitted funds to ASIS on the signed authority of the Minister responsible for ASIS or their Secretary (through delegated authority). The DG of ASIS was accountable, through signed expenditure forms, for any direct expenditure of operational funds. These signed documents were all then provided to the Treasury for accounting purposes.⁵¹ This system meant that accountability *and expenditure control* rested mainly with the DG of ASIS and the Minister responsible for ASIS.

Interestingly, the involvement of the Treasury in the early years of the defence intelligence agencies was more robust. While Cabinet had given approval *in principle* to the formation of the joint intelligence organisation in 1946, approval was subject to two caveats: firstly, that detailed plans for the build-up and expenditure of the defence intelligence machinery be presented to an ad hoc committee of ministers, and that the Treasury had to sign-off on the expenditure plans.⁵² After reviewing a draft cabinet agenda for the joint intelligence organisation in 1947, and remarking that the Treasury was generally in agreement with the proposed DoD plans, Treasurer J.B Chifley included in his remarks to the Minister of Defence that:

*I think it would be desirable, however, that if approval is given to the recommendations, provision should be made for all matters associated with the financing of the project to be the subject of agreement between the Departments of Defence and Treasury.*⁵³

In reply, Defence Minister John Dedman assured the Treasurer that:

*The Treasury will also be consulted in the normal course of administration in regard to all matters associated with the financing of the project, including the control of expenditure and the method of bringing expenditure to account in the votes of the Defence Department which you mention specifically.*⁵⁴

There are several elements that shaped the Treasury's involvement in Australia's early intelligence community. Firstly, when Ben Chifley became Prime Minister in 1945, he

⁵¹ Hope, RM (1977) RCIS, Fifth Report, Volume 2, Appendix 5-J 'Opinion by the Solicitor General on ASIS' Financial Administration.'

⁵² Memorandum to the Secretary, Department of the Treasury (Defence Division) from the Acting Secretary, Department of Defence, 'Joint Intelligence Organisation,' 12 December, 1947, NAA: A5954 2363/3.

⁵³ Letter from the Commonwealth Treasurer to the Minister of Defence, Sept 11, 1947, NAA: A5954 2363/2.

⁵⁴ Letter from Minister of Defence to the Commonwealth Treasurer 'Joint Intelligence Organisation—Post War' Nov 12, 1947, NAA: A5954 2363/2.

retained his former portfolio as Treasurer until leaving office in 1949. In temperament, Chifley was an effective Treasurer; one of his ministerial colleagues commented, “It’s almost impossible to get money out of Ben. You’d think it was his own.”⁵⁵ This meant that in the lead-up to the creation of ASIO and during the creation of the defence intelligence organisations, the Treasury held privileged access to the highest decision-maker, who was already a strict controller of expenditure. If intelligence was ultimately the Prime Minister’s business, then from 1945-1949 it was also, by default, the Treasurer’s business.

Secondly, because of organisational dynamics, the Treasury had a good understanding of the defence establishment. In 1939, a Treasury Finance Committee was set up, followed by a Business Administration Board, to review defence expenditure through wartime. Additionally, a Treasury Liaison Officer was formally embedded in the Department of Defence in order to monitor and report on defence expenditure.⁵⁶ These measures were put in place because it became apparent that, with the impending war, independent scrutiny of defence expenditure by the Treasury would be necessary.⁵⁷ Because of the entry of Japan into the war in December 1941, the decision was made to transfer financial elements of the Department of Defence Coordination to the Treasury.⁵⁸ As a result, there was reorganisation in 1942 that saw the Business Administration Board become a committee of the Treasury. More importantly, however, the Finance Branch of the Department of Defence Coordination was moved *en masse* to the Treasury, taking with it former Defence employees who were familiar with the workings of the defence establishment, including its Assistant Secretary, George Watt.⁵⁹ This new organisation became the Treasury Defence Division, which was responsible for, among other things,

⁵⁵ Hawkins, J. (2011) ‘Ben Chifley: The True Believer’ *Economic Roundup*, Issue 3, Canberra: Commonwealth Treasury, <http://www.treasury.gov.au/PublicationsAndMedia/Publications/2011/Economic-Roundup-Issue-3/Report/Ben-Chifley-the-true-believer> (Accessed Sept 2014).

⁵⁶ ‘Defence Expenditure—Financial Review and Control Through the Treasury, Defence Division,’ March 5, 1958. NAA: A561/1965/893.

⁵⁷ *Ibid.*

⁵⁸ *Ibid.*

⁵⁹ Memorandum for the Secretary and Chief Inspector, Audit Office from the Secretary, Department of Defence Coordination, ‘Transfer of Business Board and Finance Sections of the Department of Defence Coordination to the Department of the Treasury’ Jan 15, 1942, NAA: A1831 1942/128. On George Watt, see Nethercote, J.R. (2012) ‘Watt, George Percival Norman (1890-1983),’ *Australian Dictionary of Biography*, Volume 18, Australian National University, <http://adb.anu.edu.au/biography/watt-george-percival-norman-15845/text27044> (Accessed Sept 2014).

expenditure review across the defence portfolio.⁶⁰ Interestingly, the Treasury Defence Division remained co-located with the Department of Defence at Victoria Barracks in Melbourne, meaning that it had power of proximity as well as understanding of the defence establishment.⁶¹ The Defence Division remained a distinct element of the Treasury well into the 1970s.⁶²

The presence of the Treasury on the Defence Committee also helped smooth the Defence-Treasury relationship. The report of the Royal Commission on Australian Government Administration (RCAGA) noted that, while relationships between line departments and the Treasury could be strained due to the imposition of expenditure discipline, defence was one of the few areas where a more cooperative approach had developed.⁶³ The head of the Royal Commission, Harold Coombs, was himself frustrated with Treasury official John Stone for not aggressively targeting Defence programmes during the Royal Commission. The Secretary of the DoD at the time, Sir Arthur Tange, recounted, “Stone understood that there was no quick fix in Defence,” and that “Treasury had long been a member of the Defence Committee. We were spared educating the [Royal Commission] Task Force on these matters [...]”⁶⁴ Because of its position as economic guardian, the Treasury was able to claim a wider view than most line departments, and thus assert a position at most interdepartmental committees in order to guard the country’s economic interests.⁶⁵ As Tange’s statement about John Stone indicates however, the Treasury’s participation in interdepartmental committees was a two-way-street. Not only could the Treasury use these forums to enforce fiscal discipline, but also the departments could use them to educate Treasury officials about the nuances of departmental programmes.

⁶⁰ Defence Expenditure—Financial Review and Control Through the Treasury, Defence Division, March 5, 1958. NAA: A561/1965/893.

⁶¹ Memorandum for the Secretary and Chief Inspector, Audit Office from the Secretary, Department of Defence Coordination, ‘Transfer of Business Board and Finance Sections of the Department of Defence Coordination to the Department of the Treasury’ Jan 15, 1942.

⁶² Whitwell, G. (1982) *The Evolution of Australian Treasury Thought Since 1945*, PhD Thesis, Faculty of Business and Economics, University of Melbourne, <http://hdl.handle.net/11343/36186> (accessed Sept 2014).

⁶³ Coombs, H.C. (1976) *Royal Commission on Australian Government Administration: Report*, Canberra: Commonwealth of Australia, pp.356.

⁶⁴ Tange, A. (2008) *Defence Policy-Making—A Close-up View, 1950-1980: A Personal Memoir* (Peter Edwards, ed.), Canberra: ANU E-Press, pp.87-88.

⁶⁵ Whitwell, 1982, p.35.

Defence Programming and the Defence Five-Year Rolling Programme (FYRP)

The 1960s and 1970s saw environmental shifts that affected both spenders and guardians, particularly in terms of defence and security. Australia's war effort in Vietnam prompted significant increases in defence and security expenditure, which rose 153% from 1963-1967.⁶⁶ However, unlike similar circumstances in 1939, the Australian economy was already fully committed.⁶⁷ This prompted a period in which Treasury analysis and advice had to help the government navigate competing demands for public money, where each choice had some form of opportunity cost.⁶⁸ At first it might seem that these environmental contingencies would hopelessly pit the Treasury against the DoD. However, the Treasury's inclination to cap defence expenditure and the DoD's drive to have the Services think outside their silos resulted in a reluctant collaboration over the introduction of the defence programming system. It is worth examining the defence programming model in more detail, particularly focusing on the Five-Year Rolling Programme (FYRP) process, as it provided the expenditure framework for the most costly elements of the Australian IC (DSD, the Service intercept stations, and JIO), and impacted the agencies whose budgets were partially concealed in DoD's budget, such as ASIS and to a lesser extent ASIO. The defence planning system of the 1970s also influenced several important developments in expenditure management in the subsequent decades.

Defence programming, modelled on the Pentagon's budgeting system under Secretary of Defense McNamara,⁶⁹ involved the Treasury and DoD negotiating an expenditure cap that would extend out five years, and would be approved by Cabinet. The DoD would then, within the defence establishment, centrally lead a process of priority-setting and force planning between the Services that was focused on achieving certain capabilities over five years.⁷⁰ The initial year would provide the basis for the Defence budget, while the subsequent four years provided a planning basis. This arrangement would ensure an

⁶⁶ Whitwell, 1982, pp.280-86.

⁶⁷ Whitwell, 1982, pp.280-86.

⁶⁸ Ibid.

⁶⁹ Tange, 2008, p.28.

⁷⁰ Ibid.

amount of certainty for both spenders and guardians. For the guardians in the Treasury, the defence programming system provided a clear spending limit which they could use to maintain expenditure discipline in the defence sector. As Michael Keating, a former Secretary of the Department of Finance, has remarked, “there is nothing that Finance or Treasury loves more than publicly stated expenditure limits, it provides a stick with which they can thrash the spending departments in budget negotiations.”⁷¹ While the expenditure limits in defence and security may not have been publicly stated, there was agreement forged through cabinet committees on expenditure ceilings and a spending minister that could not deliver within their limit faced a political (and sometimes public) cost.⁷² For the spenders, the defence programming system offered some freedom from constantly having to negotiate with the Treasury over details. Also, for the DoD, it provided a way to coordinate the Services. Tange, in describing the ability of the DoD to get inside the Services’ activities, stated:

*Entry into this area by the Defence Department had to await the progressive introduction of the programming of intended expenditures, with a ceiling which provided an incentive to establish higher and lower priorities. In the absence of such a system, only resolute military leadership would have made any progress.*⁷³

Joanne Kelley and John Wanna have stated that the setting of expenditure ceilings by budget guardians forces spenders to “perform a rationing function” within their expenditure limit. In short, the principle goal of spenders became living within the Treasury line or negotiating to have the line moved.

Archival documentation sheds further light on the process of the Defence Five-Year Rolling Programme (FYRP), introduced in 1970. A committee of permanent heads, encompassing the DoD, Foreign Affairs, Treasury, and DPMC, was formed to provide guidance to ministers on the process for the FYRP, with a specific eye to Cabinet decision-

⁷¹ Kelly, J. and Wanna, J. (2000) ‘New Public Management and the Politics of Government Budgeting’ *International Public Management Review*, 1:1, p.42.

⁷² Ibid, p.42. Kelly and Wanna state that these types of systems more explicitly indicated the role of ‘spoilors’ if targets were not met. Inevitably, this would have had an impact at the cabinet table, including in front of the Prime Minister.

⁷³ Tange, p.27.

making and budget coordination. The report, presented to Cabinet in December 1971, points to the importance of planning defence capabilities around “the timing, likelihood, and importance of *contingent* threat situations”(emphasis added).⁷⁴ This indicates that defence planners were looking to match force structures with potential external contingencies. However, the report also pointed to the importance of strategic choices, imposed through fiscal discipline and enforced by expenditure guardians:

*The financial discipline for the Defence Planning process must necessarily come from outside the Defence machinery. Defence options have to be examined against the background of other competing proposals in the national budget and overall economic capacity. Because of the uncertainties of the future—both as regards the strategic situation and defence requirements and as regards economic and budgetary circumstances—the financial discipline needs to be regularly reviewed and revised.*⁷⁵

There were differing views expressed by Defence and Treasury in the final report submitted by permanent heads. The Secretary of the DoD noted that there were arguments against setting an expenditure ceiling as the starting point of the FYRP. The Defence argument was that an imposed expenditure ceiling would not allow defence requirements to be weighed against “defence needs, other national interests and the resources available.”⁷⁶ The Secretary of the Treasury countered that the ultimate form of expenditure guidance provided to DoD was to be decided by “higher authority in light of all relevant considerations” (i.e. Cabinet would ultimately decide), and that “Permanent Heads should therefore not seek to prejudge what particular type or types of financial guidance should or should not be chosen by Ministers as an appropriate basis or possible alternative bases for defence planning.”⁷⁷ The ultimate solution was to present multiple expenditure ceiling options, along with the rough programme structure they would entail, to ministers for final

⁷⁴ Cabinet Minute (December 6, 1971), Decision No.609, ‘Report of Committee of Permanent Heads of the Departments of Defence, Foreign Affairs, Treasury and Prime Minister and Cabinet on Defence Five Year Rolling Programme,’ NAA: A5908/449.

⁷⁵ Ibid.

⁷⁶ Cabinet Minute (December 6, 1971), Decision No.609, ‘Report of Committee of Permanent Heads of the Departments of Defence, Foreign Affairs, Treasury and Prime Minister and Cabinet on Defence Five Year Rolling Programme,’ NAA: A5908/449.

⁷⁷ Ibid.

decision. This solution appears to have satisfied both the DoD and Treasury's concerns. The process that was decided on by Cabinet was as follows:⁷⁸

1. December 1971

- The Minister of Defence would present to an ad hoc committee of ministers (consisting of the Prime Minister, Deputy Prime Minister, Treasurer, Minister of Defence, and Minister of Foreign Affairs) a range of options for expenditure ceilings, accompanied by a rough analysis of the shape of a possible defence programme under each. The option chosen by ministers would provide DoD and Treasury with the expenditure guidance necessary to carry out more detailed analysis.

2. December 1971-March 1972

- DoD planners would analyse existing expenditure levels and new proposals.

3. March 1972-April 1972

- DoD and the Services would forge consensus on the shape of a proposed programme.
- Consultations would occur with the Treasury.

4. April 1972-May 1972

- The Minister of Defence would review and approve the proposed defence programme would occur, along with further consultations with Treasury.
- The proposed programme would be submitted to Cabinet for review, along with submissions requesting approval of major expenditures in the current year.
- Cabinet would 'endorse for planning purposes' the programme authorisations for the subsequent four years, subject to change.

The process of formulating and approving the Defence FYRP shows the consistent involvement of the Treasury in key parts of the process, namely advising DoD and ministers on options for defence expenditure ceilings in light of the overall economic picture and consulting with defence planners on specific programme elements and trade-offs. However, the generally cohesive arrangement between the Treasury and the Department of Defence was not shared in other areas of the intelligence community.

⁷⁸ The following points are derived from Cabinet Minute, Decision No.609, 'Report of Committee of Permanent Heads of the Departments of Defence, Foreign Affairs, Treasury and Prime Minister and Cabinet on Defence Five Year Rolling Programme,' December 6, 1971.

In the mid-1970s, the Treasury submitted to the first Hope Royal Commission that, in its view, its ability to provide advice to ministers on ASIS expenditure was significantly hampered:

*Treasury is given no information on the balances of funds held in the Service's bank accounts and no opportunity to scrutinize the annual expenditure requirements or to carry out periodical reviews of the progress of expenditure. These are normal Treasury functions in relation to other Government departments and organisations funded from the public account. They assist in control of expenditure in accordance with Government policy and enable the Treasury to provide advice to the Treasurer on expenditure priorities.*⁷⁹

However, the issue was not that ASIS' estimates were not being examined. The Treasury was frustrated that the estimates for ASIS were entirely examined by officials in the Department for External Affairs, with the Treasury only being made aware of some final allocations well into the fiscal year.⁸⁰ Alan Renouf, the Secretary of the DEA, admitted that DEA officials likely did not have the same skills in financial audit as the Treasury, but stated that DEA's knowledge of ASIS tasking and methods enabled DEA officials to ensure ASIS expenditure was in line with the approved estimates. However, as explored before, there is little evidence that DEA coddled ASIS. In speaking of the DEA's role in examining ASIS expenditure, Renouf pointed squarely to the department's "responsibility to satisfy the Minister that expenditure was necessary and economic."⁸¹ In a sense, just as the Department of Defence was acting as an expenditure guardian toward the Services, the DEA was acting as an expenditure guardian toward ASIS. The difference between the two cases was the extent to which the Treasury was involved in the formulation of estimates, and therefore its ability to advise the Treasurer (and Cabinet) on whole-of-government expenditure.

⁷⁹ Hope, RCIS, Fifth Report, Volume 2, Appendix 5-J 'Opinion by the Solicitor General on ASIS' Financial Administration' p.266.

⁸⁰ Ibid.

⁸¹ Ibid.

The Amicable Divorce: From One to Two Guardians

The Royal Commission on Government Administration, reporting in 1976, found that line departments generally accepted (although sometimes grudgingly) the Treasury's role as expenditure guardian; what line departments often criticized was what they viewed as the Treasury's superior and exclusionary attitude.⁸² The RCAGA found that attitudes, more than structure, inhibited departmental buy-in to expenditure discipline and weakened the overall system of expenditure management.⁸³ The attitudinal problems that the RCAGA alluded to not only existed between the Treasury and line departments, but also, by the mid-1970s, between the Treasury and the Prime Minister. According to John Menadue, a former Treasury official and Secretary of DPMC, Gough Whitlam had become increasingly frustrated with the Treasury's approach to economic advice. Whitlam took multiple steps to limit the Treasury's power, including carving the Bureau of Statistics out of the Treasury in 1974.⁸⁴ The situation did not improve under Malcolm Fraser, and culminated in Fraser splitting the Treasury in 1976. The Treasury would continue to be responsible for economic advice, while the newly formed Department of Finance (DoF) would be responsible for expenditure review and the estimates.⁸⁵ While Fraser's statement to parliament at the time indicated that the split was to ease burden and allow greater focus on the budget and estimates process, Menadue states bluntly that the split was meant to humble the Treasury. If the previously unrivalled authority of the Treasury died with Fraser's decision, then Menadue provides a succinct, if somewhat biting, epitaph: "Treasury was always slow to learn that its first duty was to serve the government."⁸⁶ It might be expected that the bifurcation would cause tension between the Treasury and the DoF. However, commentators have noted that the complimentary comparative advantage

⁸² Coombs, RCAGA, pp.369-71.

⁸³ Ibid.

⁸⁴ Menadue, J. (1999) *Things You Learn Along the Way*, Melbourne: David Lovell Publishing, p.122-124.

⁸⁵ Cabinet Minute (November 18, 1976) Decision No. 1882 (EC) 'Administrative Arrangements: Department of the Treasury,' NAA: A13075/1882.

⁸⁶ Menadue, p.177.

between the two departments has strengthened the expenditure management system, with both guardians operating as a “tag team” in the budget process.⁸⁷

Guardians at the Table: Treasury and Finance in the Committee Structure

The recommendations stemming from Hope’s Royal Commission on Intelligence and Security represented a success for the expenditure guardians, even if it did come on the heels of the Treasury’s bifurcation. The cabinet endorsed Hope’s view that the intelligence agencies should be managed as a community, with greater involvement by the central agencies, specifically the DPMC (for coordination) and the Treasury (for expenditure). This resulted in the consistent involvement of the Treasury and the DoF in key interdepartmental committees related to intelligence. The I&S cabinet committee and PHCIS both included the Treasury as a permanent member in order to ensure that the department had consistent involvement in expenditure matters across the entire IC.⁸⁸ By the mid-1980s, the Secretary of the Department of Finance had replaced the Secretary of the Treasury on SCIS, which reflected the shift in expenditure management responsibilities.⁸⁹

The formation of the NSC and SCNS machinery in 1996 included the Treasury as a permanent member of both committees, but not the Department of Finance. While this may seem odd, it should be remembered that the standing membership of committees is not always commensurate to attendance (as discussed in Chapter 3). A memo written for the incoming Minister of Finance in 2010 stated “The Finance Minister is normally co-opted to National Security Committee meetings,” and this is particularly the case for NSC meetings

⁸⁷ Wanna, J. and Bartos, S. (2003) ‘Australia’s Quest for Better Outcomes’ in John Wanna, Lotte Jensen, Jouke de Vries (eds.) *Controlling Public Expenditure: The Changing Roles of Central Budget Agencies—Better Guardians?*, Cheltenham, UK: Edward Elgar, pp.3-6; Blondal, J.R. et al (2008) ‘Budgeting in Australia’ *OECD Journal on Budgeting*, 8:2, p.12.

⁸⁸ See Chapter 3 for further discussion of committee structures. For memberships of I&S and PHICS, see Cabinet Minute (April 5, 1977) Decision No.2485 (FAD) ‘Royal Commission on Intelligence and Security—Implementation of Third Report’, NAA: A12909/1142.

⁸⁹ SCIS replaced PHCIS in the early 1980s (see Chapter 3). For composition of SCIS in 1986, see Cabinet Minute (June 30, 1986) Decision No. 7847 ‘OSIC Information Paper and Indicative Work Program for the Security Committee for the Period July-December 1986’ NAA: A14035/4025.

where resource management is a topic of discussion.⁹⁰ As officials as well as ministers attend the NSC,⁹¹ the Secretary of the DoF would attend with their minister when expenditure matters are discussed. The Secretary would also be co-opted onto SCNS when submissions are considered prior to ministerial review. The Treasury's consistent involvement is representative of its role as guardian of the economic picture. Treasury's permanent involvement on NSC and SCNS allows it to watch for developments that could have budgetary impact, particularly if they 'impact the fisc,' and to advise ministers accordingly.⁹² While the Treasury is concerned with the overall size of the fiscal pie and the variables in the economic environment that make it larger or smaller, the DoF is concerned with the size and usage of each piece of the fiscal pie. While not every topic coming before the NSC has an expenditure implication, it can be argued that most will have some kind of possible economic angle, and thus one of reasons for the Treasury's consistent involvement in the higher intelligence machinery.⁹³ However, as Hope's first Royal Commission was creating a place at the higher tables of intelligence for the expenditure guardians, other forces were influencing the quantity and quality of information that the guardians, and particularly the DoF, would use to manage intelligence expenditure.

Financial Information as Power: Forward Estimates, Costings, 'the Greens,' and the IC Financial Report.

The final report of the Royal Commission on Australian Government Administration, published a year before the final report of RCIS, noted the utility of the Defence FYRP, and specifically the extended estimates that were used to illustrate approximate future expenditure levels. While the Treasury had incorporated slight moves towards using

⁹⁰ Department of Finance (September 2010) 'Current Issue Brief: Defence (Funding and Cost Pressures)' included in the *Incoming Government Brief*; and Department of Defence, *The Strategy Framework 2010*, Canberra: Commonwealth of Australia, p.11.

⁹¹ Tiernan, A. and Weller, P. (2010) *Learning to be a Minister Heroic Expectations, Practical Realities*, Melbourne: Melbourne University Press, pp.153-54; Weller, P. (2007) *Cabinet Government in Australia, 1901-2006: Practice, Principles, Performance*, Sydney: UNSW Press, pp.183-84.

⁹² For instance, if a policy option has expenditure for which there are no equivalent revenue options, either through efficiencies, reallocations, or public revenue (i.e. the proposal does not net out), it is referred to as 'impacting the fisc.' This essentially means that the policy will change the size of the public purse either up or down.

⁹³ Another reason for the Treasury's consistent involvement is its role in defining intelligence requirements on economic subjects; this is further discussed in Chapter 5.

forward estimates for expenditure decision-making, the RCAGA report recommended a much more substantial system. The problem was very similar to that which had led DoD to implement programme budgeting in the early 1970s: information focused on the short-term led to decisions focused on the short-term. The future implications of spending decisions were not well illustrated, which inherently could lead to incoherence in future years or a lack of flexibility in expenditure.⁹⁴ The RCAGA report recommended the full implementation of forward estimates across government, incorporating not just direct financial costs of a programme, but also resultant personnel costs. The report stated:

*The fact that Forward Estimates would require departments (and governments) to document, in advance, the longer term implications of their proposals should reduce the risk that only the 'tip of the iceberg' was funded by an ad hoc Cabinet decision in the Supply Year, leaving unforeseen and inescapable associated commitments to be funded in following years.*⁹⁵

New policy/programme proposals (NPPs) submitted by departments within the budget process would be expected to indicate the follow-on commitments through three or more future years (the 'out-years'), thus enabling more internal certainty for departmental planners and better indication to ministers and expenditure guardians of the out-year effects of proposals.⁹⁶ As some observers have noted, this was not programme budgeting, but it was very close.⁹⁷ The forward estimates represent a department's expenditure assuming current and planned spending remained unchanged.⁹⁸ Initially, the departments submitted their forward estimates to DoF who compiled them for the government, but in the early 1980s the DoF began bilaterally negotiating the forward estimates with departments, and then updating the estimates in order to keep track of the impact of NPPs.⁹⁹ The relation of the forward estimates to the budget has been described as follows:

⁹⁴ Coombs, RCAGA, pp.37-38.

⁹⁵ Ibid, p.39.

⁹⁶ Ibid, p.39-41.

⁹⁷ Cutt, J. (1984) 'The Evolution of Expenditure Budgeting in Australia', in A. Premchand and J. Burkhead, (eds.), *Comparative International Budgeting and Finance*, Rutgers, NJ: Transaction Books, pp.9-11.

⁹⁸ World Bank, (2000) 'Appendix 7: Australia's Experience with a Medium-Term Expenditure Framework' in *China: Managing Public Expenditures for Better Results*, Country Economic Memorandum, Rept No.20342-CHA, Washington: World Bank.

⁹⁹ World Bank, 'Appendix 7: Australia's Experience with a Medium-Term Expenditure Framework.'

*Each year's budget contains reconciliation between its own figures and the first out-year in the previous year's forward estimates. Differences are explained and categorised as being due to new government policy decisions (i.e. new programmes or expansion of existing programmes), changes in non-economic parameters [...], adjustments to macroeconomic parameters and 'other variations.'*¹⁰⁰

Hence, the previous year's forward estimates always provide a baseline for the current year's budget negotiations. This has meant that cabinet ministers are able to focus on real strategic issues such as proposals for new or expanded programs, or expenditure reductions.¹⁰¹ The decision in 1983 to publish the forward estimates drove further refinement of the process, as now ministers and departments were publicly on the line for the future impacts of their in-year decisions. The fact that DoF 'owns'¹⁰² the forward estimates allows it to play a substantial challenge function to departmental proposals, and gives it a view of programme spending across a department that is unparalleled in the other central agencies.

Key to the construction of the forward estimates is the accurate assessment of a new or expanded programme's costs. A department submitting an NPP to the NSC that involves expenditure must document the projected cost of the programme and how it was calculated, which is known as the programme's 'costing.' These costings are submitted to the DoF for review and must be agreed (or agreed with conditions) prior to the submission moving on to NSC. The most relevant example of this is Defence procurement or major information and communications technology (ICT) projects, which both apply to the intelligence agencies in the defence portfolio.¹⁰³ The 5th edition of the *Cabinet Manual*, published in 2004, laid out in detail the process for defence expenditure submissions. In regard to a proposal's costing, it states that a submission:

...requires agreement with the Department of Finance and Administration (Finance) on the detailed acquisition and operating costings and financial risk assessment. A brief comment from Finance on cost and financial risk will be included in the cover page of each submission or memorandum, along with a

¹⁰⁰ Blondal, J.R. *et al* (2008) 'Budgeting in Australia' *OECD Journal on Budgeting*, 8:2, p.18.

¹⁰¹ *Ibid*, pp.17-18.

¹⁰² World Bank, 'Appendix 7: Australia's Experience with a Medium-Term Expenditure Framework.'

¹⁰³ Further discussion of the applicability of particular processes

*paragraph of comment in the body of the submission or memorandum. Finance will provide material advising its sign off, any qualifications to that sign off and its perspective on the costings.*¹⁰⁴

If relating to a system, such as an ICT system, then the costing must cover the lifetime of the system.¹⁰⁵ This is supported in the DoF's own guidance on defence ICT proposals which reiterates that costings must cover the full life of an ICT system.¹⁰⁶ Costings are the DoF's way into the details of departmental expenditures. Some observers have noted that DoF's review of costings has reduced initial expenditure proposals by an average of 30%.¹⁰⁷ The challenge function over departmental costings represents tactical guardianship; the DoF can also exercise strategic guardianship through the briefings that it prepares for ministers on NPPs in the budget process.

The DoF briefing papers to the ministers on the ERC are known as the Green Briefs, or simply 'the Greens,' as they are printed on green paper.¹⁰⁸ For each NPP, DoF officials prepare a Green, which includes a summary of the proposal and points out expenditure and policy implications from DoF's perspective. This challenge function to departmental proposals provides a sober second thought on spending initiatives, and ensures that spenders knew that their NPPs would not get an easy ride through cabinet committees. While the DoF's production of the Greens is usually thought of in the context of the EMC, DoF provides similar briefings at budget time for the NSC in relation to NPPs by the national security community, including the intelligence agencies. DoF's *2005-2006 Annual Report* highlighted this role, stating, "Finance played a key role throughout the budget process through briefing to ERC, the National Security Committee of Cabinet, and Cabinet more broadly on the policy and financial implications of new policy proposals..."¹⁰⁹ While DoF uses the forward estimates, costings, and the Greens as a way of honing in on

¹⁰⁴ Department of Prime Minister and Cabinet, (2008) *Cabinet Handbook, 5th Ed.* Canberra: Commonwealth of Australia, p.38. Note that the Department of Finance has held several names over the past three decades, including the Department of Finance and Deregulation and Department of Finance and Administration.

¹⁰⁵ Ibid, p.37.

¹⁰⁶ Department of Finance, (2008) *Guidance on Costing for First and Second Pass Government Consideration for Defence ICT Projects*, Canberra: Department of Finance, <http://www.finance.gov.au/policy-guides-procurement/ict-investment-framework/ict-two-pass-review/> Accessed: Sept 2014.

¹⁰⁷ Blondal et al, 2008, p.27.

¹⁰⁸ Ibid, p.28.

¹⁰⁹ Department of Finance and Administration, (2006) *2005-2006 Annual Report*, Canberra: Commonwealth of Australia, p.27.

particular proposals by spending departments/agencies, it also ensures that the expenditure of the Australian IC is examined cumulatively.

Following Justice Hope's first Royal Commission in 1977, the Department of Finance began producing an annual Finance Report, submitted to ministers through the permanent heads' committee, which examines the base-line and budget bids of the core intelligence agencies and provides DoF comments on proposed expenditures. Figure 3.9.2 shows the summary table from the Finance Report for 1990-91, indicating the total IC expenditure, as well as out-year estimates for each agency.

Figure 3.9.2¹¹⁰
 IC Forward Estimates from Finance Report on Australian IC 1990-91

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FORWARD ESTIMATES (Budget 1990 Prices)

| | 1990-91 | Forward Estimates | | |
|-------------------|----------------|-------------------|----------------|----------------|
| | Budget \$m | 1991-92 \$m | 1992-93 \$m | 1993-94 \$m |
| ASIO | 46.194 | 43.141 | 41.909 | 41.909 |
| ASIS | 20.288 | 20.150 | 20.118 | 20.118 |
| ONA | 4.838 | 4.515 | 4.529 | 4.529 |
| FA&T Comms & Tech | 8.730 | 7.421 | 7.421 | 7.421 |
| FA&T Security | 5.789 | 5.789 | 5.789 | 5.789 |
| SAC-PAV | 3.143 | 3.073 | 3.073 | 3.073 |
| FA&T Salaries | 3.126 | 3.145 | 3.145 | 3.145 |
| SUB-TOTAL | 92.108 | 87.234 | 85.984 | 85.984 |
| DSD | 67.763 | 56.244 | 51.473 | 45.751 |
| JIO | 11.599 | 12.046 | 12.174 | 12.325 |
| Project STELLAR | 42.553 | 38.321 | 22.344 | 6.346 |
| TOTAL | 214.023 | 193.845 | 171.975 | 150.406 |

Flood noted in 2004 that the Finance Report complimented the annual budget process by providing a holistic picture of intelligence expenditure that allowed ministers and secretaries to look across portfolios.¹¹¹ With the DoF Resource Report, guardians provided ministers and permanent heads with a picture of the entire intelligence 'spend,' thus

¹¹⁰ Taken from Cabinet Minute (July 10, 1990) No.13899 SEC, 'Memorandum 7154: Finance Report on the Australian Intelligence Community Budget and Forward Estimates for the Period 1990-91 to 1993-94, NAA: A140139/7154.

¹¹¹ Flood, 2004, pp.65-66.

enabling expenditure decision-making from a *community* perspective. Currently, the DoF manages the National Security Funding Compendium in support of the Coordinated National Security Budget (CNSB). Theoretically, this enables the DoF to track spending on programmes identified as relevant to national security, including the entire intelligence effort, not simply the core agencies.¹¹²

While the guardians in the Treasury and DoF provided vital information and advice on intelligence expenditure, final decisions on new policy proposals and accompanying expenditure had to be determined in light of government priorities.

The Spenders in Canberra

There are two principal elements that should be addressed in tandem when examining intelligence spenders. The first element is how the spenders interact with the larger expenditure management system in a procedural or mechanistic way (i.e. how they formulate estimates and manage funds). The second is the external pressures (or contingencies) that have influenced expenditure requests (i.e. what drives expenditure limits up or down or forces reallocations.) Through the sections that examine spenders, both elements will be surveyed.

Early Arrangements in the Spending Departments

The declassification of material from the Royal Commission on Intelligence and Security gives a rare glimpse into the detailed funding arrangements of Australia's intelligence spenders, namely the national collection agencies and national assessment organisations prior to 1977. Perhaps unsurprisingly, in the period prior to Justice Hope's inquiries, the governance of the spenders was focused very much on maintaining secrecy around operational expenditures.

The financial governance of both ASIO and ASIS were outlined in their financial directives. ASIO's financial directive, in existence since the agency was formed in 1949,¹¹³

¹¹² Government's Response to Committee's Recommendations, *Review of Administration and Expenditure No.8 – Australian Intelligence Agencies*, Parliamentary Joint Committee on Intelligence and Security, June 21, 2010.

¹¹³ Hope, RM (1977) RCIS, Fourth Report, Volume 2, Appendix 4-Q 'ASIO—Financial Administration' p.152

outlined that ASIO's funds flowed through two general accounts, aptly named No.1 Account and No.2 Account. No.1 Account consisted of 'open' funds used for salaries and "general administrative expenses, including the cost of motor cars."¹¹⁴ No.2 Account was used for the agency's clandestine operational activities, including "payments to agents, the cost of investigations of various types, and the cost of special equipment."¹¹⁵ The principal difference between the two accounts was that the Audit Office scrutinized No.1 Account, while the No.2 Account, made up of 'exempted' funds, was not audited.¹¹⁶

ASIO's estimates were determined largely within ASIO, in ad hoc consultation with the Treasury (however it was not *required* that ASIO consult the Treasury in formulating its estimates.)¹¹⁷ The approval of these estimates, while nominally a responsibility of the Attorney General, was in reality carried out by the Prime Minister.¹¹⁸ This had become even more pronounced since 1975, when the Prime Minister had taken responsibility for ASIO from the Attorney General.¹¹⁹ The RCIS report on ASIO confirms that, at this time, the estimates for ASIO appeared in the Appropriation Bill No.1 under the Prime Minister & Cabinet portfolio, rather than that of the Attorney General.¹²⁰ Hope also highlighted that ASIO's estimates were not determined with any reference to the rest of the intelligence 'spend,' as there was no formal mechanism in which to regularize such a process.¹²¹

Similarly, ASIS funds were divided between open and secret accounts. The open funds were administered similarly to other public service organisations in that funds were held by the Treasury and expended on salaries, pensions, and other administrative aspects of the Service's business.¹²² The secret funds, used for the Service's operational purposes were divided between multiple accounts covering operational payments, capital spending,

¹¹⁴ Ibid. It is important to note that the term 'open funds' in the case of the intelligence collection agencies did not refer to publicly acknowledged funds, but to funds open to scrutiny by Audit Office personnel. At the time the financial directives for ASIO and ASIS were formulated, no funds were publicly avowed.

¹¹⁵ Ibid. p.153

¹¹⁶ Ibid. pp.168-69

¹¹⁷ Ibid. p.148

¹¹⁸ Ibid.

¹¹⁹ 'Whitlam Takes Over ASIO' (no author) *The Age*, October 6, 1975.

¹²⁰ Hope, RM (1977) RCIS, Fourth Report, Volume 3, pg.28

¹²¹ RCIS, Fourth Report, Volume 2, Appendix 4-Q 'ASIO—Financial Administration' p.148.

¹²² Hope, RM (1977) RCIS, Fifth Report, Volume 2, Appendix 5-J 'Opinion by the Solicitor General on ASIS' Financial Administration' pp.237, 271-72

and other expenditures related to ASIS' clandestine work.¹²³ As with ASIO, the open funds for ASIS were audited by the Audit Office while the secret funds were not.¹²⁴ In fact, the open funds were considered a "paper exercise in costing" as they were never remitted to ASIS. Instead, the Treasury retained these open funds and would disburse them in exactly the same manner as funds appropriated to any other government department.¹²⁵

ASIS' estimates were prepared with more consistent reference to its parent department, the Department of External Affairs (now the Department of Foreign Affairs and Trade). The ASIS Directive, signed in 1958,¹²⁶ made explicit that the estimates prepared for the Service were subject to the approval of the Secretary of the Department of External Affairs and subsequently the Minister of External Affairs.¹²⁷ Because a significant portion of funds for ASIS were carried on Department of Defence votes, the ASIS Directive states that the inclusion of ASIS estimates in the budget is subject to the approval of the Minister of External Affairs and the Minister of Defence.¹²⁸ However, by the period of Hope's first royal commission, the norm was that the Minister of External Affairs would simply inform the Minister of Defence of the estimates to be carried on Defence votes.¹²⁹ According to ASIS, the expenditures for the Service carried on Defence votes were "over and above any allocation made" to the Department of Defence.¹³⁰ However, as recorded in a footnote in Volume 3 of RCIS, the Secretary of the Department of Defence, Arthur Tange, indicated that his Minister's acquiescence on the ASIS budget amounted to "a judgment by the Minister of Defence as to how much defence activity he is prepared to sacrifice for a purpose unknown except for the proclaimed purposes of the M09 organisation."¹³¹ This indicated that, at least as far as the Department of Defence was concerned, the amount of

¹²³ Ibid. pp.239-40

¹²⁴ Ibid.

¹²⁵ Ibid. p.237.

¹²⁶ The ASIS Directive is distinct from the ASIS Financial Directive. The former is the general charter of the Service, while the latter deals expressly with more detailed financial matters, such as accounting.

¹²⁷ Hope, RM (1977) RCIS, Fifth Report, Volume 2, Appendix 5-C 'The Directive to ASIS'

¹²⁸ Ibid.

¹²⁹ Hope, RM (1977) RCIS, Fifth Report, Volume 2, Appendix 5-J 'Opinion by the Solicitor General on ASIS' Financial Administration' p.240

¹³⁰ Ibid.

¹³¹ Hope, RM (1977) RCIS, Third Report, p.130, footnote 3-128. M09 was the initial codename used to denote ASIS, similar to MI6 being used to describe the Secret Intelligence Service in Britain.

ASIS funds included in the Defence vote did represent a zero-sum loss to other defence activity.

The DSB was, unlike Australia's HUMINT-focused agencies, a functional branch of its parent-department, the Department of Defence. Funds for DSB were part of the overall appropriations for Defence, and were concealed in the larger Defence expenditures.¹³² While DSD formulated its own estimates, these were considered against the funding pressures of the Department of Defence, and not the rest of the intelligence community.¹³³ Estimates for DSD were considered within the Department of Defence machinery, and approved via the Secretary and Minister of Defence.

Australia's all-source assessment organisation at the time, the Joint Intelligence Organisation (JIO), was also under the remit of the Department of Defence. However, unlike DSB, JIO was considered an 'outrider' organisation.¹³⁴ This meant that JIO had its own stand-alone budget within the defence portfolio, but the final appropriation of this budget was, like DSB's budget, ultimately weighed against the financial pressures of the rest of the defence establishment.¹³⁵

Hope's Findings: Propriety versus Efficacy

Upon the conclusion of RCIS in 1977, Hope expressed two principal concerns around the funding arrangements for the spending agencies within the Australian IC. The first concern was based on propriety. One of the fundamental elements of financial accountability in a Westminster government is that public funds can only be spent with the approval of parliament *and on the activities for which parliament approves those funds*. The collection agencies' budgets were concealed within departmental estimates and appropriations that were not intelligence-related. Parliament was, therefore, not aware it was appropriating money towards these intelligence activities when it passed appropriation acts. Hope was concerned, as was the Auditor General, that the government

¹³² Hope, RM (1977) RCIS, Sixth Report, Volume 1, p.259

¹³³ Ibid. p.293

¹³⁴ Hope, RM (1977) RCIS, Volume 3.

¹³⁵ Ibid. pp.127-130

was misleading parliament.¹³⁶ Hope requested the view of the Solicitor General on this question and, in a reply dated September 30, 1976, the Solicitor General stated:

*The expenditure therefore of monies for purposes other than those stated in the Appropriation Acts means that expenditure on the intended purpose is not sanctioned by the Constitution and that the funds are improperly paid out. As I understand the procedures relating to covered Departments, that is the consequence. I was informed that sums appearing under one heading of an appropriation are neither in fact nor intended to be applied for the stated purpose. The result is, I think, that there is no constitutional warrant for the application of funds to that purpose and that they have been illegally applied.*¹³⁷

In short, parliament had not approved the use of public funds for the intelligence collection agencies, particularly the collection agencies (ASIS, ASIO, and DSD).

It is important to note that, while Hope highlighted this issue of propriety, he found no evidence of malicious misuse of funds. In fact, the spending agencies were subject to *vertical* and *internal* checks on expenditure, although consistency in these measures was lacking. In effect, through a variety of mechanisms such as portfolio expenditure approval and internal auditors, spenders were also partially guardians.

The revised ASIS Directive of 1958 not only made the Director of ASIS accountable to the Minister of External Affairs for general financial propriety, but also explicitly stated that, “senior appointments in the Service and budget estimates shall be subject to the approval of the Secretary of the Department of External Affairs.”¹³⁸ Additionally, the 1958 Directive made the Director of ASIS responsible for producing a semi-annual report on expenditure to the Secretary and Minister of Foreign Affairs.¹³⁹ The report encompassed a comparison of expenditure against allocation for both open and secret funds, as well as monthly statements of withdrawals from ASIS accounts, which are certified by the ASIS

¹³⁶ Hope, RM (1977) RCIS, Fifth Report, Volume 1 p.200 and Volume 2, Appendix 5-J pp.235-68

¹³⁷ Ibid. Appendix 5-J, p.277

¹³⁸ Hope, RM (1977) RCIS, Fifth Report, Volume 2, ‘Directive for Director, Australian Secret Intelligence Service’ dated August 15, 1958.

¹³⁹ Ibid.

Internal Auditor¹⁴⁰ (for secret funds) and two indoctrinated auditors from the Audit Office (for open funds). Additionally, a 'Summary of M09 Bank Balances and Imprests,' submitted with the bi-annual expenditure reports, "gives a reconciliation of expenditure recorded in the expenditure statements against drawings from the bank accounts and movements in the imprests."¹⁴¹ The internal and external auditors were responsible to the Director, but also directly to the Secretary and Minister of External Affairs and the Auditor-General.

These measures effectively ensured that ASIS' budget bids were dependent on both the Secretary and the Minister of External Affairs. The Department of External (then Foreign) Affairs,¹⁴² while the parent department of ASIS, was not known for treating ASIS with kid gloves. In fact, one of Hope's conclusions was that, "A genuine atmosphere of mutual trust between ASIS and [Department of Foreign Affairs] has been lacking. ASIS has suffered from prejudice and ignorance on the part of not a few officials and some ministers over the years."¹⁴³ The historic view in DFA was that ASIS was not something to be protected, but something to be spurned. Reasons for this view in DFA ranged from a perception of spying as inherently immoral to the risks posed by clandestine intelligence activities to overt diplomatic relations.¹⁴⁴ Many of the concerns harboured by DFA officials about ASIS gave them a strong incentive to limit ASIS, rather than encourage it through easy approval of its expenditure plans. Indeed, this was part of the reasoning behind the revised 1958 ASIS Directive, which gave the departmental Secretary a much stronger hand in ASIS' affairs.¹⁴⁵ The Secretary also had direct access to the ASIS Internal Auditor, however the RCIS states that this access had never been used.¹⁴⁶

The intelligence organisations encompassed by the Department of Defence were equally subject to close budgetary scrutiny within the defence portfolio. Unlike ASIS or

¹⁴⁰ It should be noted that the ASIS Internal Auditor was appointed by the Director of ASIS, but was subject to approval by the Auditor General. The RCIS notes that these individuals were often "retired or transferred members of the Auditor-General's Department." RCIS, Report 5, Volume 2, Appendix 5-J, pp.254.

¹⁴¹ Hope, RM (1977) RCIS, Fifth Report, Volume 2, Appendix 5-J, pp.243-44.

¹⁴² The Australian Department of External Affairs (DEA) became the Department of Foreign Affairs (DFA), and is now known as the Department for Foreign Affairs and Trade (DFAT).

¹⁴³ RCIS, Fifth Report, Volume 1, p.189

¹⁴⁴ Ibid, pp.187-91

¹⁴⁵ Toohey, B. and Pinwill, W. (1990) *Oyster: The Story of the Australian Secret Intelligence Service*, Melbourne: Mandarin, pp.62-64.

¹⁴⁶ Hope, RM. (1977) RCIS, Fifth Report, Volume 2, Appendix 5-J, pp.245.

ASIO, DSD and the defence all-source analysis organisation (first Joint Intelligence Bureau and then the Joint Intelligence Organisation) were functional elements of the Department of Defence. This meant that efficiency targets and staff ceilings that applied to the Department equally applied to DSD, or at least these intelligence organisations were directly implicated in any department-wide calculations on budgetary trade-offs.

In 1947, the ad hoc cabinet committee on the joint intelligence organisation¹⁴⁷ was advised by the Defence Committee that the estimates for the Service Intercept Stations should be carried on the estimates of the individual Services (Army, Navy, and Air Force.) This suggestion was rejected by the cabinet committee however, when it concluded that “the estimates are framed on the principle that they show the full cost of a Department. Accordingly, the provision for these stations should be included in the votes for the Defence Department.”¹⁴⁸ An interdepartmental committee of officials, chaired by the Controller of Joint Intelligence and incorporating a representative of the Treasury, determined that the expenditure of each of the services on their intercept station would be reimbursed out of the funds for the joint intelligence organisation programme, which was being centrally managed by the Department of Defence.¹⁴⁹

The Department of Defence maintained a tight control over the creation of the joint intelligence organisation, with the Defence Committee regularly reviewing its phased growth. The Defence Committee was careful to ensure that the development of the joint intelligence organisation was tied to the larger defence and public policy agenda. In a record of decision from November 1952, the Defence Committee concluded that while there was broad agreement as to the importance of the SIGINT effort,

...consideration of the suggestion for further development and expansion of the Melbourne Sigint Centre and other Sigint effort in the Far East would need to

¹⁴⁷ In the archival record from the 1940s and 1950s, the term ‘joint intelligence organisation’ is the umbrella term that refers to the establishment of the Defence Signals Branch, the Joint Intelligence Bureau (Melbourne), the formalisation of the Service Intercept Stations, and the creation of the coordinating machinery in the Department of Defence, including the Controller of Joint Intelligence.

¹⁴⁸ Report by Interdepartmental Committee (May 27, 1948) ‘Financial Principals and Procedure Relating to Expenditure on the Services’ Intercept Stations’, NAA: A1068 DL47/3/2 Part 1

¹⁴⁹ Report by Interdepartmental Committee ‘Financial Principals and Procedure Relating to Expenditure on the Services’ Intercept Stations’ May 27, 1948.

*await the review of the objectives of Defence Policy and balance between them, in the light of the present Defence Vote and the prospective Vote over the next few years, and the latest strategic information and the time factor governing preparedness.*¹⁵⁰

At the same time, the Defence Committee and the Minister initiated a review of the staffing of the DSB, based on the substantial increase of positions required to fulfill the tempo of cryptographic work.¹⁵¹ Overall, the Defence Committee, and particularly the Secretary of the Department of Defence, maintained a close control over the formation, including the fiscal arrangements and accountability, of the joint intelligence organisation within the defence portfolio.

Later, after the merger of the JIB with the bulk of the service intelligence sections to become the Joint Intelligence Organisation (JIO) in 1969, the new unified organisation became an 'outrider' organisation within the defence portfolio. This did not lessen the extent to which JIO was subject to the same administrative (including financial) controls as other parts of the Department of Defence. Sir Arthur Tange, the Secretary of the Department of Defence, reaffirmed this view in a submission to Justice Hope during the deliberations of RCIS. In discussing how he viewed the accountabilities of JIO as an 'outrider' organisation, Tange stated:

*Although application of this concept means that JIO operates to some extent outside direct central Departmental administrative control processes it remains appropriate (because of its primary orientation towards Defence) for it to be subject to the same direct organisational and establishment controls and general administrative guidelines as other elements of the Department.*¹⁵²

Tange also explained that the JIO was subject to the implementation of manpower ceilings as had been employed across the Department of Defence.¹⁵³ Tange's submission to RCIS was greatly informed by the publication, less than two years earlier, of the *Report on the Reorganisation of the Defence Group of Departments*, commonly known as 'the Tange

¹⁵⁰ Minute by the Defence Committee of Meeting held on November 6th 1952, NAA: A5954 2365/8.

¹⁵¹ Minute by the Defence Committee of Meeting held on November 6th 1952, NAA: A5954 2365/8.

¹⁵² Tange, A. (Sept 12, 1975) Submission to RCIS, 'Joint Intelligence Organisation Recruitment of Staff, their Terms and Conditions and their Administration', NAA: A12389/D46.

¹⁵³ Ibid.

Report.’ The Tange Report outlined the unification or rationalisation of many functions across the defence portfolio with the ultimate intent of better managing key processes, particularly budget-making and financial control.¹⁵⁴ Tange stated many years later that before this reorganisation, “Weapons procurement aside, Defence could only exert influence through its right of approval of total budget allocations and major weapons acquisition.”¹⁵⁵ In other words, while the Department of Defence could influence the total spending ceilings of each of the service departments, it was much harder to influence the balance of resources *within* the service departments, leaving open the possibility that the services could allocate resources internally in ways that did not align with national priorities. Tange also recounted that:

*The Defence Department was seen as an outsider—a primarily civilian regulatory Department, no more welcome to involve itself in Service decisions than was an analogous Department, the Treasury. The vast area of expenditures and decisions on maintenance and running costs, which imposed commitments on future budgets, remained a mystery to me.*¹⁵⁶

When the joint intelligence function was being formalised in the 1940s and 1950s, these problems were limited because the JIB and DSB were centrally managed by the Department of Defence, and not service departments, and it was accepted that the DSB had functional control over the tasking of the service intercept stations. Nonetheless, the need for the Department of Defence to better centralise control of the defence portfolio led to the creation of powerful committees within the Department to oversee financial management, such as the Resources and Financial Programmes Committee and the Defence Programmes Committee, both of which had a role in budget-making and formulation of the estimates.¹⁵⁷ Additionally, a centralised Resources and Financial Programmes Organisation was established with the Department to centrally manage the resourcing and budgetary aspects of the defence portfolio.¹⁵⁸ The Cabinet endorsed Tange’s reforms in December 1973.¹⁵⁹

¹⁵⁴ Tange, A. (1974) *Australian Defence: Report on the Reorganisation of the Defence Group of Departments*, Canberra: Australian Government Publishing Service. See particularly the ministerial statement of 1972 quoted in entirety on pp.1-3 for the intention of the government to merge and rationalize the defence group.

¹⁵⁵ Tange, A. (2008) *Defence Policy-Making: A Close-Up View 1950-1980—A Personal Memoir*, Peter Edwards ed. Canberra: ANU E-Press, p.27

¹⁵⁶ Tange, 2008, p.27

¹⁵⁷ Tange, *Australian Defence: Report on the Reorganisation of the Defence Group of Departments*, pp. 80-81 and see Annex L ‘Proposed Structure of Higher Defence Committees’

¹⁵⁸ *Ibid*, see Chapter 7.

The reorganisation of the Department of Defence continued to ensure that the Department itself maintained tight financial control over the intelligence organisations within the defence portfolio, specifically the Joint Intelligence Organisation and the (by then renamed) Defence Signals Division.

Hope did allude to financial problems in ASIO, but they were financial *management* problems, not financial *propriety* problems. Volume 3 of the RCIS Fourth Report on ASIO stated bluntly, "ASIO has been starved of funds."¹⁶⁰ ASIO's funds had not kept up with the cost of inflation, staffing levels had progressively decreased while the number of investigative targets had grown, and increases in overall tempo of counter-intelligence and counter-terrorism (CT) work had not been met with commensurate resources. Hope highlighted that resource constraints were particularly acute for ASIO's capital equipment, which was quickly becoming outdated.¹⁶¹ In a closely-held supplement to the RCIS Fourth Report, Hope indicated that ASIO's counter-intelligence (CI) function was being continually sapped, with resources being redirected into CS investigations and not replenished.¹⁶² The supplement illustrated these resource problems by highlighting the condition of ASIO's surveillance teams. These teams had been progressively degraded through continual reorganisations, possessed underpowered vehicles and had problems with communications equipment.¹⁶³ Given these points raised by RCIS, the question then became why ASIO's resources had become so depleted. According to the RCIS report, ASIO had failed to develop a consistent way of matching intelligence priorities to budget planning.¹⁶⁴ Hope recounted that, "as this situation developed, excuses were made that funds were not available. My examination of the records show that ASIO never asked for them."¹⁶⁵ This finding, taken alone, simply indicated that ASIO's senior management had failed in budgetary planning. Interestingly however, Hope records that:

¹⁵⁹ Cabinet Minute (December 3, 1973) Decision No.1704, 'Defence Reorganisation', NAA: A5931 CL883 PART1.

¹⁶⁰ Hope, RM. (1977) RCIS, Fourth Report, Volume 3, p.23

¹⁶¹ Ibid, pp.23-30

¹⁶² Hope, RM. (1977) RCIS, Supplement to Fourth Report, p.6

¹⁶³ Ibid, p.33.

¹⁶⁴ Hope, RM. (1977) RCIS, Fourth Report, Volume 3, p.23

¹⁶⁵ Ibid.

The former Director-General told me that, in his view, governments were concerned to see that the global figure that appeared in the Estimates was not too much bigger than the one for the last year. While such a view prevailed, ASIO had kind of an anticipatory misère approach to budgeting which meant that governments were never given any clear idea of what was really needed to enable ASIO to fulfill its responsibilities.¹⁶⁶

This passage indicates that the situation was somewhat more nuanced. ASIO, a spending agency, had internalised financial management controls to an extent that it was anticipating government resistance to expenditure increases and *under-bidding* in the budget process. This, in turn, was contributing to consistent under-resourcing. Far from empire-building, ASIO was asking for too little resources from government and did not know how to go about asking for more.

The second overarching concern voiced by Justice Hope in regard to expenditure in the intelligence community was around efficacy. He noted that the coordination of the entire intelligence 'spend' (i.e. the total amount of public funds allocated to intelligence) was very weak. There was no central mechanism for reviewing the agencies' expenditure 'bids' through the estimates process. Hope specifically highlighted that there was no machinery in place to gauge both national intelligence requirements/priorities and the resourcing of the national intelligence effort.¹⁶⁷

The budgets of DSD and JIO, as well as elements of ASIS' budget, were approved through the defence machinery. Elements of ASIS' funds, as well as elements of the Office of Current Intelligence (OCI) within JIO, were carried on the Department of External Affairs' budget and therefore approved through the foreign affairs machinery. ASIO's budget was partially approved through the Attorney General's machinery, but, as stated previously, was ultimately a matter for the Prime Minister. As Hope stated:

...there exists no machinery, beyond that of the [National Intelligence Committee], to review the cost effectiveness of this substantial program, as a whole, or to see that it reflects national priorities for intelligence collection and assessment. The NIC does not do so. The Defence Committee does not do so. The Treasury does not

¹⁶⁶ Hope, RM. (1977) RCIS, Fourth Report, Volume 3, p.24

¹⁶⁷ Hope, RM. (1977) RCIS, Third Report, pp.127-130.

*do so. The moneys are voted to the agencies by diverse means and there is no means by which the bids are examined in a co-ordinated way.*¹⁶⁸

Taking Hope's concerns together, the Australian intelligence community was suffering from a fragmented and hidden financial management system. Vertical lines of control between spending agencies and their 'parent' ministries dominated the system, and there was little room in the process for budgetary guardians (especially the Treasury) or horizontal coordination of the estimates.

These characteristics of the financial management system contrasted, as Hope himself argued, the contemporary environment in which *more* resources would be needed for the national intelligence effort, not less.¹⁶⁹ In his Third Report, focused on Australia's intelligence needs and coordination, Hope cites the 1968 Wilton Report which stated that domestic growth and the tempo and complexity of international events had "created a situation on which [the Australian] intelligence organisation like counterpart organisations abroad, has had to meet a growing demand for current intelligence and for assessments of broad national interest as a basis for the formulation of national and international policies and plans."¹⁷⁰ Hope expanded on this general observation by Wilton, fleshing out several observations about Australia's ongoing need for intelligence: the needs of decision-makers to be informed by intelligence analysis; the need to maintain a national ability to verify information coming from allies; and the requirement to maintain good counter-intelligence.¹⁷¹ Hope drew particular attention to the utility of intelligence in economic policymaking and negotiations, an area that was of growing importance through the 1970s for an Australia that was growing economically, and playing a larger part on the world stage, particularly in economic forums.¹⁷² This is evidenced further by the fact that Hope's first and second findings stated that Australia's need for a robust intelligence community

¹⁶⁸ Hope, RM. (1977) RCIS, Third Report, p.128.

¹⁶⁹ Ibid. p.130

¹⁷⁰ Wilton, J. (1968) Report of the Special Committee on Intelligence Matters (the 'Wilton Report'), Canberra: Department of Defence. Cited in RCIS, Report 3, p.28

¹⁷¹ RCIS, Report 3, pp.27-35

¹⁷² Ibid, pp.27-35.

was apparent at that time perhaps more than ever before, and that the applicability of intelligence to decision-making outside the defence sector was a trend that was growing.¹⁷³

To address the concerns over propriety, Hope recommended presenting each agencies' budget as a top-line figure in the estimates and appropriations.¹⁷⁴ Hope also recommended that ASIS be put on statutory footing with financial provisions included in the *ASIO Act*. To address the matters related to efficiency, Hope recommended that the new ministerial and permanent head-level interdepartmental machinery which RCIS was recommending as part of a larger package of coordination-related reforms, also be responsible for reviewing estimates across the community.¹⁷⁵ Importantly, this machinery encompassed greater involvement by budgetary guardians, specifically the Treasury, and later the Department of Finance.¹⁷⁶

The government adopted many of the RCIS recommendations relating to financial management (some of which will be discussed more fully in following sections on guardians and priority-setters.) The top-line budget figure for ASIS was distinguished from other estimates and appropriations and regularised as a line-item under the Department of External Affairs budget in the 1978-79 budget cycle.¹⁷⁷

ASIO's budget was published as a line-item under the budget of the Attorney-General's Department.¹⁷⁸ In his follow-up examination of the Australian intelligence community, published in 1985, Hope indicated that financial provisions had not been added to the *ASIO Act* as he recommended in 1977. Instead, ASIO was classified as a department under financial regulations, and the Director-General (DG) of ASIO was

¹⁷³ Ibid. p.196.

¹⁷⁴ RCIS, Fifth Report, Volume 1 p.200 on ASIS; RCIS, Seventh Report, Volume 1 pp.258-260 on DSD; RCIS, Fourth Report, Volume 3, Appendix 4-Q, pp.149

¹⁷⁵ RCIS, Report 3, p.131

¹⁷⁶ Ibid, pp.159-162

¹⁷⁷ Samuels, G. and Codd, M. (1995) *Report on the Australian Secret Intelligence Service: Public Edition*, Commission of Inquiry into the Australian Secret Intelligence Service, Canberra: Commonwealth of Australia.

¹⁷⁸ Hope, R.M. (1985) *Report on the Australian Security Intelligence Organisation*, Royal Commission on Australia's Security and Intelligence Agencies, Canberra: Commonwealth of Australia, p.290. Hereafter referred to as RCASIA in citations.

formally classified as a 'permanent head.'¹⁷⁹ While it may seem that this fell short of Hope's recommendations, the classification of the DG of ASIO as a permanent head made the incumbent the equivalent of an accounting officer. While RCIS was examining the Australian IC in detail, the Royal Commission on Australian Government Administration (RCAGA) was examining governance and administrative issues across the entire Australian public service. Instead of implement a fix specific to ASIO within the *ASIO Act*, the government chose to fold some changes recommended by RCIS into the larger reforms being driven by RCAGA. In 1978, in response to RCAGA, the Cabinet Committee on Machinery of Government endorsed amendments to the *Audit Act of 1901* that explicitly made permanent heads responsible for the provisions of the Audit Act related to departmental financial management and accounting.¹⁸⁰ This ensured that, while there were not explicit financial provisions added to the *ASIO Act* as originally recommended in RCIS, the Director-General's accountabilities were formally expanded under statute to include the financial management of ASIO.

Similar to JIO, DSD was distinguished from the larger Department of Defence budget within annual estimates and reporting to parliament.¹⁸¹ This was made explicit in a new Directive on the DSD, approved by the Cabinet Committee on Intelligence and Security on July 13, 1978, which made DSD an outrider organisation within the Department of Defence, made it clear that DSD was a component of the *national* intelligence community, and made the Director of DSD directly responsible to the Secretary of the DoD.¹⁸² Of specific importance in the new directive on DSD was the provision that the Director of DSD would submit an annual report to the Secretary of the DoD and the Chief of the Defence Forces Staff outlining DSD's performance against SIGINT and COMSEC priorities, and:

Outlining the pattern of expenditure during the financial year and its bid for funds and manpower to be carried on the Defence outlay in the ensuing five years. The

¹⁷⁹ Ibid, pp.288-89.

¹⁸⁰ Cabinet Minute (March 16, 1978) Decision No.4872 (MOG), 'Financial Responsibilities of Permanent Heads – Report by MOG Permanent Heads Committee – Amendments to Audit Act 1901' NAA: A12909/1987.

¹⁸¹ Flood, P. (2004) *Inquiry into Australian Intelligence Agencies*, Canberra: Commonwealth of Australia, pp.136

¹⁸² Cabinet Minute (July 13, 1978) Decision No.6242 (IS), 'Directive on the Defence Signals Directorate' NAA: A12909 2246.

*report will be submitted to the Permanent Heads Committee on Intelligence [and] Security which will consider it in the context of overall intelligence and security activities under practical arrangements which will accommodate the responsibilities of the Secretary of the Department of Defence and the Chief of the Defence Force Staff.*¹⁸³

While seemingly mundane, this provision operationalises several key elements of DSD's financial governance. Firstly, the Directive makes clear that DSD has a split accountability. SIGINT and COMSEC policy and priorities are determined nationally through the Cabinet Committee on Intelligence and Security (CCIS) and its mirror committee of permanent heads, the Permanent Heads Committee on Intelligence and Security (PHCIS). These bodies were ultimately also responsible for the approval of DSD's budget within the larger intelligence community budgetary picture. However, the Secretary of the DoD and the Chief of the Defence Force Staff (CDFS) were responsible for the financial and personnel administration of the defence portfolio. Once set within the national context by the CCIS and the PHCIS, DSD's budget allocation was administered through the DoD and the Secretary and CDFS were ultimately responsible for its administration. This provision of the DSD directive also synced DSD's estimates process, now a five-year rolling process under the Directive, with the larger DoD Five-Year Rolling Programme, which was one of the first examples of forward estimates.¹⁸⁴ Through this provision, the DSD directive resulting from Hope's royal commission closely balanced horizontal and vertical accountabilities for DSD's expenditure management.

The Office of National Assessments (ONA), created after RCIS in 1977, fell into line with the broader expenditure management changes to the Australian IC after RCIS. ONA's budget was published as a line item within the Prime Minister & Cabinet portfolio, and because it was an assessment agency established under statute, as opposed to a collection agency, its budgetary details were more open. The first report by the PHCIS on the IC budgets for 1977-78 reinforced this by stating that ONA "is subject to the ordinary

¹⁸³ Ibid.

¹⁸⁴ The Defence Five-Year Rolling Programme is discussed further in the section on Australian guardians.

budgetary scrutiny by the Department of Finance.”¹⁸⁵ This meant that expenditure data would be provided to the Department of Finance for preparation of the estimates and Department of Finance analysts would scrutinise increases in funds.

After 9/11: Trying to Keep Up

Available information indicates that from the late 1980s through the 1990s, changes to *expenditure levels* were driven by external changes in environments, such as the complexity of the threat environment and the political and fiscal environments. These combined factors prompted significant reviews of Australia’s intelligence agencies, and saw substantial vacillations in agency budgets.¹⁸⁶ For instance, the funding for ASIO declined by almost \$20 million between FY 1996-97 and FY 1998-99 alone.¹⁸⁷

While expenditure levels varied, the financial management *system* remained relatively stable through the 1990s. From available evidence, the Richardson Report and subsequent Holloway-Kean Report, both produced in 1992 by the DPMC for the Security Committee of Cabinet, largely endorsed the management architecture that had developed after Hope’s royal commissions of the 1970s and 1980s.¹⁸⁸ Also, the Commission of Inquiry into ASIS, which reported in 1995, endorsed the existing structure as well, indicating that information on agency performance and annual estimates had been improving under the existing system of cabinet and official oversight.¹⁸⁹

The impact of 9/11 and the Iraq War led to the Inquiry into Australian Intelligence Agencies led by Philip Flood. Flood’s 2004 report provides several interesting insights into the Australian IC of the late 1990s and early 2000s in terms of financial management and budgetary pressures within the spending agencies and departments. In terms of the

¹⁸⁵ Report from the Chairman of PHCIS (July 7, 1978) ‘Intelligence Community—Budget Estimates for 1978-79’, SECRET, NAA: A12933 560.

¹⁸⁶ Two internal reviews were conducted: the Richardson Review and the Holloway-Kean Report, both completed in 1992, which are still classified. The Commission of Inquiry into the Australian Secret Intelligence Service, published a public edition of its final report in 1995.

¹⁸⁷ Brew, N. (2003) *Dollars and Sense: Trends in ASIO Resourcing*, Research Note No.44, Department of the Parliamentary Library, Canberra: Commonwealth of Australia.

¹⁸⁸ Samuels and Codd (1995) *Report on the Australian Secret Intelligence Service: Public Edition*, Commission of Inquiry into the Australian Secret Intelligence Service, p.5

¹⁸⁹ *Ibid*, pp.76-77. These reports are discussed at length in other chapters.

collection agencies, the two most costly organisations were predictably the technical agencies in the defence portfolio. Flood indicated that DSD was resourced through two means. The majority of DSD's funds were provided through the Department of Defence budget as had been the case throughout DSD's history. In the era of transnational threats, however, these funds had been supplemented by further program-specific funds from government.¹⁹⁰ Additionally, Flood pointed out that DSD's capital expenditure was the fastest growing portion of its budget, and that the development of these capital projects could span up to a decade.¹⁹¹ These comments make sense in the context of the growing cyber environment and the shift from satellite to fiber-optic communications that required new COMSEC and SIGINT collection, processing, and analytic capabilities.

The newest national collection agency at the time of the Flood Inquiry was the Defence Imagery and Geospatial Organisation (DIGO).¹⁹² DIGO had not been covered in previous inquiries through the 1980s and 1990s as it had only been formed in 2000. Flood's report stipulated that, like DSD, a major portion of DIGO's budget was devoted to capital expenditure including new headquarters arrangements in the DoD complex in Canberra and substantial IT programmes.¹⁹³ While the overall level of expenditure on DIGO was high, Flood commented that this was mostly due to start-up costs, major IT initiatives, and post-9/11 spending increases that were commensurate with increased workloads. While Flood cautioned that GEOINT could not demand funds as a birth right, overall DIGO's expenditure was sensible given its environmental context.

In terms of HUMINT, Flood's examination of ASIS concluded that, while substantial new demands had been levied on ASIS, the post-9/11 funding increase had been appropriate, and the service was producing quality intelligence on the major Australian

¹⁹⁰ Flood, P. (2004) *Report of the Inquiry into Australian Intelligence Agencies*, Canberra: Commonwealth of Australia, p.138. Supplementary funding would often be for major horizontal initiatives such as securing the 2000 Sydney Olympics or providing COMSEC support to major government IT projects.

¹⁹¹ Flood, 2004, p.139.

¹⁹² DIGO was formed in 2000 from the Australian Imagery Organisation (AIO), which was itself an amalgamation of imagery and topographic units formerly dispersed throughout the Department of Defence. DIGO has since been renamed the Australian Geospatial Intelligence Organisation, or AGO.

¹⁹³ Flood, 2004, pp.140-41

requirements.¹⁹⁴ Also, the inquiry concluded that ASIS' internal expenditure mechanisms were sound, with adequate allocation of resources between competing priorities.¹⁹⁵

Flood dealt at length with the all-source assessment organisations. His examination of DIO revealed no significant problems in terms of expenditure management, and the inquiry concluded that the main concern for DIO was organisational focus, not resources. However, Flood did highlight that increasing pressures on the services were resulting in a shortage of uniformed personnel serving in DIO.¹⁹⁶ These uniformed personnel were secondees from their respective services, and their salaries were paid for from service budgets.¹⁹⁷ In an environment of increasing defence budgets, the ADF would not have had a problem paying for uniformed staff in DIO. Flood stated, instead, "Service chiefs are finding themselves increasingly with too few personnel available to meet demand across the organisation."¹⁹⁸ The increasing ADF deployment tempo through the early 2000s and corresponding demand for operational intelligence¹⁹⁹ placed a higher value for the ADF of uniformed intelligence staff being placed in the Joint Operations Intelligence Centre (JOIC), which directly supported ADF operational requirements. However, one of Flood's key conclusions was that the assessment agencies were not placing enough emphasis on the production of strategic intelligence.²⁰⁰ This personnel shortage pointed to a larger IC resource issue that was particularly acute in the defence establishment: not enough resources and attention were being directed at recruitment and training of intelligence personnel.²⁰¹ A shortage of resources and direction in recruitment and training inevitably means an eventual shortage of qualified analysts somewhere in the community, and Flood's inquiry indicated that this was beginning to manifest itself in the assessment agencies.

¹⁹⁴ Ibid, pp.147-51. It should be noted that ASIO was not examined in the Flood Report as it focused exclusively on the foreign intelligence function.

¹⁹⁵ Ibid, pp.150-51

¹⁹⁶ Flood, 2004, p.128

¹⁹⁷ In 2004, this amounted to \$5 million. Flood, 2004, p.118.

¹⁹⁸ Flood, 2004, pp.124-25.

¹⁹⁹ Ibid, pp.73-5.

²⁰⁰ Ibid, pp.125 for the specific recommendation relating to DIO and strategic intelligence production.

²⁰¹ Ibid, pp.152-57.

The scarcity of qualified analysts was also highlighted in Flood's analysis of ONA. In 2004, the 'peak foreign intelligence agency'²⁰² of the Australian government had a full complement of 74, of which 39 were analysts, and a total budget of \$13.1 million.²⁰³ A close focus on ministerial requirements and a flat, flexible, small organisational structure allowed ONA to maintain adequate reporting on a range of the government's top assessment priorities. However, the inquiry also pointed out that ONA's analysts were stretched, with many analysts pointing out the lack of research and analytic time as a concern.²⁰⁴ In short, analysts were spending too much time writing, and not enough time researching and analysing. This problem may have been manageable in an environment where demand for intelligence assessments was relatively muted and stable, but it meant there was dangerously little surge capacity for times of increased activity. For instance, the Australian parliamentary inquiry into the intelligence assessments on Iraq's WMD programme stated that there was a ten-fold increase in incoming intelligence from allies that had to be read and assessed by Australian analysts.²⁰⁵ By contrast, the two sections of ONA that dealt with Iraq had a total of 3 analysts, all of which also had other areas/topics to cover in their daily work. As the tempo of discussions leading up to the Iraq War increased, ONA formed a 24-hour watch office of 10 analysts, comprising three shifts.²⁰⁶ Flood noted that:

While ONA seniors judged the resources to be adequate at the time, both analysts and branch heads talk of the constraints imposed by time and resource pressures on their ability to challenge sources. They also speculate that a higher level of resourcing might have enabled analysts and their managers more time to stand back and consider alternative assessments. This may or may not have been borne out—but additional analyst resources would have added a level of internal contestability at the drafting stages, and given ONA more depth on the WMD topic.²⁰⁷

²⁰² Ibid, pp.114. The description of ONA as the 'peak' foreign intelligence organisation was first used by Justice Hope in 1977, and has been used consistently since to describe ONA's position in the IC.

²⁰³ Flood, 2004, p.99.

²⁰⁴ Ibid, p.110.

²⁰⁵ Parliamentary Joint Committee on ASIO, ASIS and DSD (2004) *Intelligence on Iraq's Weapons of Mass Destruction*, Canberra: Commonwealth of Australia, pp.45-6.

²⁰⁶ Ibid, pp.46-7.

²⁰⁷ Flood, 2004, p.30.

Flood also noted that even for DIO, which was a larger organisation, the analysts involved in work on Iraq in 2002-2003 “felt stretched.”²⁰⁸

While it could be said that the lead up to the 2003 invasion of Iraq was a unique context, there are indications that similar strains were showing in ONA prior to 2002-2003. During the ‘Children Overboard Affair’ of 2001, ONA provided a report to cabinet ministers that supported the allegation that children had been thrown overboard from a Suspected Illegal Entry Vessel (SIEV) in an effort to spark a rescue by the Australian navy. It was subsequently determined this ONA report was based principally on ministerial public statements; easy open-source material for ONA analysts to gather, but also problematic in terms of reliability. The parliamentary inquiry into the ‘Children Overboard’ incident noted that a surge in SIEVs, compounding an abnormally high operational tempo overall, resulted in “increased intelligence traffic on potential boat and people arrivals, with a corresponding increase in the burden for intelligence staff sifting through incoming reports.”²⁰⁹ While there were undoubtedly many factors at play in the ‘Children Overboard Affair,’ it seems that a strain on analysts caused by a lack of surge capacity contributed to operational problems. The evidence from the Flood Inquiry and the parliamentary inquiries into Iraq WMD and the Children Overboard affair indicate that the assessment agencies were trimmed very close to the bone, and that this did have *operational* impacts such as decreasing the ability of the analysts to do core tasks including independently judging the quality of sources. These problems predictably became more acute during times of increased demand for intelligence products (what could be called ‘surge periods’).

While ASIO was not covered in Flood’s 2004 report, it was addressed separately in a 2005 independent review carried out by the former DG of ASIS, Allan Taylor. The *Review of ASIO Resourcing*, as the Taylor Review was formally known, is still classified, however some information regarding its conclusions can be gleaned through numerous sources. As the DG of ASIO stated, the Taylor Review began “in part because there was a perception that there

²⁰⁸ Flood, 2004, pp.30.

²⁰⁹ Senate Select Committee for an Inquiry into a Certain Maritime Incident (2002), *Final Report of the Inquiry into a Certain Maritime Incident*, Canberra: Commonwealth of Australia, pp.xli, 260-62.

was scope to identify efficiencies in ASIO.”²¹⁰ In fact, Taylor concluded that ASIO was woefully under-resourced and that significant expansion of ASIO was necessary to meet the demands of an expanded threat environment and increasing complexity in the national security response.²¹¹

Taylor mapped out a five-year growth plan for ASIO that outlined substantial, but careful, expenditure increases that would see ASIO’s staffing triple to 1,860 by FY 2010-11.²¹² Additionally, the documents supporting the 2006-07 Commonwealth federal budget indicate the expenditure measures that the government took in direct response to the Taylor Review, namely:²¹³

- Providing \$393.6 million over five years to increase ASIO’s staff levels to the target of 1,860 by FY 2010-11.
- Extending \$252.0 million in funding for ASIO to “incorporate a number of earlier budget measures into the ongoing funding for [ASIO].”
- Providing \$161.5 million over five years to enhance ASIO’s IT infrastructure to account for increased staffing and operational demand.
- Providing \$29.4 million over five years to enhance ASIO’s technical capability.
- Providing \$47.0 million over five years to enhance accommodation ASIO’s for state offices.
- Providing \$10.3 million over five years to enhance ASIO’s international liaison arrangements.

These measures give a strong indication of the overall thrust of the Taylor’s findings: namely that ASIO required significantly more personnel, further investment in technical

²¹⁰ O’Sullivan, P. (2005, Oct 25) Director-General’s Address to the AFP Executive Retreat, found on ASIO website: <http://www.asio.gov.au/Publications/Speeches-and-Statements/Archive/2005/DG-address-to-the-AFP-Executive-Retreat.html> (accessed Sept 2014).

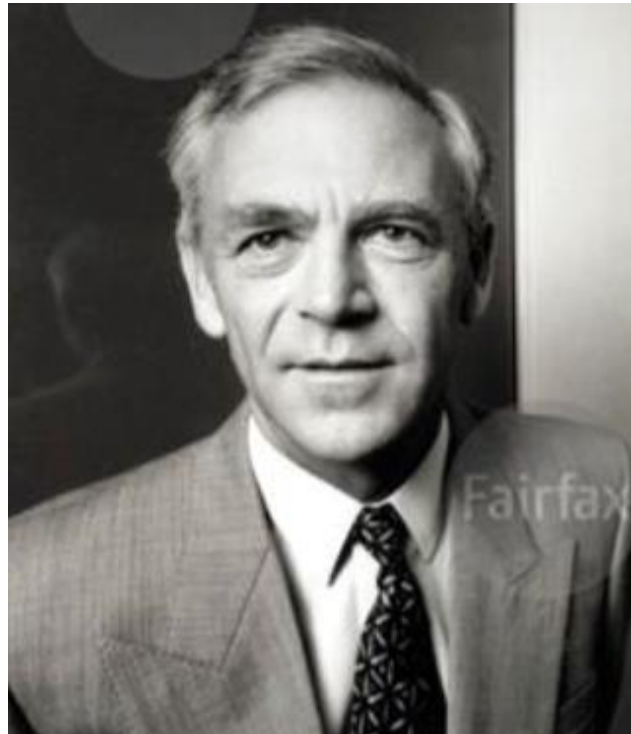
²¹¹ Ibid, and Parliamentary Joint Committee on Intelligence and Security (2007) *Review of Administration and Expenditure No.5*, Canberra: Commonwealth of Australia, p.30.

²¹² ASIO (2013) *The Evolution of Australia’s Intelligence Services Over the Past Decade*, Canberra: Australian Security Intelligence Organisation, <http://www.asio.gov.au/img/files/Evolution-of-Australias-IS.PDF> (accessed Sept 2013), pp.1,3; ASIO (2006) *Annual Report to Parliament 2005-2006*, Canberra: Commonwealth of Australia, pp.8.

²¹³ All of the material in the following bullet points is taken from: Commonwealth Budget, *Budget Paper No.2: Budget Measures 2006-07*, Canberra: Commonwealth of Australia, http://www.budget.gov.au/2006-07/bp2/html/bp2_expense-02.htm (accessed Sept 2014); ASIO (2006) *Portfolio Budget Statement 2006-2007*, Canberra: Australian Security Intelligence Organisation, <http://www.ag.gov.au/Publications/Budgets/Budget2006-07/Documents/Australian%20Security%20Intelligence%20Organisation.pdf> (accessed Sept 2014).

ability and IT systems, and the ability to better manage burden sharing with international partners.

Figure 3.9.3²¹⁴
Allan Taylor, circa 1994



In response to the existing and anticipated cost pressures highlighted in the Flood and Taylor reviews, the Australian government included significant funding for the IC in the 2004-05 Commonwealth Budget, under the *Investing in Australia's Security* initiative, totalling \$238.1 million.²¹⁵ Further intelligence-related expenditures stemming from the Flood and Taylor reviews occurred in the 2005-2006 Commonwealth Budget, under the *Providing for Australia's Security* initiative, totalling \$239.3 million.²¹⁶ These budget measures, combined with funding already provided in the immediate post-9/11 environment, were designed to ensure that the Australian IC was resourced to meet future demands, and address higher operational tempos. Figure 3.9.4 illustrates that, in terms of total increases, this was a substantial fiscal undertaking. However, as the Flood and Taylor reviews demonstrate, these dramatic increases were not 'out of the blue,' but based on

²¹⁴ Photo: Fairfax Media

²¹⁵ Commonwealth Budget 2004-05, *Budget Paper No.2*—Expense Measures, Attorney General's Portfolio.

²¹⁶ Commonwealth Budget 2005-06, *Budget Paper No.2*—Expenditure Measures, Attorney-General's Portfolio.

significant external and internal analysis of cost pressures arising out of what was, and would be, required of the intelligence community.

Figure 3.9.4²¹⁷
 Australian IC Funding FY2001-2002 to FY2007-2008

| | 2001–02 \$m | 2007–08 \$m | % increase |
|---|----------------|----------------|---------------|
| ASIO | 69 | 441 | 539% |
| ASIS | 54 | 161 | 198% |
| ONA | 7 | 36 | 414% |
| Defence Intelligence Group (DSD, DIO, DIGO) (2003-04) | 311 | 431 | 38.6% |

After a period of substantial growth through the mid-2000s, the 2008 financial crisis ushered in a period of public sector retrenchment. Faced with a complex threat environment, a precarious fiscal environment, and a changing international position with Australia’s drawdown in Iraq, managers of the Australian IC had to make further strategic choices. What new initiatives would be funded or enhanced? What old efforts would be decreased? What would be the balance between operational resources and capital projects? Like the rest of the public service, the intelligence spenders were expected to find efficiency savings and areas that could be scaled back. Subsequently, the Commonwealth Budgets of 2010-2011 and 2011-2012 saw substantial savings out of the IC. ASIO’s operating budget decreased by \$15.1 million through efficiency savings and the cost of the new Counter Terrorism Control Centre (CTCC) was absorbed by ASIO with no further funding.²¹⁸ ASIO’s overseas liaison and training activities were cut by \$8.8 million over four years, and a further \$6.9 million was saved due to efficiencies in the security screening programme.²¹⁹ In the same budget, ASIS was reduced by \$14.8 million over two years due to “a range of efficiencies in the intelligence gathering effort.”²²⁰ It was reported that ASIS

²¹⁷ Found in Ungerer, C. (2008) *The Intelligence Reform Agenda: What Next?* ASPI Policy Analysis No.20, Canberra: Australian Strategic Policy Institute.

²¹⁸ Commonwealth Budget 2010-11, *Budget Paper No.2—Expenditure Measures* (Attorney General’s).

²¹⁹ Commonwealth Budget 2011-12, *Budget Paper No.2—Expenditure Measures* (Attorney General’s).

²²⁰ Commonwealth Budget 2011-12, *Budget Paper No.2—Expenditure Measures* (Foreign Affairs and Trade).

had closed six foreign stations, mainly in the Middle East,²²¹ which would coincide with these ‘efficiencies.’

However, these cuts were part of a larger reprioritisation for the Australian IC and the national security community writ large following Ric Smith’s Review of Homeland and Border Security. In response to the shifting national priorities, the Commonwealth Budget of 2008-09 committed \$5.2 million over five years to form the National Security Adviser’s office in the Department of Prime Minister and Cabinet (DPMC). Instead of entirely new funding, approximately half of the \$5.2 million would be met through transfers from the budgets of the AFP, ASIO, AGD, DoD, and DFAT.²²² Following the conclusions of the Smith Review, the 2009-10 Commonwealth Budget committed \$1.3 billion to boost border security and counter illegal migration, including \$17.5 million to strengthen the National Security Advisor Group in the DPMC.²²³ There was continued spending in the 2010-11 Commonwealth Budget on a major border security initiative, and several initiatives involving criminal intelligence, that saw funding for the AFP, Australian Customs and Border Protection Service, Department of Immigration and Citizenship, the Australian Crime Commission, ASIO, and ASIS.²²⁴ The Commonwealth Budget of 2011-12 reallocated the \$14.8 million taken from ASIS’ budget back to ASIS, but earmarked the funds for intelligence efforts against maritime people smuggling.²²⁵ Additionally, \$101.6 million over four years was confirmed for ASIO and national law enforcement agencies to enable the maintenance and development of telecommunications interception capability, in line with new technological developments.²²⁶

These shifts in funding, made in response to external pressures driving reprioritisation of resources, illustrate that the spenders are involved in, and responsive to, strategic level discussions about expenditure. Powerful priority-setters ultimately make

²²¹ Welch, D. (November 20, 2010) ‘Spy Agency Shuts Six Foreign Stations’ *The Age*, p.5.

²²² Commonwealth Budget 2008-09, *Budget Paper No.2—Expenditure Measures* (Department of Prime Minister and Cabinet).

²²³ Commonwealth Budget 2009-10, *Budget Paper No.1* and *Budget Paper No.2—Expenditure Measures* (Department of Prime Minister and Cabinet).

²²⁴ Commonwealth Budget 2011-12, *Budget Paper No.2—Expenditure Measures* (Attorney General’s).

²²⁵ *Ibid.*

²²⁶ *Ibid.*

decisions about where resources should be allocated, with expert advice provided by spenders, and challenged by guardians. A spending agency can make the case for further funds, but they first have to convince the guardians of the public purse and the government priority-setters that it is a case worth taking up.

Chapter 10

Expenditure Management and National Intelligence in New Zealand

THE PRIORITY-SETTERS IN WELLINGTON

In keeping with the Westminster model, cabinet ministers and their key advisors (departmental CEOs and political advisors) form the heart of the priority-setting process. Like Australia, in New Zealand the crucible of decision-making for expenditure, including as it relates to the intelligence community, is within the cabinet committee machinery. However, *unlike* Australia, financial proposals by national security or intelligence organisations are not handled predominantly through one cabinet committee.

The Committee System and Financial Management

Within the New Zealand cabinet committee system, NPPs will be submitted to a standing or ad hoc policy committee. However, if the NPP involves expenditure it will end up on the agenda of the powerful cabinet expenditure committee, currently known as 'SEC'.¹ SEC could consider an NPP after consideration by a policy committee (once the NPP has policy 'endorsement') or the item could go directly to SEC. For instance, submissions by the Ministry of Defence (MoD) or NZDF have traditionally been brought to the Cabinet Committee on External Relations and Defence (ERD) or SEC.² Policy decisions have been brought to ERD, while expenditure matters have been brought to SEC.³ Procurement of major defence platforms with intelligence capabilities, such as the P-3 Orion aircraft, would have taken this path through cabinet committees.⁴

¹ Currently this committee is the Cabinet Committee on State Sector Reform and Expenditure Control, or SEC.

² Ministry of Defence / New Zealand Defence Force (2011) *Briefing for the Incoming Minister of Defence*, Wellington, p.28.

³ Cabinet Office Circular (2014) *Cabinet Committees: Terms of Reference and Membership*, CO (14) 08, Wellington: Department of Prime Minister and Cabinet.

⁴ Office of the Ombudsman (2007) 'Case Notes: Case W50863', 14th Compendium, Wellington: Office of the Ombudsman. This review by the ombudsman of a case under the *Official Information Act*, revealed significant concern amongst ODESC, and particularly GCSB, officials that the release of information could reveal the P-3's capabilities.

While the NSC in Australia has had the power to decide matters of both policy and expenditure, this has not been the case in New Zealand. While the policy committee dealing with intelligence has always had ‘Power to Act,’ this power has not extended into expenditure decisions. The terms of reference for the current National Security Committee of Cabinet state that, “the NSC will have Power to Act *where the need for urgent action and/or operational or security considerations require it*” (emphasis added). This caveat allows NSC to make binding decisions only where there is an urgent need, such as during a time of crisis, or when security is such that other cabinet ministers can not be ‘read in’ on the agenda item, such as the need to maintain operational security around intelligence targets. The terms of reference from 2000 for the Ad Hoc Cabinet Committee on Intelligence and Security (AIS)⁵ explicitly state that the Power to Act was subject to “major policy issues or matters about the allocation of additional resources being referred to Cabinet or to the Cabinet Committee on Government Administration and Expenditure.”⁶ This mix of committee responsibilities represents an attempt to balance operational requirements with the need to maintain strong central guardianship of the public purse.

In terms of the officials’ committees supporting this cabinet machinery, much like SCNS in the Australian context, ODESC(G) considers NPPs at the official level and makes recommendations to ministers on the NSC. When considering resourcing matters, ODESC(G) will in turn rely on the advice of the Security Intelligence Board (SIB) and the Foreign Intelligence Requirements Committee (FIRC). ODESC(I), the predecessor to SIB, had a working group relating to agency budgets.⁷ FIRC’s role consistently monitoring and adjusting the FIRs was particularly important, as one of the ODESC system’s principle responsibilities has been advising ministers on how to allocate resources to meet the FIRs.⁸

⁵ See Chapter 3 for further explanation of the committee systems.

⁶ Cabinet Office, (as at June 2000) ‘Terms of Reference: Ad Hoc Cabinet Committee on Intelligence and Security (AIS),’ Department of Prime Minister and Cabinet, <http://www.executive.govt.nz/committees/ais.htm> (accessed 2011). The Committee on Government Administration and Expenditure was the name for the cabinet expenditure committee at that time.

⁷ NZ Department of Prime Minister and Cabinet (March 2005) ‘Job Description: Director, Domestic and External Security Group,’ www.dpmmc.govt.nz/download/vacancies/87.doc (Accessed Sept 2011).

⁸ Domestic and External Security Secretariat, (2000) *Securing Our Nation’s Safety*, Wellington: Department of Prime Minister and Cabinet, p.36.

Closer to budget time, the Minister of Finance holds bilateral budget meetings with each vote minister. For the core intelligence organisations in New Zealand (NZSIS, GCSB, and NAB), the vote minister has traditionally been the Prime Minister. In late 2014, ministerial responsibility for GCSB and NZSIS was partially devolved to the Attorney General, who became the Minister Responsible for GCSB and the Minister in Charge of NZSIS. The PM took the more strategic role of Minister of National Security and Intelligence. While this makes the Attorney General the vote minister for both agencies, the PM has retained ultimate responsibility for the combined Four Year Plan, which, among other things, sets out the medium-term expenditure planning for the agencies.⁹ This historical and on-going relationship is particularly important because the top priority-setter in government is directly linked to the core intelligence agencies, including in financial management.

Priority-Setters Driving the Expenditure Process: NZSIS in the 2002-03 Budget, and GCSB's Project CORTEX.

Documents declassified by the NZSIS regarding the Service's post-9/11 resource requests, although fragmentary because of redactions, give excellent insight into the expenditure process of the 2002-03 budget cycle when placed alongside other open-source material. In this case, we can clearly see the priority-setters at work, particularly at the officials' level. After the 9/11 attacks, the Cabinet asked departments determine what they needed to meet new counter-terrorism demands.¹⁰ ODESC took on the role of coordinating and evaluating NPPs that would come in from various departments, with the intent of presenting a coherent package of initiatives to the Cabinet Policy Committee.¹¹ In November 2001, the Director of Security briefed the Minister in Charge of NZSIS (at that time the Prime Minister), ensuring that the Minister was "generally comfortable" with the

⁹ Key, John, (2014) 'Outline of Security Portfolio Responsibilities' Media Statement by the Prime Minister of New Zealand, <http://www.beehive.govt.nz/sites/all/files/Outline-of-security-portfolio-responsibilities.pdf> (accessed Oct 2014)

¹⁰ Controller and Auditor General (2003) *Managing Threats to Domestic Security*, Wellington: The Audit Office, p.46.

¹¹ Woods, E.R. (Director of Security) to Clark, H. (Minister in Charge of NZSIS), 'NZSIS Budget Proposals Post 11 September,' Nov 22, 2001, Declassified by NZSIS in February 2010, <http://www.security.govt.nz/archives/september-2001/> (accessed 2013). The Cabinet Policy Committee was the central standing cabinet committee at the time, essentially acting as a mini-cabinet.

Service's budget submission, prior to it being submitted to ODESC.¹² The budget submission included one proposal that would increase the Service's counter-terrorism capability, and also included elements related to security vetting, IT infrastructure, and staff remuneration.¹³ The Director stated that normally ODESC was only involved in the portion of the Service's budget linked to foreign intelligence, but because of the whole-of-government approach to coordinating security bids, the Director had agreed that ODESC should consider the entire NZSIS budget submission.¹⁴

ODESC determined a funding framework that would be used to evaluate NPPs against government priorities for security. The framework consisted of four criteria that NPPs had to fit into. Proposals that did not fit any of the criteria, or did not fit enough of them, would not be funded. To help ODESC prioritise over the entire body of proposals, three overarching priorities were defined that closely resembled the criteria. In short, while the four criteria helped define the overall size of the funding package, the three priorities helped determine the balance between particular pieces. Figure 3.10.1 illustrates this ODESC funding framework for the 2002-03 budget cycle. ODESC discussed the NZSIS submission at the end of November 2001.¹⁵ After receiving endorsement from ODESC, the NZSIS submission was presented to ministers for a policy decision at AIS on January 23, 2002.

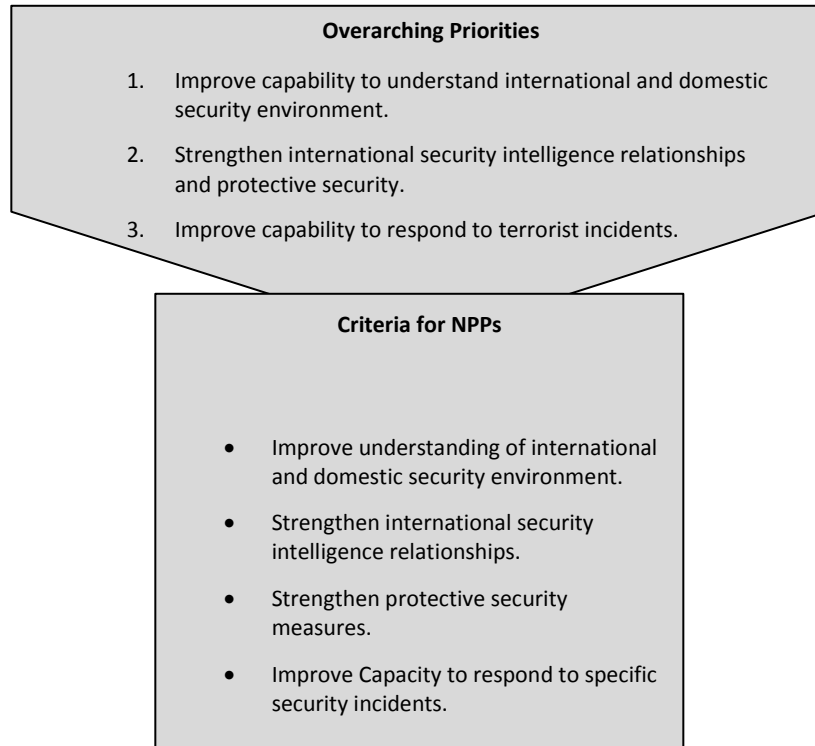
¹² Ibid.

¹³ Woods, E.R (Director of Security) to Clark, H. (Minister in Charge of NZSIS) (February 8, 2002) 'Supplementary and Budget initiatives for Vote Security Intelligence,' Declassified by NZSIS in January 2010, <http://www.security.govt.nz/archives/september-2001/> (accessed 2013).

¹⁴ Ibid.

¹⁵ Woods, E.R. (Director of Security) to Clark, H. (Minister in Charge of NZSIS), (Nov 22, 2001) 'NZSIS Budget Proposals Post 11 September.'

Figure 3.10.1¹⁶
ODESC Funding Framework for 2002-03 Budget Cycle



It is clear that AIS gave policy endorsement to the NZSIS proposal for increased counter-terrorism capability (mostly a significant increase in staffing), and the NZSIS 2003 annual report discusses increased resourcing for security vetting, indicating that this item was also endorsed.¹⁷ This policy endorsement meant that NZSIS could submit the items to be funded through the 2002-03 budget, which the Director subsequently sought the Minister's approval of in a briefing note in early February 2002.¹⁸

In Figure 3.10.2, one can see how the ODESC criteria and priorities translated into appropriations for departments. Because the first priority (improving understanding of the threat environment) was heavily dependent on intelligence, the greatest beneficiaries of the expenditure framework were the intelligence collection and analysis organisations.

¹⁶ Adapted from Controller and Auditor General, 2003, p.47.

¹⁷ Ibid and NZSIS (2003) *Report of the NZSIS for the Year Ended June 30, 2003*, Wellington: NZSIS, p.6

¹⁸ Woods, E.R. (Director of Security) to Clark, H. (Minister in Charge of NZSIS), (Nov 22, 2001) 'NZSIS Budget Proposals Post 11 September.'

Figure 3.10.2¹⁹
 Budget 2002-03 Security Package, by Department and by ODESC Priority

| (\$ million) | 2001-02 | 2002-03 | 2003-04 | Total |
|---|--------------|---------------|---------------|---------------|
| OPERATING | | | | |
| Intelligence agencies (EAB, GCSB and NZSIS) | 1.376 | 4.888 | 5.459 | 11.723 |
| Immigration | - | 2.062 | 2.062 | 4.124 |
| Customs | - | 3.010 | 3.010 | 6.020 |
| Police | - | 0.985 | 2.570 | 3.555 |
| NZDF | - | 0.185 | 0.185 | 0.370 |
| Parliamentary Service | - | 0.562 | 0.562 | 1.124 |
| Total | 1.376 | 11.692 | 13.848 | 26.916 |
| CAPITAL | | | | |
| Intelligence agencies | 0.600 | 0.300 | - | 0.900 |
| DIA (MCDEM) | 0.150 | - | - | 0.150 |
| NZDF | - | 1.844 | - | 1.844 |
| Total | 0.750 | 2.144 | - | 2.894 |

| (\$ million) | 2001-02 | 2002-03 | 2003-04 | Total |
|-----------------------------|--------------|---------------|---------------|---------------|
| OPERATING | | | | |
| Improving Understanding | 1.376 | 6.550 | 7.121 | 15.047 |
| International Relationships | - | 0.805 | 1.030 | 1.835 |
| Protective Security | - | 4.152 | 5.512 | 9.664 |
| Operational Response | - | 0.185 | 0.185 | 0.370 |
| Total | 1.376 | 11.692 | 13.848 | 26.916 |
| CAPITAL | | | | |
| Improving Understanding | 0.600 | 0.300 | - | 0.900 |
| Operational Response | 0.150 | 1.844 | - | 1.994 |
| Total | 0.750 | 2.144 | - | 2.894 |

As in Australia, the priority-setters play a key role in capital expenditure decisions through the cabinet machinery. The declassification of cabinet documents pertaining to Project CORTEX, a GCSB cyber security system with a substantial capital component, allows detailed insight into the authorisation of expenditure for an IC capital project.

As part of the New Zealand Cyber Security Strategy, in late 2010 the DES cabinet committee²⁰ approved the formation of the National Cyber Security Centre (NCSC).²¹ In

¹⁹ Tables found in Controller and Auditor General, 2003, pp.91-92

²⁰ DES absorbed AIS in 2002 (see Chapter 3).

April 2012, as it became apparent that cyber security risks were growing, the GCSB formulated an NPP for the 2012-13 budget cycle laying out options for a system to detect and potentially disrupt advanced foreign-based cyber intrusions.²² The submission was first reviewed on March 28, 2012 by the Budget Ministers, which is a small group of key ministers, including the Prime Minister and the Minister of Finance, that forms an ad hoc expenditure review committee during the annual budget cycle.²³ The GCSB laid out two options: Option 1 was a limited option that would expand NCSC protection to key public and private sector organisations and national infrastructure; Option 2 was an expansive option that included more substantial investigative and defensive capabilities, and could possibly be expanded to protect average citizens.²⁴ The Budget Ministers endorsed Option 1 immediately, allocating funds to GCSB's Vote Communications Security & Intelligence (Vote CS&I). Budget Ministers also allocated a 'tagged contingency' to Vote CS&I pending further development of Option 2.²⁵ A tagged contingency is a reserve of ring-fenced funds, 'tagged' by Cabinet for a particular initiative on which it has yet to make a final decision.²⁶ The Budget Ministers' decisions still had to be confirmed by cabinet and to that end SEC considered the submission and decisions of the Budget Ministers six days later on April 3, 2012. SEC confirmed the Budget Ministers' decision to proceed with Option 1, and instructed GCSB to prepare a detailed business plan for further consideration of Option 2. SEC also confirmed the allocation of funds for Option 1 and the tagged contingency for Option 2, which became known as Initiative 7418.²⁷

In September 2012, however, GCSB became embroiled in controversy around Project DEBUT, the OFCANZ operation to arrest controversial internet mogul Kim Dotcom.

²¹ Minute of Decision (April 3, 2012) SEC Min (12) 4/1 'Creating an Effective National Cyber Security Centre.' SECRET//NZE0, Declassified by NZDPMC.

²² Ibid.

²³ NZ Treasury (2011) *Putting it Together: An Explanatory Guide to New Zealand's State Sector Financial Management System*, Wellington: New Zealand Government, <http://purl.oclc.org/nzt/g-pit2011> (accessed 2013), pp.23, 26-27.

²⁴ Minute of Decision (April 3, 2012) SEC Min (12) 4/1 'Creating an Effective National Cyber Security Centre.'

²⁵ Ibid.

²⁶ On tagged contingencies, see NZ Treasury (2012) *Writing Financial Recommendations for Cabinet and Joint Ministers Papers: Technical Guide for Departments*, Wellington: Government of New Zealand, p.13.

²⁷ Minute of Decision (April 3, 2012) SEC Min (12) 4/1 'Creating an Effective National Cyber Security Centre.' On the need for Budget Ministers' decisions to be confirmed by cabinet, see NZ Treasury, 2012, p.27. Option 2 became known as 'Initiative 7418' because of the need for security within the budget context.

This controversy uncovered problems with the governance framework around GCSB SIGINT activities, resulting in the Kitteridge Report.²⁸ As a result, the Prime Minister informed GCSB that it should stop work on the business plan for Initiative 7418, as there were concerns about the breadth of the programme.²⁹ This was confirmed by Cabinet on September 2, 2013, when the request for a business case for Initiative 7418 was formally rescinded, but the tagged contingency was continued, pending consultations between the PM (as Minister Responsible for GCSB) and the Minister of Finance.³⁰ In December 2013, the PM wrote to the Minister of Finance, requesting that the tagged contingency originally set aside for Initiative 7418 be approved for use on an alternative project, still involving cyber security, known as Project CORTEX. It was decided that GCSB would draw up a new business plan for the new initiative, and the business case would be reviewed by an ad hoc group of Joint Ministers.³¹ The review of the CORTEX business case by Joint Ministers occurred in May and June 2013. The business case laid out five options for ministers, with incremental 5-year costing for each option:

Option 0 'Do Nothing': Limited ability to see threat posed by advanced malware, based almost entirely on GCSB's access to a few GoNZ networks.

Option 1 'Do Minimum': Larger number of GoNZ networks receive GCSB advanced malware detection service, allowing them better visibility of the threat and subsequent ability to close vulnerabilities (i.e. 'harden' networks).

Option 2 'Modest': Option 1 + extend same service to limited number of external organisations that are "high economic value and/or operating critical national infrastructure."

Option 3 'Active': Option 2 + a "limited malware disruption service."

²⁸ Project DEBUT is covered in detail in Chapter 4.

²⁹ GCSB Internal Email, September 15, 2014, released by GCSB in response to request under the *Official Information Act* by Kevin List, Office of the Leader of the Green Party, November 10, 2014.

³⁰ Minute of Decision (September 2, 2013) CAB Min (13) 30/25 'Additional Item: Vote Communications Security and Intelligence: Contingency Item,' SECRET//NZEO, Declassified by NZDPMC.

³¹ The ad hoc group of Joint Ministers consisted of the PM, Minister of Finance, Minister for Economic Development, Minister for Communications and IT, Minister of Foreign Affairs, Minister of Defence, and the Attorney General. See Cabinet Paper (July 2014) CAB (14) 409, 'Project CORTEX Business Case' submitted by the Office of the Minister Responsible for the GCSB, SECRET//NZEO, Declassified by NZDPMC, p.2

Option 4 'Proactive': Option 3 + “GCSB shares technology and classified information with an Internet Service Provider so that it can disrupt advanced malware” for a sub-set of customers as a pilot.³²

At the end of July 2014, Cabinet reviewed the case for Project CORTEX, and decided to adopt Option 3. A key point to note is that this decision was *at odds* with the recommended course of the CORTEX business case. The ‘proactive’ Option 4 was recommended to cabinet as analysis had indicated that it “[offered] the greatest value for money in terms of balancing benefit, risk, and cost.”³³ A portion of the capital and operating costs of CORTEX over the first five years would be met from GCSB reprioritised funds, with the remainder being met from the tagged contingency originally set aside for Initiative 7481. The funds that remained in the tagged contingency would be retained for future consideration of a possible expansion into Option 4.³⁴ Because of the change in circumstances part way through the project, the 2014-15 budget cycle had been missed, meaning the baseline increase could not be approved in the Appropriations Bill covering the Main Estimates. It was decided that the baseline additions to Vote CS&I for CORTEX would formally be approved by Parliament through the Supplementary Estimates for 2014/15 and that, in the meantime, the baseline addition would be covered under the second imprest supply act for 2014.³⁵

The approval processes for NZSIS’ post-9/11 resource bids and GCSB’s Project CORTEX shows several things. First, they illustrate the close and continuing involvement of cabinet ministers in expenditure decisions through formal and ad hoc structures, with clear ability to control the direction and nature of a programme proposal in light of larger political and national contexts. Second, the cases show a clear linkage between Cabinet-approved priorities (in these cases, enhancing domestic security and cyber security) and new policy/programme proposals. The priority-setters effectively ensure that public money is used towards identified priorities, even in the world of clandestine intelligence.

³² Options are summarized or quoted from Cabinet Paper (July 2014) CAB (14) 409, ‘Project CORTEX Business Case’ submitted by the Office of the Minister Responsible for the GCSB, p.3.

³³ Ibid, p.4.

³⁴ Cabinet Minute (July 28, 2014) CAB Min (14) 25/9, ‘Project CORTEX Business Case’; Cabinet Paper CAB (14) 409, ‘Project CORTEX Business Case’ pp.6-8, 10.

³⁵ Ibid. On the Supplementary Estimates and Imprest Supply Acts, see New Zealand Treasury (2013) *A Guide to Appropriations*, Wellington: Government of New Zealand, pp.14-16.

Lastly, the cases show that IC managers at both ministerial and official levels are consistently trying to balance multiple environments. In the 2002-03 budget following, managers balanced ever-present fiscal pressures with the increased demands for domestic security. Choices were made according to priorities, as not all initiatives could be funded; some initiatives were successful while others were sifted out or delayed. In the case of CORTEX, the requirement to protect New Zealanders from cyber threats (the threat environment) was at odds with aspects of the political and national environments (an acute shift in sensitivities against clandestine intelligence in light of the Dotcom affair.) The priority-setters made several key decisions in response, first rescinding and then limiting the scope of the project. Subsequently, even though the 'proactive' option was favoured for CORTEX, sensitivities in the national and political environments led cabinet to opt for the less expansive 'active' option. In this sense, the priority-setters were making a conscious choice between environmental drivers. While one option had been identified as the most sensible in terms of value-for-money, it was felt to be less optimal in terms of the political and national tensions over intelligence powers. Ministers ultimately decided on the option that, while less operationally beneficial, was more politically defensible. However, they kept the 'proactive' option alive through the maintenance of the tagged contingency, anticipating the possibility of expanding CORTEX at a future time when other environments were less volatile. In this sense, priority-setters were explicitly choosing to satisfy one set of environmental drivers at the partial expense of others, but with the ability to adjust course later on.

THE GUARDIANS IN WELLINGTON

Unlike Australia or Canada, New Zealand has maintained a single department for both expenditure and financial matters: the New Zealand Treasury. The Treasury has increasingly taken on a stronger role in governance, playing a particularly strong role in driving the major public sector reforms of the late 1980s. The seismic shift in public administration through the mid- and late-1980s led to the reinvigoration of the State Services Commission (SSC) as well, which plays a partner to the Treasury in driving government efficiency. This has led to progressively more meaningful involvement by the

Treasury and SSC in New Zealand's IC, particularly in terms of expenditure management and efficiency.

The New Zealand Treasury: The Reforming Guardian

Like many central budget agencies, the Treasury's organisation for expenditure review generally mirrors the portfolios in government. Small teams of analysts, known as 'vote teams,' provide advice to ministers, and particularly the Minister of Finance, on expenditure and performance within the portfolios they are responsible for. For intelligence matters, the relevant Treasury team is the Justice and Security vote team, which has three analysts devoted full-time to the justice, defence, and security sectors.³⁶ One of these analysts is seconded from the NZDF to address defence-related matters such as procurement projects.³⁷

In the early history of the New Zealand's IC, the Treasury's role was similar to the early role played by Australia's Treasury: it arranged methods of funding in line with security precautions, but did not take an active interest in the young intelligence agencies.³⁸ In 1976, the report into NZSIS by Ombudsman Guy Powles indicated that the Treasury should be added to the New Zealand Intelligence Council (NZIC), which was the body of permanent heads that gave strategic oversight to the work of the EIB and GCSB.³⁹ While the terms of reference of NZIC, included in Powles' report as an appendix, did not indicate Treasury's membership, Powles' revised concept of the NZIC indicated Treasury involvement.⁴⁰ It appears, however, that the Treasury was not added as a standing member

³⁶ NZ Treasury (2011) *Treasury Output Plan 2011-2012*, Wellington: New Zealand Treasury, p.28; NZ Treasury (2012) *Treasury Output Plan 2012-2013*, Wellington: New Zealand Treasury, p.29. These reports identify 3.1 FTEs devoted to the work of the Justice and Security vote team.

³⁷ NZ Treasury (2011) *Treasury Output Plan 2011-2012*, p.28.

³⁸ Wharton indicates that the funding arrangements for NZSS were taken up as a matter for the Treasury, but little else is indicated of Treasury's involvement. Wharton, M. (2012) *The Development of Security Intelligence in New Zealand, 1945-1957*, MA Thesis, Palmerston North, NZ: Massey University.

³⁹ Powles, G. (1976) *Security Intelligence Service: Report by Chief Ombudsman*, Wellington: Government Printer, pp.100-101.

⁴⁰ Powles, 1976, pp.100-101.

of NZIC. It was only in 1987, when Cabinet formed ODESC to replace NZIC, that the Treasury and the SSC were added to the standing membership.⁴¹

The timing of the Treasury and SSC's addition to ODESC was not a coincidence. A confluence of events through the mid-1980s resulted in New Zealand rethinking both its IC and its public sector writ large. Firstly, an all-hazards approach to security was becoming popular because of New Zealand's natural environment and the increased threat posed by international terrorism.⁴² Secondly, the break in the US-NZ intelligence relationship in 1985 forced a review of New Zealand's foreign intelligence requirements and capabilities. One of the recommendations of the *Review of New Zealand's External Intelligence Structure and Requirements*, known as the Hensley Review, was the expansion of New Zealand's SIGINT capability through the construction of a new GCSB station for the interception of satellite communications.⁴³ This was a substantial capital project that, along with the other recommendations of the Hensley Review, had significant expenditure implications.

The most systemic force that would change the relationship of the Treasury and SSC to the IC was the overarching reform of the public sector itself (known in New Zealand as the 'state sector'), which was begun by the Labour government in 1984 and extended to approximately 1993. It is somewhat ironic that, while the civil service was viewed as part of the problem,⁴⁴ the Lange government's most reliable allies in the state sector reforms were the officials in the Treasury. It has been noted that ideas of reform had been percolating in the Treasury for years before, but had found little traction with governments prior to 1984. However, the shift in political landscape with the election of the Lange government combined with the untenable economic situation created an opportunity for Treasury officials to joint forces with activist ministers (particularly the Minister of

⁴¹ Cabinet Minute (March 2, 1987) CM 87/7/11 'Domestic and International Security: Policy Coordination and Management,' NZA: AAFH 6790 W5510 (Box 268) R 3 DESC Part 1.

⁴² Hensley, G. (2006) *Final Approaches: A Memoir*, Auckland: AUP, p.295.

⁴³ Hager, N. (1996) *Secret Power*, Nelson NZ: Craig Potton, pp.180-81.

⁴⁴ State Services Commission, (1994) *New Zealand's Reformed State Sector*, Wellington: State Services Commission, p.3.

Finance) and rework the foundations of the New Zealand state sector.⁴⁵ The Treasury's 1984 briefing to the incoming government, *Economic Management*, clearly articulates the problems the Treasury saw in fiscal and expenditure management, and laid out what the department saw as viable fixes.⁴⁶ The briefing was prepared prior to the general election of 1984 for whatever new government would come to hold power; as such, it indicates Treasury's view towards reform regardless of political master.

The *State Sector Act 1988* (SSA) and the *Public Finance Act 1989* (PFA) began the state sector reforms of the 1980s by not simply 'letting managers manage,' but forcing them to.⁴⁷ The *Fiscal Responsibility Act* of 1994 rounded out the reforms by forcing the government to define its short, medium, and long-term fiscal priorities, which then define departmental planning.⁴⁸ The overall budget process has developed into a system that has been described as "entirely top-down,"⁴⁹ and includes built-in mechanisms at the strategic level to control expenditure levels across spending departments, including the intelligence community.

The very nature of the output/outcome model and the strategic top-down approach to priorities puts the burden of proof on the spenders to justify expenditure increases. The use of 'baselines,' essentially forward estimates extending three years, forces spenders to justify any baseline increases or reallocations, rather than having the burden of proof lie with the guardians.⁵⁰ In essence, the 'default setting' is expenditure control. For instance, going back to the case of NZSIS' resource bids after 9/11, the government had put forward its strategic priorities, signalling that it wanted more outputs related to intelligence to achieve the outcome of greater security. One of NZSIS' outputs, in this case security

⁴⁵ Boston, J. (1987) 'Transforming New Zealand's Public Sector: Labour's Quest for Improved Efficiency and Accountability' *Public Administration*, 65:4, pp.429-30.

⁴⁶ NZ Treasury (1984) *Economic Management*, Wellington: New Zealand Treasury, <http://www.treasury.govt.nz/publications/briefings/1984i/> (accessed Sept 2014).

⁴⁷ Jensen, G. (2003) 'Zen and the Art of Budget Management: The New Zealand Treasury' in Wanna, Jensen, and de Vries eds. (2003) *Controlling Public Expenditure* Cheltenham, UK: Edward Elgar, pp.32-37.

⁴⁸ Ibid, pp.43-45.

⁴⁹ Ibid, p.30

⁵⁰ Schick, A. (1996) *The Spirit of Reform: Managing the New Zealand State Sector in a Time of Change*, Wellington: NZ Treasury and State Services Commission, pp.59-60

intelligence reporting, would be key to satisfying the government's increased demand. Because internal reallocations within NZSIS' baseline could not sustainably achieve the desired increase in outputs, a case could be made for baseline increases.⁵¹

The Treasury came to play a strategic role focused on oversight and governance, rather than a tactical one focused on administration. While the Treasury gave up the detailed day-to-day tasks of financial administration, it became responsible for overseeing the financial health of departments, monitoring overall expenditure across programmes, and ensuring that departments were performing efficiently and effectively.⁵² To perform this strategic oversight role effectively, the Treasury ultimately leverages information, relationships, and the cabinet process.

Analysing and Advising: Leveraging Information, Relationships, and Process.

The NZ Treasury, like its Australian counterparts, is reliant on information in order to police expenditure. Financial reporting, output costing data, and other types of expenditure-related information are housed centrally in the Treasury-run Crown Financial Information Service Network (CFISnet), which is a secure database, networked to all departments.⁵³ Evidence that the New Zealand intelligence agencies also upload data to CFISnet can be found in job advertisements for the Intelligence Community Shared Services (ICSS), which provides corporate services across the agencies comprising the core IC (GCSB, NZSIS, and NAB). The position description for an ICSS business analyst states that one of the expectations for the position is to, "upload and reconcile financial reports in CFIS."⁵⁴ A position description for a finance accountant with ICSS is even more telling, stating that one of the position's roles is to "contribute to the accurate preparation, peer

⁵¹ Woods, E.R. (Director of Security) to Clark, H. (Minister in Charge of NZSIS), (Nov 22, 2001) 'NZSIS Budget Proposals Post 11 September.'

⁵² Ibid.

⁵³ NZ Treasury (2011) *Putting it Together: New Zealand's Financial Management System*, Wellington: New Zealand Treasury, pp.79-80; NZ Treasury (2009) *An Overview of Crown Reporting Requirements*, Wellington: New Zealand Treasury, p.1; Banfield, J. (1999) 'Treasury Beefs Up Security' *Computerworld* (online), http://www.computerworld.co.nz/article/514621/treasury_beefs_up_security/ (accessed Sept 2014).

⁵⁴ NZSIS, (2013) Position Description: Business Analyst – Financial Services, Intelligence Community Shared Services, <http://www.security.govt.nz/assets/media/application-forms/27.%20ICSS%20Business%20Analyst%20-%20Financial%20Services.pdf>. (accessed July 2013)

review and submission of monthly CFIS reporting to Treasury within set deadlines.”⁵⁵ The Treasury is able to use this information to monitor baselines, ensure financial models used by departments are sound, track expenditure trends against appropriations, and provide financial reporting to ministers.

During the budget cycle, the Treasury can rely on CFIS data to provide a challenge function to departmental proposals for baseline increases. Cabinet Office circulars, which act as directives to departments on cabinet business, have consistently made clear that Cabinet requires departments to consult the Treasury and the Minister of Finance on submissions that have expenditure implications. Annex 1 to the 1998 Cabinet Office Circular CO (98) 17 *Guidelines for Changes to Baselines* states that:

*All proposals with economic and/or fiscal consequences require consultation with the Treasury. For each proposal Treasury is required to provide an assessment against the Guidelines for Changes to Baselines and the criteria for capital contributions as set out in this Circular.*⁵⁶

The same document indicates that proposals to change baselines require consultation at the ministerial level with the Minister of Finance.⁵⁷ The Cabinet would expect to see indication of Treasury consultation on cabinet submissions, along with related Treasury analysis and advice, with the implication that papers would usually not be accepted without this analysis.⁵⁸ This requirement has continued through several iterations of Cabinet Office guidance. The 2011 Circular CO (11) 6 *Guidelines and Requirements for Proposals with Financial Implications* states that:

Departments must consult the Treasury at least two weeks before the deadline for submission to the Cabinet Office on all Cabinet papers that contain recommendations on expenditure or revenue, or that have financial, fiscal, economic or regulatory implications. If requested by the Treasury, the Cabinet

⁵⁵ NZSIS, (2013) 'Position Description: Finance Accountant, Intelligence Community Shared Services,' [http://www.security.govt.nz/assets/media/application-forms/ICSS%20Finance%20Accountant%20\(1\).pdf](http://www.security.govt.nz/assets/media/application-forms/ICSS%20Finance%20Accountant%20(1).pdf) (accessed July 2013).

⁵⁶ Cabinet Office (1998) 'CO (98) 17: *Guidelines for Changes to Baselines*,' Wellington: Department of Prime Minister and Cabinet.

⁵⁷ Ibid.

⁵⁸ Ibid.

*paper should include Treasury comments and/or alternative recommendations without amendment.*⁵⁹

This mechanism applies just as much to the intelligence community as it does to other departments. In 2002, the Treasury had identified alternative options regarding funding for protective security vetting in NZSIS' Vote Security Intelligence (Vote SI).⁶⁰ Baseline increases for 2002/03 for Vote SI were also the subject of Treasury consultation as per normal requirements.⁶¹ The requirement that alternative options identified by the Treasury are included in a cabinet submission gives the Treasury the ability to keep vote ministers honest. These measures ensure that the Treasury can keep the full range of expenditure options open for Cabinet discussion, and that no submission can prematurely close off options simply by omitting them.

While the Treasury is consulted on cabinet submissions for new or expanded funding, adjustments⁶² within votes do not require cabinet approval. However, this does not mean that the Treasury is out of the loop. Adjustments to votes are subject to approval by 'joint ministers,' always including the Minister of Finance and the relevant vote minister.⁶³

The ability of the Treasury to provide 'second opinion' advice to ministers on expenditure proposals is a key element in its role as guardian. In advance of a meeting between the Minister of Finance and the ministers responsible for the justice sector (Justice, Police, Courts and Corrections), the Treasury briefing mounted a withering attack on the quality of analysis in the New Zealand Police budget proposals. The Treasury briefing stated that the NZ Police analysis did not meet the standards set by Cabinet, and all options had not been adequately considered. The 0.4% savings

⁵⁹ Cabinet Office (2011), *Guidelines and Requirements for Proposals with Financial Implications*, CO (11) 6, Wellington: Department of Prime Minister and Cabinet.

⁶⁰ Woods, E.R. (Director of Security) to Clark, H. (Minister in Charge of NZSIS) (February 8, 2002) 'Supplementary and Budget initiatives for Vote Security Intelligence.'

⁶¹ Woods, E.R. (Director of Security) to Clark, H. (Minister in Charge of NZSIS) (March 24, 2003) 'Meeting with Treasury: Budget Bilaterals', Declassified by NZSIS in February 2010, <http://www.security.govt.nz/archives/september-2001/> (accessed 2013).

⁶² Adjustments move funds *within* a vote, not changing the overall size of the vote. See Cabinet Office (2011), *Guidelines and Requirements for Proposals with Financial Implications*, CO (11) 6.

⁶³ Ibid.

identified by NZ Police were unacceptable, and the Treasury believed that the Police could achieve a 1.5-3% reduction. The Treasury felt that both initiatives put forward by NZ Police for funding in Budget 2009 should be opposed, as they had been unable to show that previous initiatives had achieved an acceptable return on investment. Finally, the Treasury recommended that the NZ Police should be the subject of a detailed review analysing value-for-money in NZ Police programmes.⁶⁴ Also in 2009, the Treasury advised ministers that proposed savings identified by the Ministry of Defence were inadequate and that reductions in corporate costs could alleviate identified cost pressures.⁶⁵ In 2014, the Treasury advised the Minister of Finance on options for reducing the expenditure in NZDF's 2014 budget bid, indicating that options available included the deferral of capital spending, deferring estate remediation, or reducing outputs.⁶⁶

The Treasury also has a direct pull on the senior leadership of departments. As part of the Treasury's effort to manage departmental performance, relationship and feedback letters were introduced in 1996.⁶⁷ These letters, written by the Treasury (and sometimes jointly with the SSC) set and evaluate departmental performance goals. The letters subsequently form part of the evaluation of a CE's performance.⁶⁸ The ability to influence a CE's performance evaluation is a significant advantage to the Treasury in forging a whole-of-government corporate culture towards efficiency and the responsible management of expenditure.

⁶⁴ NZ Treasury (2009) 'Budget 2009: Bilateral for Votes Corrections, Courts, Justice and Police (Justice Sector Votes)' T2009/622, <http://www.treasury.govt.nz/publications/informationreleases/budget/2009/pdfs/b09-t2009-622.pdf> (accessed Oct 2014).

⁶⁵ NZ Treasury (2009) 'Budget 2009: Bilateral for Votes Defence, Defence Force and Research, Science and Technology' T2009/483, <http://www.treasury.govt.nz/publications/informationreleases/budget/2009/pdfs/b09-t2009-483.pdf> (accessed Oct 2014).

⁶⁶ NZ Treasury (2014) 'Budget 2014—Options for New Zealand Defence Force Bid' T2014/299, <http://www.treasury.govt.nz/downloads/pdfs/b14-info/b14-2849061.pdf> (accessed Oct 2014).

⁶⁷ Schick 1996, p.35.

⁶⁸ For an example of a joint Treasury-SSC feedback letter, see Craig, D. (Dep Commissioner SSC) and Valins, O. (Justice & Security Vote Manager) to Bridgman, A. (CE Justice) regarding Justice Sector Four-Year Plans, March 22, 2013, <http://www.treasury.govt.nz/downloads/pdfs/b13-info/b13-2595697.pdf> (Accessed Feb 2015).

Finally, the Treasury, like its Australian counterpart, has access to most cabinet and officials' committees, including the ones central to intelligence. The Minister of Finance has historically chaired the cabinet committee dealing with expenditure, and has sat on the cabinet committee overseeing the intelligence community. While the CE of the Treasury has sat on ODESC, a ministerial orientation guide from 2008 indicates that the Treasury's attendance in existing ODESC machinery was primarily as the government's chief economic advisor.⁶⁹ Simon Murdoch's 2009 *Intelligence Agencies Review*, indicated that while ODESC(I) was useful from a policy and operational coordination standpoint, it was ill-suited to performing a *governance* function, which required the consistent involvement of all three central agencies performing a governance role.⁷⁰ ODESC(G), which resulted from the Murdoch Review, preforms this governance function with the Treasury as a key member. Through increasing involvement in the intelligence-related committee structures, the Treasury is furthering its involvement in IC governance and expenditure.

The Downside of Agility: Pressures on the Treasury as a Guardian.

The Treasury's ability to provide advice to ministers is very much dependent on the quality of analysis delivered by its vote teams. Ironically, resource constraints and baseline degradation have led to significant pressures on vote analysts. In the 'Line-by-Line' Review of the Treasury conducted prior to the Budget 2009 cycle, the Treasury indicated that the collective effect of government expectations would stretch the existing vote teams.⁷¹ Analysts examining the Treasury's 2009 budget submission recognised that, "the core departmental baseline has steadily eroded in real terms over the last decade," and that

⁶⁹ NZ Treasury (2008) *Guide to the Treasury*, Wellington: New Zealand Treasury, pp.9.2-9.3. This orientation book for new ministers and their staff states that if ODESC is activated, the Treasury's key roles are to: 1) advise Cabinet on measures needed to maintain financial and economic stability; 2) advise Cabinet on the most appropriate way of funding the liabilities incurred by or likely to be incurred by Government; 3) if directed by Cabinet, make emergency funding allocations to the relevant departments to cover relief funds and reimbursement of emergency expenditure. (3 roles are quoted verbatim from document, pp.9.2-9.3).

⁷⁰ Murdoch, S. (2009) *Intelligence Agencies Review: Report to the State Services Commissioner*, Wellington: State Services Commissioner, pp.43.

⁷¹ NZ Treasury (2009) '2009 Line-by-Line Review—Treasury Response', <http://www.treasury.govt.nz/publications/informationreleases/budget/2009/pdfs/b09-llr-treasury.pdf> (Accessed Oct 2014).

there was little room for further savings in the Treasury's baseline.⁷² In fact, the options outlined in the Line-by-Line Review showed that further savings would lead to the Treasury ceasing some core functions altogether. The conclusion was that a 20% baseline increase was needed to bring the Treasury's capabilities up to a point where they were considered adequate for the tasks at hand.⁷³

While the signalling through the 2009 budget could be seen as the Treasury trying to play the budget game to its own benefit, empirical evidence indicates otherwise. Government had identified Strategic Results Areas (SRAs) that it wanted to significantly affect, which required increased Treasury attention. In order to meet this new demand within existing baseline resources, the Treasury had 'streamlined' its analysis of votes that did not directly impact the government's identified SRAs.⁷⁴ This led to 20 votes being handled by two FTEs. Vote CS&I, Vote SI, and Vote Prime Minister and Cabinet (Vote PMC) were fully streamlined. Vote Defence Force (Vote NZDF) and Vote Defence were partially streamlined (i.e. capital expenditure were prioritised, but operating expenditure was streamlined).⁷⁵ The Treasury also decreased its work on long-term issues, focusing instead on shorter-term analysis.⁷⁶ While not directly related to vote streamlining, the capacity of the Treasury's vote teams was identified as a concern in the 2011 Performance Improvement Framework Review (PIF Review) of the Treasury. The PIF Review identified that the quality of the Treasury's vote analysis was inconsistent, and that the generalist nature of the vote analyst position could limit the Treasury's input into long-term departmental initiatives.⁷⁷

⁷² NZ Treasury (2009) 'Bilateral Briefing for Vote Finance' T2009/509, <http://www.treasury.govt.nz/publications/informationreleases/budget/2009/pdfs/b09-t2009-509.pdf> (Accessed Oct 2014).

⁷³ The Treasury's baseline had declined 20% in real terms over 9 years. See NZ Treasury (2009) '2009 Line-by-Line Review—Treasury Response,' pp.1,3,12.

⁷⁴ NZ Treasury (2009) '2009 Line-by-Line Review—Treasury Response,' pp.5-6.

⁷⁵ NZ Treasury (2009) '2009 Line-by-Line Review—Treasury Response,' p.13

⁷⁶ Ibid, pp.6,12.

⁷⁷ State Sector Commission (2011) *Performance Improvement Framework: Formal Review of the Treasury*, Wellington: State Services Commission, pp.25,45.

While concerns over the Treasury's capacity exist, it is clear that the Treasury has been a driving force in governance reform. Over time, the Treasury has developed better access to the intelligence spenders, better information on their expenditure and performance, and has become a central player in the interdepartmental architecture governing the IC. In short, the Treasury now plays essentially the same governance role for the New Zealand IC that it does for the rest of the state sector. The Treasury's much more persistent role in IC governance stems from a revolution in its overall role following the substantial state sector reforms of the 1980s. However, these environmental shifts also changed the position of the intelligence spenders.

THE SPENDERS IN WELLINGTON

The state sector reforms of the 1980s saw significant changes not only for the guardians in the Treasury, but also for the spenders within the IC. The organisations in the IC, and particularly the collection agencies, were faced with a quandary: how to maintain effectiveness in clandestine intelligence while the political environment was radically shifting towards transparency. The *State Sector Act* and the *Public Finance Act* epitomised this change, and forced the New Zealand IC to re-evaluate its position (literally, in some instances) as part of the state. The spenders worked with the guardians and priority-setters to determine a workable solution, and have progressively built on the model. Ultimately, IC spenders have been responsive to, and indeed shaped by, the government's choices.

The Early Years: A Hidden Community, with Hidden Expenditure

Like its Commonwealth partners in Britain, Canada, and Australia, the New Zealand IC's early expenditures were mostly hidden within the votes of other government departments. One of the few early documents pertaining to the New Zealand Security Service (NZSS) was the Order-in-Council exempting NZSS personnel from the *Public Service Act*. However, by design, the Order-in Council says nothing about expenditure for the new

organisation.⁷⁸ The NZSS used the Ministry of Justice as cover, and the budget for the Service was hidden within the Ministry of Justice vote under the line item 'prison officer's overtime.'⁷⁹ The JIB(W) and New Zealand Combined Signals Organisation (NZCSO)⁸⁰ were both part of the Ministry of Defence, and their funding flowed through the Defence Vote. Even after the creation of GCSB in 1977, its funding was masked in the overall vote for the Ministry of Defence.⁸¹

While the funds for the secret agencies were not visible, the spending was subject to ministerial oversight and approval. Ombudsman Guy Powles's report on the NZSIS in 1976 indicated that the responsible Minister (in this case the Prime Minister) was consistently briefed on the Service's estimates, as was the parliamentary Public Expenditure Committee.⁸² However, Powles noted that the information presented to the Prime Minister related to the Service's activities was not directly related to the expenditure information (i.e. the Minister could not easily equate levels of expenditure with levels of activity). Powles recommended that the Service adopt a programme budgeting approach, so that the Minister could more easily judge the levels of Service activity in specific activities.⁸³ This arose out of a concern that the NZSIS was not placing enough resources into counter-intelligence work, and that choices should be made in terms of the amount of counter-subversion work that it should be conducting.⁸⁴ Similarly, NZCSO's funding (and subsequently GCSB's) was overseen by the Minister of Defence, through the Secretary of the MoD and the Chief of the Defence Staff.⁸⁵

⁷⁸ Wharton, M.L. (2012) *The Development of Security Intelligence in New Zealand, 1947-1957*, unpublished thesis, Palmerston North: Massey University, p.105-106, and Appendix H for Order-in-Council.

⁷⁹ Ibid, p.106.

⁸⁰ The forerunners to NAB and GCSB, respectively.

⁸¹ Quigley, D.H. (1999) *Inquiry into Defence Beyond 2000*, Report of the Foreign Affairs, Defence, and Trade Committee of the House of Representatives, Wellington: Parliament of New Zealand, p.105; Hager, (1996) *Secret Power*, p.224.

⁸² Powles, 1976, pp.55-56. Powles also noted that on at least one occasion the Minister had requested more detailed, sensitive information from the NZSIS and had been provided it.

⁸³ Ibid. pp.56-57.

⁸⁴ Ibid.

⁸⁵ GCSB website, 'Oversight', <http://www.gcsb.govt.nz/about-us/history-ia.html> (accessed 2011).

Changing Times: The State Sector Reforms

The 1980s are mostly remembered for how the decade began to change the open side of government in New Zealand. However, the secret side of government was also put on a course of fundamental structural change. The breakdown of New Zealand's partnership with the United States, the defence review conducted by Derek Quigley, and the overarching reforms of the state sector coalesced to reshape the New Zealand IC.

Looking back, Derek Quigley noted the explicit linkage between the 1989 defence review and the larger state sector reforms: the crafters of the defence review *started* with the premise that the principles of state sector reform should be directly applied to defence.⁸⁶ Among the core principles of state sector reform were that there should be explicit lines of accountability; that policy and operational/administrative roles should be separated; and that managers should be allowed to manage.⁸⁷ GCSB's position within government was at odds with these principles. While administratively part of the defence establishment, since 1977 the GCSB's operational and policy guidance had come from the Committee of Controlling Officials, chaired by the head of the Prime Minister's Department.⁸⁸ This arrangement effectively split accountability for GCSB between the Minister of Defence (for finances and administration) and the Prime Minister (for policy). This split accountability continued following the creation of the ODESC machinery in 1987, which replaced NZIC and CCO.⁸⁹ Also, following the 1989 review, the defence diarchy was being formally split. This would leave the MoD responsible for policy and analysis, and the NZDF responsible for military operations. GCSB did not sit easily in either structure as it was operational, but also a *government* asset, as opposed to a purely military one.

At the same time, the External Intelligence Bureau (EIB), New Zealand's civilian all-source assessment organisation, faced similar uncertainty. Having previously been part of the Prime Minister's Department, the EIB found itself homeless following the fragmenting

⁸⁶ Quigley, D.H. (2006) 'The Evolution of New Zealand Defence Policy' *Security Challenges*, 2:3, pp.44-45.

⁸⁷ Quigley, 2006, pp.44-45.

⁸⁸ GCSB (2011) 'Oversight', GCSB Website <http://www.gcsb.govt.nz/about-us/history-ia.html> (accessed 2011).

⁸⁹ Ibid.

of the PMD into the Cabinet Office, PMO, and Office of the DESC Coordinator. Between 1987 and 1989 the EIB lived in MFAT, but this was counter to the concept of national intelligence assessment placed close to senior consumers in the cabinet system.⁹⁰

In 1989, the GCSB moved out of the defence portfolio and became accountable to the Prime Minister as the 'Minister Responsible for the GCSB.' This corresponded to the passage of the *PFA*, which classified the GCSB, NZSIS, and EIB as crown agencies.⁹¹ With this classification, the three core intelligence organisations in New Zealand became semi-autonomous and fell under the crown agency provisions of the *PFA*. While crown agencies were accountable to a minister, a minister did not control them as directly as a public service department. The crown agency provisions of the *PFA* did lay out reporting requirements in line with the thrust towards better financial and performance management; agencies were required to produce statements of intent, annual financial statements, and were explicitly subject to Treasury requirements for financial information.⁹²

However, these requirements were not conducive to clandestine agencies because of the need to maintain operational security. The provisions of the *PFA* required agencies to report expenses, cash flows, specific information on outputs and objectives, and existing financial commitments.⁹³ The *PFA* also required that these financial statements be tabled in Parliament, making them public documents.⁹⁴ On one hand, the political environment dictated that the intelligence agencies needed to be included in the larger state sector reforms, particularly in regard to transparency. On the other hand, there was an equal imperative that operational security be protected in order to maintain the agencies' effectiveness. A little-noticed piece of legislation, the *Public Finance Amendment Act (No.2) 1991*, was crafted to strike a balance between these equally necessary imperatives. This Act

⁹⁰ Powles, 1976, p.99 for the Terms of Reference for EIB.

⁹¹ *Public Finance Act 1989*, No.44, Sec.88(4). In 1992, the term 'crown agency' was replaced by the term 'crown entity.'

⁹² *Public Finance Act 1989*, No.44.

⁹³ *Ibid*, Sec.41.

⁹⁴ *Ibid*. Sec.44.

introduced Part 7A into the *PFA*, which specifically addressed the intelligence collection agencies.

Part 7A designated NZSIS and GCSB as ‘security and intelligence departments’ (SIDs) and laid out revised financial management and reporting requirements for these agencies. For instance, Section 4 of the *PFA* dictated that separate appropriations would be made to departments for each output class and capital contribution, while Section 9 dictated that under each output class, there would be detailed financial information included in the annual Estimates.⁹⁵ The addition of Part 7A refined these requirements for SIDs, stating that there would be a single appropriation or vote and a single class of output in the estimates. This ensured that total funding levels for each agency were transparent and that funds allocated by parliament were clearly associated to a particular vote, but funding breakdowns and specific capabilities were not publicly known, as they would be with other departments.⁹⁶ Under Section 19 of the *PFA*, departments could only open and operate bank accounts as approved by the Treasury, and at banks approved by the Treasury.⁹⁷ While this made sense for most departments, it was hazardous for an agency such as NZSIS, which, for instance, might need to surreptitiously pay human sources. Part 7A, Section 70D refined this provision by shifting accountability to an SID’s responsible minister, stating that the minister could authorise the SID to open and operate a bank account at alternative banks. However, this authorisation had to be made in writing, and could only be made if the minister was “satisfied that the security interests of the security and intelligence department so require.”⁹⁸

Similarly, the significant powers given to the Treasury under the *PFA* were tempered in relation to SIDs. Sections 21 gave the Treasury the power to direct departments as to the management of bank accounts and funds contained in them, and to demand financial information regarding expenditures from bank accounts. Under Section 79, the Treasury could also request information regarding expenditure, performance, and

⁹⁵ *Ibid*, Sec.4 and Sec.9.

⁹⁶ *Public Finance Amendment Act (No.2) 1991*, No.99. See Sec.70B for single appropriations and Sec.70C for single output class and information included in the estimates.

⁹⁷ *Public Finance Act 1989*, No.44, Sec.19.

⁹⁸ *Public Finance Amendment Act (No.2) 1991*, Sec.70D.

banking from departments and they were legally obliged to comply.⁹⁹ The addition of Part 7A did not lift these powers, but stipulated that, for bank accounts operated by SIDs, the powers would “be exercised on a basis agreed between the Minister [of Finance] and the Responsible Minister in relation to that department.” A similar clause was included in regard to the ability of the Treasury to request financial and performance information from the SIDs.¹⁰⁰ This shifted the balance of power from one in which the Treasury and Minister of Finance was dominant, to one in which there was an equal power arrangement, shared by the Minister of Finance and the minister responsible for the SIDs.

The arrangement laid out in *Public Finance Amendment Act (No.2) 1991* set the tone for future development of the expenditure and financial framework for the intelligence spenders. Part 7A of the *PFA* was repealed in 2004 because subsequent legislative changes had made it redundant, but the framework set out by Part 7A has largely continued.¹⁰¹ After the passage of the *Government Communications Security Bureau Act 2003*, many of the provisions of *PFA* Part 7A were rolled into the SIDs own legislation (the *NZSIS Act 1969* and the *GCSB Act 2003*.) Other provisions were integrated into the other parts of the *PFA* itself.¹⁰² Confusingly, the 2004 changes also changed the designation of the agencies from ‘Security and Intelligence Departments’ to ‘Intelligence and Security Departments’ (ISDs).

The *PFA* now includes six types of allocation, incorporating a dedicated allocation type for ISDs that encompasses both operating and capital expenditure.¹⁰³ It should be remembered, however, that even though detailed expenditure breakdowns are not made public, the IC spenders are required by the guardians and priority-setters to provide detailed expenditure breakdowns *internally* that are subject to scrutiny.

⁹⁹ *Public Finance Act 1989*, Sec.79.

¹⁰⁰ *Ibid*, Sec.70F, 70J, 70K.

¹⁰¹ Part 7A was repealed by the *Public Finance Amendment Act 2004*.

¹⁰² *Public Finance Amendment Act 2004*, No.113, December 21, 2004; *Public Finance Act 1989*, as at December 1, 2014. See, for instance, Sec.14 and Sec.45E.

¹⁰³ Treasury (2013) *A Guide to Appropriations*, Wellington: New Zealand Treasury, p.7, <http://www.treasury.govt.nz/publications/guidance/planning/appropriations/guide/guide-appropriations-2013.pdf> (Accessed Sept 2014).

Governance of Expenditure: Framing and Reporting Intelligence Spending

Through their own legislation and the *PFA*, the spenders are also subject to the same reporting cycle as other government departments. The NZSIS and GCSB both produce a Statement of Intent (SoI), which outlines the future goals of the spenders over the short and medium-term. The agencies also produce an end-of-year Annual Report, which outlines the agency's performance against established goals and outcomes.¹⁰⁴ For other departments, these reports are tabled in the House of Representatives, but for ISDs they are presented to the parliamentary ISC.¹⁰⁵ The SoIs remain classified because they outline planned actions by the spenders, but both GCSB and NZSIS produce a sanitised version of their Annual Report for public consumption. Just as in other departmental reports, these documents discuss the output frameworks for the IC spenders. Figure 3.10.3 shows the output framework for NZSIS constructed from its 2010 Annual Report, and Figure 3.10.4 shows the output framework for GCSB circa 2010 constructed from information in its 2009, 2010, and 2011 Annual Reports. One can see in these frameworks the linkage between the priority-setters, the guardians, and the spenders in the expenditure management system, and how the system is designed to ensure that all outputs (i.e. the products or services delivered by the spenders) are mapped to a government goal, or outcome.

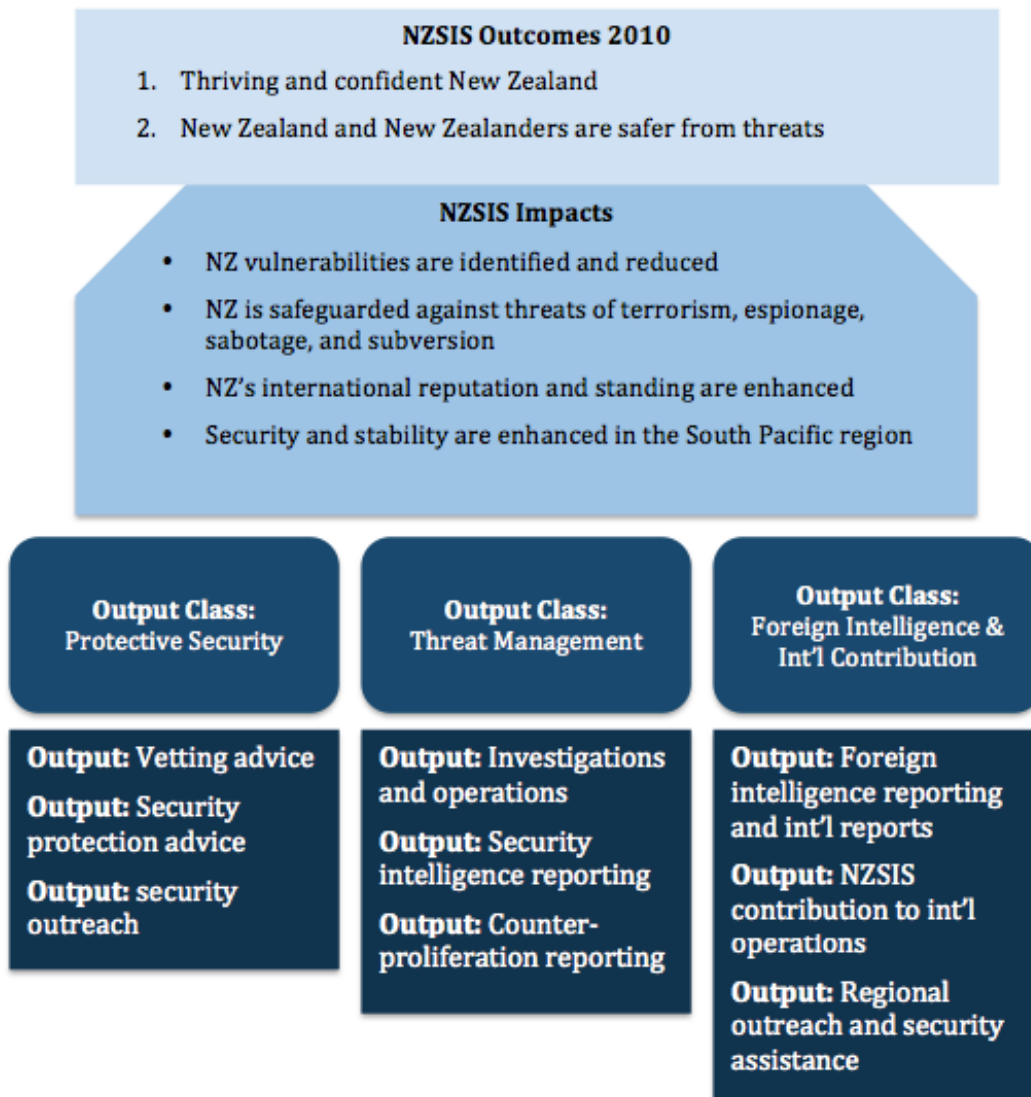
The other intelligence spenders are integrated into larger departments, and therefore their outputs compose only part of a larger framework. For instance, in 2009 the NZDPMC had one output class titled 'Intelligence Assessments on Developments Overseas' that covered the EAB. The DESG contributed to the output class 'policy advice and secretariat and coordination services' along with the Policy Advisory Group and Cabinet Office.¹⁰⁶ Figure 3.10.5 illustrates the output framework for NZDPMC the EAB and DESG, as of 2009.

¹⁰⁴ SoI requirements are outlined in Sections 39 and 40 of the *Public Finance Act 1989* and modified by Section 45E for ISDs. Annual Report requirements are outlined in Sections 43 and 44 of the *Public Finance Act 1989* and modified by Section 45E for ISDs. Section 45E refers back to specific provisions in the *NZSIS Act* and the *GCSB Act*, which discuss Annual Reports.

¹⁰⁵ Ibid.

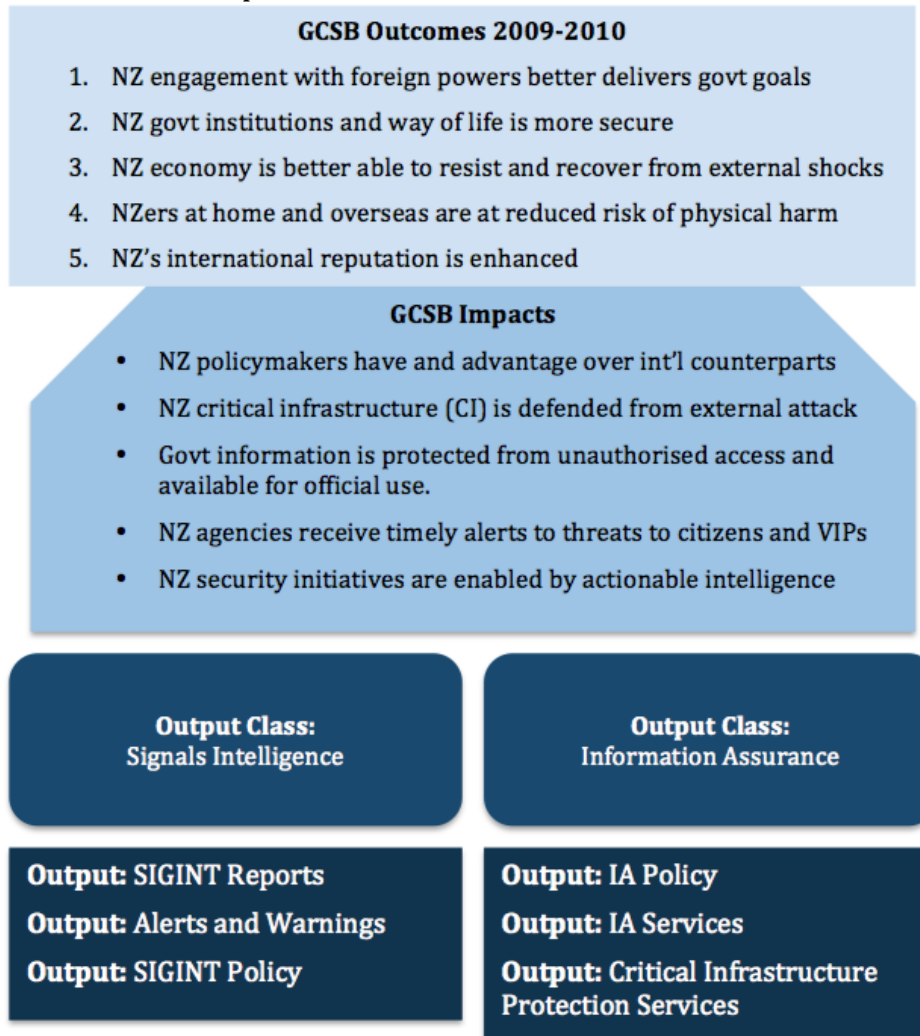
¹⁰⁶ NZ Department of Prime Minister and Cabinet (2009) *Annual Report*, Wellington: Department of Prime Minister and Cabinet, pp.5, 11-12, 16-17.

Figure 3.10.3¹⁰⁷
Output Framework for NZSIS, 2010



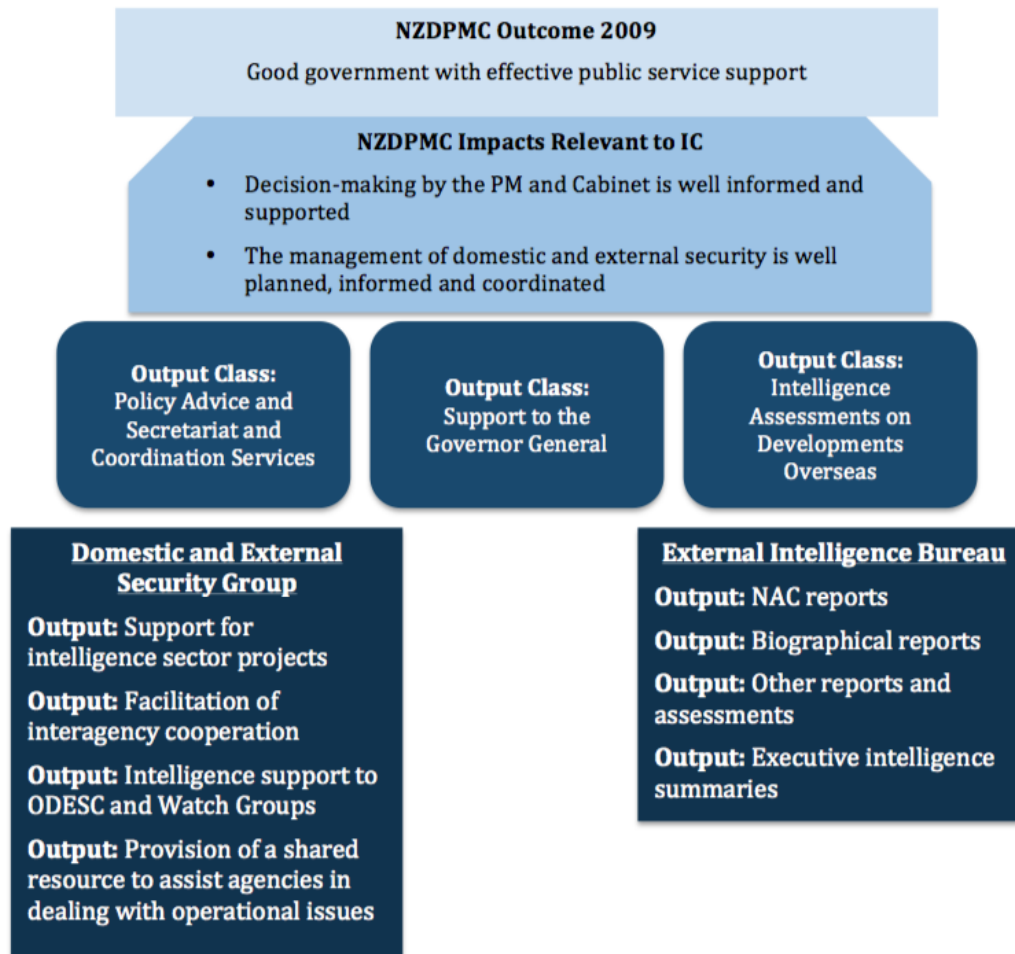
¹⁰⁷ Compiled by the author from information contained in NZSIS (2010) *Annual Report*, Wellington: New Zealand Security Intelligence Service, p.17.

Figure 3.10.4¹⁰⁸
Output Framework for GCSB, 2009-2010



¹⁰⁸ Compiled by the author from information contained in GCSB (2009) *Annual Report*, Wellington: Government Communications Security Bureau, p.2; GCSB (2010) *Annual Report*, Wellington: Government Communications Security Bureau, p.2; and GCSB (2011) *Annual Report*, Wellington: Government Communications Security Bureau, p.2.

Figure 3.10.5¹⁰⁹
Output Framework for NZDPMC Business Units Relevant to the IC, 2009



The Defence Intelligence and Security Service (DISS) has been covered in Vote Defence Force under a Multi-Class Output Appropriation, or MCOA, entitled 'Policy Advice and Related Outputs.'¹¹⁰ This MCOA encompasses three output classes: *policy advice*; *ministerial services*; and *strategic military intelligence*. The DDIS' performance goals are set and measured through the budget process, as shown in Figure 3.10.6. In 2014, the MCOA covering DDIS was revised and renamed 'Advice to the Government.' The output class

¹⁰⁹ Adapted from information contained in NZDPMC, 2009, p.5, 11-12, 16-17. It should be noted that the EAB was renamed the National Assessments Bureau in 2010, and the NAB now falls under the NZ IC Joint Strategic Framework.

¹¹⁰ NZ Treasury (2014) *Supplementary Estimates of Appropriations 2013/14: Vote Defence Force*, Wellington: New Zealand Treasury, p.148.

encompassing DDIS is now entitled *situational awareness*.¹¹¹ While the exact reasoning for the change is unclear, the NZDF SoI for 2014-17 discusses situational awareness in the defence context as a function of all-source intelligence fusion and analysis, indicating that the change may be related to the consolidation of GEOINT New Zealand.¹¹²

Figure 3.10.6¹¹³
 Output Performance Standards for Output Class ‘Strategic Military Intelligence’

| Performance Measures | 2012/13 | | 2013/14 |
|---|---|-----------------|--|
| | Actual | Budget Standard | Performance Achieved |
| Strategic Military Intelligence | | | |
| • Number of contributions to National Assessments Committee Reports | 74 | 30 – 50 | 60 |
| • Number of Military Threat Assessments | 11 | 5 - 10 | 8 |
| • Other reports and assessments | 33 (Excludes routine, periodic reports) | 3 - 5 | 143. This reflects the way reports are now released individually, rather than as a collective report |

The output frameworks shown in Figure 3.10.3, 3.10.4, and 3.10.5 illustrate how the major organisations in the New Zealand IC understood their expenditure, and how, separately, they explained this expenditure to guardians, priority-setters, and the public. In 2009, Simon Murdoch, a senior Chief Executive who had headed GCSB, MFAT and MoD, completed the *Intelligence Agencies Review*, which examined the governance and coordination of New Zealand’s national intelligence effort. The Murdoch Review, as the report became known, represented the most substantial review of the New Zealand IC post-9/11, and started the IC towards a new way of doing business.

The Murdoch Review: Formalising Community in Expenditure Planning

The Murdoch Review concluded that, while the intelligence organisations were largely collegial particularly at higher levels, the expanding complexity of the threat environment and the growth of the IC itself meant that more needed to be done to lead and

¹¹¹ Treasury (2014) *The Estimates of Appropriations 2014/15: Vote Defence Force*, pp.51, 77-79.

¹¹² NZDF (2014) *The 2014-17 Statement of Intent*, Wellington: New Zealand Defence Force, p.24.

¹¹³ Adapted from NZDF (2014) *Annual Report*, Wellington: New Zealand Defence Force, pp.49-51.

manage the intelligence organisations as a *community*. In response, there was a progressive change in the approach to expenditure planning and management across the IC.

While the individual intelligence organisations have retained their own budgets (in the case of NZSIS and GCSB) or have line-item budgets within larger departments (as in the case of NAB), the NZDPMC has pulled together the 'core' IC more closely using the expenditure management process. Instead of having separate output frameworks, there is now a unified framework for GCSB, NZSIS, and NAB, encompassing security intelligence, foreign intelligence, and national assessments. See Figure 3.10.7 for the joint IC strategic framework developed following the Murdoch Review.

To support the IC joint outputs framework, the ICG has led the production of a joint IC Statement of Intent and Four-Year Budget Plan. These documents, produced through collaboration with the spenders, outlined the combined performance priorities and expenditure plans for GCSB, NZSIS, and NAB, from 2012 through to 2016.¹¹⁴ After reviewing the documents, the Minister of Finance noted to the PM that they were "of sufficient quality that it will not be necessary for another Budget Plan to be submitted until Budget 2015, unless circumstances change significantly, or you determine another Four Year Budget Plan should be submitted."¹¹⁵ The NZDPMC's 2014 Annual Report states that the use of a joint SoI and Four-Year Budget Plan is now an established part of IC planning and management.¹¹⁶

The Murdoch Review also recommended that the IC spenders be subject to an efficiency dividend, as is the case for the Australian IC, in order to ensure that managers are pursuing more efficient ways of doing business. This appears to have been adopted, as cabinet papers from Budget 2012 state that GCSB and NZSIS were excluded from the

¹¹⁴ NZ Department of Prime Minister and Cabinet (2012) *Annual Report for the Year Ended 30 June 2012*, Wellington: Department of Prime Minister and Cabinet, pp.17-18.

¹¹⁵ Letter from B. English (Minister of Finance) to J. Key (Prime Minister) regarding 2012 Four Year Budget Plans and 2012 Budget Initiatives, N.D.

<http://www.treasury.govt.nz/publications/informationreleases/budget/2012/pdfs/b12-2342684.pdf> (Accessed Sept 2014)

¹¹⁶ NZ Department of Prime Minister and Cabinet (2014) *Annual Report for the Year Ended 30 June 2014*, Wellington: Department of Prime Minister and Cabinet, p.13.

government’s wider efficiency exercise, as “they are subject to an alternative efficiency and reprioritisation process.”¹¹⁷ Prior to 2012, the IC had still been subject to the same efficiency measures as other departments.

Figure 3.10.7¹¹⁸
 Joint New Zealand IC Strategic Framework, 2012



¹¹⁷ Cabinet Minute, CAB Min (11) 15/15, 'Efficiency Savings for Budget 2012,' April 11, 2011.

¹¹⁸ Adapted from NZSIS (2013) *Annual Report*, Wellington: New Zealand Security Intelligence Service, p.23 and GCSB (2013) *Annual Report*, Wellington: Government Communications Security Bureau, p.3.

For instance, the Treasury implemented an efficiency savings target through the 2011 budget process, setting out savings targets for each type of appropriation. The Treasury briefing for the Minister of Finance on the 2012 efficiency saving target stated that, “the main difference for security agencies is secrecy in the public interest. Security agencies and expenditure (excluding capital expenditure) are still appropriate for a savings target from an efficiency perspective.”¹¹⁹ The Treasury report then outlined three possible savings targets:¹²⁰

- 1% of ISD baselines = \$1.067 million
- 2% of ISD baselines = \$2.135 million
- 3% of ISD baselines = \$3.202 million

While it is not clear what option was chosen, the baseline estimates for both Vote CSI and Vote SI dropped for the 2011-12 fiscal year.¹²¹

Spenders have, in fact, funded a number of new measures either partially or wholly through efficiency savings. As discussed earlier, the first phase of development of the National Cyber Security Centre (NCSC), under Project CORTEX, was funded through GCSB's efficiency savings.¹²² One of the key results of the Murdoch Review was the strengthening of the NZDPMC's ability to coordinate the IC through the creation of the ICG. The NZDPMC reallocated efficiency savings from other programme areas in order to partially cover the cost of the ICG.¹²³ To make up the remaining cost, other departments in the IC that would benefit from the central coordination of the ICG were 'taxed,' with funds being reallocated from their budgets to Vote PMC. For instance, for each year from FY 2011-12 to FY 2014-15, \$0.139 million was reallocated from the NZ Police baseline to Vote PMC to fund the ICG. Similarly, the NZDF baseline was reduced by \$0.123 million each year to fund the ICG over

¹¹⁹ NZ Treasury, (Sept 24, 2010) 'Budget Report: An Expenditure Savings Target as Part of Budget 2011 Process' T2010/1825, <http://www.treasury.govt.nz/downloads/pdfs/b11-1917729.pdf> (Accessed January 2014) p.24.

¹²⁰ Ibid.

¹²¹ The baseline estimate for NZSIS dropped by approximately 4% while the baseline estimate for GCSB dropped over 20%; however this drop also incorporates the end of funding for Pipitea House.

¹²² GCSB, 2011, p.6; Cabinet Minute CAB Min (14) 25/9, 'Project CORTEX Business Case,' July 28, 2014.

¹²³ Cabinet Minute (April 11, 2011) CAB Min (11) 15/14(33) 'Budget 2011: Vote Prime Minister and Cabinet'. <http://www.treasury.govt.nz/downloads/pdfs/b11-2056150.pdf> (Accessed January 2014).

the same period.¹²⁴ These measures ensured that the creation of the ICG was fiscally neutral.

A similar 'tax' mechanism was used to fund an enhancement to the New Zealand Intelligence Community Network (NZICnet) secure IT system starting in FY 2009-2010. Departments that would benefit from the NZICnet upgrade reallocated a set amount from their baseline to GCSB who then managed the upgrade of the system. Available evidence shows that departments taxed for the NZICnet upgrade included NZDPMC, NZ Police, MFAT, and the Ministry of Fisheries.¹²⁵

Figure 3.10.8¹²⁶
Pipitea House, Wellington, circa 2011



Perhaps the greatest moves towards efficiency savings have been the formation of ICSS and the co-location of much of the New Zealand IC in Pipitea House. The new building, housing GCSB, NZSIS, NAB, and DPMC's new Security and Intelligence Group, is meant to

¹²⁴ Cabinet Minute (April, 11, 2011) CAB Min (11) 15/14(12) 'Budget 2011: Vote Defence Force.'

¹²⁵ NZ Treasury (2009) *Performance Information for Appropriations: Vote Police*, Wellington: New Zealand Treasury, p.133; NZ Treasury (2009) *Performance Information for Appropriations: Vote Foreign Affairs and Trade*, Wellington: New Zealand Treasury, p.123; NZ Treasury (2009) *Information Supporting the Supplementary Estimates 2009/10: Vote Prime Minister and Cabinet*, Wellington: New Zealand Treasury, p.599; Ministry of Fisheries (2009) *Annual Report 2009/10*, Wellington: Ministry of Fisheries, pp.75,76, http://www.fish.govt.nz/NR/rdonlyres/DDDAAE32-45BF-4931-AC5B-71B1245D9FC3/0/Annual_Report_2010_Full.pdf (Accessed Sept 2015).

¹²⁶ Photo from: Wellington Tenth Trust (2011) *Annual Report, Year Ended March 31, 2011*, Wellington, NZ: Wellington Tenth Trust, <http://www.tekau.maori.nz/LinkClick.aspx?fileticket=q6iQJWE6i0w%3D&tabid=78> (Accessed February 2015).

help the different organisations share corporate functions, secure facilities, and IT systems. Figure 4.20 shows the completed Pipitea House, or what Simon Murdoch referred to as New Zealand’s “Intelligence House.”¹²⁷ While these projects are still works in progress, the Performance Improvement Framework Review of the NZIC core agencies in 2014 found that the IC leadership had “grasped the nettle” and that there were promising signs of improvement.¹²⁸

Like their Australian counterparts, managers of the New Zealand IC are faced with strategic choices and the expenditure management process is a key arena for making these choices. Far from being consistently insulated from the expenditure management process, the intelligence community has been subject to largely the same process refined at key points to take into account the unique operational requirements of intelligence organisations. The collegial nature of the central agencies, particularly the Treasury in this context, has also contributed to the foundation of trust between the fiscal guardians and the intelligence spenders. As one observer has noted:

*Treasury analysts want to work cooperatively with departments to achieve principled solutions negotiated from a basis of mutual respect within a framework of shared public service objectives. Spending departments that can put together strong analytical cases for change are respected by the Treasury and valued by ministers.*¹²⁹

The role of Cabinet and ministers, as well as Chief Executives, in providing direction and coordination has proven important in ensuring that the budget process has matched resources with commitments. This has been seen in the creation or strengthening of organisations and systems that have meant better IC coordination, such as ICG, NAB, the National Cyber Policy Office, and the NZICnet system. Ultimately, the New Zealand IC has progressively developed towards a single ‘portfolio,’ both in structure and in concept.

¹²⁷ Murdoch, 2009, p.29.

¹²⁸ State Services Commission (2014) *Performance Improvement Framework Review of the Agencies in the Core New Zealand Intelligence Community* (Unclassified Summary), Wellington: State Services Commission, p.19.

¹²⁹ Jensen, 2003, p.53.

Chapter 11

Expenditure Management and National Intelligence in Canada

The Priority-Setters in Ottawa

As in Australia and New Zealand, the expenditure priority-setters in Canada are the Prime Minister and the Cabinet, or what Bruce Doern once called the “political crucible for budgeting.”¹ Like the other Westminster jurisdictions, the Prime Minister is responsible for the entire ship of state, not just, in the case of the Minister of Finance or Treasurer, the engine of state (the economy and the budget). While these two spheres of influence are not always in sync, they cannot exist separately. Evidence of this was seen in the second government of Pierre Trudeau, when the Prime Minister gave free reign to Finance Minister Allan MacEachen and the Department of Finance (usually simply referred to as ‘Finance’) to produce the 1981 budget. The result, while arguably economically sound, failed to consider larger political sensitivities and resulted in a significant policy setback for the Trudeau government.² To avoid similar situations in the present day, there is consistent interaction, particularly in the pre-budget period, between the PMO, PCO, and Finance to ensure that there is ‘no light’ shown between the Prime Minister and the Minister of Finance.³ As such, the expenditure management system in Canada, as in Australia and New Zealand, must meld together political, economic, and policy interests. The key venue for doing this is the cabinet system, which reviews submissions that may or may not have expenditure implications. How the cabinet system has dealt with expenditure matters related to the Canadian IC is a key consideration when looking at wider IC governance.

¹ Doern, B.G., Maslove, A.M., and Prince, M.J. (1988) *Public Budgeting in Canada: Politics, Economics, and Management*, Ottawa: Carleton University Press, p.44.

² See Savoie, D.J. (2000) *Governing from the Centre: The Concentration of Power in Canadian Politics*, Toronto: University of Toronto Press, pp.167-168.

³ Ibid, pp.156-192; Good, 2007, pp.97-101.

Bringing Expenditure Decisions to Cabinet

The ultimate vehicle for a cabinet decision in the Canadian system is the memorandum to cabinet (MC). The MC presents ministers with a policy issue for decision, which may or may not have resource implications. An MC may get its impetus from a department or from the centre of government, depending on the nature of the issue and the sponsoring minister. If a decision does have resource implications, the MC will include costing information related to the proposal, which allows ministers to see the fiscal implications of their decision. The cabinet decision commits funds 'in principle,' but it does not release funds to a department. In this sense, the MC process is commensurate to the 'first pass' decision in the Australian system. Figure 3.11.1 shows the process for producing an MC as it existed in late 2013.

A lead department drafts an MC, however the central agencies are closely involved in the process, often providing a challenge function to the department to ensure that the MC is well thought out.⁴ A PCO analyst will ensure that the MC is consistent with government priorities, properly coordinated, and that no options are being left off the table. PCO, as keeper of the cabinet agenda, is also responsible for determining when and how the MC will reach Cabinet.⁵ A TBS analyst will provide a challenge function on the programme design and implementation considerations, to ensure that the management aspects of the proposal are necessarily robust.⁶ Finally, for MCs involving major expenditure, a Finance analyst will gauge the MC's fiscal impact and review the costing, often providing a challenge function on overall costs.⁷

⁴ On the challenge function, see the discussion of PCO's role in Schacter, M. and Haid, P. (1999) *Cabinet Decision-Making in Canada: Lessons and Practices*, Ottawa: Institute on Government, pp.18-19.

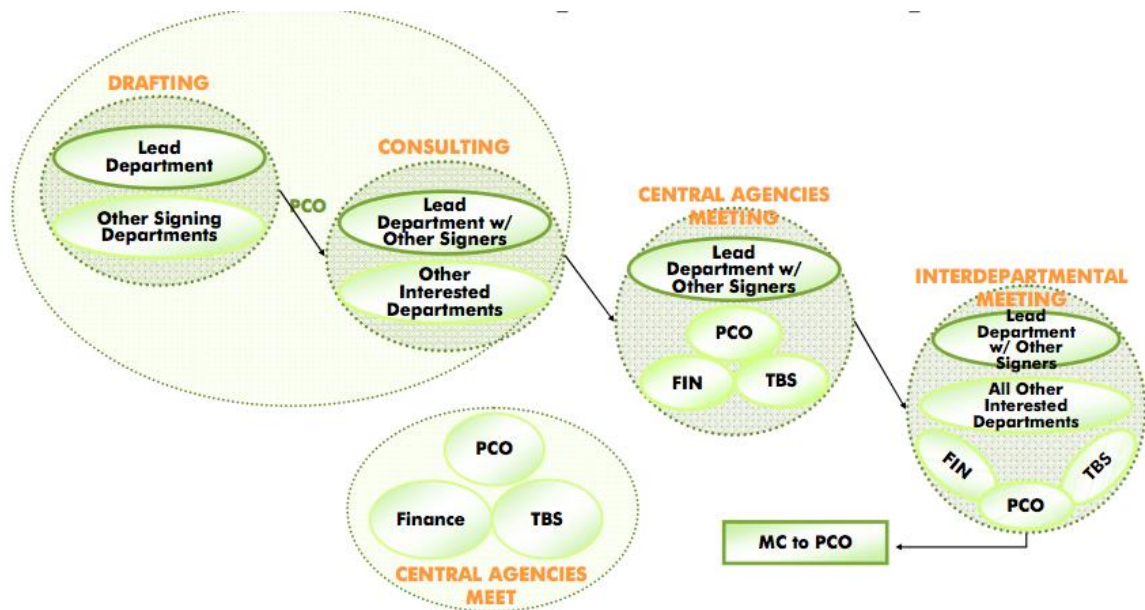
⁵ This is often dependent on the issue. Most MCs will go to a cabinet policy committee, but some will bypass the policy committees and go directly to P&P.

⁶ Presentation by senior government official, Ottawa, December 2013

⁷ On the roles of central agencies in the expenditure management process, see Office of the Auditor General (2006b) 'Chapter 1: Expenditure Management System at the Government Centre' in *Report of the Auditor General of Canada to the House of Commons*, Ottawa: Minister of PWGSC, p.35.

Formally, these interactions happen through ‘central agency meetings’ and ‘interdepartmental meetings’ (usually referred to simply as ‘interdepartmentals’) where the drafting/sponsoring departments will meet with representatives from the central agencies to discuss the draft MCs. These meetings are dictated by PCO as necessary steps in the MC process, unless particular circumstances negate the need for the meetings.⁸

Figure 3.11.1⁹
Process for Producing a Memorandum to Cabinet, 2013



Usually the central agency representatives are DG or Director level officials who have responsibility for the relevant area within their respective agency (such as Strategic Policy in PCO’s S&I Secretariat.)¹⁰ The central agencies often hold trilateral meetings between themselves to discuss coordination and strategic considerations, which happens more when the central agency analysts or managers have been on the same files longer and are more familiar with each other.¹¹

⁸ Privy Council Office, (2013) *A Drafter’s Guide to Cabinet Documents*, Ottawa: Privy Council Office, p.18.

⁹ Canada School of Public Service.

¹⁰ Presentation by senior government official, Ottawa, December 2013

¹¹ Ibid.

Also, it is important to note that some MCs are the result of already-existing interdepartmental working groups. A good example of this dynamic is the MC that laid the foundations of Canada's Maritime Security Framework, which was submitted to CC/PSAT in December 2002. The Interdepartmental Marine Security Working Group (IMSWG) was already in existence, and the MC was compiled through the IMSWG mechanism for submission to CC/PSAT.¹² While at first glance this subject may not seem directly related to intelligence, Cabinet's decision on this MC committed funds for the development of a Canadian Automated Identification System for marine traffic¹³ which was an important step in the development of Canada's RADARSAT and GEOINT missions.

There have been shortcomings identified in the process, however. The OAG's examination of the expenditure management system in 2006 noted that, while PCO dictated that central agencies should have two weeks to review MCs, there were instances where this shrank to only a few days.¹⁴ This limited time for review is sometimes the result of environmental drivers that force the timeframe for a cabinet submission into mere weeks, or sometimes days. Other times, however, it may be the result of poor planning on the part of departments. There appear to be more systemic issues in the expenditure management system however, having more to do with the inherent nature of the cabinet system itself.

The Cabinet Machine: Setting Priorities for Intelligence Spending?

As discussed in Chapter 3, the Canadian cabinet system has treated intelligence matters in a more *ad hoc* way than its Australian and New Zealand counterparts, especially through the 1990s. This has been reflected in the way the government's expenditure management processes have treated the Canadian intelligence community.

¹² On the PSAT maritime initiatives, see Avis, P. (2003) 'Surveillance and Canadian Maritime Domestic Security' *Canadian Military Journal*, Spring 2003, p.9-12 and Canadian Coast Guard, (2010) *Maritime Security Framework*, Ottawa: Fisheries and Oceans Canada, p.2 <http://www.dfo-mpo.gc.ca/Library/342662.pdf> (Accessed Sept 2014).

¹³ Avis, 2003, p.11.

¹⁴ OAG, 2006, p.45.

In 1980, the Canadian government introduced the Policy and Expenditure Management System (PEMS) in an attempt to overcome previous shortcomings seen in programme budgeting, specifically a perceived lack of an overall expenditure strategy connected to policy and a tendency towards incremental expenditure decisions.¹⁵ Under PEMS, the Cabinet broke down government business into several expenditure ‘envelopes,’ each of which was overseen by a cabinet committee. There were several other committees geared more towards government operations, such as legislative planning and communications. The powerful Cabinet Committee on Priorities and Planning, or ‘P&P,’ oversaw all of these committees, operating essentially as a miniature Cabinet.¹⁶ In conjunction with full Cabinet, the PM and the Minister of Finance, P&P was responsible for determining expenditure ceilings for each ‘envelope’ committee. The envelope committees themselves were responsible for approving new policy proposals within their areas of concern, but had to stay within their expenditure limits. This system was designed to “place responsibility for saving squarely on the shoulders of those who spent and turn all ministers into at least part-time guardians.”¹⁷ In the PEMS system, the CC/S&I was not formally one of the expenditure envelope committees, however as will be discussed, it did have some responsibility for reviewing the spending on intelligence programmes.

The PEMS system, and the way the cabinet committee machinery was set up to manage PEMS, was suitable for issues that fit squarely into specific policy communities, such as health or defence policy. However, by the 1980s it was becoming apparent that the structural arrangements of expenditure management were ill suited to the horizontality of national security issues, especially terrorism.

¹⁵ Savoie, D.J. (1990) *The Politics of Public Spending in Canada*, Toronto: University of Toronto Press, pp.56-63.

¹⁶ See Clark, I.D. (1985) ‘Recent Changes in the Cabinet Decision-Making System in Ottawa’ *Canadian Public Administration*, 28:2, pp.185-201.

¹⁷ Savoie, 1990, p.62-63.

Declassified documents from the early 1980s show that the PEMS system caused problems when the government was considering its counter-terrorism (CT) policy. Following the murder of Turkish defence attaché Attila Altikat in August 1982, it was determined that a discussion paper should be brought to Cabinet outlining Canada's CT arrangements.¹⁸ An early draft paper alluded to the expenditure issue by stating that resources sat in different budgets across many envelopes.¹⁹ As the initial drafts were completed, however, it became apparent that the totality of the Canadian CT effort was both highly interdependent and highly diffuse, encompassing many departments and agencies. The DM of Foreign Policy at DEA, de Montigny Marchand, subsequently wrote to Robert Fowler, Asst. Secretary for Foreign and Defence Policy at PCO, stating that one "basic requirement" was to develop a national counter-terrorism program, which should be the focus of a formal Memorandum to Cabinet (MC) for the Cabinet Committee on Foreign and Defence Policy (CC/F&DP).²⁰

The first draft of the MC did not explicitly mention resource issues, but made the general recommendation that PCO should be tasked to design a national CT program. However, a covering memo from E.A. Willer, Director of Emergency Preparedness at DEA, to other DEA, SolGen, and RCMP colleagues points to the fact that many of the measures identified in the MC would require financial or human resources, and that the elements that would make up a national CT program were spread across many departments, under many cabinet committees, and contained in multiple expenditure envelopes.²¹ Subsequently, it was decided that a discussion paper would be prepared for the DM Committee on Foreign and Defence Policy (DMF&DP)²², outlining the options

¹⁸ Fowler, R. (PCO) to Marchand, DeM. (DEA), (September 24, 1982), Memorandum, Secret, Released to the author under ATIA.

¹⁹ Willer, E.A. (DEA) to MC Drafting Group, (Sept 30, 1982) 'Memorandum to Cabinet on Terrorism,' attached draft of MC discussion paper, p.39, SECRET, Released by LAC to the author under ATIA.

²⁰ De M. Marchand (DEA) to R. Fowler (PCO) (October 19, 1982), Memorandum, SECRET, Released by LAC to the author under ATIA.

²¹ Willer, E.A. (DEA) to Black, E.P. (DEA), (November 1, 1982) Memorandum re: 'Memorandum to Cabinet: Terrorism and its Implications for Canada, SECRET, Released by LAC to the author under ATIA.

²² The DM committees that shadow cabinet committees are known as 'mirror committees' as they 'mirror' the cabinet policy committees.

for a national CT programme with a particular focus on coordination and resources.²³

Following the meeting of DMF&DP, an internal RCMP memorandum written to debrief the Deputy Commissioner of Criminal Operations recorded some of the DMFDP discussion. The memorandum recorded that DMFDP, “was not able to handle matters involving multi-department discussions involving different envelope committees.” The memorandum also recorded that “the Chairman’s comments were that prior to acceptance of this type of proposal that the government has to decide how much money it wishes to spend on security and that right now it has no envelope to go to.”²⁴ These observations pointed to a circular problem. To make a policy decision on a national CT programme, the government needed a sense of available resources across the national security community. At the same time, however, the question of expenditure was dependent on having a policy decision on the form and substance of the programme.

When the DEA circulated the draft MC to other concerned departments in the middle of December 1982, Eldon Black, the ADM for Security and Intelligence at DEA, wrote a covering letter, which stated that the discussion at DMF&DP had “...carried the ‘process’ of this paper even one step further, by identifying the envelope question to be at least as important as determining a ‘home’ for a counter-terrorism program...”²⁵ Given this, the text of the MC explicitly identified the expenditure management question as needing ministerial attention:

The envelope aspect is most important if there is to be a balanced and integral response capability. There is a clear need to consider a cross-envelope approach, as now exists for the Foreign Intelligence Program, or if a separate security and intelligence envelope were to be

²³ Memorandum from E.A. Willer (DEA) to E.P. Black (DEA), ‘Memorandum to Cabinet: Terrorism and its Implications for Canada’ November 5, 1982, Secret, Released by LAC to the author under ATIA.

²⁴ Memorandum from Director, Protective Policing/RCMP to Deputy Commissioner, CROPS, ‘Terrorism and its Implications for Canada’ December 9, 1982, Secret, Released by LAC to the author under ATIA, A-2012-00611.

²⁵ Memorandum from E.P. Black (DEA) to representatives of SolGen, PCO, RCMP, and TBS, ‘Memorandum to Cabinet—Terrorism and its Implications for Canada’ December 17, 1982, Secret, Released by LAC to the author under ATIA.

*established, to include specific counter-terrorism activities as part of that envelope.*²⁶

The MC was to go forward to the CC/F&DP packaged with another submission on a dedicated hostage rescue capability, which was a joint submission by the Solicitor General and the Minister of National Defence.²⁷ The process of getting the documents through three ministers' offices for briefing and signature meant that the MC arrived in PCO in June 1983, a point when cabinet committee meetings would have been ending for the parliamentary recess.²⁸ The MC was finally prepared for submission to CC/FDP in September 1983. A national counter-terrorism program was subsequently formed in July 1984, with SolGen as the lead department, and program oversight vested in CC/S&I and ICSI through the Security Advisory Committee.²⁹

The abandoning of PEMS in the early 1990s meant that formal policy envelopes were no longer a feature of the expenditure management process. However, Canada took after Australia and adopted portfolio budgeting, which Australia had developed as an improvement on the PEMS system. In portfolio budgeting, ministers had control over expenditure within their portfolio, which encompassed 'complimentary' organisations and programmes.³⁰ In this system, expenditure limits were set for portfolios, and within that limit, ministers were free to reallocate and reprioritise as they saw fit.

²⁶ Secretary of State for External Affairs and Solicitor General of Canada (February 17, 1983) Memorandum to Cabinet: 'Terrorism and its Implications for Canada,' SECRET, Released by LAC to the author under ATIA. The nature of the Foreign Intelligence Program will be examined in the following pages on expenditure guardians.

²⁷ Venner, J.A. (RCMP) from S/Sgt [redacted] (RCMP Research/Briefing Unit), (May 16, 1983) 'Memorandum to Cabinet—Terrorism and its Implications for Canada,' Secret, Released to the author by LAC under the ATIA. This memorandum indicates that in May 1983, the MC on terrorism was signed by the Minister of External Affairs, but was still waiting for the signature of the Solicitor General. The MC on the Hostage Assault Rescue Program (HARP) was at the time unsigned by both the Solicitor General and the Minister of Defence.

²⁸ Willer, E.A. (ZSE/DEA) to Caron, J. (F&DP/PCO) (June 10, 1983) Letter, SECRET, Released to the author by LAC under the ATIA.

²⁹ Kelley, W.M. (1987) *Terrorism*, Report of the Special Senate Committee on Terrorism and the Public Safety, Ottawa: Parliament of Canada, p.46.

³⁰ On the concept and adoption of portfolio budgeting, see Guess, G.M and LeLoup, L.T. (2010) *Comparative Public Budgeting: Global Perspectives on Taxing and Spending*, Albany NY: State University of New York Press, p.78; Xavier, A.J. (1997) 'Portfolio Budgeting in the Australian Portfolios—Principles and Practice' *Public Budgeting and Finance*, 17:4, p.91-92.

However, reallocation between programs within a portfolio has been identified as a challenge, let alone shifting between portfolios.³¹ The core intelligence organisations are still dispersed between several portfolios. In 1999, the Special Senate Committee on Security and Intelligence noted that, “there is no single resources envelope for the security and intelligence community within the Government of Canada. Each organisational element of the community is part of individual envelopes that correspond to individual ministerial portfolios.”³² It was noted later that, while the Ministers’ Meeting on Security and Intelligence (MMSI) would meet occasionally to take decisions on annual priorities, the standing cabinet committees took up intelligence matters that fit into larger policy discussions.³³ In 2007, the National Security Advisor, Margaret Bloodworth, indicated to the Senate Committee on National Security and Defence that this dynamic was still at play in the cabinet committee system. She stated that an ad hoc meeting of ministers chaired by the PM met to decide intelligence priorities (akin to MMSI), while the standing Cabinet Committee on Foreign Affairs and National Security (CC/FANS) would address matters such as expenditure bids.³⁴

On the surface, it would seem like there was room for disconnect between these two ministerial bodies. However, MMSI and CC/FANS had substantial overlapping membership, effectively making MMSI a sub-group of CC/FANS that would deal with particularly sensitive matters such as intelligence priorities and operational authorisations. However, there did seem to be a disconnect between the priority-setting and expenditure *processes*. One former DM who had spent time in both PCO and line departments in this period stated that, “I saw very little interplay between the intellectual process of producing a coherent set of

³¹ Office of the Auditor General (2006a) ‘An Overview of the Federal Government’s Expenditure Management System’ in *Report of the Auditor General of Canada to the house of Commons*, Ottawa: Minister of PWGSC, p.25.

³² Kelley, W.M. (1999) *Report of the Special Senate Committee on Security and Intelligence*, Ottawa: Parliament of Canada.

³³ Office of the Auditor General (2004) ‘Chapter 3: National Security in Canada—The 2001 Anti-Terrorism Initiative’ in *Report of the Auditor General of Canada to the House of Commons*, Ottawa: Minister of PWGSC, p.4.

³⁴ Bloodworth, M. (March 26, 2007) Evidence to the Senate National Security and Defence Committee, Senate of Canada, 1st Session, 39th Parliament 2006-2007, p.29.

R&Ps [requirements and priorities] and the resource allocation imperatives.”³⁵ Ultimately, as another former PCO official confirmed, the estimates and budgets for the IC organisations were largely handled vertically through their respective portfolios, with departmental DMs and ministers as the key actors.³⁶

Some might point to the Public Safety and Emergency Preparedness portfolio as the equivalent of an ‘intelligence portfolio,’ but several key organisations sit outside this portfolio with good reason, including CSEC, CFINTCOM, and the GSRP programme. This places an even greater focus on the centre of government (specifically cabinet and central agencies) to manage across portfolios in order to avoid fragmentation.

Numerous expenditure bids channelled vertically through a portfolio can be coherent if they are the end result of a horizontal discussion about IC expenditure as a whole. Where guidance did come together across portfolios and specific to the intelligence community was at the level of DMs and, even more so, ADMs and DGs. Going back to the period immediately following the Second World War, the initial leadership in the fledgling Canadian IC came not from ministers, but from DMs in Norman Robertson’s Intelligence Policy Committee (IPC), which predated a ministerial-level committee on intelligence.³⁷ Through the 1980s and 1990s, DMs would meet through ICSI approximately quarterly, while ADMs would meet more frequently through the Intelligence Advisory Committee and its successor, the Intelligence Policy Group. These groups of officials proved to be indispensable priority-setters in managing the largest expenditure project in the Canadian IC’s history: the post-9/11 Public Security and Anti-Terrorism Initiative in the 2001 federal budget.

The PSAT Initiative: Setting Expenditure Priorities During Crisis

The Public Security and Anti-Terrorism (PSAT) Initiative was the Canadian government’s massive increase in spending on security and

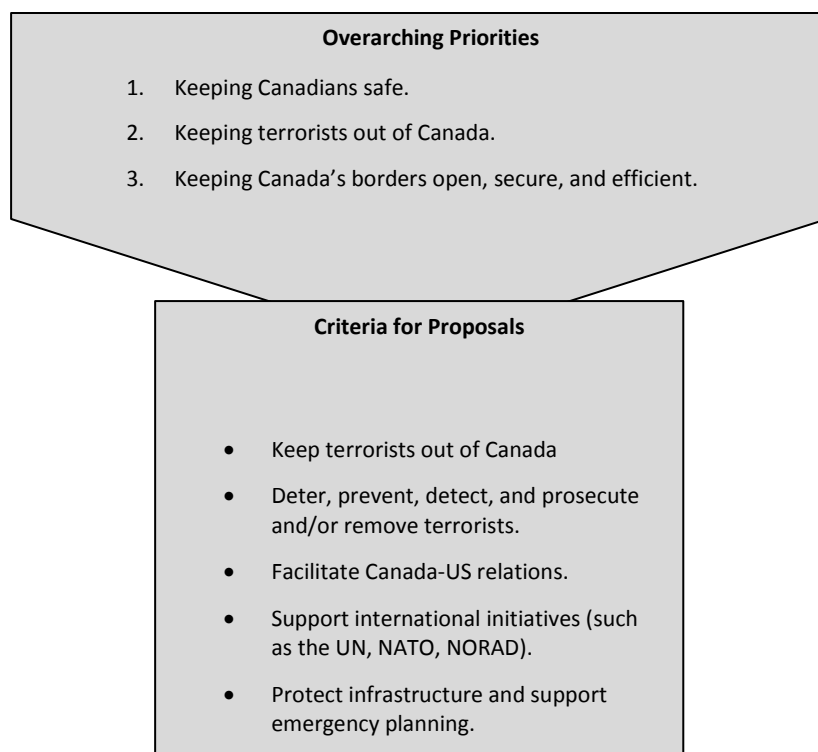
³⁵ Interview I-3.

³⁶ Interview I-11.

³⁷ Starnes, J. (1998) *Closely Guarded: A Life in Canadian Security and Intelligence*, Toronto: University of Toronto Press, pp.102-103.

intelligence following the 9/11 attacks in 2001.³⁸ Within days of the attacks, officials in Ottawa were planning to deliver a federal budget that was almost exclusively focused on security. The newly-formed Ad Hoc Cabinet Committee on Public Security and Anti-Terrorism (CC/PSAT) requested proposals from 17 federal organisations. Very much like the post-9/11 process in New Zealand, the departments were given five criteria the new funding proposals should contribute towards.³⁹ The budget itself revealed that these five criteria fell under three broad government outcomes.⁴⁰ Figure 3.11.2 illustrates the PSAT framework for Budget 2001.

Figure 3.11.2⁴¹
PSAT Framework for Budget 2001



In order to triage funding proposals and ensure they were in line with the government's stated priorities, the PCO Deputy Clerk and S&I Coordinator, Richard Fadden, chaired an ad hoc committee comprised of ADMs from the three

³⁸ While the budget package itself was titled 'Enhancing Security for Canadians,' the overall effort was known as the 'PSAT Initiative.'

³⁹ Office of the Auditor General, 2004, p.9.

⁴⁰ Department of Finance (2001) *The Budget Plan 2001*, Ottawa: Public Works and Government Services Canada, p.86

⁴¹ Department of Finance, 2001, p.86 and OAG, 2004, p.10.

central agencies, PCO, TBS, and Finance. This small committee played a gate-keeper role and challenge function on departmental proposals, reviewing departmental spending plans and making recommendations to cabinet ministers as to what proposals should be included in the overall budget package.⁴² PCO put out the word that the central agencies committee would not brook any departmental opportunism, and set ground rules for items that were out of bounds (such as Program Review cuts, or unfunded cabinet submissions).⁴³ Evidence indicates that the priority-setting process was relatively effective; a 2004 Auditor General examination of the PSAT initiative found that, “the vast majority of items put forward by departments and reviewed by central agencies showed a direct connection to the stated objectives.”⁴⁴

While the OAG report on the PSAT initiative illustrated some problems, the approach to priority-setting managed by CCPSAT and the central agencies was largely viewed as a success considering that most of the allocated funding met the government’s stated priorities and criteria. However, the post-9/11 PSAT Initiative process took place in an abnormal context. In the period directly after the 9/11 attacks, ministers were focused on security and intelligence matters, deputy ministers were equally focused, and the central agencies managed a truly central process that gauged trade-offs across the entire intelligence community. Overall, the PSAT Initiative allocated \$12.9 billion across government from 2002-2009, and a follow-up report by the OAG in 2013 found that the additional allocations were still in line with the PSAT policy priorities.⁴⁵ However, a follow-up report by the OAG in 2013 found that the Treasury Board Secretariat could not account for \$3.1 billion of the PSAT funding. This finding pointed to a larger shortcoming in IC management that has more to do with the guardians than the priority-setters.

⁴² OAG, 2004, p.9.

⁴³ Ibid.

⁴⁴ Ibid, pp.9-10.

⁴⁵ Office of the Auditor General (2013) ‘Chapter 8: Spending on the Public Security and Anti-Terrorism Initiative’ in *Report of the Auditor General of Canada, Spring 2013*, Ottawa: Minister of PWGSC.

The Guardians in Ottawa

In Ottawa, as in Canberra and Wellington, the minister responsible for the economy is second only to the Prime Minister. As such, the Department of Finance (often referred to simply as 'Finance') has a vaunted place in the Ottawa policy village. Like its British or New Zealand counterparts, Finance once handled both economic policy and financial management. The Royal Commission on Government Organisation (the Glassco Commission) of 1962 recommended that the Treasury Board be separated from the Department of Finance, creating a new guardian focused on financial management and administration. Canada, like Australia, came to have two expenditure guardians. The roles of these guardians have shifted over time to varying degrees. The dominant role of the Department of Finance in the policy process has ensured that it has remained *the* guardian in the Canadian system, but for much of the IC's history, the consistent expenditure guardian was the Treasury Board.

'The Board' and the Intelligence Community

The Treasury Board (TB), often known simply as 'the Board,' is the only cabinet committee in the Canadian government that is found in statute.⁴⁶ Prior to 1966, the TB was chaired by the Minister of Finance and was served by a small secretariat within the Department of Finance. While the Department of Finance managed the larger economic questions and defined the fiscal framework, it was originally up to the Treasury Board to advise the Minister of Finance, the PM, and Cabinet, on the most effective and efficient allocation of resources between programmes (both existing and proposed) within the government's fiscal framework. It is important to note that, formally, the Treasury Board does not approve allocations; it only approves the *authorities* required to spend allocations.⁴⁷ However, because the Treasury Board Secretariat (TBS) has detailed programme information from departments, it has a comparative advantage over the other central agencies in 'nuts and bolts' information, and can be called on to advise ministers and senior officials on decisions about

⁴⁶ The role of the Treasury Board has been laid out in Part 1 of the *Financial Administration Act*.

⁴⁷ Good, 2007, p.85.

allocations and expenditure. For this purpose, the Secretary of the Treasury Board was consistently a member of ICSI, and more recently is invited to attend DMNS when the agenda includes expenditure items.⁴⁸ The role of the Treasury Board and its Secretariat in regard to the Canadian IC is consistent with its role towards other public service departments, as it has developed over time.

Prior to the 1960s, centrally imposed controls on departmental expenditures combined with an input-based focus on management meant that more and more departmental business had to be approved by the Treasury Board. The Glassco Commission found that in 1960, 16,000 submissions were made to TB ranging from, “elaborate and far-reaching projects involving a sizeable portion of Canada’s economic resources, as in a new defence installation, to a request involving a few dollars for the purchase of sugar and tea for a reception at an Experimental Farm.”⁴⁹ This substantial workload increasingly meant that the TB’s business was being devolved to officials in its secretariat, which presented problems for both operations and accountability. Additionally, the Commission found that while the importance of the TB’s function was growing, the amount of time that the Minister of Finance spent on TB matters was minimal because of the Minister’s already significant responsibilities.⁵⁰ The Commission recommended that the Treasury Board have a dedicated chairman (the President of the Treasury Board) with no departmental responsibilities, that the secretariat be strengthened significantly and removed from the Department of Finance, and that the Board take a more strategic focus while devolving much more accountability to departments; in other words, the Board would ‘let managers manage,’ but would set appropriate guidelines and keep a close eye to ensure that they were managing effectively and efficiently.⁵¹ In 1966, the Treasury Board Secretariat was established as a new department with an initial complement of 319 civil servants and an initial

⁴⁸ See Kelly, W.M. (1999) *Report of the Special Senate Committee on Security and Intelligence*, Ottawa: Parliament of Canada, <http://www.parl.gc.ca/Content/SEN/Committee/361/secu/rep/repsecintjan99-e.htm> (Accessed Sept 2014).

⁴⁹ Glassco, J.G. (1962) *Volume 1, Report 2: Financial Management*, Royal Commission on Government Organization, Ottawa: The Queen’s Printer, pp.102, 132.

⁵⁰ Glassco, J.G. (1962) *Volume 1, Report 1: A Plan for Management*, Royal Commission on Government Organization, Ottawa: The Queen’s Printer, pp.53-54.

⁵¹ *Ibid*, pp.43-57.

budget of \$1.9 million.⁵² The Secretary of the Treasury Board became a senior DM-level appointment, and the President of the Treasury Board became a stand-alone cabinet portfolio.⁵³ This bifurcation between the Treasury Board and the Department of Finance set the foundations for the modern architecture of Canadian guardians.

Finance's direct interaction with the intelligence community has traditionally been minimal except in times of crisis such as the December 2001 federal budget. This is likely because spending proposals for intelligence organisations, structured separately across multiple portfolios, would never have been considered 'big ticket' expenditure items. Also, because Finance dealt with the strategic fiscal framework, its principal focus was at the portfolio level, while the intelligence organisations were mainly sub-portfolio items. The Treasury Board, on the other hand, had more consistent involvement with the IC because its focus was at the programme level. One former senior official stated that, "Finance had almost nothing to do with [intelligence] in terms of setting the budget, and the Treasury Board was budget-setting in the sector."⁵⁴ In line with its larger mandate, it was up to the TBS to keep an overarching view of the IC and determine the most appropriate allocation of resources in line with cabinet priorities and Finance's fiscal framework.

While some might argue that the intelligence agencies have not received adequate budgetary scrutiny or lie outside normal government processes, empirical evidence tells a different story. The 1970 Isbister Report made several recommendations related to expenditure management in the Canadian IC that set the stage for subsequent developments in the sector. The report's recommendations set out a calculated balance, keeping the essence of the expenditure management process intact for the intelligence agencies, but sufficiently modified to protect the need for operational security and national coherence. Additionally, Isbister clearly outlined that the expenditure guardians

⁵² Cabinet Conclusion (October 4, 1966) 'Treasury Board—Estimates and Establishment for 1966/67' LAC: RG2, Privy Council Office, Series A-5-a, Volume 6321, Item 29072.

⁵³ Cabinet Conclusion (December 17, 1965) 'Government Re-organization,' LAC: RG2, Privy Council Office, Series A-5-a, Volume 6271, Item 27162.

⁵⁴ I-1.

of the Treasury Board and TBS would play the same role for the IC that they played for other government sectors when it came to oversight of expenditure and programme management.

Isbister recommended that policy and resource decisions related to the interdepartmental elements of the IC (especially SIGINT and the all-source assessment units) should be made by the CC/S&I, separate from, but “in step” with, policy decisions on foreign policy, defence, and security.⁵⁵ These decisions on intelligence efforts could be ‘in step’ with the larger policy decisions because CC/S&I’s membership significantly overlapped that of the Cabinet Committee on Foreign and Defence Policy. Additionally, Isbister explicitly stated that programme forecasts and estimates should be reviewed by the DM-level interdepartmental committee (at that time the IPC) and “submitted to the Treasury Board following normal procedures as to form and content.”⁵⁶ It is apparent from Isbister’s report that Treasury Board review of the intelligence estimates and programme planning was meant to proceed essentially as it did with other departments. The TBS had an important role in pulling together expenditure information from across departments for decision-making by cabinet ministers on the Treasury Board, and then for ‘submerging’ the information in departmental votes to maintain operational security.⁵⁷ Separate consideration of some intelligence organisations’ estimates was done partly to maintain operational security, but also to coherently manage the bulk of the IC as a *national* asset. Isbister’s conclusions came to be reflected in expenditure management across many key parts of the IC.

In 1981, the Royal Commission of Inquiry into Certain Activities of the RCMP, known as the McDonald Commission, found that the RCMP Security Service budget had received greater scrutiny than would have been normal for a sub-activity:

⁵⁵ Isbister, 1970, p.48-49,

⁵⁶ Ibid, p.49.

⁵⁷ Isbister, 1970, pp.48-49. ‘Submerging’ is the term used by Isbister for having intelligence expenditure hidden in departmental votes.

The Program Forecast of the RCMP falls under the Solicitor General's Program Review. Normally, a budget such as that of the Security Service, being in the category of a sub-activity, would not receive special treatment by the Treasury Board. But it does receive special treatment. For purposes of analysis only it is broken out as a sub-activity and the Program Forecasts and the Estimates are examined as though the Security Service were a separate agency or department. The recommendations of the Secretariat are then submitted for approval to the President of the Treasury Board only, and not to the full Board, as would be normal. Thus it will be seen that the Security Service budget is subject to an extraordinarily detailed examination.⁵⁸

TBS was also involved in the scrutiny of Canada's foreign intelligence effort. In 1972, when the interdepartmental machinery for intelligence was reorganised, the Secretary of TBS became a standing member of ICSI, which had formal policy control over Canada's SIGINT and COMSEC programmes.⁵⁹

Under the Planning-Programming-Budgeting system (PPB), which was in use through the 1970s, all departments would prepare 'programme forecasts,' which outlined their baseline spending (the 'A Budget') and any anticipated additional expenditures (the 'B budget') extending approximately two years out. The forecasts would be submitted to TBS for review, and eventually to TB for approval. Based on the review of the programme forecasts, TB would then set expenditure ceilings for departments and provide a general sense of what departments could expect from future expenditure decisions. The idea was to provide departments with more settled expenditure targets across a longer timeframe while they prepared their formal estimates, and provide the TBS with some ability to cap departmental expenditures.⁶⁰ CSE, like other departments, produced a programme forecast for its SIGINT and COMSEC programmes. These programme forecasts were, at Cabinet direction, submitted to the IAC and ICSI for review prior to formally being submitted to Treasury Board and its

⁵⁸ McDonald, D.C. (1981) *Second Report: Freedom and Security Under the Law—Volume 2*, Royal Commission of Inquiry into Certain Activities of the Royal Canadian Mounted Police, Ottawa: Canadian Government Publishing Centre, pp.878-879.

⁵⁹ O'Neill, 1987, pp.26-28 on ICSI formation, and Annex D and E on committee structures.

⁶⁰ For a detailed examination of the programme forecast process, see Office of the Auditor General (1975) *Supplement to the Annual Report of the Auditor General of Canada to the House of Commons*, Ottawa: Information Canada, pp.48-53.

Secretariat.⁶¹ This effectively meant that the forward estimates for CSE received both interdepartmental review and Treasury Board review on an annual basis, in line with Isbister's 1970 recommendations.

TBS scrutiny of intelligence agencies' expenditure continued through the evolution of PPB into PEMS. Similar to Australia's forward estimates, under PEMS departments had to produce multi-year operating plans (MYOPs) for scrutiny by TBS and approval by TB. These MYOPs extended up to four years and covered all on-going and approved spending, providing a medium-term forward estimate of a department's baseline.⁶² The MYOPs were an important tool for TBS to gain the insight into departments that was necessary for making decisions across programs. As Donald Savoie explained, the on-going negotiations with departments through the review of MYOPs gave TBS analysts an unparalleled insight into the programme-level workings of departments:

*The Treasury Board secretariat stands at the centre of the ongoing MYOP exercise. The process entails sustained contact between Treasury Board analysts and departmental officials. It offers the Treasury Board a more intimate knowledge of the operations and the resources required for government programs. [...] They also give the board, other cabinet committees, and full cabinet their only window into government's overall spending budget.*⁶³

PCO and TBS analysts engaged consistently through the MYOP exercise. Documents from the Ministry of the Solicitor General (responsible for the RCMP and CSIS) indicated that through the process, TBS analysts would provide PCO secretariats (referred to in the documents as 'policy committee secretariats') with information on their recommendations to TB. PCO secretariats would help TBS Program Branch verify that departmental projections were in line with cabinet policy decisions.⁶⁴

⁶¹ Cabinet Conclusion (January 16, 1975) 'Ministerial Responsibility and Policy Guidance for CBNRC and the SIGINT and COMSEC Programs,' LAC: RG2, Privy Council Office, Series A-5-a, Volume 6456, Item 40178.

⁶² Savoie, 1990, pp.66-68; French, R.D. (1984) *How Ottawa Decides: Planning and Industrial Policy Making 1968-1984*, Toronto: James Lorimer & Co., pp.166-167.

⁶³ Savoie, 1990, p.68. On the nature of TBS-departmental negotiations over MYOPs, see French, 1984, p.166-167.

⁶⁴ Ministry of the Solicitor General, (1984) *1983-84 Strategic Overview Process*, Ottawa: Ministry of the Solicitor General, Annex II.

The intelligence agencies were not exempted from the MYOP exercise, although access to the documents themselves was closely controlled for security reasons. SIRC indicated in 1986 that CSIS, still reorganising itself a mere two years after its official birth, had started implementing reporting requirements under PEMS, including the production of a MYOP.⁶⁵ In following years, SIRC reported that the CSIS MYOP was compliant with TBS requirements, and had made improvements in showing value for money.⁶⁶ Even the secretive CSE produced a MYOP, which was reviewed by a small number of TBS and DND analysts, approved by the Minister of Defence, and submitted to ICSI, CC/S&I and subsequently the Treasury Board.⁶⁷ It becomes apparent that, when it came to information on programme management and resources, the Treasury Board Secretariat was an important central player who had more detailed information on the IC organisations (especially the collection organisations) than any of the other central agencies. However, without critical mass at the centre, specifically within cabinet and DM committees, the cross-portfolio governance provided by the Treasury Board could only go so far.

'The Board' and the Intelligence Community: The Faltering Existence of the Foreign Intelligence Programme.

As discussed earlier, the 1970 Isbister Report recognised that the bulk of the IC was a national asset and should be managed by the interdepartmental machinery. However the report also recognised that this had the potential to create tensions with the individual departments and ministers whose budgets had to carry these national intelligence organisations. Isbister was concerned that this dynamic could create a zero-sum game if a department or minister came to believe that they were paying for the national intelligence effort at the expense of their own portfolio budget. Indeed, when discussing the expenditure

⁶⁵ SIRC (1986) *Annual Report 1985-86*, Ottawa: Ministry of Supply and Services Canada, p.12.

⁶⁶ SIRC (1987) *Annual Report 1986-87*, Ottawa: Ministry of Supply and Services Canada, p.41; SIRC (1988) *Annual Report 1987-88*, Ottawa: Ministry of Supply and Services Canada, p.9. It should be noted that the CSIS MYOP was the subject of some debate in the late 1980s when the government stopped providing it to SIRC, citing cabinet confidence. A compromise was struck where the information provided in the MYOP was provided to SIRC, but not in the format of the MYOP itself.

⁶⁷ Solicitor General, (1991) *On Course: National Security for the 1990s*, Ottawa: Minister of Supply and Services Canada, p.54. This report by the Solicitor General's Department confirms that CSE produced a MYOP that was approved by the Minister of Defence.

arrangements for SIGINT, Isbister stated that, “it is important that Treasury Board avoid giving the ‘paying’ departments the impression that they are being penalized for their service to the Government as a whole by continually asking them to reduce other things to pay for intelligence.”⁶⁸ As a solution, Isbister recommended that the budgets for the national intelligence functions should be administered through departmental votes, but their estimates and forward plans should be considered separately from those of other departmental functions. This would avoid budgetary conflicts, maintain a level of operational security, and consider the bulk of the intelligence community as a coherent whole. Specifically, the report stated:

*Plans, manpower, and estimates for intelligence programs under Cabinet Committee control should be examined by the Treasury Board, or by a special group of the Treasury Board, and decisions on them should be made and reported as separate programs from those of the departments proper. In this way the intelligence programs which had been considered by the Cabinet Committee as separate programs would not be directly competitive with the programs of the departments proper.*⁶⁹

The Isbister Report highlighted Canada’s strategic SIGINT and COMSEC capability, the Special Research Bureau, and strategic assessments produced for an interdepartmental readership as functions that were fundamentally interdepartmental in nature and “should be grouped together into a number of clearly defined programs for program planning and budgetary purposes.”⁷⁰ In this statement was the genesis of the cross-portfolio Foreign Intelligence Program, or FIP.

A report in 1984 by Richard Fadden, then the Director of Policy at PCO’s S&I Secretariat, stated that the FIP was “an accounting mechanism intended to give control over the policy and resource management for the [foreign intelligence] sector to the IAC and the [CC/S&I and ICSI].”⁷¹ The overall efficacy of the FIP was called into question, however, when Fadden stated that, “with the exception of CSE, the other parts of the sector (i.e. the units in National Defence

⁶⁸ Isbister, 1970, p.48.

⁶⁹ Ibid, p.49. The cabinet committee Isbister referred to was the CC/S&I.

⁷⁰ Ibid, p.44.

⁷¹ Fadden, R.B., 1984, p.20.

providing military assessments and those in External Affairs providing political and economic assessments) are dealt with by their departments very much as any in-house unit would be.”⁷² In 1987, de Montigny Marchand, the former DM for Foreign Policy at DEA, conducted a significant review of Canadian foreign intelligence assessment, known as the Marchand Review. His report again questioned the utility of the FIP, observing that “the mechanism was cumbersome in that ill defined responsibilities were devolved to an already unwieldy Cabinet Committee [CC/S&I] which rarely met.” Marchand went so far as to recommend that the CC/S&I divest itself of responsibility for the FIP, and delegate it to a triumvirate of DMs, namely the PCO Intelligence Coordinator, the USSEA, and the DM of National Defence to provide more consistent guidance for the FIP.⁷³

The FIP did not wane in effectiveness because it was a fundamentally unsound concept; in fact, the 1982-83 MC on a national counter-terrorism programme (which was discussed in earlier paragraphs) pointed to the FIP as an example of a cross-portfolio mechanism that could be emulated to fund a counter-terrorism programme.⁷⁴ Ultimately, the concept of the FIP was based on a critical mass of leadership in the centre of government that materialised only sporadically; hence the FIP was only sporadically effective.

‘The Board’ and the Intelligence Community: A Weakened Guardian

The Program Branch was the heart of TBS when it came to overseeing departmental expenditure. Figure 3.11.3 shows the structure of the TBS Program Branch in 1987. Unlike the analysts in the Department of Finance, TBS analysts were usually brought in from line departments on rotation, and could draw on their departmental knowledge.⁷⁵ In the late 1970s, there were three TBS analysts dealing with defence. One of these analysts had a come from CSE and also had

⁷² Fadden, 1984, p.19.

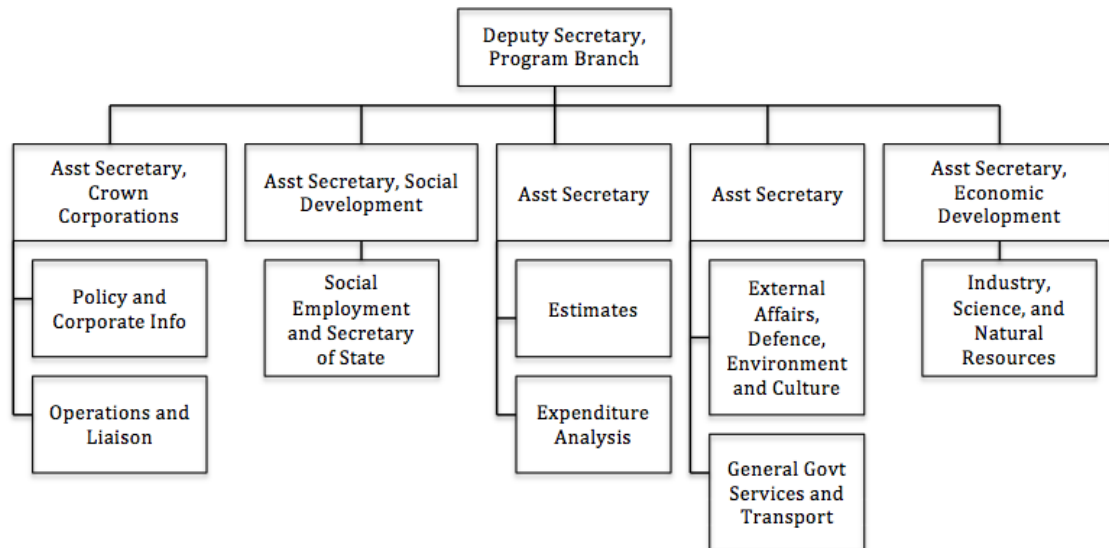
⁷³ Marchand, dM. (1987) *Foreign Intelligence Assessment: A Review*, Top Secret, Ottawa: Privy Council Office, p.42.

⁷⁴ Secretary of State for External Affairs and Solicitor General of Canada (February 17, 1983) Memorandum to Cabinet: ‘Terrorism and its Implications for Canada,’ Secret, Released by LAC to the author under ATIA.

⁷⁵ The rotational nature of TBS analysts was endorsed by the Glassco Commission. Glassco, 1962, p.56.

experience with the intelligence machinery in PCO.⁷⁶ The analysts in TBS who dealt with the intelligence organisations all had ‘Top Secret/Code Word’ clearances, allowing them to see highly classified programme material from the agencies and departments.⁷⁷

Figure 3.11.3⁷⁸
Program Branch, Treasury Board Secretariat, 1987



In the 1970s and 1980s when the TB controlled a significant ‘contingency reserve,’ departments had a reason to negotiate with the Treasury Board; the more robust the information departments gave the TBS analysts, the more likely it was that they could obtain access to reserve funds for new initiatives.⁷⁹ However, as the deficit grew, in both size and political importance, the contingency reserves shrank to the point of irrelevance. Anything remaining was moved under the control of the Department of Finance.⁸⁰

The combined demands through the late 1980s and 1990s to ‘let managers manage’ and significantly reduce public sector expenditure

⁷⁶ I-8.

⁷⁷ I-1. Top Secret/Code Word clearance refers to a clearance level that includes access to sensitive compartmented information as defined by a specific code word. A declassified historical example is the classification TOP SECRET/KEYHOLE, which was the classification for IMINT products produced by US imagery satellites.

⁷⁸ Adapted from Savoie, D. (1990) *The Politics of Public Spending in Canada*, Toronto: University of Toronto Press, pp.366-367.

⁷⁹ Good, 2007, p.62

⁸⁰ Ibid, p.63-67. The Treasury Board maintained a small operating reserve, but this was negligible.

precipitated an organisational change for the Treasury Board Secretariat. The TB lifted its focus from expenditure details and instead focused on the broad management picture. MYOPs were replaced by departmental business plans by the early 1990s, the Program Branch was abolished in 1995, and by 1997 the Treasury Board was officially re-designated the government's 'management board.'⁸¹ This concept was not necessarily new; the Treasury Board had always really operated in two realms. As early as 1971, Al Johnson, the Secretary of the TB, noted that the Board operated as both the cabinet committee on expenditure and the cabinet committee on management.⁸² However the 1997 change signalled a formal shift in the TB's thinking, which was accompanied by reorganisation and refocus. The units of the Program Branch were recast into a series of specialist sectors. Figure 3.11.4 shows a partial organisation chart for the TBS in 2014, with the different sectors that would have involvement, in one shape or another, with IC expenditure and programme management.

However, by the early 2000s, it was becoming apparent that the pendulum had swung too far away from the Treasury Board as expenditure guardian. The effectiveness of the Treasury Board Secretariat ultimately depends on two things: the will of the cabinet committee it serves and its ability to collect and analyse departmental programme information. In 2003, when the TBS brought proposals for programme reallocations to TB ministers, the TBS proposals were roundly rejected. David Good quotes one senior TBS official as stating:

We went to Treasury Board ministers with proposals for specific cuts. Ministers turned us down. They made it clear they did not want directed cuts. They only wanted cuts that ministers would propose themselves. Ministers said, 'Why are we cutting when the financial situation has improved?' As one minister said in an earlier briefing: 'Why am I the minister of cuts when the rest of the ministers are the ministers of spending?' In the Secretariat we took the view that a simple across-the-board cut would be a failure. We did not want to do it that way. In the end, the reallocation was a lot of smoke and mirrors with reductions to

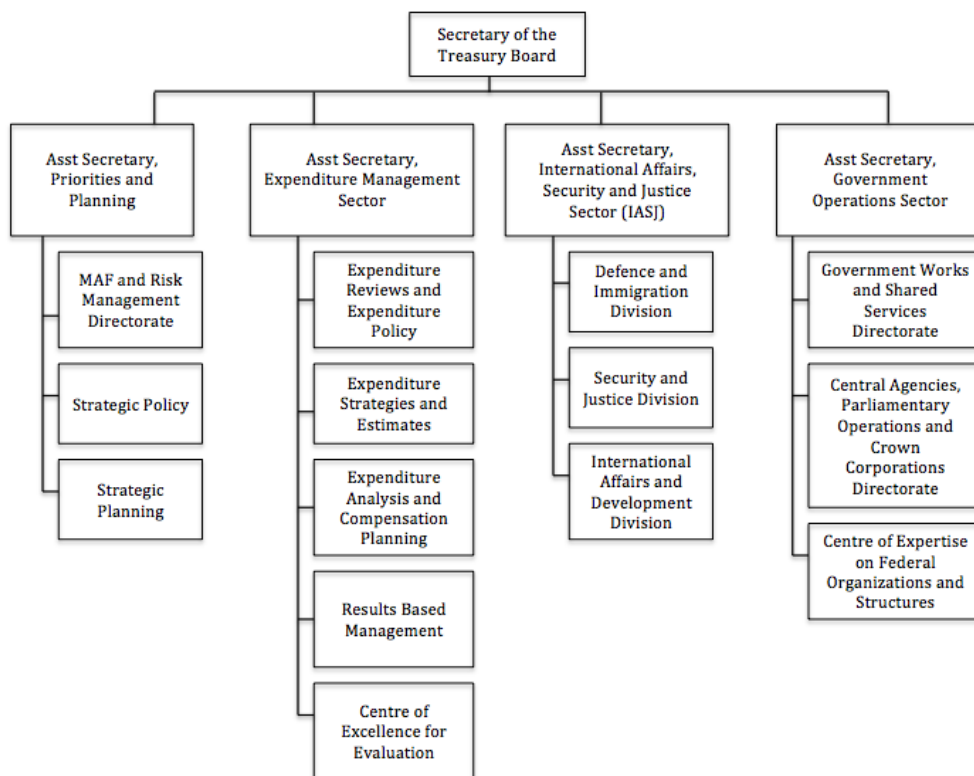
⁸¹ Savoie, 1999, pp.219-220; Treasury Board of Canada Secretariat, (2000) *Results for Canadians: A Management Framework for the Government of Canada*, Ottawa: Treasury Board of Canada, p.1.

⁸² Johnson, A.W. (1971) "The Treasury Board of Canada and the Machinery of government of the 1970s" *Canadian Journal of Political Science*, 4:3, pp.346-347.

*amounts set aside in the fiscal framework and no real cuts to programs or operations.*⁸³

This inability to land meaningful expenditure reductions seriously damaged the reputation of the Treasury Board, specifically with the Department of Finance.⁸⁴

Figure 3.11.4:
 Partial Organisation Chart of Treasury Board Secretariat
 Relevant to IC Expenditure⁸⁵



Additionally, the Treasury Board’s movement towards a management board had reduced its principal comparative advantage: detailed expenditure and programme information. The TB and TBS delegated greater authorities to departments in exchange for greater performance reporting. However, when it came to *knowing* a department’s programmes in detail, the utility of this type of

⁸³ Quoted in Good, 2007, pp.68-69.

⁸⁴ Ibid.

⁸⁵ Chart constructed by the author based on Treasury Board Secretariat (No Date) ‘TBS Organization,’ Treasury Board Secretariat website, <https://www.tbs-sct.gc.ca/tbs-sct/organization-organisation/organization-organisation-eng.asp> (Accessed January 2015) and information from the Government Electronic Directory Service (GEDS), (Accessed January 2015).

information has been questioned.⁸⁶ One ADM at the Department of Finance stated, “I remember 15 years ago, TBS was on top of the programs and had lots of knowledge about how they worked and how effective or ineffective they were. [...] We don’t have access to that kind of detailed program and expenditure information today.”⁸⁷ Part of the problem was that TBS’ own internal IT systems were fragmented, and in need of rationalisation and modernisation. The Expenditure Management Information System (EMIS) announced in 2000 was a major IT project that was meant to achieve this modernisation, and help restore TBS’ edge in information and analysis. Like the New Zealand Treasury’s CFISnet, EMIS was meant to connect TBS to departments consistently and securely.⁸⁸ Ironically, the project was plagued with management issues. A 2011 OAG examination of the project found that, out of four phases, the first two had been completed by 2007 but the resultant system was found to be unreliable. The system was scrapped and rebuilt at a cost of \$34.5 million. The last two phases of the system were deferred indefinitely.⁸⁹ Interestingly, this loss of comparative advantage in information has occurred while the reporting burden on departments has been growing.

‘The Board’ and the Intelligence Community: Trying to Strike a Balance.

For the past several decades, the Treasury Board and its Secretariat have been between the proverbial ‘rock and a hard place.’ On one hand, they have been under pressure to actually deliver on the 50-year-old promise to ‘let managers manage’; on the other hand, the public nature of the public sector,

⁸⁶ Savoie, D.J. *Whatever Happened to the Music Teacher?: How Government Decides and Why*, Montreal/Kingston: McGill-Queen’s University Press, pp.160-162, 149-169; Good, 2007, pp.87-89.

⁸⁷ Quoted in Good, 2007, p.70.

⁸⁸ *Government Response to the Fourth Report of the Standing Committee on Public Accounts*, (2008) Ottawa: Parliament of Canada, <http://www.parl.gc.ca/HousePublications/Publication.aspx?DocId=3599305&Language=E&Mod e=1&Parl=39&Ses=2> (Accessed February 2015).

⁸⁹ On EMIS, see: Treasury Board Secretariat (2005) *Audit of the Development of the Expenditure Management Information System—Final Report with Management Response*, Ottawa: Treasury Board of Canada Secretariat, <http://www.tbs-sct.gc.ca/report/orp/2005/ia-vi/emis-sigdpr-eng.asp?format=print> (Accessed January 2015); Office of the Auditor General (2006) ‘Chapter 3: Large Information Technology Projects’ *Report of the Auditor General of Canada to the House of Commons, November 2006*, Ottawa: Minister of Public Works and Government Services Canada; Office of the Auditor General (2011) ‘Chapter 2: Large Information Technology Projects’ *Report of the Auditor General of Canada to the House of Commons, November 2011*, Ottawa: Minister of Public Works and Government Services Canada.

complete with 24-hour media attention, political game-playing, and empowered watchdogs, has provided a consistent driver to avoid risks, and hence increase control. For instance, the follow-up OAG audit of the PSAT Initiative completed in 2013 found that the TBS could not account for \$3.1 billion in funding that had been allocated under PSAT from 2001 to 2009.⁹⁰ This resulted in the predictable media attention and opposition calls for inquiries, citing government mismanagement of taxpayer funds.⁹¹ In reality, the result was much less scandalous. Following the OAG report, TBS, in conjunction with the departments involved, completed a detailed reconstruction of PSAT spending which included the major intelligence players. The reconstruction found that \$1.3 billion had not been included in TBS reporting requirements, meaning that departments had to internally account for the funds but were not required by TBS to report on them. Just over \$500 million had been re-profiled (i.e. moved to following spending years) outside of the reporting period, and \$455 million had been returned to the consolidated revenue fund, as the funds could not be spent in the fiscal year for which they were allocated. Similar measures, such as carry-forwards and transfers to other government organisations accounted for the remainder of the \$3 billion. In short, while TBS could not account for the full PSAT 'spend,' the government (i.e. other departments) could account for it. In an attempt to lighten the reporting burden on departments, TBS had indicated that some PSAT spending did not need to be reported to the centre, as long as the departments could account for it. This was the reality of devolved financial responsibility in a major horizontal initiative. Many of the financial mechanisms that accounted for the \$3 billion, such as re-profiling or carry-forwards, were mechanisms that had been fully or partially devolved to departments. Unfortunately for TBS, the move to devolve some accountability to the departments was not in line with the type of centralised accountability that the OAG expected.

Because TBS has had to balance 'letting the manager manage' with demands for tighter accountability, the result has been a move towards

⁹⁰ OAG, 2013.

⁹¹ Janus, A. and Johnson, A. (May 1, 2013) 'Opposition Hammers Government over Unaccounted-for Spending' *CTV News* (Online), <http://www.ctvnews.ca/politics/opposition-hammers-government-over-unaccounted-for-spending-1.1261533> (Accessed Sept 2014).

performance-based oversight as a way to accomplish both. However, some have argued powerfully that the private-sector management ethos simply does not work in a public sector management environment, because of fundamental differences in the operating environment.⁹² Donald Savoie, summarizing a senior DM, noted that:

It does not much matter in the private sector if you only get it right 10 percent of the time so long as the 10 percent turns a handsome profit for the firm. In the public sector, it does not matter much if you get it right 99 per cent of the time if the 1 percent will cast you and your department in a negative light in the media for a long period of time. [...] This explains why avoiding sins plays a central role in public administration and for government managers.⁹³

The result for departments and agencies has been a significant increase in corporate reporting, and subsequently the time and resources spent on that reporting, in an effort to try and satisfy expenditure management and financial accounting, as well as performance management and accountability frameworks.⁹⁴ Figure 3.11.5 shows the reporting to TBS that is consistent across departments. The intelligence community is not immune from these developments. The final report of the CSIS Business Modernization Project, completed in 2010, indicated that corporate reporting requirements had significantly taxed the operational areas in the Service to the point of being “unsustainable.”⁹⁵ However, CSIS recognised that it had to conform to public service standards, and the rationalisation of these corporate and policy functions within the Service formed a key pillar in its new organisational model.⁹⁶ The move in 2011 to make CSE a stand-alone department within the National Defence portfolio brought with it the same reporting standards for CSE under the *Financial Administration Act*, although the reporting itself is not made public.⁹⁷

⁹² Savoie, D.J. *Whatever Happened to the Music Teacher?—How Government Decides and Why*, Montreal/Kingston: McGill-Queen’s University Press, pp.160-162, 149-169.

⁹³ *Ibid*, p.132.

⁹⁴ Clark, I.D. and Swain, H. (2005) ‘Distinguishing the Real from the Surreal in Management Reform: Suggestions for Beleaguered Administrators in the Government of Canada’ *Canadian Public Administration*, 48:4, pp.453-476.

⁹⁵ CSIS (2010) *Business Modernization Project Report*, Ottawa: Canadian Security Intelligence Service, Secret, Released to the author by CSIS under the ATIA, pp.32-33,

⁹⁶ *Ibid* and CSIS (2010) *Annual Report 2009/2010*, Ottawa: PWGSC, pp.46-47.

⁹⁷ Order-in-Council SOR/2011-257 (November 15, 2011) *Order amending Part II of Schedule VI to the Financial Administration Act*. Canada Gazette Part II, 145(25); Order-in-Council SI/2011-96

While some have questioned the rise of the policy and corporate services areas in CSE over the last 15 year, it should be recognised that the move of CSE to a stand-alone department required growth in these areas because DND's lead responsibility for CSE finance and administration stopped in 2011.⁹⁸

Figure 3.11.5: Types of Departmental Corporate Reporting Based on TBS Policies and Frameworks, 2014⁹⁹

- Treasury Board Submissions
- Report on Plans and Priorities
- Departmental Performance Report
- Management Accountability Framework (MAF) reporting
- Strategic Reviews
- Internal audit reports
- Internal evaluation reports
- Quarterly financial reporting
- Access to information reporting
- Travel reporting

However, as one TBS official put it, “Departments cannot have it both ways—less and less financial central control and no reporting requirements.”¹⁰⁰ Many of the end goals of departmental reporting to TBS make sense, however the ultimate question is whether the information can effectively be used to coordinate expenditure across departments and portfolios. The relative success of the PSAT initiative indicated that when the right information is paired with clear priority-setting and leadership, the role of the Treasury Board and its Secretariat can be an effective fulcrum of coordination. However, the PSAT

December 7, 2011) *Order transferring to the Communications Security Establishment the control and supervision of certain portions of the federal public administration in the Department of National Defence known as the Communications Security Establishment and the Communications Security Establishment Internal Services Unit*. Canada Gazette Part II, 145(25).

⁹⁸ On the growth of CSE's policy and corporate services areas, see Meyer, C. (Feb, 26, 2014)

'CSEC's Policy Arm Rises to Prominence' *Embassy News*, <http://www.embassynews.ca/news/2014/02/26/csec%E2%80%99s-policy-arm--rises-to-prominence/45196> (Accessed February 2014).

⁹⁹ Table compiled based on information contained in TBS 'Policy Suite', found at <http://www.tbs-sct.gc.ca/tbs-sct/cmn/po-ps-eng.asp#pol> (Accessed February 2015). It should be noted that each area of reporting might encompass more than one line of reporting or several distinct reports.

Additionally, the level of required reporting may increase depending on the type of activity performed by the department. The list included in Figure 3.11.5 is reporting that is done by all Government of Canada organisations.

¹⁰⁰ Savoie, 2013, p.140.

initiative was an anomaly driven by crisis. Where the Treasury Board and its Secretariat had once held a central place in the expenditure management system, a weakness had slowly been developing. Departments were doing more reporting on evaluation and performance, but the ability of the central guardians to leverage detailed programme information has lessened. Yet the government still needed to control expenditure, and as the Treasury Board weakened the Department of Finance stepped into the void.

The Department of Finance: The Darth Vader of Expenditure Management

The Department of Finance has a long shadow in Ottawa. The Minister of Finance has traditionally been second only to the Prime Minister in terms of power in Cabinet, and the Department's reach extends throughout all government activities because of its control of the public purse.¹⁰¹ When a young Finance official prepared a positive recommendation on a departmental proposal, his DM subsequently told him that, when it came to spending proposals, "our job was to oppose them. We are the internal opposition in government."¹⁰² The advice tendered by Finance officials to the Finance Minister and the Prime Minister is secret, and is not seen by departments. Unless the Minister of Finance or, more importantly, the PM favours a proposal, Finance can often play judge (through its review of the proposal), jury (through its advice to the Minister of Finance), and executioner (through its role in helping the Minister of Finance and the PM decide spending priorities) on departmental proposals. This role led one official to describe the Department of Finance as the Darth Vader of the policy system.¹⁰³

Finance's power has not gone unchallenged however. The department's authority waned through the 1970s and 1980s, as its position was weakened by the growth of the Treasury Board Secretariat (TBS) and PCO's own capacity for economic analysis. Additionally, the government turned to a wider range of voices on economic policy, including the private sector and think tanks. However, through the 1990s and 2000s, Finance regained any ground it had lost

¹⁰¹ Savoie, 1999, pp.156-157.

¹⁰² Ibid, p.162.

¹⁰³ Presentation by senior government official, Ottawa, December 2013

in the previous decades. The massive task of cutting the deficit through the latter half of the 1990s and Canada's weathering of the post-2008 financial crisis, both efforts navigated by very effective finance ministers, brought renewed authority to Finance. Additionally, the perceived decline of Treasury Board as an effective guardian left the Department of Finance as the dominant guardian within the system in terms of both macro- and micro-level expenditure decisions. Currently, while the Treasury Board is focused on the 'A base' (i.e. baseline programme spending), Finance, PMO, and PCO are responsible for decision-making on any new spending.

Finance and the Budget: Holding all the Cards

While Finance has not sought to influence departmental spending in micro terms, its control of the fiscal framework and role in the budget process has allowed it to greatly influence national security spenders in terms of total budgets. Historically, decisions on new spending could happen throughout the year. For instance, under PEMS cabinet committees controlled policy reserves, and they could fund new initiatives through the reserves. However, under the new expenditure management system announced in the 1990s, 'off-cycle' proposals for new spending were eschewed. Any new spending proposals were to be done through the budget (referred to as 'in-cycle'), except in extenuating circumstances.¹⁰⁴ Spending on existing programs that could be funded through reallocations, efficiencies, or incremental funding could be done through the estimates process, and was a matter for the Treasury Board.¹⁰⁵ While Finance and the Treasury Board had traditionally shared the responsibility for determining allocations, a weakened Treasury Board meant that Finance also built up involvement in determining allocations.¹⁰⁶ This essentially means that Finance holds all the cards, except for the trump card, which is held by the Prime Minister.

¹⁰⁴ Treasury Board Secretariat (1995) *The Expenditure Management System of the Government of Canada*, Ottawa: Minister of Supply and Services Canada, p.4.

¹⁰⁵ For an overview of the budget cycle, see Good, 2007, pp.49-55, which discusses guardians in the process.

¹⁰⁶ Good, 2007, p.

At the beginning of a budget cycle, the Minister of Finance will ask cabinet colleagues to submit items for inclusion in the budget. Those items requiring new funding will be the subject of costing, analysis, and consultation between the proposing department and the relevant policy section in Finance. For instance, the Defence and Crown Corporations Section of the Sectoral Policy Analysis Division reviews and advises on proposals related to the national security and defence sector.¹⁰⁷ Through the 'two-pager process', Finance analysts distil a proposal into a two-page brief for the Minister of Finance, PCO and PMO.¹⁰⁸ PCO and PMO will also prepare briefs for the PM addressing the proposals from the perspective of the government's priorities.¹⁰⁹ Ultimately, it is the Minister of Finance (advised by Finance officials) and the PM (advised by PCO officials and PMO advisors) who decide what the mix of initiatives will be included in the budget, and most will not find out until just before budget day who has won and who has lost. For any department or minister, this makes the Minister of Finance and the PM the two most important people in the town to convince, directly or indirectly, on budget initiatives.

The Department of Finance and National Security Expenditure: Cuts so Deep

While direct interaction between Finance and the IC was almost non-existent historically, the Canadian IC felt Finance's authority in an indirect way. Past expenditure management models, such as PEMS, had failed to force ministers to make trade-offs and substantial reallocations within or between their envelopes or portfolios. Instead, ministers began pursuing bilateral deals with the Minister of Finance or the PM, bypassing the cabinet committees where ministers were unable to forge a consensus on programme cuts or reallocations.¹¹⁰ As David Good has stated in his examination of the Canadian

¹⁰⁷ Department of Finance website (No Date) 'Economic Development and Corporate Finance Branch,' <http://www.fin.gc.ca/branches-directions/edcf-eng.asp> (Accessed January 2015).

¹⁰⁸ Internal Audit and Evaluation Branch (2012) *Audit of the Federal Budget Process*, Ottawa: Department of Finance, <http://www.fin.gc.ca/treas/audit/afbp-vpbd-eng.asp> (Accessed January 2015).

¹⁰⁹ Good, 2007, pp.106-110.

¹¹⁰ Good, D.A., 2007, pp.258-259; Savoie, 1990, pp.329-331; Kelly, J. and Lindquist, E. (2003) 'Metamorphosis of Kafka's Castle: The Changing Balance of Power Among Canada's Central Budget Agencies' in Wanna, Jensen, and de Vries eds. *Controlling Public Expenditure*, Cheltenham, UK: Edward Elgar, p.92.

expenditure system, “budgeting systems cannot achieve what political will is unprepared to do.”¹¹¹ Hence, the political clout for expenditure cuts came from two individuals: the PM and the Minister of Finance. Yet PCO, PMO, and the Department of Finance did not have the detailed programme information to make targeted decisions about programme spending. As a result, there has been a tendency to rely on ‘across-the-board’ cuts in public sector spending. These cuts are politically more palatable as well; all ministers lose, rather than only some. Ministers also have the consolation of recommending to their cabinet colleagues where they think they should lose.

For the intelligence organisations, across-the-board cuts are a dangerous concept. The decision to cut has already been made at the top; it is no longer a question of *whether* an organisation should face cuts or *how much*, but a question of *where*. This combines with two other factors: firstly, ministers, and until recently many DMs, have not had a good understanding of the value of intelligence to government operations; secondly, that the business of intelligence is inherently difficult to measure performance. If one attempts to put oneself in the head of a minister, the key thoughts would probably look something like this:

- *I've been told that I have to find 5-10% cuts in all the departments in my portfolio. This is important to the PM, and I'll be held accountable for achieving the cuts in front of my cabinet colleagues.*
- *I have a function in one of my departments that has something to do with intelligence. I don't see a lot of whatever it is they do, and what I do see usually tells me there is the potential for problems.*
- *It's a relatively expensive function, but nobody can give me a straight answer on whether it's actually achieving anything for that money.*
- *The function doesn't have any political benefits, and may even have substantial political risks.*
- *Cuts made to the intelligence function would be secret, just like everything else they do is secret. It would also be easier to defend other programmes in cabinet than it would be to defend this one.*
- *Ultimately, Canada's a pretty safe place to begin with. If I cut from this intelligence function, there would be minimal risk.*

¹¹¹ Good, 2007, p.259.

These factors left intelligence organisations easy targets for expenditure reductions, unless they had strong DM or ministerial cover. As noted by Savoie and Veilleux as early as 1988, “attempts to restrain spending focused on those programs most easily reduced rather than on those that could be shown to be less effective.”¹¹² Additionally, because of the particularly complex, nebulous, and unpredictable nature of expenditure in foreign affairs and defence, there have often been tensions between Finance and the line departments in this sector. Kevin Lynch, DM at Finance between 2000-2004, was known to be sceptical towards DND and Foreign Affairs, and had led the cuts of the DND budget in the 1980s and 1990s.¹¹³ Former Finance Minister John Manley stated bluntly, “Kevin hates defence, he hates foreign affairs.”¹¹⁴ DND’s view towards the guardians has also been characterised by frustration. DND personnel, very much ‘mission-focused,’ feel that the bureaucracy is overbearing and does not adequately understand the defence environment.¹¹⁵ Ultimately, the truth lies somewhere in the middle. Finance is not without cause in challenging DND expenditure that can commit significant fiscal resources over many years; at the same time DND has also been subject to cuts that, in the final analysis, have not matched the operating environment. Proposed reductions in the areas of defence, foreign affairs, and security have often suited PMs just as well as Finance Ministers. Pierre Trudeau’s disdain for the Department of External Affairs and DND led to successive rounds of cuts to both departments, and the Chretien government’s drive to eliminate the deficit was a political priority that outweighed all other concerns.¹¹⁶

These combined factors resulted in continual degradation of Canada’s foreign policy and defence establishments. For instance, Figure 3.11.6 shows the

¹¹² Veilleux, G. and Savoie, D.J. (1988) ‘Kafka’s Castle: The Treasury Board of Canada Revisited’ *Canadian Public Administration*, 31:4, p.522.

¹¹³ Lang, E. (March 2, 2006) ‘General versus Economist’ *Globe and Mail*, <http://www.theglobeandmail.com/globe-debate/general-versus-economist/article1096062/> (Accessed February 2015).

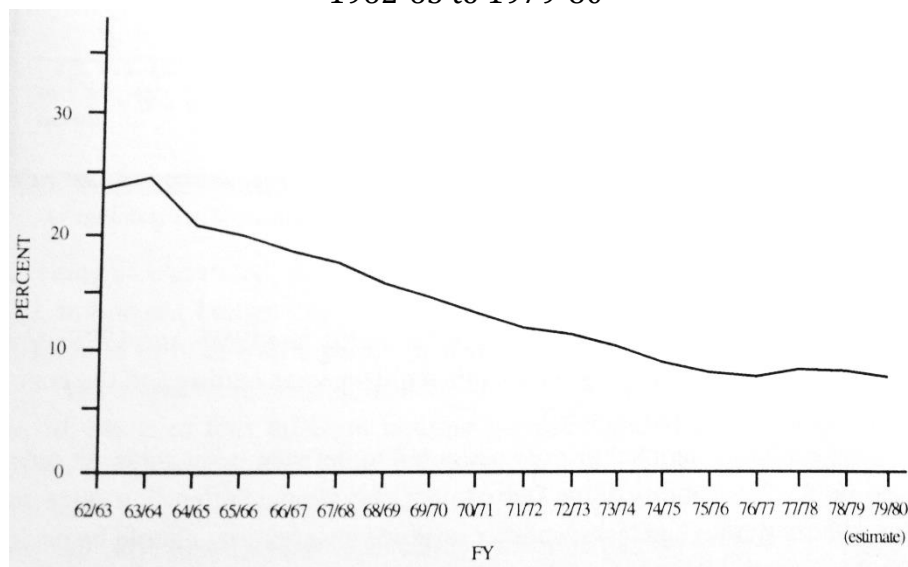
¹¹⁴ Quoted in Stein, J.G. and Lang, E. (2007) *The Unexpected War: Canada in Kandahar*, Toronto: Penguin Canada, p.7.

¹¹⁵ Perry, D. (2015) *Putting the ‘Armed’ Back into the Canadian Armed Forces: Improving Defence Procurement in Canada*, Vimy Paper, Ottawa: Conference of Defence Associations Institute, p.13.

¹¹⁶ For a substantial discussion of Trudeau’s approach to foreign and defence policy, see Granatstein, J.L. and Bothwell, R. (1990) *Pirouette: Pierre Trudeau and Canadian Foreign Policy*, Toronto: University of Toronto Press.

trend in defence programme expenditure as a percentage of the federal budget through the later half of the Cold War, showing a distinct downward trend. With the end of the Cold War, Finance again targeted the departments engaged in national security for a 'peace dividend,' committing to cut the defence budget by a further \$2.2 billion over five years in 1992, although subsequent cuts would follow almost annually.¹¹⁷ The Program Review of the 1990s instituted further significant cuts, with the Department of Foreign Affairs seeing an expenditure reduction of almost 20% while DND was cut by 14%.¹¹⁸

Figure 3.11.6¹¹⁹
Defence Programme Expenditure as a Percentage of the Federal Budget,
1962-63 to 1979-80



This trend in cuts also impacted the Canadian intelligence community. Paul Martin, the Minister of Finance at the time of the Program Review, recounted in his memoirs how Solicitor General Herb Gray had avoided submitting his planned cuts to the CSIS budget to the Program Review Committee by claiming that CSIS budget details were too secret.¹²⁰ Martin stated that, "in the end, we never truly found out whether CSIS reached its target – or if

¹¹⁷ Mazankowski, D. (1992) *The Budget 1992: Budget Speech*, Ottawa: Department of Finance, pp.5, 25.

¹¹⁸ Martin, P. (Feb 25, 1995) *Budget Plan*, Ottawa: Department of Finance, pp.47 and Martin, P. (Feb 27, 1995) *Budget Speech*, Ottawa: Department of Finance, p.30.

¹¹⁹ Table found in the Final Report of the Task Force on Review of Unification of the Canadian Forces, March 15, 1980 as found in Bland, D. (1998) *Canada's National Defence, Volume 2: Defence Organization*, Kingston: Queen's University School of Policy Studies, p.283.

¹²⁰ Martin, P. (2008) *Hell or High Water: My Life in and out of Politics*, Toronto: McClelland and Stewart, pp.140-141.

it did, how it was done.”¹²¹ However, an examination of CSIS expenditure figures in the *Public Accounts of Canada* indicates that total funds available to CSIS were indeed reduced by approximately 9.6 percent between FY 1994-95 and FY 1995-96.¹²² A review by the Conference Board of Canada in 2000 stated that the RCMP lost a total of 2,200 positions and \$175 million in an across-the-board cut during the Program Review.¹²³ An independent review of RCMP workplace conditions in 2007 confirmed that the RCMP was still suffering workload problems, stemming partially from inadequate resources.¹²⁴

Overall, the 1999 report by the Special Senate Committee on Security and Intelligence found that, overall, spending on the Canadian IC had fallen by approximately 40.5% in constant dollars between FY 1990-91 and FY 1998-1999. CSIS saw a 41.3% drop in its budget over the same period, and CSE saw a 16.9% decrease (both in constant dollars.) Figure 3.11.7 shows the findings of the Senate Committee’s examination of IC estimates.

Jocelyne Bourgon, the Clerk of the Privy Council Office at the time, and a key player in the Program Review, admitted later that DND cuts had been too deep, as it quickly became clear that the ‘peace’ aspect of the ‘peace dividend’ was never going to materialise.¹²⁵ In fact, Canada had to respond to *more* international conflicts of a more complex nature through the 1990s, than it had at any point during the Cold War.¹²⁶ In short, requirements went up while resources went down.

¹²¹ Ibid, p.141.

¹²² *Public Accounts of Canada 1995*, Volume II, Part I: Details of Expenditures and Revenues; *Public Accounts of Canada 1996*, Volume II, Part 1: Details of Expenditures and Revenues. Total available funds for CSIS in FY 1994-95 were \$206,983,000. Total available funds for CSIS in FY 1995-96 were \$187,111,000.

¹²³ Quoted in Duxbury, L. (2007) *The RCMP Yesterday, Today and Tomorrow: An Independent Report Concerning Workplace Issues at the Royal Canadian Mounted Police*, Ottawa: Royal Canadian Mounted Police, p.54.

¹²⁴ Ibid, pp.50-59.

¹²⁵ Bourgon, J. (2009) *The Government of Canada’s Experience Eliminating the Deficit, 1994-1999: A Canadian Case Study*, Waterloo: Centre for International Governance Innovation, p.20.

¹²⁶ Hartfiel, M.R. ‘Planning without Guidance: Canadian Defence Policy and Planning, 1993-2004’ *Canadian Public Administration*, 53:3, pp.327-328.

Figure 3.11.7¹²⁷
 Estimates for Canadian Security and Intelligence Community

| | 1990-91 (1) | 1990-91 FTE's (1) | 1998-99 | 1998-99 | \$ Decrease | % Decrease | %(2) Decrease in constant \$ | FTE % Decrease |
|----------------------|---------------|-------------------------|---------------|---------|---------------|---------------|------------------------------------|-------------------|
| Total (3) | \$463,884,002 | 5,440.6 | \$333,076,103 | 4,398.1 | \$130,807,899 | 28.2 | 40.5 | 19.2 |
| CSIS | \$205,000,000 | 2,680.0 | \$153,891,000 | 2,000.0 | \$51,109,000 | 24.9 | 41.3 | 25.4 |
| CSE | \$105,109,000 | 892.0 | \$104,993,000 | 887.0 | \$116,000 | 0.1 | 16.9 | 0.6 |

A report by the Rideau Institute in 2011 argued that the substantial spending increases by the Canadian government in the wake of 9/11 had created a new ‘national security establishment’ in Canada. The implication of the Institute’s report was that the government had taken 9/11 as an excuse to go on a spending spree and vastly *expand* Canada’s national security community. However, the report took as its baseline FY 2000-01.¹²⁸ This meant that the Institute’s report effectively ignored the drastic cuts that had taken place through the 1990s, and in the case of some departments even farther back through the 1970s and 1980s. The Department of Finance, through its control of the fiscal framework and involvement in allocation decisions, had drastically influenced the Canadian intelligence community through the late Cold War and through the 1990s. The influence of Finance was indirect, and often in collaboration with key priority-setters in PMO and PCO, but no less real. For the spenders, much of the post-9/11 environment has been less about expansion and more about rebuilding.

¹²⁷ Table reproduced from Kelly, W.M. (1999) *Report of the Special Senate Committee on Security and Intelligence*. The following notes were included with the table in the Committee’s report: “(1) Figures supplied by the Office of the Auditor General. (2) Constant dollars are dollars adjusted for inflation for comparison purposes. This is in constant 1995/96 \$ assuming a 2% inflation rate each year. (3) Includes the intelligence components of the Department of National Defence, Foreign Affairs, the Solicitor General, the CSIS, CSE, Privy Council Office (intelligence assessment; policy), the Security Intelligence Review Committee, the Inspector General for CSIS, and the Commissioner for CSE. Excludes the security and intelligence components of the RCMP, Transport Canada, Citizenship and Immigration, Revenue Canada, and other federal departments/agencies. CSE’s 1998/99 figures include additional funding for the CSE Commissioner’s Office, which was established in June 1996.”

¹²⁸ McDonald, D. (2011) *The Cost of 9/11*, Ottawa: Rideau Institute, p.2.

The Spenders in Ottawa

As with Australia and New Zealand, it is important to examine how the macro-level politics of expenditure management has filtered down to impact the spenders themselves. Two approaches are taken here in order to accomplish this. First, a foundation must be laid that outlines the structural development of the IC organisations as spenders. Secondly, a number of cases are examined that illustrate how expenditure management issues have had real, and quite significant, *operational* impacts for the spenders.

Spending on Intelligence Collection: Early Foundations

As previously discussed, Claude Isbister's 1970 report on Canadian intelligence set the stage for post Cold War developments in intelligence machinery. The most central element of Canada's foreign intelligence effort was SIGINT so it was not surprising that, in discussing the financing of the national intelligence effort, Isbister turned his attention to how the budget for the national SIGINT capability should be established. There were, noted Isbister, essentially two approaches to determining how much intelligence spending departments should carry on their own votes: "One approach is to make the division according to the benefits received by departments, and the other according to their ability to hide the costs within departmental totals."¹²⁹ Isbister was favourable to the latter approach, but not entirely because it allowed for greater secrecy. He noted that there was substantial difficulty in determining how to measure a department's benefit from intelligence. If benefit was measured by input (for example the number of personnel devoted to a department's requirements) then some departments, such as External Affairs, would pay almost nothing because they did not *directly* task CBNRC. Alternatively, if benefit was measured by output (for example the number of SIGINT end-product reports referred to a department) then departments with small budgets, such as DEA, would pay a drastically increased amount, making it

¹²⁹ Isbister, 1970, p.48.

very difficult to conceal intelligence-related spending.¹³⁰ Isbister concluded that, “on balance, it is preferable that the principal departments—External, Defence, and the RCMP—should pay the costs of the activities conducted by their departments, plus a portion of the cost of CBNRC, so that their total payments for intelligence activities are roughly in proportion to their total budgets.”¹³¹ This arrangement was adopted for the funding of CBRNC activities, and continued until 1975 when the organisation became part of the DND portfolio. However, this funding regime presented the same problems as had been identified for intelligence organisations in Australia and New Zealand: it was an indirect accountability for money voted by parliament. When the Minister of Defence took responsibility for CBNRC (then renamed CSE) in 1975, this situation was rectified as the Minister of Defence became singularly responsible for the SIGINT budget.

The budget of the RCMP Security Service, as previously discussed, was couched in the larger RCMP budget, but treated separately for reasons of planning and analysis. As early as the 1950s however, the RCMP Special Branch was “hopelessly understaffed and underequipped.”¹³² The establishment of a formal mandate for the Security Service, approved by the CC/S&I in 1975, reinforced the Security Service’s separation from the policing elements of the RCMP. The mandate also established a formal requirement for the Security Service to submit an annual report to CC/S&I each year, which brought the Service in line with other public service departments.¹³³ While the Security Service’s annual reports did not give budgetary figures, they did indicate the percentage of resources that the Service devoted to each target area. Contrary to the view that the RCMP Security Service was inordinately focused on counter-subversion (CS) investigations, the Service’s Annual Report for 1983 shows that the amount of resources devoted to counter-subversion investigations decreased by 4%, while the greatest gain was in counter-terrorism investigations which

¹³⁰ Ibid.

¹³¹ Ibid.

¹³² Sawatsky, J. (1980) *Men in the Shadows: The RCMP Security Service*, Toronto: Doubleday, p.105.

¹³³ Cabinet Conclusion (March 27, 1975) ‘The Role, Tasks and Methods of the RCMP Security Service,’ LAC: RG2, Privy Council Office, Series A-5-a, Volume 6456.

grew by 6.8%.¹³⁴ In fact, the shift of emphasis across investigations, with an increased focus on CI and CT investigations, was being realised entirely through internal reallocations as the increases and decreases net out at 7.1%. See Figure 3.11.8 for the full percentage figures.

Figure 3.11.8¹³⁵
Shifts in RCMP Security Service Investigations 1981-82 to 1982-1983

| <u>Category</u> | <u>Percentage</u> | <u>Change from Last Year</u> |
|----------------------|-------------------|------------------------------|
| Counter-intelligence | 55.3% | + .3% |
| Foreign Interference | 5.5% | -2.5% |
| Counter-terrorism | 14.8% | +6.8% |
| Counter-subversion | 17.0% | -4.0% |
| Security Screening | 7.4% | - .6% |

The annual report also commented on the involvement of Security Service personnel in the efforts to 'stand up' the new Canadian Security Intelligence Service. The report stated that, "the substantial administrative, research, and consultative tasks required of the RCMP Security Service were met through elective reduction of operational coverage on lower priority targets and postponement of less urgent administrative projects."¹³⁶ It should be noted that these changes were taking place during a period of increased terrorist threat to Canada, specifically from Armenian and Sikh radical groups, and a heightened period of tension between the Cold War superpowers.

Spending on Intelligence Assessment: The Early Foundations

Through the Cold War, the department responsible for resourcing much of Canada's intelligence assessment capability was the Department of External Affairs. The dedicated intelligence work carried out within DEA between the 1960s and 1980s mainly comprised four types of business: assessment of intelligence relating to political developments abroad; assessment of intelligence

¹³⁴ RCMP Security Service (May 13, 1983) *Annual Report on the Activities of the RCMP Security Service*, Ottawa: Royal Canadian Mounted Police, TOP SECRET, Released under the ATIA, p.3

¹³⁵ Ibid.

¹³⁶ RCMP Security Service, 1983, p.3.

relating to the economies of foreign states; a small collection effort known as the Interview Program; and effort devoted to intelligence policy and coordination issues.¹³⁷

Much of the intelligence assessment capability in DEA had been inherited when the bulk of the Canadian Joint Intelligence Bureau (JIB(O)) had moved from DND to DEA in 1968. The JIB(O)'s move to DEA was sparked by moves to integrate the defence establishment in Ottawa through the 1960s, which threatened JIB(O)'s independence. While the defence elements of JIB(O) remained at DND to support military intelligence requirements, the political and economic elements moved to DEA on April 1, 1968, becoming the Special Research Bureau (SRB).¹³⁸ A second unit within DEA, the Security and Intelligence Liaison Division, handled intelligence coordination and liaison functions, supporting DEA's central policy and coordination role within the Government's foreign intelligence effort.¹³⁹

While the two units both technically resided in DEA, only the Security and Intelligence Liaison Division was truly a DEA entity. SRB, with the bulk of the intelligence analysis capability, was an interdepartmental resource that took its priorities from the Intelligence Policy Committee.¹⁴⁰ Because of this, the SRB had a separate programme, estimates process, and budget that was outside DEA's departmental processes. DEA's corporate documents from the late 1960s and early 1970, predictably, say little about the SRB, except that the Bureau, "is located in the Department of External Affairs for administrative purposes."¹⁴¹ The Isbister Report explained the status of SRB much more candidly:

¹³⁷ For an overview of intelligence structures and activity in DEA/DFAIT, see Virdee, H.S. (2009) *The Untold Story: The Role of the Department of Foreign Affairs and International Trade in Canadian Foreign Intelligence*, M.A. Thesis, University of Northern British Columbia.

¹³⁸ Jensen, K. (2006) 'Canada's Foreign Intelligence Interview Program, 1953-1990, *Intelligence and National Security*, 19:1, pp.101-102.

¹³⁹ Department of External Affairs (1969) *Report of the Department of External Affairs, 1968*, Ottawa: Queen's Printer.

¹⁴⁰ Jensen, 2006, p.102.

¹⁴¹ See Department of External Affairs (1976) *A Study of the Role of the Department of External Affairs in the Government of Canada*, Ottawa: Department of External Affairs, p.18; DEA (1969) p.101.

The Special Research Bureau is administratively attached to the Department of External Affairs but has a separate budgetary and program planning arrangement so that its priorities are not in direct competition with the priorities of the Department proper [...] Administrative decisions are made by the administrative decision-making processes of the Department of External Affairs, and administrative action is taken on the authority of the [Under-Secretary of State for External Affairs]. The program manager for the Special Research Bureau program is the Director of the Special Research Bureau.¹⁴²

Essentially, this meant that the Director of SRB reported directly to the Under Secretary of State for External Affairs (the departmental DM). The Bureau's budget and estimates were worked out separately through the interdepartmental intelligence machinery, and then added to the DEA's final budget allocation. However, regular administrative matters, such as personnel, pay, accounting, and facilities were handled through normal DEA administrative processes.

As time progressed, the SRB became increasingly integrated into the DEA until the formation of the Foreign Intelligence Bureau in 1985 absorbed it entirely.¹⁴³ The new structure was meant to consolidate the different intelligence activities of DEA, bringing critical mass to the intelligence analysis and assessment functions in particular. Indeed, through the 1980s, the DEA developed a robust capability for intelligence analysis and coordination, partly as a response to international terrorism and the threat it posed to diplomatic personnel and facilities.

Spending on Intelligence Assessment: Doing More with Less...and Less...and Less...

However, developments in the threat environment were at odds with parallel developments in the fiscal environment, with Canada having faced a grim recession in the early half of the 1980s. As a result, DEA had suffered personnel cuts for several years through the 1980s, and faced substantial

¹⁴² Isbister, 1970, p.34.

¹⁴³ Department of External Affairs (1986) *Annual Report 1985-86*, Ottawa: Minister of Supply and Services Canada, p.66.

operational budget pressures.¹⁴⁴ The intelligence assessment functions in DEA and DND were both increasingly hard-hit by the continuing budget cuts. On one hand, there had finally been a growing demand at senior levels for intelligence products. The 1987 Marchand Review found that the move in the mid-1980s to increase the effectiveness of Canada's foreign intelligence capability had been relatively successful. More senior clients were reading intelligence assessments, and this resulted in an increased demand. At the same time, and not unrelated to a general increase in senior-level readership, was the fact that the reforms had brought renewed vigour to the interdepartmental intelligence machinery, which included a heavier work plan for national assessments.¹⁴⁵ This increased *interdepartmental* demand for intelligence assessments had developed in addition to the regular *departmental* workload of the intelligence assessment units. Analysts that had already been busy supporting the more operationally focused requirements of DEA and DND were spending a larger amount of time in interdepartmental forums, such as the Assessment Review Groups, and drafting or coordinating interdepartmental assessments. At the same time, government-wide budget cuts and efficiency drives were forcing hard choices on departments.

Marchand's 1987 review highlighted that the intelligence analysis units in both DND and DEA had been stretched thin. DND had conducted a review of its intelligence assessment capability in the early 1980s, and had concluded that the existing resources were, in the face of growing demand, dangerously inadequate. In 1985, as a result of this review, DND augmented its intelligence assessment capability with an internal reallocation of almost 10 percent.¹⁴⁶

However, DEA's situation was much more acute, as the bulk of the assessment requirements fell on DEA analysts. Marchand pointed out that just as the demand for intelligence assessments was growing substantially, the intelligence units in DEA were "side-swiped" with a six percent reduction in

¹⁴⁴ External Affairs and International Trade Canada (1991) *Annual Report 1990-91*, Ottawa: External Affairs and International Trade Canada, p.5. The merger of trade functions into the DEA resulted in the Department becoming External Affairs and International Trade Canada, or EAITC in formal documents. However, it was still commonly referred to simply as 'External Affairs.'

¹⁴⁵ Marchand, 1987, pp.2-5.

¹⁴⁶ *Ibid*, pp.38-40.

personnel as part of move across the Department to meet government-wide spending reductions.¹⁴⁷ What Marchand found most surprising was that DEA's management *supported* the cuts. DEA management, supported by central guardians in the Treasury Board Secretariat, that because the intelligence units were part of the DEA baseline budget, they had to contribute to any cuts just as other units did. But Marchand found this argument disingenuous:

*That reasoning would be impeccable if we were talking of across the board cuts of uniform sizes—which is rarely if ever the case. Choices have been made, priorities have been acknowledged and have served to spare some areas from some of the cuts.*¹⁴⁸

Effectively, Marchand found that DEA's management was sacrificing the department's intelligence function to save other areas that DEA considered greater priority to the department from deeper cuts. Marchand wrote that the Foreign Intelligence Program had been set up in order to avoid this kind of situation. The FIP was meant to, "protect the integrity of strategically significant government assets albeit based in Departments where usage was important and where feed and care was to be obtained."¹⁴⁹ As previously discussed, however, the FIP was limited in effectiveness because it relied on a central leadership from CC/S&I that rarely materialised.

Marchand's resulting recommendations were two-fold. Firstly, the Coordinator, in conjunction with management at DEA, would take the issue of personnel cuts back to the Treasury Board to achieve a reinstatement of analyst positions or a commensurate reduction in the future cuts DEA was required to make.¹⁵⁰ This would effectively ensure that there could not be a repeat performance. Secondly, as discussed previously, Marchand recommended that the CC/S&I delegate its responsibility for the FIP to the PCO Intelligence Coordinator, the DM of DND, and the USSEA. In terms of resources, however, Marchand recommended that there be a standing rule, "that no base Department could reduce the number of established positions in these units without the

¹⁴⁷ Ibid, p.39.

¹⁴⁸ Marchand, 1987, p.41.

¹⁴⁹ Ibid, p.41.

¹⁵⁰ Marchand, 1987, p.41.

agreement of the Coordinator,” concluding that this would, “fully protect the integrity of these scarce and special resources.”¹⁵¹ The Marchand Review’s conclusions, the active engagement of the Intelligence Coordinator, and the fact that Marchand himself became USSEA in 1989, helped to maintain the level of resources in DEA’s intelligence assessment units.

However, the end of the Cold War foreshadowed new budget cuts. The politically shrewd concept of the peace dividend was already starting to be felt; Cabinet required a \$70 million cut over four years in the DEA budget starting in 1990.¹⁵² DEA’s annual report for 1990-91 concluded by summarising the environmental elements that had led to conflicting budgetary demands: “The complexity and flux of the world situation, the economic realities of the recession and the internal restructuring and fiscal restraints made [1990-91] a year that challenged the Department’s resources.”¹⁵³ As part of the effort to manage these pressures, DEA had conducted a wide-ranging corporate review in early 1990. The review led to a reduction of 150 staff across the Department, which the Department admitted, “will still fall short of our longer-term requirements and resource demands.”¹⁵⁴ For Canada’s intelligence analysts, the seemingly constant tension between the complexity of the global situation and the domestic demands for budget cuts was only going to grow.

CSIS and CSE as Intelligence Spenders

The formation of CSIS in 1984 led to a flurry of high-level attention on intelligence issues. However, not long after CSIS was formed, the Security Intelligence Review Committee noted issues over resourcing. SIRC acknowledged in its 1985-86 report that budget limits “appear to be a serious constraining force on CSIS operational capabilities,” and that “CSIS may be faced with a very serious resource squeeze.”¹⁵⁵ The following year, SIRC noted concern

¹⁵¹ Ibid, p.41.

¹⁵² External Affairs and International Trade Canada (1990) *The Corporate Review: Final Report*, Ottawa: External Affairs and International Trade Canada, p.3.

¹⁵³ Ibid, p.5.

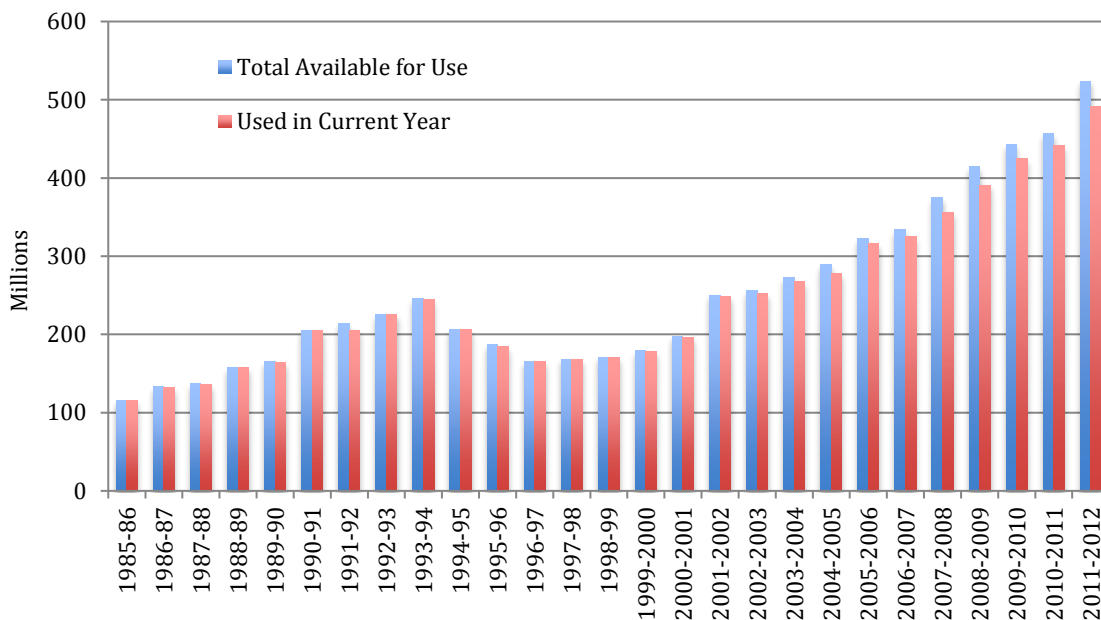
¹⁵⁴ Ibid, p.3.

¹⁵⁵ SIRC (1986) *Annual Report 1985-86*, Ottawa: Minister of Supply and Services Canada, pp.4, 11-12

that CSIS had been tasked with further requirements with no additional resources, and had not been able to give up other tasks to alleviate the pressure.¹⁵⁶

CSIS has, in fact, shown itself to be a good manager of public funds. As illustrated in Figure 3.11.9, between the years of 1985 and 2012 there was not a single year in which the Service ‘blew its vote’ and overspent its operating budget allocation.

Figure 3.11.9¹⁵⁷
CSIS Operating Budget: Total Available Allocations versus Funds Used



This responsible budgetary administration was also true for capital projects. In its early years, CSIS HQ functions were spread across eight buildings in six separate sites.¹⁵⁸ The bulk of the CSIS HQ was in the Veteran’s East Memorial Building (or VEMB), however it was recognised quite early that this building was not a suitable headquarters. A 1986 memorandum from the DG of CT to the Dep. Director of Requirements noted that:

¹⁵⁶ SIRC (1987) *Annual Report 1986-87*, Ottawa: Minister of Supply and Services Canada, pp.49, 61.

¹⁵⁷ Compiled by the author from data in the *Public Accounts of Canada*.

¹⁵⁸ Office of the Auditor General (1996) ‘Chapter 8—Canadian Security Intelligence Service—National Headquarters Building Project’ *1996 May Report of the Auditor General of Canada*, Ottawa: Minister of Supply and Services Canada.

...the power in VEMB is simply insufficient to carry all of the electronics associated with a modern security intelligence service. This is compounded by the fact that there is absolutely no provision for emergency backup in the case of a power outage. This means that lightning striking a main transformer or simply a car smashing down a power pole in the vicinity of VEMB can put us out of business until repairs are made.¹⁵⁹

In 1988, a major capital project was approved by Cabinet to construct a dedicated HQ building for CSIS. The project was completed in February 1995 on time and \$0.5 million *under* budget. An OAG audit of the building project found that it was a “well managed project overall” and that it represented a positive example for other major capital projects.¹⁶⁰

However, unforeseen shifts across multiple environments have resulted in significant resource pressures. For instance, the growth of transnational terrorism sparked renewed interest in the use of security certificates under the *Immigration and Refugee Protection Act* to remove individuals believed to pose a threat to the security of Canada. In 2008, the Supreme Court of Canada decision in *Charkaoui v. Canada (Citizenship and Immigration)*, referred to as ‘Charkaoui II,’ imposed significant and unforeseen disclosure obligations on the government, which had significant impact on CSIS as it had to litigate closed sessions dealing with the disclosure of classified material. In one example, the CSIS Legal Services Unit had costs of \$1.15 million against an allocation of approximately \$500,000 in FY 2008-09. Addressing the resulting pressure, at least in the short term, required a “realignment” of effort within the Service to address the shortfall.¹⁶¹ It was noted by Public Safety that organisations engaged in the security certificate initiative were having a hard time accurately costing their activities because the legal jurisprudence was developing so rapidly and would frequently change the required level of resources.¹⁶² Ultimately, the

¹⁵⁹ DG of CT to DDR (June 17, 1986) Memorandum: ‘Secure Telephone Link—CSIS-RCMP’ Canadian Security Intelligence Service, SECRET, Released under the ATIA.

¹⁶⁰ Office of the Auditor General (1996) ‘Chapter 8—Canadian Security Intelligence Service—National Headquarters Building Project’.

¹⁶¹ Public Safety Canada Evaluation Directorate (2010) *2009-2010 Evaluation of the Security Certificate Initiative—Final Report*, Ottawa: Public Safety Canada, pp.iv-v, 23-25, 29-30.

¹⁶² *Ibid*, p.25.

government provided further funding across multiple organisations to alleviate this pressure, including \$5.4 million to CSIS which sunsetted in FY 2012-13.¹⁶³

While the security certificate initiative showed that environmental shifts could cause administrative cost pressures, similar pressures have also arisen from operational shifts as well. SIRC's 2012-2013 annual report stated that the government highlighted Canada's northern territories as a security and intelligence priority in 2010. Problematically, this new priority came about at a time when the government was also calling for budgetary restraint, and "continuing financial pressures [limited] operational options."¹⁶⁴ Initially, the government also failed to provide CSIS with adequate guidance on expectations to allow the Service to realign its efforts, however further specific guidance from ministers provided in 2011 allowed the Service to respond appropriately to government expectations.¹⁶⁵

In the past, the CSIS budget has been represented in the Main Estimates as a single figure, with the only division being between operating and capital expenditures. In FY 2009-10, the 'CSIS programme' was split and the budget is now shown in the Main Estimates as divided between two overarching programmes, each representing one of the Service's core activities as mandated in the *CSIS Act*.¹⁶⁶ The Intelligence Program covers both Sec.12 (security intelligence) and Sec.16 (foreign intelligence) collection activities, analytic activities, and administrative functions in support of these activities. The Security Screening Program encompasses the Service's inward-facing security screening process for Government of Canada employees, as well as its outward-facing security screening operations for immigration purposes.¹⁶⁷

¹⁶³ CSIS (February, 28, 2012) Question Period Note: 'Main Estimates 2012-13—CSIS', Released under the ATIA.

¹⁶⁴ SIRC (2013) *Annual Report 2012-2013*, Ottawa: Public Works and Government Services Canada, pp.24.

¹⁶⁵ *Ibid*, pp.23-24.

¹⁶⁶ Treasury Board Secretariat (2009) *2009-10 Estimates*, Part II: Main Estimates, Ottawa: Public Works and Government Services Canada, p.22-II

¹⁶⁷ Treasury Board Secretariat (2015) *2015-16 Estimates*, Part II: Main Estimates, Ottawa: Public Works and Government Services Canada, p.II-74

Prior to 2011, CSE's figures were not published in the Main Estimates, as they were included in the overall DND estimates. This changed when CSE became a stand-alone department under the *Financial Administration Act* in 2011 and, like other public service departments, its estimates are now published. Like CSIS, however, the CSE estimates are broken down between two overarching programmes that cover CSE's three-part mandate under the *National Defence Act*. The *Signals Intelligence Program* encompasses all spending on Mandate A (foreign SIGINT collection) and Mandate C (assistance to federal law enforcement and security agencies) activities. The *Information Technology Security Program* encompasses all spending on Mandate B (IT and cyber-security) activities. The structure of these programmes for CSIS and CSEC are meant to strike a balance between accountability and operational security. The programmes do not break down funding or activities in granular detail, as this would harm the agency's operational integrity. However, the programmes and programme descriptions are sufficiently clear as to define what *kind* of activity Parliament is approving funding for.¹⁶⁸

Spending on Defence Intelligence: The Chief of Defence Intelligence and the Canadian Forces Intelligence Command

The defence intelligence capability in Canada is centred in the Canadian Forces Intelligence Command (CFINTCOM), under the command of the Chief of Defence Intelligence (CDI). CFINTCOM encompasses three core functions: strategic assessment; collection; and coordination and corporate support. The collectors in CFINTCOM have special national responsibility for IMINT and GEOINT, but also play an important role in SIGINT collection supporting both national and operational requirements, and a role in HUMINT and counter-intelligence for force protection purposes. Under DND's programme architecture, the defence intelligence effort is contained in the *Situational Awareness* programme.¹⁶⁹ Under this overarching programme, resources are divided

¹⁶⁸ Treasury Board Secretariat, *2015-16 Estimates*, Part II: Main Estimates, p.II-95.

¹⁶⁹ Department of National Defence/Canadian Forces (2014) *Departmental Performance Report 2013-14*, Ottawa: Department of National Defence and Canadian Forces, pp.92-93. Figure 4.28 represents a condensed version of performance and expenditure reporting from DND annual reporting. It does not include figures for FTEs contained in the original. It should also be noted that Canada Joint Operations Command (CJOC) replaced Canada Command (CANCOM) in 2012.

between two sub-programmes. The first sub-programme, *Conduct Intelligence, Surveillance, and Reconnaissance*, encompasses the funds and personnel for CFINTCOM's multiple collection and assessment units. The second sub-programme, *Support Intelligence, Surveillance, and Reconnaissance*, encompasses the funds and personnel for CFINTCOM's coordination and corporate functions, such as capability planning and development.¹⁷⁰ Figure 3.11.12 illustrates the programme structure for Canadian defence intelligence in FY 2013-14.

Figure 3.11.12¹⁷¹

Programme Structure for Canadian Defence Intelligence, FY 2013-14

| Program 3.1: Situational Awareness | | | | |
|--|--|-------------------------------------|------------------------------------|-----------------------------------|
| Main Estimates | Planned Spending | Total Authorities Available for Use | Actual Spending (authorities used) | Difference (actual minus planned) |
| 381,849,792 | 381,849,793 | 391,906,837 | 380,994,605 | (855,188) |
| Expected Results | Performance Indicators | Targets | Actual Results | |
| Situational awareness of the defence, security and international affairs environment is enhanced | % of reports read (used by stakeholders) | 90% | 99% | |

| Sub-Program 3.1.1: Conduct Intelligence, Surveillance and Reconnaissance | | | |
|--|---|---|---|
| Planned Spending | Actual Spending | Difference (actual minus planned) | |
| 206,010,499 | 190,811,234 | (15,199,265) | |
| Expected Results | Performance Indicators | Targets | Actual Results |
| Front-line commanders have real-time access to the strategic and tactical information they require | # of trained , equipped , deployable Geo Support Teams to deployed operations and individual augmentees for specific tasks | Six Geo Support Teams | Six Geo Support Teams |
| Front-line commanders have real-time access to the strategic and tactical information they require | # of Intelligence Analysis teams available to provide 24 hours/7 days Imagery Intelligence Capability and Response to Query | One Intelligence Analysis team 24 hours/7days | One Intelligence Analysis team 24 hours/7days |
| Safety of CAF Operations is enhanced through use of accurate and timely weather warnings | # of weather-related accidents resulting in loss of life or loss of platforms (aircraft, ships) | 0 | 0 |

| Sub-Program 3.1.2: Support to Intelligence, Surveillance and Reconnaissance | | | |
|--|--|-----------------------------------|----------------|
| Planned Spending | Actual Spending | Difference (actual minus planned) | |
| 175,839,293 | 190,183,371 | 14,344,078 | |
| Expected Results | Performance Indicators | Targets | Actual Results |
| Ensure safety, security and defence of the nations and civilians within the Canadian Joint Operations Command (CJOC) ⁴⁵ Area of Responsibility through operations as directed by the Government of Canada | % of Stated Operational Effects achieved | 80 - 100% | 100% |
| Ensure safety, security and defence of the nations and civilians within the Canadian Joint Operations Command (CJOC) ⁴⁶ Area of Responsibility through operations as directed by the Government of Canada | % Assigned critical tasks completed | 80 - 100% | 100% |

¹⁷⁰ Ibid, pp.93-95.

¹⁷¹ Adapted from DND/CF (2014) *Departmental Performance Report 2013-14*, pp.92-95.

The Chief of Defence Intelligence is the ‘owner’ of the strategic capabilities that make up the defence intelligence enterprise, and accountable for the financial resources that used to build, operate, and maintain these capabilities. While this role is operationally important, it also means that the CDI is accountable to the Chief of Defence Staff, the Deputy Minister of DND, and ultimately the Minister of National Defence for operational and capital expenditure on defence intelligence capabilities. The reorganisation of defence intelligence in 2013 to form CFINTCOM has formally made this accountability more direct, as the CDI now reports directly to the Chief of Defence Staff.¹⁷²

Spenders as Guardians? Deputy Ministers as Accounting Officers

The role of accounting officer, long a feature of British public administration, was introduced in Canada in 2006 following the Sponsorship scandal and the subsequent Commission of Inquiry into the Sponsorship Program and Advertising Activities, better known as the Gomery Commission. While the Commission did not explicitly recommend the adoption of the accounting officer role in the Canadian system, it did call for a clarification of the roles of deputy ministers and ministers, specifically in regard to accountabilities before the Public Accounts Committee.¹⁷³ As part of its response to the Gomery Commission, the Canadian government formally instituted the accounting officer role in the public service with the passage of the *Federal Accountability Act* and consequential amendments to the *Financial Administration Act*. Section 16.4 of the *Financial Administration Act* now states that a DM who is designated the accounting officer for their department is accountable before Parliamentary committees to provide information and explanations related to:¹⁷⁴

¹⁷² Prior to 2013, the CDI reported through the Vice Chief of the Defence Staff to the Chief of Defence Staff and Deputy Minister.

¹⁷³ Gomery, J. (2006) *Report 2, Volume 1: Restoring Accountability—Recommendations*, Commission of Inquiry into the Sponsorship Scandal and Advertising Activities, Ottawa: Minister of Public Works and Government Services, p.200, see Recommendation 4.

¹⁷⁴ The following items are quoted directly from the *Financial Administration Act*, R.S.C., 1984, c. F-11, as at March 3, 2015. Also, see Privy Council Office (2007) *Accounting Officers: Guidance on Roles, Responsibilities and Appearances Before Parliamentary Committees*, Ottawa: Privy Council Office. There is an important stipulation in that accounting officers are *accountable before* parliamentary committees, but not *accountable to* them. Also, the PCO guidance makes clear the government’s view that accounting officers appear before committees *in support of their minister’s ultimate accountability*, rather than the accounting officer being personally accountable.

- a) *the measures taken to organize the resources of the department to deliver departmental program in compliance with government policies and procedures;*
- b) *the measures taken to maintain effective systems of internal control in the department;*
- c) *the signing of the accounts that are required to be kept for the preparation of the Public Accounts pursuant to section 64; and*
- d) *the performance of other specific duties assigned to him or her by or under this or any other Act in relation to the administration of the department.*

Accounting officers, as one examination put it, are “directly and inescapably connected to parliamentary and Treasury control of how money is spent.”¹⁷⁵ It should be noted that all of the responsibilities found in Sec.16.4 had already rested with DMs prior to the adoption of the accounting officer role, but this was not given an explicit legislative or policy articulation outside of Treasury Board directives which were limited in applicability. The introduction of accounting officers was meant to achieve this articulation, and strengthen management accountability before Parliament by opening well-defined and transparent space for DMs to manage their departments. The DMs responsible for elements of Canada’s IC are bound by this accountability, just as their colleagues are in other departments such as, for instance, Health Canada or Industry Canada. The heads of Canada’s principal intelligence collection agencies (such as CSIS, CSEC, or FINTRAC) are accounting officers for their organisations, and other intelligence units that are part of larger departments (such as IAS in PCO) are covered by the accounting officer status of their departmental DM. Figure 3.11.13 shows the accounting officers that are responsible for organisations that comprise the core of the Canadian IC.

¹⁷⁵ Harris, J. (2013) *Following the Pound: Accounting Officers in Central Government*, London: Institute for Government, p.5.

| Figure 3.11.13¹⁷⁶ Accounting Officers Responsible for Core Elements of the Canadian IC | |
|---|---|
| <i>Intelligence Organisation</i> | <i>Accounting Officer</i> |
| PCO (Intelligence Assessment Secretariat and Security & Intelligence Secretariat) | Clerk of the Privy Council and Secretary to the Cabinet |
| CSIS | Director, CSIS |
| CSE | Chief, CSE |
| CFINTCOM | DM, National Defence |
| Public Safety Canada | DM, Public Safety Canada |
| RCMP | Commissioner, RCMP |
| FINTRAC | Director, FINTRAC |
| DFATD (Security & Intelligence Bureau) | DM, Foreign Affairs |
| CBSA (Enforcement and Intelligence Operations Directorate and Enforcement and Intelligence Programs Directorate) | President, CBSA |
| Transport Canada (Safety and Security Group) | DM, Transport Canada |

The Director of CSIS was designated the accounting officer for the Service when the role was introduced in 2006, as were most other DMs listed in Figure 4.31.¹⁷⁷ Between 2006 and 2011, the DM of National Defence was designated the ‘deputy head,’ and hence the accounting officer, for CSE; this was in line with the DM’s traditional responsibility for the finance and administration of CSE as well as the DM’s accounting officer role for DND writ large.¹⁷⁸ In 2011, when CSE was designated as a stand-alone department within the defence portfolio, the Chief was formally designated as the accounting officer under the *Financial Administration Act*.¹⁷⁹ Ultimately, DMs responsible for managing or overseeing elements of the Canadian IC have been given a direct responsibility and accountability before Parliament for the management and financial

¹⁷⁶ Table is compiled from Schedule VI of the *Financial Administration Act*, R.S.C., 1985 c. F-11, as at March 3, 2015.

¹⁷⁷ See Schedule VI, Part II, *Financial Administration Act*, R.S.C., 1985 c. F-11, as at Dec 12, 2006, <http://laws-lois.justice.gc.ca/eng/acts/F-11/20061212/P1TT3xt3.html> (Accessed Dec 2014).

¹⁷⁸ *Order Designating the Position of Deputy Minister of National Defence to the Position of Deputy Head in Respect of the Communications Security Establishment*, SI/2006-4, <http://canlii.ca/t/l5gv> (Accessed December 2014).

¹⁷⁹ Order-in-Council SOR/2011-257 (15 November 2011) *Order amending Part II of Schedule VI to the Financial Administration Act*. Canada Gazette Part II, 145(25)

administration of these organisations; the accountability for spending on intelligence is, in this regard, not at all secret.

Guardians among the Spenders: Chief Financial Officers

Supporting a DM in their role as accounting officer is a Chief Financial Officer (CFO), almost always an ADM-level official in charge of corporate and financial functions within the department. The Government of Canada adopted the CFO model for financial management in 2010 under the Treasury Board's *Policy on Financial Management Governance*.¹⁸⁰ The introduction of the CFO model was meant to "establish a new vision for financial management across government: a vision rooted in accountability."¹⁸¹ The CFO has, among several core functions, the responsibility to attest to the accuracy and soundness of financial figures included in Cabinet submissions, including the costing for new or expanded programmes and procurements, and for providing an internal challenge function on financial decision-making.¹⁸² These roles make the CFO an important figure, not only accounting for departmental expenditure, but also in ensuring that expenditure requests are well thought-out and that all options have been considered. As with the introduction of accounting officers, the CFO model is implemented across government departments, and the IC is no exception. Figure 4.39 lists the CFOs within the organisations that make up the core Canadian IC.

CFOs wear two hats. They act as the central guardians' representative, living within spending departments. They also act as a translator for their department, explaining departmental-specific nuances in financial management to the guardians. As can be seen from the introduction of accounting officer and CFO

¹⁸⁰ Treasury Board Secretariat (2012) *Report on the State of Comptrollership in the Government of Canada*, Ottawa: Treasury Board of Canada Secretariat, pp.31-32; TBS (modified 2010) *Policy on Financial Management Governance*, Ottawa: Treasury Board of Canada Secretariat, <http://www.tbs-sct.gc.ca/pol/doc-eng.aspx?id=14005§ion=HTML> (accessed February 2015).

¹⁸¹ TBS, 2012, p.32.

¹⁸² Treasury Board Secretariat (2010) *Policy on Financial Management Governance*; Treasury Board Secretariat (2014) *Guideline on CFO Attestation for Cabinet Submissions*, Ottawa: Treasury Board of Canada Secretariat, <http://www.tbs-sct.gc.ca/pol/doc-eng.aspx?id=27256§ion=HTML> (Accessed February 2015); Treasury Board Secretariat (modified 2008) *Guide to Costing*, Ottawa: Treasury Board of Canada Secretariat, <https://www.tbs-sct.gc.ca/pol/doc-eng.aspx?id=12251§ion=HTML> (Accessed February 2015).

roles within the Canadian government, the intelligence spenders have not been exempt from developing trends in financial accountability, and the CFO network in particular has a role in ensuring resource exchanges between spenders and guardians.

| Figure 3.11.14¹⁸³ Chief Financial Officers in Core Departments of the Canadian IC | |
|--|---|
| <i>Intelligence Organisation</i> | <i>Chief Financial Officer</i> |
| PCO | ADM, Corporate Services |
| CSIS | Deputy Director, Administration |
| CSE | Deputy Chief, Corporate Services |
| DND | ADM, Finance and Corporate Services |
| Public Safety Canada | ADM, Corporate Management Branch |
| RCMP | Deputy Commissioner, Corporate Management and Comptrollership |
| FINTRAC | Assistant Director, Chief Financial Officer Directorate |
| DFATD | ADM, Corporate Planning, Finance, and Information Technology |
| CBSA | Vice-President, Comptrollership Branch |
| Transport Canada | ADM, Corporate Services |

For intelligence spenders, expenditure trends resonate at the operational level, and this is where one can see the benefits and costs of decision-making. It is easiest to understand the impact that persistent budget reductions and operating budget freezes have had on the Canadian IC by looking at a number of case studies, spanning the period from the 1970s to the early 1990s. These cases cover security intelligence and foreign intelligence, intelligence collection and intelligence assessment.

One Man on the Fourth Floor: CSE's Cryptanalysis Capability in the 1970s and 1980s

One of the most challenging issues for any IC is keeping up with changes in the technological environment. The late 1960s and 1970s saw significant changes in telecommunications and cryptography, driven by leaps in computer and satellite technology. For SIGINT agencies such as CSE, more data and more

¹⁸³ Table compiled by the author from departmental websites, the Government Electronic Directory Service, and TBS 'Chief Financial Officer (CFO) List,' as at March 23, 2015, <http://www.tbs-sct.gc.ca/fm-gf/tools-outils/sfo-list2-afs-eng.asp#N> (Accessed March 2015).

complex encryption meant the need for more powerful capabilities in cryptanalysis to maintain effectiveness. However, in the late 1970s, as one astute observer has put it, CSE's capabilities in this field were "on the point of extinction" and CSE itself was "understaffed and ill-equipped."¹⁸⁴ A decision of the Public Service Staff Relations Board in relation to a grievance filed by a former CSE employee records that, in the late 1970s, CSE and its SIGINT allies were, "concentrating on a particular target area which had become very sophisticated and difficult to analyse." There was a realisation that parts of CSE's SIGINT operations had become "obsolete and unreliable."¹⁸⁵ Budgets remained tight; in 1979 the total operating budget for 01, CSE's cryptanalysis unit, was \$8,000.¹⁸⁶ By 1979, CSE's cryptanalysis capability had degraded to the point that only one person, Ed Cheramy, the head of section O1B whose office was on the fourth floor of CSE headquarters, was doing real cryptanalysis.¹⁸⁷ To compound this, Cheramy's work was entirely manual in an age when computers were increasingly driving cryptography. In effect, CSE's entire cryptanalysis capability had become one man on the fourth floor. In 1980, however, that fourth floor office became empty. Ed Cheramy became ill and died in early 1981, taking CSE out of cryptanalysis altogether.¹⁸⁸

Prior to Cheramy's death, CSE's management had concluded in 1980 that the purchase of a supercomputer and a staff of professional mathematicians were necessary to bring CSE's cryptanalysis capabilities back from the brink.¹⁸⁹ However, this would be a significant expenditure; CSE was not used to spending large amounts on individual initiatives and did not immediately have the budget for the purchase.¹⁹⁰ The decision to commit funds to procure the supercomputer appears to have gone to ICSI for review, and ultimately to ministers for decision,

¹⁸⁴ Robinson, B. (1992) 'The Fall and Rise of Cryptanalysis in Canada' *Cryptologia*, 16:1, p.24.

¹⁸⁵ Wexler, M.K. (March 12, 1990) *Edwina J Slattery v. Communications Security Establishment, Department of Defence*, File No. 166-13-17850, Ottawa: Public Service Staff Relations Board, pp.3-4.

¹⁸⁶ Wexler, 1990, p.5.

¹⁸⁷ *Ibid*, pp.4-5,6.

¹⁸⁸ Robinson, 1992, p.27; Robinson, B. (2008) 'The Fall and Rise of Cryptanalysis at CSE' *Lux Ex Umbra*, <http://luxexumbra.blogspot.ca/2008/06/fall-and-rise-of-cryptanalysis-at-cse.html> (Accessed Dec 2015).

¹⁸⁹ *Ibid*, p.5.

¹⁹⁰ *Ibid*, p.5; Robinson, 2008.

as would be expected for this type of sensitive and costly capital project. The 1984 Fadden Report states that, “In recent years, the ICSI has been asked to approve [...] major increases in expenditure for the signals intelligence program” and added that ICSI members visited CSE to learn more about why further funds were required, as the DMs wanted further information in order to evaluate the funding requests.¹⁹¹ Finally, in 1984, an outlay of \$13.5 million was approved for CSE to procure the Cray X-MP, the purchase and installation of which was named Project ELEVATOR.¹⁹²

However, even after the decision to procure the Cray, CSE was not in a budgetary position to purchase the standard model. Instead, CSE procured the Cray X-MP/11, a “budget version” of the X-MP, and did the procurement in two phases. The first phase, in 1985, purchased the basic Cray itself along with relevant software and maintenance. The second phase, a major upgrade in 1987-88, added further central memory and a solid-state storage device.¹⁹³ Overall, the cost from 1984-1994 of rebuilding the capital element of Canada’s national cryptanalysis capability has been estimated at more than \$34 million.¹⁹⁴

Stretched to Breaking Point: The Air India Bombing and CSIS Counter-Terrorism Capacity

In 1984, at the time CSE was in the process of procuring its new supercomputer, CSIS’ investigation of Sikh extremist groups in British Columbia (BC) was intensifying. CSIS had only been born as an organisation that year and was still working through the substantial tasks involved with standing up a new security intelligence service separate of the RCMP. All this, of course, had to be done with as little impact on continuing operations as possible. The CSIS investigation of Babbar Khalsa (BK), one of the most virulent Sikh extremist groups, had been inherited from the RCMP at the time of the Service’s creation. However, the Service’s investigation and assessment of the intentions of BK cells in Canada had been continually affected by serious resource shortages.

¹⁹¹ Fadden, 1984, p.2.

¹⁹² Robinson, 1992, p.6. The Cray itself cost just over \$8 million. Robinson, 2008.

¹⁹³ Robinson, 2008.

¹⁹⁴ Ibid. This estimate is based on the figures for computer and technical procurement. It does not include the additional costs for

Unfortunately, the investigation would not be able to halt the bombing of Air India flight 182 in June 1985.

Ultimately, intelligence collection is a resource-heavy exercise; it has been stated that in a post-9/11 counter-terrorism investigation 16 people were required to covertly plant a microphone and approximately 25 people to keep a target under surveillance for five days.¹⁹⁵ In terms of intelligence collection, the intelligence officers (IOs) on the ground in BC knew who their targets were but lacked the resources to adequately monitor them until the threat warnings were reaching a crescendo. The lead investigator, Raymond Kobzey, continually found it difficult to get physical surveillance coverage of BK subjects because Physical Surveillance Units (PSUs) in the BC Region office had more demands for coverage than they had personnel.¹⁹⁶ The principal subject of the CSIS investigation, Talwinder Singh Parmar, was not given full-time PSU coverage until June 1, 1985, only weeks before the bombing of Flight 182.¹⁹⁷ In fact, the Major Commission noted that the two lead IOs on the investigation, “spent much of their time confronting serious challenges to obtaining resources to support their investigations. They seemed to be in a constant fight for basic investigative resources, which detracted from their ability to carry out their own important investigative duties.”¹⁹⁸ Major concluded that the resource shortage worked the CSIS investigators into a vicious circle. With limited resources, the coverage of their principle subjects was uneven. Because of the uneven coverage, the investigators had a very hard time corroborating threat information, which in turn would have allowed them to justify further resources.¹⁹⁹ Even in June 1984, when the lead officers were able to obtain Level 4²⁰⁰ approval for their BK

¹⁹⁵ Stoffman, D. (2009) ‘Are We Safe Yet?’ *Walrus*, <http://thewalrus.ca/are-we-safe-yet/> (Accessed November 2015).

¹⁹⁶ Major, J. (2010) *Air India Flight 182—A Canadian Tragedy, Volume 2, Part 1: Pre-Bombing*, Commission of Inquiry into the Investigation of the Bombing of Air India Flight 1982, Ottawa: Minister of Public Works and Government Services, pp.313-314.

¹⁹⁷ *Ibid*, p.283.

¹⁹⁸ *Ibid*, pp.314-315.

¹⁹⁹ Major, 2010, Vol 2, Part 1: Pre-Bombing, p.150.

²⁰⁰ At the time, CSIS had 4 levels of investigations, with Level 4 being the most intrusive, allowing for telecommunications and mail interception and covert entry of premises.

investigation, the new priority level was not accompanied by an increase in resources for some time.²⁰¹

There was a similar resourcing issue in terms of intelligence analysis. The Sikh Desk in CSIS HQ was severely understaffed. Out of three allocated positions, the Desk only had one analyst for much of the year prior to the bombing, with a second position being filled in March 1985, and the third position being filled only three weeks before the bombing.²⁰² The Sikh Desk was part of the larger Western Europe and Far East Section, which was headed by Russell Upton (See Figure 4.40 for organisation of CSIS HQ CT units in June 1985). The Major Commission observed that, while Upton had the authority to transfer resources between the different desks in his section, the section was under-resourced overall, with only half of the 14 analyst positions filled.²⁰³ Additionally, the Threat Assessment Unit (TAU) contained only two analysts at the time of the bombing. While these analysts still managed to disseminate 952 CSIS assessments, Major concluded that the TAU was “resourced to act as a threat assessment post office.”²⁰⁴ These shortages in analytic capacity occurred at a time when the amount of information coming into the Sikh Desk, the Western Europe and Far East Section, and the TAU, was rising dramatically; the ability of the analysts to keep up with the information was quickly overwhelmed, despite their best efforts.²⁰⁵

The Major Commission made a strong case that CSIS, in the year leading up to the bombing, failed to allocate resources appropriately. The Commission argued that CSIS had too much of its resources tied up in counter-intelligence (CI) investigations and CT investigations into Armenian terrorism, in spite of significant indications that Sikh extremist groups, such as BK, would engage in violent acts.²⁰⁶ Undoubtedly, the allocation of operational resources within the Service presented challenges to the investigation of Sikh extremism, particularly the imbalance between resources devoted to CT and CI. However, there are

²⁰¹ Major, 2010, Vol 2, Part 1: Pre-Bombing, pp.305-306.

²⁰² Ibid, p.315.

²⁰³ Ibid, p.315.

²⁰⁴ Ibid, pp.316-317.

²⁰⁵ Ibid, p.316.

²⁰⁶ Major, 2010, Volume 1, Part 2: Pre-Bombing, pp.151, 308-309.

significant indications of a second macro-level trend: the under-resourcing of CSIS overall. Russell Upton, the head of the Western Europe and Far East Section at CSIS Headquarters, stated to the Commission that when he had pressed CSIS senior management for more resources to address priority CT investigations:

*[...] it was constantly brought to my attention that there are other areas that required resources, and there was the Armenian area which in the forefront had required continuing resource and high priority. My priority was not the highest, it was below the Armenians.*²⁰⁷

The sections of CSIS dealing with Armenian terrorism had been given priority following a series of attacks by Armenian extremists against Turkish targets in Canada.²⁰⁸ Upton added that after the Air India bombing, resources were shifted from the sections dealing with Armenian terrorism to sections dealing with Sikh terrorism.²⁰⁹ CSIS, as an organisation, was in the unenviable position of choosing to resource one high-priority area at the expense of other high-priority areas.

It has also been acknowledged that CSIS had been under-resourced since its inception for the task of transitioning from the RCMP Security Service to a new civilian security intelligence agency. In 1987, the Independent Advisory Team, set up by the Solicitor General to review the state of CSIS' development as an organisation, concluded retrospectively that, "the Service was established without due regard for the real costs of many 'housekeeping' matters."²¹⁰ The Advisory Team found that this overarching resource problem had been compounded by decisions in the Service to continue resourcing CS investigations. The Major Commission echoed this finding when it concluded that:

CSIS was not provided with adequate resources to carry out its operations, and was stretched for personnel for years after its creation [...] In this time of transition, CSIS managers were forced to allocate

²⁰⁷ Upton, R. (May 22, 2007) Evidence to the Commission of Inquiry into the Investigation of the Bombing of Air India Flight 182, Volume 31, p.3609.

²⁰⁸ Ibid, p.3724.

²⁰⁹ Ibid, p.3604.

²¹⁰ Independent Advisory Team on the Canadian Security Intelligence Service (1987) *People and Process in Transition: Report to the Solicitor General*, Ottawa: Minister of Supply and Services Canada, p.29.

*their scarce resources in the best possible manner to meet CSIS intelligence requirements.*²¹¹

The Major Commission directly tied this resource shortage to operational implications in the investigation of BK prior to the Air India bombing. Major found that the government's focus had been almost entirely on passing the *CSIS Act*, and not on providing further policy and administrative guidance to the Service. The need to overhaul operational policies and guidance, as well as to ensure that CSIS personnel were properly familiarised with the new procedures, led already-stretched operational staff to spread themselves even more thinly.²¹² The warrant process was a particularly problematic area. Major observed that:

*The need to convert all necessary warrants to accord with the new Federal Court requirements mandated by the CSIS Act was a daunting task which took five months to complete. The day-to-day needs of ongoing investigations were set aside, unless shown to be urgent, in order to complete this conversion process.*²¹³

In the case of Kobzey's investigation in BC, this meant that a warrant for telecommunications interception could only be obtained on a single subject, as opposed to the multiple subjects involved in the group. Additionally, the warrant was delayed by five months while the organisation finished converting the process to one compliant with the new legal requirements.²¹⁴

It is clear from the Major Commission's investigation of the bombing of Air India Flight 182 that resourcing issues played a significant role in the bombing. While there is a strong case that CSIS did not allocate enough resources internally towards CT investigations into Sikh extremist groups, there is an equally strong case to be made that CSIS was under-resourced *as an organisation*. In the period before the bombing of Flight 182, the Service had a hard time coping with numerous high-priority investigations at the same time as it was trying to complete its transition into a separate service.

²¹¹ Major, 2010, Volume 1, Part 2: Pre-Bombing, p.292.

²¹² Ibid, pp.296-297.

²¹³ Ibid, p.297.

²¹⁴ Major, 2010, Volume 1, Part 2: Pre-Bombing, pp.297-297.

Recently declassified archival material provides a clearer picture of the impacts of expenditure management decision-making on CSIS before and after the Air India bombing, particularly in regard to counter-terrorism capacity. The new documents provide further context to the Major Commission report, strongly supporting the argument that CSIS faced significant resource strains as an organisation and that this was due to policy decisions made outside the Service within the larger expenditure management process. The declassified documents relate to the CSIS 'Counter-Terrorism Enhancement' initiative, which started in the spring of 1986, and was given the codename VANGUARD.

At a meeting of the Counter Terrorism Enhancement Implementation Committee on July 3, 1986, the Deputy Director of Administration (DDA) laid out some of the history of CSIS' resourcing issues, starting at the Service's inception in 1984. Part of the resource pressure was due to last-minute decisions on financial administration during the formation of CSIS, subsequently exacerbated by rolling government budget cuts. The minutes of the July 3 meeting record that:

Prior to transition, some estimates were made for the costs of some of these support services, but they were not done as thoroughly as they perhaps should have been on the expectation that both they and the CSIS budget would remain within the RCMP. At the last minute, it was decided that there would be a separate one-line budget entry for CSIS in the Main Estimates. [CSIS] then went to Treasury Board for funding for those things such as guards and janitors which [CSIS] had been forced to hire and pay for, but which were not funded. Treasury Board turned us down. At the same time, the Government's restraint program began to bite and CSIS experienced the first of several scheduled cuts in its reference level.²¹⁵

Additionally, the VANGUARD documents indicate that CSIS was, at the time of the investigations into Sikh extremism, under a hiring freeze as part of these cost-cutting measures. The DG of the Toronto Region office gave a blunt commentary on the impact of the hiring freeze in a telex memorandum to the Deputy Director of National Requirements, "let us not forget the conditions in which resource had been deployed. The major message throughout the entire period was constraint.

²¹⁵ 'Minutes: Counter Terrorism Enhancement Implementation Committee,' Estimates – 86/87 – Counter Terrorism Enhancement, July 3, 1986, VANGUARD IA 830-11-19-6 (86/87) Volume 1, Canadian Security Intelligence Service, Secret, Released to the author under ATIA.

We could not even staff vacancies, let alone redeploy personnel.”²¹⁶ Given these dynamics, CSIS was essentially born with resource pressures that only continued through the first years of its existence.

Surprisingly, the documents also indicate that cuts to CSIS operating expenditures had continued *after* the Air India bombing. The same minutes from the July 3, 1986 meeting record that “budgets and positions had been reduced in all areas as a result of the cost-cutting exercise in the spring.”²¹⁷ A later memorandum, from July 13, 1986, speaks of the Service being able to “restore some of the monies cut from the first 1986/87 budget reset.”²¹⁸ These passages indicate that a year after the bombing of Flight 182, CSIS’ operating budget had been cut in the spring of 1986, in line with larger government expenditure reductions.

In an attempt to alleviate the increasing cost pressures that had been exacerbated by the 1986/87 cuts, CSIS had prepared an MC for the CC/S&I, requesting further funds for counter-terrorism capacity. As was usual procedure, the CSIS request was reviewed by DMs at ICSI prior to the MC going to cabinet committee; ICSI rejected the request. Minutes of the CSIS Executive Committee state that, “at the eleventh hour, demands for precise figures for program costs and the specific enhancements were requested by ICSI, PCO, [Public Service Board] and the Treasury Board Secretariat.”²¹⁹ The more precise costing figures provided by CSIS were enough to push the proposal through ICSI at the last minute, and the MC was approved by CC/S&I on June 11, 1986.²²⁰ The reinstatement of some funding by Cabinet came with two conditions: that the

²¹⁶ Memorandum from DG, Toronto Region to Deputy Director, National Requirements and Deputy Director, Regional Ops and Liaison, ‘Terrorism – National/International’ June 27, 1986, VANGUARD IA 830-11-19-6 (86/87) Volume 1, Canadian Security Intelligence Service, Secret, Released under ATIA.

²¹⁷ Ibid.

²¹⁸ ‘Record of Decision: CSIS Executive Committee No.101 (Review of the Counter Terrorism Enhancement Implementation Working Group Proposals), July 13, 1986, Estimates – 86/87 – Counter Terrorism Enhancement, VANGUARD IA 830-11-19-6 (86/87) Volume 1, Canadian Security Intelligence Service, Secret, Released under ATIA.

²¹⁹ ‘Record of Decision: CSIS Executive Committee No.101 (Review of the Counter Terrorism Enhancement Implementation Working Group Proposals), July 13, 1986

²²⁰ Memorandum from Deputy Director, Requirements ‘Response to the Cabinet Committee Decision of June 11th’ June 19, 1986, Estimates – 86/87 – Counter Terrorism Enhancement, VANGUARD IA 830-11-19-6 (86/87) Volume 1, Canadian Security Intelligence Service, Secret, Released under ATIA.

funding would be used specifically to allow for the enhancement of CT capacity, and that CSIS would be able to demonstrate to the government robust coverage across the entire range of CT priorities. There could be no CT-related intelligence gaps.²²¹ This decision by CC/S&I was the basis for VANGUARD, which would be spearheaded by the Deputy Director of National Requirements, Archie M. Barr.

For intelligence services, particularly those engaged in physical and technical surveillance and the handling of human sources, quality personnel must be trained and developed. The training of an IO or an analyst optimally takes several years. In response to the CC/S&I decision, the Deputy Director of National Requirements, Archie Barr, sent a memo to all HQ branches and regional offices addressing this point and outlining that hard choices would have to be made:

While Cabinet has provided, as I noted earlier, additional resources for the enhancement of the Counter Terrorism program, it is clear insofar as these entail the hiring of additional surveillants and intelligence officers, for example, that there must be some delay before these can be brought on stream. The Counter Terrorism program cannot, however, be left understaffed or undersupported while this is being done. This means that resources will immediately need to be shifted from other program activities of the Service, both at the Headquarters level and within the Regions. In consequence, we must be prepared to accept that in the short-term, at least until the full resources provided by Cabinet can be brought on stream, that other program activity will not be accomplished to the degree that we would wish. While unfortunate, this is the price we will have to pay.²²²

Barr asked all branches and regional offices to survey their capabilities and submit plans outlining how they could support an enhanced CT capability with reallocated resources. Within days, replies started coming into CSIS HQ outlining possible options for reallocations. The replies give a very interesting picture of the resource concerns within the organisation.

²²¹ Memorandum from Deputy Director, Requirements to all Regions and all HQ Branches, 'Terrorism - National/International' July 15, 1986, Estimates - 86/87 - Counter Terrorism Enhancement, VANGUARD IA 830-11-19-6 (86/87) Volume 1, Canadian Security Intelligence Service, Secret, Released to the author by LAC under ATIA.

²²² Memorandum from Deputy Director, Requirements to all Regions and all HQ Branches, 'Terrorism - National/International' July 15, 1986.

A memorandum from the acting Chief, Technical Operations (Chief, TechOps) to the DG of Technical and Scientific Services (DG, T&SS) indicates that several of their 'techs' were "getting on in years" and could be expected to move on to new positions or retire in the near future; this would compound existing personnel shortages. For instance, it was pointed out that there was virtually no formal training available for technical operations, and no operational conferences had been held for five years, because there were not enough personnel available to teach courses or host conferences. Testing and evaluation of equipment and methods was "almost non-existent." In terms of equipment, the Chief, TechOps, noted that "Finances or lack of them dictates that we are always working with minimum numbers – this is the main problem as I see it." The recommendations put forward by Chief, TechOps were to work out staffing problems on a priority basis and allow procurement and development of new technical equipment.²²³

The Toronto Region office replied to Barr, stating that increased reallocations to CT priorities would mean abandonment of some CS work. More fundamentally, however, Toronto Region highlighted that their physical surveillance teams were "badly understaffed" and "the hiring freeze has prevented us from replacing those who have departed." Additionally, technical operations were already at capacity and the Toronto Region office was worried that additional CT activity would "increase the demand beyond the ability of current staff to support." The Toronto Region proposed reallocating around a dozen personnel from CI investigations and CS investigations to CT. Additionally, existing 'loans' of personnel from CS to CT units would be made formal secondments. The impact was that significant elements of the CI and CS programs would effectively be halted.²²⁴ Similar recommendations to reallocate CI and CS resources were put forward by the Prairie Region and BC Region

²²³ Memorandum from A/Chief, Technical Operations to DG Technical and Scientific Services, 'T&SS Operational Resources' June 30, 1986, Estimates – 86/87 – Counter Terrorism Enhancement, VANGUARD IA 830-11-19-6 (86/87) Volume 1, Canadian Security Intelligence Service, Secret, Released under ATIA.

²²⁴ Memorandum from DG, Toronto Region to Deputy Director, National Requirements and Deputy Director, Regional Ops and Liaison, 'Terrorism – National/International' June 27, 1986, Estimates – 86/87 – Counter Terrorism Enhancement, VANGUARD IA 830-11-19-6 (86/87) Volume 1, Canadian Security Intelligence Service, Secret, Released under ATIA.

offices, with similar caveats. Both regions also raised the point that the upcoming 1988 Olympic Games in Calgary would require consistent resourcing and, given this, more permanent resource solutions would need to be found.²²⁵ The Ottawa Region office indicated that it would also reallocate IOs from CI and CS investigations, and remove the procedure whereby CT units handle the overflow of security screening files. However, Ottawa Region highlighted that this would worsen an already serious decline in CI operational capability.²²⁶

Overall, the response from the HQ branches and regional offices indicate an organisation that is already stretched very thin. The immediate reallocations into CT worried the regional offices, including the larger ones such as Toronto and BC. There was consensus that it was required, given events, however there was concern that closing gaps in CT capacity would only open gaps in other priority areas and bring commensurate risk to CSIS operations. Ultimately, the result of VANGUARD was a substantial expansion of the CT capacity in CSIS that, in the medium-term at least, came at the expense of other program areas. Figure 3.11.15, while heavily redacted, shows the total reallocation of Intelligence Officer FTEs from other programs to the CT programme, as approved in principle by the CSIS Executive Committee.

The area hardest hit was CSIS security screening operations with 21 FTEs reallocated to CT work. Counter-intelligence was decreased by 15 FTEs in total, and counter-subversion, which had already undergone substantial decreases, was decreased by a further three FTEs. To meet the increased demands of CT work, CSIS adapted and made strategic choices about where to reallocate resources. These were not risk-free choices however; reallocations within an

²²⁵ Memorandum, A/DG Prairie Region to Deputy Director, National Requirements, 'Terrorism – National/International' June 26, 1986, Estimates – 86/87 – Counter Terrorism Enhancement, VANGUARD IA 830-11-19-6 (86/87) Volume 1, Canadian Security Intelligence Service, Secret, Released under ATIA; Memorandum, Deputy DG, BC Region to Deputy Director, National Requirements and Deputy Director Regional Ops and Liaison, 'Terrorism – National, International' June 26, 1986, Estimates – 86/87 – Counter Terrorism Enhancement, VANGUARD IA 830-11-19-6 (86/87) Volume 1, Canadian Security Intelligence Service, Secret, Released to the author by LAC under ATIA.

²²⁶ Memorandum, DG, Ottawa Region to Deputy Director, National Requirements, 'Terrorism – National/International' June 26, 1986, Estimates – 86/87 – Counter Terrorism Enhancement, VANGUARD IA 830-11-19-6 (86/87) Volume 1, Canadian Security Intelligence Service, Secret, Released to the author by LAC under ATIA.

organisation that is generally under-resourced simply establishes where management was, for the time being, willing to accept possible gaps in coverage.

Figure 3.11.15²²⁷
 Programme Impacts of VANGUARD, July 1986

| REGION | PROGRAM CHANGES (Intelligence Officers) | | | | |
|---------------------|--|----------------------|-------|----|--------------------------|
| | CT | CI(1) | CI(2) | CS | SECURITY ** SCREENING |
| ***ATLANTIC | | | | | |
| QUEBEC | | | | | |
| OTTAWA | | | | | |
| PRAIRIE | | | | | |
| B.C. | | | | | |
| TORONTO | | | | | |
| | | (SHIFTS IN EMPHASIS) | | | |
| NET PROGRAM CHANGES | +40 | -10 | -5 | -3 | -21 (1 STE) |

| SUMMARY: REGIONAL CT ENHANCEMENTS | | TOTAL CT ENHANCEMENTS | |
|-----------------------------------|--|-----------------------|--|
| | | REGIONS | |
| | | HQ | |
| | | TOTAL | |
| Subtotal: | | | |

Note: These numbers reflect the interim shifts in work-effort that are expected as a result of the CT enhancement. It should be noted that the actual numbers of I.O.s shifted from other operational programs to the CT program differ from the shift in work-effort.

I.O. is Surplus to Establishment.

** Represents reallocations of I.O.s from ISS, as well as a reduction in Screening work performed by I.O.s in Operational Branches. These will be backfilled on a priority basis.

*** Atlantic Region will, through internal reallocations of resources, place greater operational emphasis on CT targets.

CSIS was affected by resource problems from its inception. Even at a time of substantial policy interest in intelligence, guardians and priority-setters had underestimated the resources required to stand up a new security intelligence service. Many of the subsequent additional costs, both in funds and personnel, had to be shouldered by CSIS itself. This had significant impacts at the operational level, as there were scarce resources across multiple investigative

²²⁷ 'Record of Decision: CSIS Executive Committee No.101 (Review of the Counter Terrorism Enhancement Implementation Working Group Proposals), July 13, 1986, Estimates - 86/87 - Counter Terrorism Enhancement, VANGUARD IA 830-11-19-6 (86/87) Volume 1, Canadian Security Intelligence Service, Secret, Released to the author by LAC under ATIA.

priorities. Gaps inevitably appeared, and one of these gaps was consistent coverage of the Sikh extremist groups, such as Babbar Khalsa. The government's expenditure decisions had substantial operational impacts on CSIS during a particularly sensitive period; the bombing of Air India Flight 182 was, in this sense, just as much a policy failure as an intelligence failure. Even after the bombing, efforts to shore up the CSIS CT program in the near-term required substantial reallocations from other programs. This created secondary capability gaps until further resources could be brought to bear in the mid- to long-term.

'Expenditure Chicken': The Painful Birth of the Intelligence Assessment Secretariat.

While the previous cases illustrate the impact of expenditure decisions on collection agencies, the impact on the national assessment function has been equally, if not more, pronounced. As discussed previously, the expenditure restraint measures imposed on the Department of External Affairs through the 1970s and 1980s had been substantial, with consistent reductions in operating budgets and personnel. In the years following the end of the Cold War, further demands for a 'peace dividend' forced the DEA to consolidate its operations. The Department's management set about redefining DEA's 'core mission' in an effort to determine what functions could be kept and what functions could be sacrificed.

These moves had already begun in 1991, following the earlier Corporate Review. The government had stated that executive positions, or EXs, across government would be cut by 12 percent.²²⁸ For DEA, this meant a reduction from 505 EX positions to 429. While some of this reduction was handled through reclassifications, 60 positions needed to be eliminated. Senior DEA management hoped that many positions could be eliminated through voluntary means, but by June of 1991 it was recognised that some reductions would be through "involuntary departures through reverse order of merit."²²⁹ These losses were in

²²⁸ EX classifications included some Deputy Director and all Director, DG, and ADM level positions.

²²⁹ Chretien, R., Marchand, de M., and Campbell, D. to all staff, (June 18, 1991) Memorandum, 'EX Reductions and Reorganization' Ottawa: External Affairs and International Trade Canada.

addition to an overall reduction of 310 positions across the Department that had already occurred in March of 1991.²³⁰

In 1992, the new USSEA, J Reid Morden, announced that “Consistent with the themes announced by the Minister of Finance in the budget,” decisions had been made that were, “aimed at sharpening the focus of the Department’s core mandate. In short, getting back to basics.”²³¹ These decisions signalled an escalation in DEA’s attempts to meet expenditure restraint targets; instead of simply reducing activity in some areas, the DEA shed entire programs to other departments. Responsibility for immigration, international cultural and academic relations, international sports, and international expositions were all transferred to other government departments as part of an attempt to consolidate around its core mandate of “international political and economic interests and trade policy and development.”²³² It was stated at the time that these decisions were taken for policy reasons instead of resource constraints. DEA press material stated that the intent was to more directly link policy formulation with program delivery, and hence strengthen accountability.²³³ While this was likely true to an extent, the consistent expenditure reductions experienced by External Affairs through the 1970s and 1980s, combined with the substantial resource pressures stemming from the demand for a ‘peace dividend’ make it likely that the timing of these decisions were unavoidably connected to the overall resource pressures faced by the Department.

In this context, the status of DEA’s intelligence analysis units again became a contested topic in 1992 and 1993. In terms of intelligence, DEA had to respond to different demands from the centre of government. The expenditure guardians were leading the government effort to reduce expenditure, with a particular focus on foreign affairs and defence, which included intelligence. Concurrently, the priority-setters in PCO had been asking the DEA to provide further support to the national assessments process (consistent with the earlier findings of the

²³⁰ Ibid.

²³¹ Morden, J.R. to all staff, (February 26, 1992) Memorandum ‘Sharpening the Focus of the Department’s Core Mandate...Getting Back to Basics’ Ottawa: External Affairs and International Trade Canada.

²³² Ibid.

²³³ Ibid.

Marchand Review).²³⁴ Much of DEA senior management at the time already held the view that intelligence analysis was a marginal activity,²³⁵ and now DEA was being asked to expend more scarce resources, at the behest of PCO, on something that was no longer considered part of the Department's core mandate. Faced with this situation, and with demands for further expenditure cuts, DEA's senior management proposed that the Department's political and economic intelligence divisions be cut altogether.

Predictably, the PCO Intelligence and Security Coordinator at the time, Ward Elcock, resisted DEA's proposal, as these two divisions supported the national assessment process led by PCO. Elcock was one of the DMs in the Ottawa village who saw merit in the national assessment function, and believed that the capability should continue within External Affairs.²³⁶ Moving the function from DEA to PCO would create problems, given that most of the analysts were DEA employees and PCO did not immediately have the infrastructure, space, or budget to accommodate the intelligence assessment capacity. One former official referred to DEA's proposal as a "musical ride gambit," referring to a tactic in which a department faced with cuts offers up an option that is unpalatable to decision-makers.²³⁷ However, where the 'musical ride' tactic is designed to halt or delay demands for expenditure cuts and, in the process, ultimately protect the proposed programme, DEA was quite ready to do away with the intelligence assessment capability; the Department went so far as to hand out termination notices to the analysts in its intelligence analysis divisions.²³⁸

What ensued was a game of 'expenditure chicken' between DEA and PCO. As the clock ticked down towards the disbanding of the intelligence analysis divisions in External Affairs, the PCO Intelligence Coordinator tried to convince the USSEA to keep the function intact, which would have meant finding an

²³⁴ I-18; Correspondence with I-3, July 2011.

²³⁵ Ibid.

²³⁶ I-18.

²³⁷ I-18. On the 'musical ride' tactic, also referred to as 'silly bugger' proposals, see Blakeney, A. and Borins, S.F. (1998) *Political Management in Canada: Conversations on Statecraft, Second Ed.*, Toronto: University of Toronto Press, pp.120-121 and Borins, S.F. (1982) 'Ottawa's Expenditure Envelopes: Workable Rationality at Last?' in B.G. Doern (ed) *How Ottawa Spends Your Tax Dollars: National Policy and Economic Development 1982*, Toronto: James Lorimer and Co., p.83

²³⁸ I-18.

alternative cut. Conversely, the USSEA argued that the intelligence assessment function was, at the end of the day, more appropriately placed in PCO; External Affairs could no longer afford to keep intelligence analysis as an activity, as it was not directly related to the Department's core mandate.²³⁹

Figure 3.11.16 shows the Foreign Intelligence Bureau as it existed in 1988, just after the Marchand Review. The Bureau's analytic capacity had been focused in the Economic Intelligence Division and the Political Intelligence Division, each comprising multiple geographic sections and a transnational 'global issues' section. In 1988, the total compliment for these two divisions was 32 people, of which the majority were intelligence analysts. The Bureau's total compliment, including the Intelligence Services Division, was 66 people.²⁴⁰

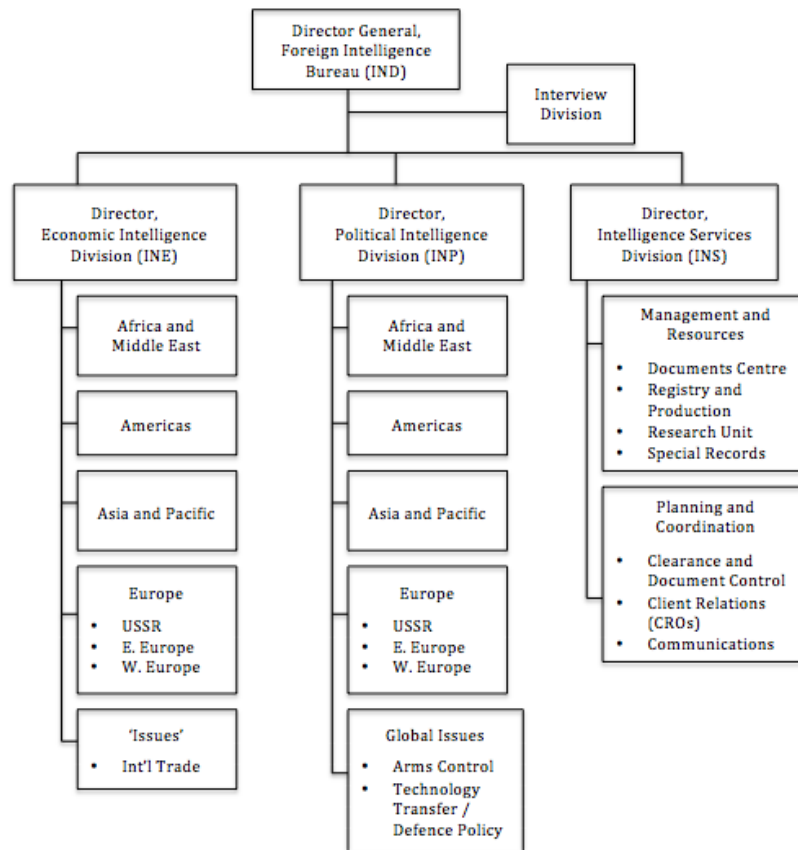
At the eleventh hour, PCO relented and the intelligence assessment function transferred to PCO as the Intelligence Assessments Staff, or IAS. But this did not save all of the intelligence analysis capacity within DEA. In the process of transitioning from DEA to PCO, there was a significant loss of analytic capacity. A long-time scholar of intelligence in Canada, Stuart Farson, observed in 1999 that the deficit reduction measures had impacted the analytic core of the Canadian IC much harder than the collection agencies, stating that "the transfer of the foreign intelligence assessment function in 1993 from Department of Foreign Affairs and International Trade to PCO, for example, has resulted in a significant loss to an area already suffering from a shortage of resources and expertise."²⁴¹

²³⁹ I-18, and correspondence with I-3.

²⁴⁰ Department of External Affairs (February 1, 1988) *Telephone Directory*, Ottawa: Department of External Affairs, pp.32-33.

²⁴¹ Farson, S. (1999) 'Is Canadian Intelligence Being Re-invented?' *Canadian Foreign Policy Journal*, 6:2, p.59.

Figure 3.11.16:
Organisation of the Foreign Intelligence Bureau (IND), 1988²⁴²



The intelligence analysis capacity in DFAIT essentially disappeared with the 1993 move, except for a small current intelligence group. This was in line with the agreement between DFAIT and PCO that the new IAS would provide intelligence assessment to both departments in order to avoid duplication. The analytical capacity that landed in PCO to form the basis for IAS, however, had lost much of its strength through the transition from DFAIT. One former official estimated that around 15 analysts remained once the move from DFAIT to PCO was complete.²⁴³ This would indicate a decline in analytical capacity of between 50 and 75 percent. There were indications that even PCO management was not convinced that IAS was worth fighting for. Ward Elcock, the S&I Coordinator in PCO at the time, gave the IAS two years to make itself relevant to senior

²⁴² Figure compiled from information contained in Department of External Affairs (February 1, 1988) *Telephone Directory*, pp.32-33.

²⁴³ I-18.

intelligence consumers; if this could not be done, then the need for IAS would be re-evaluated.²⁴⁴

The tempo of international events through the 1990s kept the IAS relevant. Having an independent intelligence assessment capability served Canada well during the Iraq crisis in 2002-2003, when IAS analysts reviewed the evidence base for Iraq's WMD programme and determined that the case was not the 'slam dunk' that senior US officials were portraying.²⁴⁵ More recently, IAS assessment of the Arab Spring movement has been judged to be relatively successful, providing senior intelligence consumers with a range of products outlining the form and implications of power shifts in the Middle East and North Africa.²⁴⁶ Ultimately, the move of Canada's foreign intelligence assessment capability from External Affairs to PCO in 1993 had positive impacts in the long-term. Analysts were closer to the centre of decision-making in PCO and could directly support the national assessments process. However, the manner in which this organisational change emerged, driven by acute expenditure restraint resulting in 'expenditure chicken' between two departments, nearly cost Canada a valuable intelligence capability that has proven increasingly useful through the recent period of growing global uncertainty.

Intelligence Spenders Adapting: Doing what is Necessary (and No More).

Canada's IC has adapted in several ways to a fiscal environment that has demanded contraction more consistently than it has allowed for expansion. One way the IC has adapted has been to focus on building capabilities around niche requirements. One example of this is the CSIS Section 16 Program, which allows CSIS to collect foreign intelligence within Canada at the request of DFAIT and DND. When Bill C-157, the precursor to the *CSIS Act*, was being reviewed by a special committee of the Senate in 1983, Jean-Luc Pepin and Marcel Masse, the Minister of State for External Relations and USSEA respectively, gave evidence

²⁴⁴ Ibid.

²⁴⁵ Campbell, T. (October 14, 2010) 'The Future History of Canada's National Security: Are We Feeling the Heat Yet?' 2010 John Tait Memorial Lecture, Canadian Association of Security and Intelligence Studies;

²⁴⁶ Brynen, R. (2013) *Report on Phase II of the Quality of Strategic Intelligence Forecasting Study*, DRDC CR 2013-016, Toronto: Defence Research and Development Canada, pp.9-11.

that the Section 16 capability was required because there was a gap in Canada's ability to satisfy its intelligence requirements. Pepin told the Senate Committee that, "At present, the government has inadequate means to collect foreign intelligence in Canada, and we believe that clause 18 will fill that gap." The McDonald Commission had noted this gap in its final report, and, according to Pepin, the Commission's view was shared within government circles.²⁴⁷

Following the passage of the *CSIS Act* in 1984, the consensus in policy circles was that the CSIS Section 16 programme had met this niche requirement. The government's response to the parliamentary five-year review of the *CSIS Act* in 1991, stated that the government had kept Canada's national intelligence requirements under review, given the end of the Cold War, and determined that the standing arrangements for intelligence collection were meeting the government's needs.²⁴⁸ The Security Intelligence Review Committee (SIRC) examined the question of creating a foreign intelligence HUMINT service, analogous to Australia's ASIS or Britain's SIS, in 1993. While SIRC recommended that the issue be considered in detail by the government, it concluded:

*Government, however, would have to examine if there are indeed gaps in its information collection net, and if these gaps can be most efficiently filled by a foreign intelligence service. In a period of tight fiscal restraint, Government would also have to weigh any expenditures for a foreign intelligence service against other pressing needs.*²⁴⁹

Consistently through the 1990s, the consensus was that the existing arrangements and capabilities were meeting Canada's foreign intelligence requirements.²⁵⁰ While the post-9/11 environment has seen a rise in CSIS activity under its Section 16 mandate, as well as foreign operations under its primary Section 12 mandate, the government has continued to adapt existing niche capabilities, such as the CSIS Section 16 Program, and add new ones. These

²⁴⁷ Pepin, J-L. (September 22, 1983) Evidence to the Special Committee of the Senate on the Canadian Security Intelligence Service, Issue No.11, 1st Session, 32nd Parliament, Ottawa: Parliament of Canada, p.19.

²⁴⁸ Solicitor General, (1991) *On Course: National Security for the 1990s*, pp.53,57.

²⁴⁹ SIRC (January 28, 1994) *Counter-Intelligence*, Study 93-06, Ottawa: Security Intelligence Review Committee, Secret, Released under ATIA, pp.9-13.

²⁵⁰ SIRC (August 12, 2010) *Review of the Section 16 Program and Use of the Information Collected*, Study 2009-02, Ottawa: Security Intelligence Review Committee, Top Secret, Released under the ATIA, p.3.

niche programmes can be more easily scaled up or down, and avoid creating a risky and expensive permanent agency.

One of the niche intelligence capabilities added in the post-9/11 environment was DFAIT’s Global Security Reporting Program (GSRP). The GSRP, established in 2002, consists of a group of Foreign Service officers posted at Canadian embassies abroad whose primary purpose is to provide security-related diplomatic reporting back to Ottawa. In 2007, the GSRP consisted of 15 officers placed in strategic Canadian diplomatic missions where they could report on security issues of interest to Canadian decision-makers.²⁵¹ Colleen Swords, the ADM for International Security Affairs at DFAIT, explained the GSRP for the Senate Standing Committee on National Defence by stating:

[GSRP officers] do not run sources, recruit and pay agents. They are dedicated to the collection of information related to questions of strategic stability and security. What is different about them is their specific mandate to develop non-traditional sources and gain access to information of immediate value to DFAIT, as well as the Canadian security and intelligence community and the government writ large.²⁵²

Figure 3.11.17 shows locations where GSRP officers have been stationed within Canadian diplomatic missions (some locations have shifted, depending on requirements).

| Figure 3.11.17: DFAIT Global Security Reporting Program (GSRP), circa 2007-2008²⁵³ | |
|--|---|
| Middle East and Africa Locations | <ul style="list-style-type: none"> • Tehran • Tel Aviv • Abu Dhabi • Damascus • Khartoum • Cairo • Nairobi |
| South Asia Locations | <ul style="list-style-type: none"> • New Delhi • Islamabad |

²⁵¹ Swords, C. (May 8, 2007) Evidence at Standing Senate Committee on National Security and Defence, Issue No.16, 1st Session, 39th Parliament, Ottawa: Parliament of Canada, p.10.

²⁵² Swords, C. (May 8, 2007) Evidence at Standing Senate Committee on National Security and Defence, Issue No.16, 1st Session, 39th Parliament, Ottawa: Parliament of Canada, p.10.

²⁵³ Data in Figure 4.45 was compiled by the author using DFAIT evaluation and audit reports of diplomatic missions abroad, as well as Swords, C. (May 8, 2007) Evidence at Standing Senate Committee on National Security and Defence, Issue No.16, 1st Session, 39th Parliament, Ottawa: Parliament of Canada, p.10.

| | |
|------------------------------|--|
| | <ul style="list-style-type: none"> • Kabul |
| Europe Locations | <ul style="list-style-type: none"> • Moscow • Ankara |
| Asia/Pacific Locations | <ul style="list-style-type: none"> • Bangkok • Jakarta |
| Western Hemisphere Locations | <ul style="list-style-type: none"> • Mexico City • Havana • Caracas |

In a vote of confidence in the programme, DFAIT expanded the GSRP from 15 to 20 officers in 2009-2010 in order to increase the amount of reporting available to intelligence consumers. DFAIT’s departmental performance report for 2009-10 stated that the GSRP produced 800 reports over the course of the fiscal year.²⁵⁴ The Section 16 Program and the Global Security Reporting Program are limited in scope, but each satisfies a niche capability requirement for the IC in the collection of foreign intelligence.

The Canadian IC has also tried to leverage technology in order to do more with less. Through the 1990s, as the defence budget was being subjected to continuous cutbacks, DND and CSE converted the SIGINT intercept stations at Alert, Gander, and Masset to remote operations, run centrally out of CFS Leitrim.²⁵⁵ This meant that the number of personnel needed to run the SIGINT stations was mostly limited to those stationed just outside Ottawa, and some on-site technicians at the intercept stations. In February 2015, the commander of CFIOG, Colonel Steven Moritsugu, told the Senate Standing Committee on National Defence that CFS Alert had been shifted to remote operation in 1997. The move reduced the number of Canadian Forces personnel stationed at CFS Alert from 250 to a mere 10.²⁵⁶ A similar estimate for the SIGINT station at CFB Gander indicates that the number of personnel dropped from 200 in 1989 to only 17 in 1997.²⁵⁷ While ultimately maintaining the same capability at the SIGINT stations, the IC limited expenditure by using new technological

²⁵⁴ DFAIT (2010) *Departmental Performance Report 2009-2010*, Ottawa: Department of Foreign Affairs and International Trade, p.23.

²⁵⁵ Rudner, M. (2001) ‘Canada’s Communications Security Establishment from Cold War to Globalization’ *Intelligence & National Security*, 16:1, pp.97-128.

²⁵⁶ Moritsugu, S. (February 18, 2015) Evidence to House of Commons Standing Committee on National Defence, 2nd Session, 41st Parliament, pp.13, 14-15.

²⁵⁷ Proc, J. (2013) ‘Gander’ in *Radio Communications and Signals Intelligence in the Royal Canadian Navy*, (online publication) <http://jproc.ca/rrp/gander.html> (Accessed March 2015).

improvements in communications, thus avoiding the cost of stationing and supplying personnel in Canada's remote areas.

While Canada has recognised the importance of IMINT and GEOINT, it has not attempted to develop large platforms like the US photoreconnaissance or radar-imaging satellites. Instead, it has developed a small and highly valued niche space capability in the RADARSAT series of satellites. These synthetic aperture radar satellites provide a highly capable platform for maritime and wide-area surveillance, disaster monitoring, and environmental analysis.²⁵⁸ In a public-private partnership arrangement, DND's Project POLAR EPSILON exploits imagery from the RADARSAT-2 satellite in support of Government of Canada security requirements.²⁵⁹ The RADARSAT Constellation Mission, planned to be operational in 2018, and DND's corresponding POLAR EPSILON II, will build on the existing RADARSAT-2 capability and will be wholly owned and operated by the Government of Canada, giving it a dedicated all-weather satellite imagery capability.²⁶⁰ In developing the RADARSAT system, Canada opted for a small but versatile capability that met its own requirements, and filled a niche requirement for allies, as evidenced by the joint US-Canada agreement on the use of RADARSAT imagery signed in 2000.²⁶¹

Spending on Spies after 2006: A New Outlook on Intelligence?

Perhaps one of the more striking comparisons that can be made in the Canadian context is the impact on the Canadian IC of the Program Review exercise of the 1990s, and the Strategic and Spending Review exercises of the

²⁵⁸ Vachon, P.W. (2010) 'New RADARSAT Capability Improves Maritime Surveillance' Defence Research and Development Canada, Ottawa, <http://geos2.nurc.nato.int/mrea10conf/reports/pdf/Vachon,%20New%20RADARSAT%20Capabilities%20Improve%20Maritime%20Surveillance.pdf> (Accessed December 2015).

²⁵⁹ Chalifoux, S. (January 26, 2015) 'RADARSAT Constellation Mission Update' Canadian Space Agency, presentation at BIOMASS Science Workshop, Frascati, Italy. http://seom.esa.int/polinsar-biomass2015/files/D1S2_Missions_3.pdf (Accessed February 2015).

²⁶⁰ Department of National Defence (June 29, 2010, modified November 7, 2013) 'Backgrounder: Polar Epsilon Project' BG-10.014, <http://www.forces.gc.ca/en/news/article.page?doc=polar-epsilon-project/hnps1uo5> (Accessed December 2015).

²⁶¹ *Agreement between the Government of Canada and the Government of the United States of America concerning the Operation of Commercial Remote Sensing Satellite Systems* (with Annex), Washington, June 16, 2000, Treaty Series 2000/14, Department of Foreign Affairs and International Trade.

late 2000s. The Conservative government, under Prime Minister Harper, has implemented a series of expenditure review and reduction measures from 2007 to 2014, increasing in scope particularly after the financial crisis of 2008. In 2006-2007, building on a strategic review process implemented in the last years of the Martin government, the new Conservative government used ongoing 'Strategic Reviews' to examine A-base spending (i.e. on-going programme spending) in all departments.²⁶² In Budget 2011, Finance Minister Jim Flaherty announced a significant drive to reduce government expenditure and eliminate the deficit by FY 2015-16, which would become known by its media-friendly moniker, the Deficit Reduction Action Plan, or DRAP. The DRAP's functional element was the 'Strategic and Operating Review' (SOR), which combined the existing round of Strategic Reviews with an additional operating review component.²⁶³ In essence, there were two goals: the first goal was to evaluate programmes based on set criteria and do away with any that were underperforming or could be managed outside the federal government (this was the 'strategic' element); the second goal was to seek out any efficiency savings within programme operations, such as sharing services and reducing back-office functions (this was the 'operating' element).²⁶⁴ In terms of criteria, it has been noted that the Program Review and SOR exercises had strikingly similar criteria, as shown in Figure 3.11.18. The exercises ultimately had very similar purposes regardless of the different parties that were in power when they were implemented.

²⁶² Shepherd, R.P. (2013) 'How Ottawa Controls: Harper Era Strategic Reviews in the Context of the 1993-1996 Liberal Program Review' in C. Stoney and G.B. Doern (eds.) *How Ottawa Spends 2013-2014: The Harper Government: Mid-term Blues and Long-term Plans*, Montreal: McGill University Press, pp.104-106; Flaherty, J.M. (March 29, 2012) *Jobs, Growth, and Long-term Prosperity: Economic Action Plan 2012*, Ottawa: PWGSC, p.257.

²⁶³ Shepherd, 2013, p.106, and the federal budget plans for FY 2011-12 and FY 2012-13: Flaherty, J.M. (June 6, 2011) *Budget Plan: A Low-Tax Plan for Jobs and Growth: The Next Phase of Canada's Economic Action Plan*, Ottawa: PWGSC; Flaherty, 2012.

²⁶⁴ Shepherd, 2013, p.106.

| Figure 3.11.18: Program Review and SOR Evaluation Criteria²⁶⁵ | |
|--|--|
| <i>Program Review, 1993-1996</i> | <i>Strategic and Operating Review, 2011-2012</i> |
| <p><i>Public Interest Test</i></p> <p>Does the program area or activity continue to serve a public interest?</p> | <p><i>Relevance and Need</i></p> <p>To what extent is there still a need for this program, activity, or service?</p> |
| <p><i>Federalism Test</i></p> <p>Is the current role of the federal government appropriate?</p> | <p><i>Federal Role</i></p> <p>To what extent is the program, activity, or service consistent with the federal government's roles and responsibilities?</p> |
| <p><i>Partnership Test</i></p> <p>What activities or programs should or could be transferred in whole or in part to the private or voluntary sector?</p> | <p><i>Organisational Role</i></p> <p>Would greater efficiencies be achieved if another department or agency, a government service provider, or the private sector delivered the program, activity, or service?</p> |
| <p><i>Efficiency Test</i></p> <p>If the program activity continues, how could its efficiency be improved?</p> | <p><i>Operating Efficiency</i></p> <p>To what extent are results being achieved efficiently? Can this activity be delivered at a lower cost or in a more effective way?</p> |
| <p><i>Affordability Test</i></p> <p>Is the resultant package within the fiscal restraint? If not, what programs or activities should be abandoned?</p> | <p><i>Affordability</i></p> <p>Is the program, activity, or service a priority, and is it affordable during a period of fiscal restraint?</p> |
| <p><i>Role of Government Test</i></p> <p>Is there a legitimate and necessary role for government in this program area or activity?</p> | <p>(No direct equivalent stated, but included under 'Organisational Role')</p> |
| <p>(No direct equivalent stated, but possibly included under 'Efficiency Test')</p> | <p><i>Internal Services</i></p> <p>Are internal services (e.g. human resources management, financial management, communications) as efficient as possible?</p> |
| <p>(No direct equivalent stated)</p> | <p><i>Effectiveness</i></p> <p>To what extent is this program, activity, or service achieving the expected results for which it was designed?</p> |

The deficit reduction measures implemented through 2010 to 2014 again made for tough times in the public sector. The 2010 Federal Budget had introduced an operating budget freeze for two years, during which time

²⁶⁵ Information compiled from Shepherd, 2013, pp.104,109 and Flaherty, J.M. (March 29, 2012) *Jobs, Growth, and Long-term Prosperity: Economic Action Plan 2012*, p.257.

departmental budgets had to absorb incremental annual increases.²⁶⁶ The National Defence, Public Safety, Foreign Affairs and Trade, and Privy Council Office portfolios took significant reductions, but they were less drastic than the cuts experienced during the Program Review of the 1990s. The target portfolio reductions for the major IC-related portfolios, spread over four years, were as follows:²⁶⁷

- PCO = 12 percent of baseline
- Public Safety = 10 percent of baseline
- Foreign Affairs and Trade = 9 percent of baseline
- National Defence = 7 percent of baseline

While these measures were substantial, there were a number of differences in how they were carried out compared to the Program Review exercise of the 1990s. For instance, the defence portfolio was subject to reductions, but the government continued the use of the 'defence escalator' to account for incremental change. Additionally, major procurement projects that had already been approved were generally protected, and operating budget reductions were phased in, allowing DND and the Canadian Forces time to adjust without substantially impacting on-going operations.²⁶⁸

The organisations within the Canadian IC were not immune from SOR cuts, but, similar to the Canadian Forces and DND, the cuts were less aggressive than in the Program Review of the 1990s. Figure 3.11.19 shows the expenditure reduction targets across the core organisations within the Canadian IC.

²⁶⁶ Flaherty, J.M. (March 4, 2010) *Budget Plan: Leading the Way on Jobs and Growth*, Ottawa; PWGSC, pp.161-162

²⁶⁷ Data drawn from Flaherty, J.M. (March 29, 2012) *Budget Plan: Jobs, Growth, and Long-term Prosperity: Economic Action Plan 2012*, p.213. (Figures are rounded percentages).

²⁶⁸ Flaherty, J.M. (March 4, 2010) *Budget Plan: Leading the Way on Jobs and Growth*, Ottawa; Public Works and Government Services Canada, pp.158-159.

Figure 3.11.19: SOR Expenditure Reduction Targets in Core Canadian IC (\$ millions) ²⁶⁹

| Organisation | 2012-13 | 2013-14 | 2014-15 | On-going |
|-----------------------------|---------|---------|---------|----------|
| <i>CSIS</i> | 13.7 | 20.2 | 24.5 | 24.5 |
| <i>CSE</i> | 7.9 | 13.7 | 13.7 | 13.7 |
| <i>RCMP</i> | 44.4 | 89.1 | 195.2 | 195.2 |
| <i>FINTRAC</i> | 0.9 | 1.3 | 1.3 | 1.3 |
| <i>DND</i> | 318.8 | 692.4 | 1,106.1 | 1,106.1 |
| <i>DFAIT</i> | 71.8 | 115.7 | 168.0 | 168.0 |
| <i>Public Safety</i> | 2.9 | 15.8 | 24.7 | 24.7 |
| <i>Privy Council Office</i> | 1.4 | 4.0 | 9.2 | 9.2 |

IC managers responded to the SOR results by managing within their new limits, as set by Finance, Treasury Board, and Cabinet. In response to the Minister of Finance’s letter to cabinet colleagues calling for spending proposals for the 2013-14 budget cycle, CSIS Director Richard Fadden wrote a briefing note to the Minister of Public Safety regarding the Service’s budgetary position. Fadden’s memorandum, contrary to the popular image of the budget-maximising bureaucrat, carried the tone of prudent fiscal management. Fadden started by addressing CSIS’ approach to the upcoming budget process:

First and foremost, the Service does not intend to bring forward any new requests for funding in the next fiscal year. In the spirit of fiscal prudence, I expect that any new initiatives advanced during that period would be managed within existing reference levels.

He continues with a cautionary note:

The Service does, however, continue to absorb significant operational pressures. [specific pressures are discussed in redacted text]

²⁶⁹ Data compiled from Flaherty, J.M. (March 29, 2012) Budget Plan: *Jobs, Growth, and Long-term Prosperity: Economic Action Plan 2012*, Annex 1; Treasury Board Secretariat (2011) *2011-2012 Estimates*, Part II: Main Estimates, Ottawa: Minister of Public Works and Government Services Canada.

Certainly, the ongoing requirement to re-allocate internally does create certain pressures; the cumulative impact of which would require an adjustment in the future.

Fadden then closes the briefing note by assuring the Minister that CSIS is committed to the government's priority of expenditure reduction:

*The Service will, however, continue to seek out efficiencies and prioritize efforts as required. We will continue to do our part to operate in a fiscally prudent manner.*²⁷⁰

As Fadden had indicated, there were no new expenditure increases for CSIS in FY 2013-14. To the contrary, the Service delivered on its SOR commitment of a \$20.2 million reduction in operating expenditures, resulting in a net decrease in the CSIS budget of \$7.6 million.²⁷¹

CSE was also affected by the SOR exercise, as evidenced by a briefing by CSE's DG of Finance in April 2012. CSE was subject to the operating budget freeze and would have to absorb incremental increases in its operating budget stemming from wage increases.²⁷² However, while many departments faced 10 percent reductions under the SOR, the government opted that CSE's target should only be 5 percent (although it was accelerated to be achieved in two years.)²⁷³ According to a briefing document prepared for the Chief of CSE ahead of an appearance before the Senate Standing Committee on National Security and Defence, the \$13.7 million in savings from CSE's budget were achieved with no impact on operational activities (SIGINT or ITS programmes) and resulted in no staff terminations (cuts in staff were handled through regular workforce attrition.)²⁷⁴

²⁷⁰ All quoted text in this passage, from: Fadden, R. (Director, CSIS) to the Minister of Public Safety (Oct 26, 2012) 'Budget 2013 Decision-Making Process' TOP SECRET, Released under the ATIA.

²⁷¹ Treasury Board Secretariat (2013) *2013-14 Estimates*, Part II: Main Estimates, Ottawa: Minister of Public Works and Government Services Canada, p.II-93. It should be noted that the \$20 million in SOR savings was partially offset by an increase related to collective bargaining adjustments and an increase in already-approved programme spending, likely via the Treasury Board process. This is an offset for *accounting* purposes, not an offset in actual programme or operational savings.

²⁷² Director General, Finance (April 2, 2012) Briefing deck: 'Budget 2012-Briefing to ELN', Communications Security Establishment, Released under ATIA.

²⁷³ Ibid.

²⁷⁴ CSE (circa February 2014) 'CSE Questions and Answers for Appearances' Unclassified/FOUO, Released under the ATIA; Director General, Finance (April 2, 2012) Briefing deck: 'Budget 2012-Briefing to ELN.'

While the IC organisations did their part during the SOR exercise, unlike the 1993-1996 Program Review and earlier expenditure reduction measures, important projects and capabilities of the IC agencies fared relatively well through the SOR. To illustrate this point, it is necessary to survey some of the major initiatives, spanning both operational and capital expenditure, which were implemented by the IC through the SOR period.

CSIS National Headquarters Phase III Expansion

During the SOR exercise and resulting reductions, large capital projects for both CSIS and CSEC continued with no construction or funding delays. In 2009, CSIS began a 176,000 square-foot expansion of its National Headquarters, known as 'Phase III', which was completed in October 2011.²⁷⁵ This major crown capital project, with a total expenditure of \$69.5 million, ran uninterrupted through the SOR exercise, unlike the original CSIS National Headquarters project, which had suffered a 6-month construction delay due to a government-wide construction freeze in 1989-1990.²⁷⁶

CSE Long-Term Accommodation Project

The CSIS Phase III project, however, paled in comparison to one of the largest capital projects carried out in the Canadian IC. By the mid-2000s, the old CSE headquarters complex on Heron Road was increasingly showing its age; it had an inadequate power supply for CSE's massive computing requirements and staff had noted that "a wall-sized mainframe computer [had] even fallen through an old floor."²⁷⁷ In May 2009, the Minister of Defence announced that the government intended to build a new headquarters facility for CSE in Ottawa's

²⁷⁵ 'Spy Frames: EllisDon to Build \$69.5M CSIS Expansion' *Ottawa Business Journal*, March 20, 2009, [http://www.obj.ca/Other/Archives/2009-03-20/article-2136536/Spy-frames:-EllisDon-to-build-\\$69.5M-CSIS-expansion/1](http://www.obj.ca/Other/Archives/2009-03-20/article-2136536/Spy-frames:-EllisDon-to-build-$69.5M-CSIS-expansion/1) (Accessed January 2015); CSIS (2010) *Annual Report 2009-2010*, Ottawa: PWGSC, p.37; CSIS (2013) *Public Report 2011-2013*, Ottawa: PWGSC, p.51.

²⁷⁶ Office of the Auditor General (1996) 'Chapter 8—Canadian Security Intelligence Service—National Headquarters Building Project' *1996 May Report of the Auditor General of Canada*.

²⁷⁷ Plenary Group (October 30, 2012) Power Point deck for 'Defence and Security Infrastructure Panel,' Federal Infrastructure Finance Forum; Freeze, C. (December 22, 2010) 'Canada's Little-Known Spy Agency comes out into the Open' *Globe and Mail*, <http://www.theglobeandmail.com/news/national/canadas-little-known-spy-agency-comes-out-into-the-open/article4260580/?page=all> (Accessed January 2015).

east end, beside the CSIS headquarters campus.²⁷⁸ The Long-Term Accommodation Project, or LTAP, was meant to provide CSE with a purpose-built facility that could keep up with CSE's SIGINT and cyber-security mandate. The LTAP cost approximately \$867 million and produced a 72,000 square meter complex, which included a 4,000 square meter data centre, and a 4,500 square meter engineering facility.²⁷⁹ Construction on the LTAP started in 2011 and was completed late in 2014. The fact that the LTAP continued through the SOR exercise without any significant interruptions due to cost-cutting measures is a stark difference from earlier years when CSE was impacted heavily by expenditure restraint.

Refit of the Operations Room at CFS Leitrim

While CSE was busy building its new headquarters complex, DND was putting out a tender for a significant refit of the operations room at CFS Leitrim. As discussed previously, CFS Leitrim is the headquarters of the Canadian Forces Information Operations Group and the central controlling point for Canada's network of SIGINT stations. The public tender indicated that the Leitrim refit project was estimated to cost between \$0.25 million and \$0.5 million, and would be completed within 20 weeks once the contract was awarded.²⁸⁰ As part of the refit, internal partitions were removed to make way for an open-concept operations room housing 138 new workstations and six new enclosed offices. The total amount of the awarded contract for the project was \$0.3 million.²⁸¹

²⁷⁸ CSE (May 14, 2009) 'Canada's Government Invests in Communications Security Establishment Infrastructure to Enhance National Safety and Security' News Release, Communications Security Establishment, <https://www.cse-cst.gc.ca/en/media/comms2> (Accessed March 2015).

²⁷⁹ CSE (October 30, 2012) Power Point deck on Long-Term Accommodation Project, Federal Infrastructure Finance Forum, unclassified.

²⁸⁰ Public Works and Government Services Canada (February 10, 2014) 'Tender Notice: Ops Room Fit Up' Solicitation Number: EP077-133682/B, <https://buyandsell.gc.ca/procurement-data/tender-notice/PW-FG-207-64617> (Accessed February 2014).

²⁸¹ Public Works and Government Services Canada (February 10, 2014) 'Tender Notice: Ops Room Fit Up' Solicitation Number: EP077-133682/B, (UPDATED) <https://buyandsell.gc.ca/procurement-data/tender-notice/PW-FG-207-64617> (Accessed March 2015).

Project SPRINGTHAW and DND SIGINT Modernisation

Bill Robinson, a veteran researcher specialising in CSE, has noted that the refit of the CFS Leitrim operations room may have been connected with Project SPRINGTHAW, a much larger effort to modernise CFIOP's SIGINT capability.²⁸² Predictably, little information is available on SPRINGTHAW, except through some heavily redacted DND and CSE documents that have been declassified under the ATIA. The Canadian government approved the SPRINGTHAW in 2012, the same year as the results of the SOR exercise were announced in the federal budget. The planned completion date for the project is December 2015.²⁸³ While it is not clear if technology upgrades are planned for all of the SIGINT stations through SPRINGTHAW, internal requisition forms from CSE indicate that there were updates being done at CFB Gander in mid-2013.²⁸⁴ The risk assessment for the project indicated that it would need minimal Treasury Board oversight, as the technology involved was already developed.²⁸⁵ This meant that the principle elements of the project would be procurement and installation rather than development, which is an inherently lower-risk formula.

The Canadian Cryptographic Modernization Program and the Canadian Top Secret Network

While Project SPRINGTHAW is centred on SIGINT collection, the government has also embarked on a number of significant COMSEC and information-sharing projects, which weathered the SOR exercise without reductions or delays. In 2005, the Canadian government began a major omnibus project to upgrade its encryption architecture, to coincide with a US effort to do the same.²⁸⁶ Known as the Canadian Cryptographic Modernization Program

²⁸² Robinson, B. (February 7, 2014, updated February 11, 2014) 'Leitrim Ops Building Plans Posted Online,' *Lux Ex Umbra*, <http://luxexumbra.blogspot.ca/2014/02/leitrim-ops-building-plans-posted-online.html> (Accessed February 2014).

²⁸³ Pugliese, D. (November 25, 2013) 'DND Upgrades Spy Technology' *Ottawa Citizen*, p.A3.

²⁸⁴ CSE (June 3, 2013) 'Internal Requisition for Material: On-Site Technical Visit, Gander Newfoundland,' Confidential, Released under ATIA.

²⁸⁵ Pugliese, 2013.

²⁸⁶ Department of National Defence (2015) 'Status Report on Transformational and Major Crown Projects' included in supplementary information supporting *Report on Plans and Priorities 2015-2016*, Ottawa; Department of National Defence, <http://www.forces.gc.ca/en/about-reports-pubs->

(CCMP), the project was to span 12 years and cost \$839 million.²⁸⁷ Led by CSE, with PWGSC providing procurement support, the CCMP has 9 modernisation sub-projects covering both civilian and military encryption systems. In 2012, the Treasury Board approved an extended timeline for the CCMP to 2020, apparently in response to changes in the US modernisation initiative.²⁸⁸ The overall CCMP was originally approved in 2005, at the same time as the government was implementing the first round of Strategic Reviews. The project weathered the SOR exercise through 2011-2012 with no apparent reductions in funding and no procurement or implementation freezes (other than the delays driven by developments in the US modernisation programme).

More recently, funding has been provided for CSE to modernise the Canadian IC's secure computer network, currently known as MANDRAKE.²⁸⁹ The Chief of CSE estimated that approximately 20 departments or agencies use the computer network to securely exchange or discuss highly classified intelligence information.²⁹⁰ The upgraded Canadian Top Secret Network (CTSN) will cost, according to government estimates, \$44.6 million to implement over five years, followed by \$9.6 million in on-going funding to operate and maintain the network through its lifetime.²⁹¹

These substantial investments in the Canadian IC are impressive in themselves; however they are even more impressive when compared with Canada's history of expenditure on its IC. In past instances of sustained public

[report-plan-priorities/2015-status-report-transformational-major-crown-projects.page#P4](#)
(Accessed March 2015).

²⁸⁷ CSE (circa February 2014) 'CSE Questions and Answers for Appearances' Unclassified/FOUO, Released under the ATIA; DND (2007) *Departmental Performance Report for the Period Ending March 31, 2007*, Ottawa: Department of National Defence, p.57.

²⁸⁸ DND (2015) 'Status Report on Transformational and Major Crown Projects' included in supplementary information supporting *Report on Plans and Priorities 2015-2016*.

²⁸⁹ The MANDRAKE computer system is used to share intelligence material classified up to Top Secret within the Canadian IC. The name of the system was revealed publicly through the spy case of Jeffrey Paul Delisle, a Canadian naval officer who was spying for the Russian government. See RCMP (March 23, 2012) 'Preliminary Report of Finding-Computer Forensic Analysis' Unclassified/FOUO, released under ATIA, <https://www.documentcloud.org/documents/479510-evidence-from-jeffrey-paul-delisle-espionage-case.html#document/p87> (Accessed October 2014).

²⁹⁰ Forster, J. (November 28, 2013) Evidence to the House of Commons Standing Committee on National Defence, No.007, 2nd Session, 41st Parliament, p.12.

²⁹¹ CSE (circa February 2014) 'CSE Questions and Answers for Appearances' Unclassified/FOUO, Released to the author by CSE under the ATIA

sector expenditure restraint, such as the Program Review exercise of the 1990s, the IC suffered significantly alongside the foreign affairs and defence sector. Small investments were made, but resource pressures grew as personnel shortages increased and the degradation of capabilities and capital systems became more acute, with no significant moves to modernise capabilities. In the face of these situations, IC managers became adept at managing within an ever-tightening treasury line.

In the recent cuts exercises (namely, departmental Strategic Reviews and the overarching Strategic and Operating Review) spanning approximately 2006 to 2014, the effect on the IC has been different. While the IC organisations faced spending cuts and budget freezes just as other public sector organisations did, there was a noticeable effort by the government to push forward with important IC initiatives like the ones outlined in the previous pages. In short, while *operational spending* reductions were pursued, *strategic investment* in the national intelligence enterprise continued, and in some cases increased.

As Robert Shepherd has noted, and as discussed previously, the Program Review and SOR exercises were nearly identical in form, with very similar criteria and desired outcomes. The question then becomes: if the exercises were largely the same, with the same end goals, what accounts for the difference in outcome in relation to the IC? The explanation can be found in greater capacity at the centre of government to ensure coherence across the intelligence effort. Canada's interdepartmental machinery for making expenditure decisions on intelligence has become much more *regularised* (although not always formalised) in the years after 9/11. Intelligence issues have had a regular forum in Cabinet, in the form of the Cabinet Committee on Foreign Affairs and Security (FAS) and an ad hoc ministerial committee chaired by the PM. Additionally, the steady growth in the NSAs focus between 2006 and 2015 (as discussed in Part 1) have provided a senior, knowledgeable voice on IC issues for the Prime Minister and Cabinet. Importantly, the NSA has begun reviewing the entire IC 'spend' on a regular basis.²⁹² This review has provided a consistent 'health check' on the

²⁹² I-20, and info on NSER process (see Part 2).

overall intelligence effort, identifying pressure points, inefficiencies, or possible reallocations to better meet national requirements.

This combination of factors meant that the intelligence organisations, as a *community*, had a critical mass and profile at the centre of government that had not been present before. The Prime Minister and senior cabinet ministers have been consistently interested in national security matters. The National Security Advisor, who has been a senior DM often with previous experience in intelligence issues, has regularised interdepartmental machinery, provided a consistent and senior central point of reference for the IC within PCO, and provided a consistent point of advice for the Prime Minister on the *national* intelligence effort. It is this consistency and regularisation at the level of cabinet minister and deputy minister that has led to a greater depth of understanding at the centre of government. The benefits of a trim, but healthy, intelligence community are clearer to ministers and DMs, and the community is now more likely viewed as a community and as a national asset. It is, ultimately, this *cultural* shift at the centre of government that led to different outcomes during the last major round of expenditure cuts.

National Intelligence and Expenditure Management Compared

As shown throughout the previous pages, expenditure management has been a key process through which the Australian, New Zealand, and Canadian governments have managed and controlled their intelligence agencies. But what comparative conclusions can be drawn from this analysis that help explain the nature of the intelligence communities and, more importantly, their relation to the larger governments they ultimately serve? There are three overarching comparative conclusions that can be drawn from this analysis.

More 'Leashed Hounds' than 'Rogue Elephants'--Expenditure Management and the Real Control of Intelligence in Australia, New Zealand, and Canada

Far from being outside the expenditure management process as it exists for the open side of government, the intelligence organisations have been progressively integrated into the wider expenditure management systems in all

three countries. New Zealand's state sector reforms had a significant impact on the intelligence community in Wellington, sparking substantial structural and governance changes. The *Public Finance Act* and *State Sector Act* have been foundational documents for not just the open side of government, but the secret side as well. In Australia, development of two-pass system for major expenditure proposals, as well as the mid-range forward estimates, did not just impact the national security community, but *originated* in the sector. In Canada, the ability of intelligence organisations to acquire and spend public funds depends the concurrence of the Department of Finance, TBS and PCO through the MC process, and Treasury Board ministers through the TB Submission process. The appointment of the heads of agencies as accounting officers has re-emphasised the financial accountabilities of DMs in the IC, just as in other sectors of government.

Intelligence organisations request funds through the same mechanisms as other departments and they are subject to the same scrutiny (in some cases the scrutiny can actually be *greater*). Cabinet submissions by intelligence agencies or their parent departments are the subject of consultation and negotiation with expenditure guardians over the costing and general soundness of any new initiatives. The expenditure guardians themselves, through the established 'rules' of the cabinet and expenditure management systems, have access to the same financial information from intelligence organisations that would be expected from other public sector departments. Therefore, spending proposals by intelligence organisations are subject to the same review and challenge as the spending proposals of other departments through the cabinet and budget processes.

There are, of course, instances where the need to maintain operational security has dictated the need for greater secrecy in the expenditure management process than would be the case for other departments. In these instances, the approach of all three governments has been to *adapt* the expenditure management process, rather than bypass it. Because some intelligence-related outlays cannot be shared openly, the governments have used ad hoc or specialised committees of ministers to review the expenditure

proposals. Australia has formalised this process within the NSC, while Canada and New Zealand have oscillated between small standing committees of ministers, such as DESC in New Zealand and FAS in Canada, and ad hoc ministerial groups, such as AIS and MMSI. These structures have consistently included not only spending ministers, but also at least one guardian minister, and are often chaired by a senior minister or the prime minister.

Within the guardians, review of intelligence expenditure matters has been handled through specific sections to allow for the same type of review and challenge, but with some added segregation. The Australian Treasury's Defence Division was an early example of this that has continued through to modern times as the Department of Finance's Defence Capability and Intelligence Branch.²⁹³ The NZ Treasury's Justice and Security Sector vote team, and TBS' Security and Justice Division carry out the same role in New Zealand and Canada respectively. Having these teams, with their highly-cleared analysts, ensures that the guardians can still analyse expenditure to the same rigour and with the same goals in mind as the analysis carried out for less sensitive departments, while at the same time maintaining a necessary degree of separation to protect intelligence programme information.

Intelligence agencies have also been subject to the same expenditure demands as other government departments. In some expenditure reduction exercises, where intelligence capabilities have been viewed as expendable, the ICs have borne an even higher cost than other departments. Cycles of efficiency reviews, savings, and reallocations have become the norm in the three intelligence communities. The Australian IC faced significant reallocations following the end of combat missions in Iraq and Afghanistan, and the rise in human smuggling through the period from 2010 to 2012. Similarly, many new initiatives in the New Zealand IC have been funded through reallocated efficiency savings, such as IC Shared Services, the NZICnet system, and the new central coordination machinery within the Department of Prime Minister and Cabinet.

²⁹³ Department of Finance (2015) 'About Us: Budget Group' (online), <http://www.finance.gov.au/about-the-department/budget-group.html> (Accessed March 2015).

Canada's IC agencies are subject to regular Strategic Reviews that identify programme savings, and are expected to deliver on these exercises just as other public sector organisations are.

The impact of significant and continuous expenditure restraint exercises on the ICs has been particularly pronounced. There is ample evidence of what the Australians have termed the 'grind them down, top them up' approach, in which on-going expenditure restraint or reduction measures continually eat away at organisations until they acutely need a fiscal 'top up.'²⁹⁴ This trend can be particularly problematic for intelligence agencies, as capabilities can be cut much faster than they can be rebuilt. The effects of an eventual fiscal 'top up' may not be felt for several years, but in the meantime requirements may grow based on environmental factors outside an intelligence community's, or a government's, control.²⁹⁵ Expenditure cuts have not spared either collectors or analysts, but the analysis organisations, such as IAS, ONA, and NAB, tend to feel cuts even more acutely because of their small size and highly specialised staff. As discussed, budget cuts had significantly stretched ONA prior to 9/11 and the 2003 Iraq War, and had nearly wiped out Canada's foreign intelligence assessment capability in the early 1990s. There is also evidence that after the 2010 Strategic Review exercise and the SOR exercise of 2011-2012, IAS was forced to consolidate by merging some of its analytic divisions in response to significant cuts to the PCO budget and staffing levels.²⁹⁶

The 'Intelligence Portfolio': Instilling a Community Outlook within Expenditure Management

While all three governments have similarly used expenditure management to achieve macro-level control of their intelligence communities, the question still remains as to whether the architecture itself promotes coherence across the intelligence communities, or allows the different agencies

²⁹⁴ Department of Prime Minister and Cabinet (2015) *Review of Australia's Counter-Terrorism Machinery*, Canberra: Commonwealth of Australia, p.40.

²⁹⁵ Ibid, pp.38-40.

²⁹⁶ Brunno, J. (May 10, 2012) 'Privy Council Office to cut \$17.6 million in Budget, 139 Employees' *Hill Times*, http://www.hilltimes.com/news/news/2012/05/07/privy-council-office-to-cut-%24176-million-in-budget-139-employees/30651?page_requested=2 (Accessed May 2012).

to fragment into silos. In short, the systems have effectively limited expenditure but have they promoted fiscal coherence?

A coherent national intelligence effort is heavily dependent on the ability to plan expenditure across the agencies, building national capabilities and achieving combined effects that are greater than the sum of their parts. An example of where this concept has arguably been achieved is the UK's Single Intelligence Account (SIA), which is the accounting mechanism used to govern the overarching expenditure vote for Britain's national intelligence collection agencies (SIS, GCHQ and the Security Service). The National Security Advisor in the Cabinet Office is the accounting officer for the SIA, which means that they are accountable before parliament for the efficacy of the 'total spend' on the three national agencies. This role gives the UK NSA the subtle but important ability to influence how expenditure is managed within the British IC. For instance, the SIA, acting as a kind of 'intelligence portfolio', achieved the following important characteristics of IC coherence:

- Better identification of opportunity costs (if X project is funded, Y project will have to wait);
- Efficiency savings to stay in the intelligence community (limiting the potential for the agencies to be bled to fund non-intelligence related initiatives);
- Better ability to transfer amounts between organisations (which helped respond to sudden cost pressures driven by the external environment).²⁹⁷

These characteristics made the SIA a crucial element in the creation of the Joint Terrorism Analysis Centre (JTAC) after 9/11, and allowed for a rapid reallocation of funds from GCHQ to the Security Service following 9/11 to alleviate immediate cost pressures related to an influx of counter-terrorism work.²⁹⁸

There are strong forces in the Westminster system that, while important, can also lead to fragmentation. One of the strongest such forces is individual ministerial responsibility. Often times, IC managers are faced with a delicate

²⁹⁷ For a discussion of the SIA, see Martin, C. (2009) *Improving the Central Intelligence Machinery*, London: Cabinet Office; Interview I-9.

²⁹⁸ Martin, 2009 and Interview I-9.

balance between clear and clean lines of individual ministerial accountability and more coordinated, but also more nebulous, cross-portfolio management. Where the Australian, New Zealand, and Canadian governments differ is the extent to which they have managed expenditure across their intelligence organisations on a collective, horizontal basis, rather than as separate actors. In short, the three governments differ in the extent to which they have created, like the UK's SIA, an 'intelligence portfolio.'

Australia: An Intelligence Portfolio by Process

Australia's IC is structurally dispersed between multiple ministerial portfolios, including the Attorney General's, Foreign Affairs and Trade, Defence, Immigration and Border Protection, and Prime Minister and Cabinet. However, starting after the Royal Commission on Intelligence and Security, the IC has been pulled together by a critical mass at the centre of government. The nature of the expenditure management process brings the multiple intelligence agencies together both at the table, and in terms of the picture presented to decision-makers.

The NSC and SCNS committees are the key forums for this central leadership. Because NSC includes deputy heads around the table with ministers, including the DG of ONA, the NSC has provided a stable forum through which ministers can understand the value and capabilities of the intelligence community and engage with the substance of intelligence matters. The Department of Finance takes stock of overall IC expenditure on a regular basis, and now tracks total expenditure in support of the Coordinated National Security Budget. This information puts the Department of Finance in a good position to inform ministers and deputy heads of the overall position and efficacy of IC spending, in conjunction with the DG of ONA who can also speak specifically to agency performance and the government's return on investment. Overall, Australia's IC is consistently treated as a community through the expenditure management system, and the Coordinated National Security Budget is simply a wider manifestation of a process that has largely been in place for the intelligence community since the late 1970s.

New Zealand: An intelligence portfolio by structure

In New Zealand, as a result of the state sector reforms in the 1980s, the core intelligence agencies are centred within a single ministerial portfolio: Prime Minister and Cabinet. This creates an intelligence portfolio by structure. The core agencies share a common minister, or common ministers after the 2014 reorganisation of ministerial responsibilities. The Deputy Chief Executive for Security and Intelligence and the Chief Executive of NZDPMC both coordinate the IC on behalf of the same ministers in their roles as chair of the Security and Intelligence Board and chair of ODESC, respectively.

Additionally, the NZ Treasury's decision to classify all GCSB and NZIS expenditure under a similar expenditure type, 'ISD Expenditure,' ensures that the estimates and budgets of each of the national collection agencies are considered in tandem and as a total sum. This gives decision-makers and IC managers a sense of the total 'spend' on the clandestine agencies. The recent co-location of much of the IC into Pipitea House and the formation of IC Shared Services carry this structural portfolio concept into agency-level financial management as well.

Canada: An Informal and Limited Portfolio

Canada's intelligence community remains structurally disperse, as Australia's does. The core IC organisations are spread across the portfolios of Public Safety, National Defence, Privy Council Office, Foreign Affairs, and Finance, leaving the IC at an inherent risk of fragmentation. This risk is compounded by the fact that ministers have not taken an active leadership role in regard to the Canadian intelligence community. What active coordination has existed has been predominantly at the level of deputy ministers and assistant deputy ministers, with the bulk of concerned DMs being either heads of agencies or line department deputies.

Major expenditure has been reviewed by deputy heads historically through ICSI and by cabinet committees on an as-needed basis, but the nature of

the system has traditionally been weighted away from the centre of government. Unlike Australia, expenditure management tasks, such as the establishment of spending priorities for the agencies, has traditionally been handled within ministerial portfolios, rather than across portfolios. This can result in intelligence expenditures being judged against non-intelligence programs and activities within the rest of the portfolio, but not in the larger context of other intelligence needs. For instance, a significant increase in spending for CFINTCOM may be considered against the opportunity for DND to procure a new armoured vehicle, but not against an opportunity to expand the Global Security Reporting Program, for CSIS to open two more liaison offices additional foreign capitals, or for FINTRAC to hire more financial intelligence analysts. The ability to coordinate these types of discussions cannot come from a line department, and must come from the centre of government.

When the Major Commission recommended a budgetary role for the NSA, some balked at the idea, citing its encroachment on ministerial accountability. Margaret Bloodworth, the National Security Advisor at the time of the Commission's hearings, noted that an enhanced budgetary role for the NSA would not be appropriate as ministers were ultimately responsible for the budgets and performance of the agencies in their portfolios.²⁹⁹ However, as the UK's SIA shows, this is a false choice. Under the SIA, each agency has its own budget and each head of agency is the accounting officer for their agency's budget. Each minister is still accountable to parliament for the budgets and operations of the agencies within their portfolio. The SIA is an *overarching* structure, reflecting the PM's wider responsibility for national security and intelligence. The UK NSA's role as SIA accounting officer does not detract from ministerial accountability or the accountability of agency heads for their particular budgets. On the contrary, the role of SIA accounting officer adds a level of oversight aimed at ensuring *overall* IC health, while leaving ministers and agency heads to focus on their specific piece of the pie. The UK NSA does not dictate budgets for the agencies, but negotiates with HM Treasury each year over

²⁹⁹ Major, J. (2010) *Air India Flight 182: A Canadian Tragedy, Volume 3—The Relationship between Intelligence and Evidence and the Challenges of Terrorism Prosecutions*, Commission of Inquiry into the Investigation of the Bombing of Air India Flight 182, Ottawa: PWGSC.

the total amount of intelligence-related expenditure, and with the agency heads over how that total will then be broken down according to needs and government priorities. To an extent, the creation of the Coordinated National Security Budget in Australia, led by the Associate Secretary, NSIP within the Department of Prime Minister and Cabinet seeks a similar dynamic as the UK SIA, although on a wider scale that includes homeland security functions.

When Stephen Rigby, as Canadian NSA, instituted the practice of reviewing the total IC 'spend' on a quarterly basis, he was essentially acting in a role commensurate to the UK's SIA accounting officer, just without the formal mechanism underlying the activity. As evidenced by the appointment of a full-time PCO Intelligence & Security Coordinator in 1985, relatively small adjustments in roles can have substantial community benefits, and Rigby's navigation of the IC through the 2011-2012 SOR cuts exercise indicates that this type of role within PCO produced a more coherent outcome.

Canada has begun to operate an SIA-like system, but on an informal basis. This leaves the gains seen in the past several years vulnerable to personality changes, or eventual double-hatting, as happened with the PCO Intelligence and Security Coordinator through the 1990s. In Britain, the formal designation of the NSA as accounting officer for the SIA has negated this risk in a way that adds minimal additional bureaucracy. In Australia, the designation of the Associate Secretary NSIP as leader of the annual CNSB exercise accomplishes the same goal for the Australian IC. The Murdoch Review in New Zealand recommended assessing the feasibility of the SIA model in New Zealand's IC, and the recent appointment of a Deputy Chief Executive for Security and Intelligence within NZDPMC appears to be a step in this direction.

Historically, Canada has operated with a minimal to non-existent 'intelligence portfolio,' mainly because there has never really been the critical mass at the centre of government to provide a focal point. This is why the Foreign Intelligence Program of the 1970s and 1980s was largely unsuccessful as a concept. Canada's moves toward an 'intelligence portfolio' have been recent, and quite informal, but they have happened. A changing culture at the centre of

government towards intelligence, creating the required critical mass, has had significant benefits. However, without some form of subtle formalisation, likely around the NSA, these benefits could still be lost to future changes in the political environment, personality changes, or similar events.

Chapter 12

Public Governance of the Secret State in Comparative Perspective

In the first pages, we asked a seemingly simple question: *how do intelligence communities work?* Behind this, there is the implication that, in some instances, intelligence communities do not work or work only partially. By further focusing this broad question, we came to concentrate on three states in a comparative perspective, namely Australia, New Zealand, and Canada. Also, we came to focus on the evolution of the ‘architecture’ used by the centre of government to govern the national intelligence effort, including key structures and systems that link together the many organisations and actors at the national level. This architecture is how IC managers at the centre (i.e. those officials in the central agencies concerned with intelligence coordination) bring intelligence actors together to exchange resources and achieve national goals. Finally, using the concept of coherence, we crafted more detailed questions to apply to each of the three governments:

- *What is coherence in the national intelligence effort?*
- *How has the capacity of the centre of government to pursue coherence across the national intelligence effort evolved?*
- *What factors enable or constrain the capacity of the centre of government to ensure coherence across the national intelligence effort?*

To answer these questions, we have examined in detail the committees, networks, and central agencies at the centre of government that bring together IC actors. We have also examined the core systems through which IC managers at the centre can pursue coherence across the communities. The first system is the national R&P cycle, which is meant to ensure that the different organisations are working towards the same national goals. The second system is the expenditure management system, where IC managers try to ensure coherence in the resourcing of the national intelligence effort. Finally, we have not examined this architecture at a single point in time; instead we have examined the evolution of the architecture over the course of 70 years, since 1945 to approximately 2015.

We have seen that coherence in the national intelligence effort is really a balance between dozens of environmental demands that are themselves often conflicting and incoherent. On one hand, coherence means meeting the demands of the threat environment, global environment, and allied environment, in order to maintain operational effectiveness. Expensive collection and analysis capabilities must be targeted at the most important national questions for decision-makers, and must shift as the threat environment shifts. Also, the *clandestine* nature of the collection capabilities must be maintained, as that is the essence of their effectiveness. Similarly, for Australia, Canada, and New Zealand, which are all net intelligence importers, their access to the much greater pool of allied intelligence within the Five Eyes is dependent on being able to work within the politics of the alliance environment. If the ICs cannot meet these demands, they increasingly become operationally ineffective.

At the same time however, coherence means balancing the demands of the public service, political, and national environments, which ensure the ICs maintain legitimacy within their democratic systems. Many of these demands are institutional in nature, such as arrangements for collective and individual ministerial accountability and decision-making, the constitutional balance between civil servants and politicians, and legislative frameworks. Some demands are driven by much larger political forces, such as policy priorities, electoral politics, and cabinet politics. Closely related to the political demands, there are also demands driven by the public environment, including the public perception of threats, the culture towards privacy, government transparency, and the steady roar of public opinion through the media cycle. If the ICs do not address these demands, they risk losing legitimacy in the eyes of the public and their elected representatives. Ultimately, then, the challenge for the centre of government is to design architecture that can navigate the IC through these conflicting environmental demands, ensuring both the operational effectiveness of the intelligence effort and the legitimacy of it in a democratic system. If this balance is struck, then the centre of government has achieved a coherent outcome.

Based on our examination of the three governments, what broad conclusion we can draw about how the intelligence communities work (or do not work)? Ultimately, the coherence of the national intelligence effort is determined by how each government adheres to the conventions of Westminster government, specifically collective ministerial responsibility and a permanent, non-partisan public service. While this seems like a relatively simple conclusion summarising several hundred pages of detailed discussion of government machinery, it has much larger implications for how we understand the secret state in Australia, New Zealand, and Canada.

Firstly, we can address a constant across the three governments: the importance of a permanent, non-partisan public service. There has been much recognition of the importance of the professional public service to the constitutional balance within Westminster systems, and equally substantial debate about its health.¹ However, there has never been a recognition that the health of the professional public service is, in fact, a national security issue. While this may sound grandiose, we need only look at the architecture presented in this work to see that professional public servants have been instrumental in pursuing a coherent national intelligence effort because there is recognition, at least in the senior ranks and albeit sometimes grudgingly, that the main objective is to do what is best for the public interest. The public service ethos of providing ‘frank and fearless advice’ to political masters based on professional analysis that is not coloured by political preferences reinforces the very nature of an effective, non-partisan national intelligence effort. Also, the permanence of senior executives within the public service leads to stronger networks across the ICs. One factor that came up throughout the research on each of the three governments was the generally high level of collegiality and trust between senior executives. Even when they change jobs, they are often still in the same networks and leverage these connections to create cohesion. Compare this to, for instance,

¹ A small sampling of this line of inquiry includes Savoie, D.J. (2003) *Breaking the Bargain: Public Servants, Ministers, and Parliament*, Toronto: University of Toronto Press; Rhodes, R.A.W. and Weller, P. (eds.) (2001) *The Changing World of Top Officials: Mandarins or Valets?* Buckingham: Open University Press; Weller, P. (2001) *Australia's Mandarins: The Frank and the Fearless?* Sydney: Allen and Unwin; Prebble, M. (2010) *With Respect: Parliamentarians, Officials, and Judges Too*, Wellington: Institute of Policy Studies.

the US public service where almost all of the senior executives shuffle out when the party in power changes, and the benefits for collegiality are clear. This is not to say that the convention of a professional public service has always worked perfectly; there is always a balance to be struck and adaptation to meet changing environmental demands. For instance, senior executives can be in a job too long and become tied to certain viewpoints or ways of doing business. Indeed, the trend of 'New Public Management' was a reaction to the perception that public servants had become *too* comfortable (although, arguably, this was more *perception* than truth). Also, the worry that the non-partisan nature of the public service and its ability to speak 'frankly and fearlessly' to political masters is being eroded is a very real concern, and requires close monitoring. The fundamental point is not that the system has worked perfectly, but that it has worked much better than other systems in promoting coherence across the national intelligence effort in these three countries. Given this, the professional, non-partisan nature of the public service is a convention of the Westminster system that is worth protecting not just for institutional reasons but because there is every reason to believe that it benefits the security of the state and its citizens.

Secondly, we can address a factor that accounts for more variation across the three governments. Collective responsibility is, in fact, only an informal convention used to ensure political discipline in cabinet.² What becomes clear from the research presented here, however, is that it has also had a beneficial governance effect. Across the three governments, we have seen that the convention of collective ministerial responsibility, exercised through the cabinet system, has a cascading effect through the rest of the architecture; In effect, it is the core concept around which the rest of the structures are built. The convention of collective responsibility filters down through the machinery, resulting in mirrored committees at multiple levels that come together to support ministers on complex issues. Permanent heads will engage collectively on an issue because they support their minister's collective engagement. In

² Rhodes, R.A.W., Wanna, J., and Weller, P. (2009) *Comparing Westminster*, Oxford: Oxford University Press, pp.116-154.

effect, because ministers exercise collective responsibility for governance, public servants exercise collective responsibility for management. This is not to say that there are not conflicts between actors. In any complex organisation or network of organisations there are conflicts that arise. What is important, however, is how the conflicts are *solved*. In one sense, the key purpose of the convention of collective cabinet responsibility is to promote thorough debate and, if necessary, dissention behind closed doors, followed by consensus and a unified, coherent line in public.

Even in instances where it appears there has been a break in the convention of collective responsibility, even at official levels, closer examination indicates this is often not the case because there is a recognised interdependence between actors. For instance, the creation of the ONA in Australia can be seen as breaking with the UK tradition of collective coordination of the national intelligence effort in favour of a more US-style approach. To an extent, this is correct; Hope did model the ONA on US centralised intelligence.³ However, a close comparative examination of ONA's functions shows that the Australians had simply amalgamated the functions of PCO's S&I Secretariat and Intelligence Assessment Secretariat in Canada, or NZDPMC's National Assessment Bureau and Intelligence Coordination Group in New Zealand. Almost immediately after its creation, the ONA started to build up collective forums for coordination, many of which have survived in one form or another to the present day (such as the HIAM or what has become the NICC).

Over the long-term, the collective nature of the architecture expands or contracts depending on the environmental demands and the complexity of the issues. For instance, across all three governments the challenge of dealing with transnational threats (specifically terrorism) has meant that the committee structures increased in size and number because intelligence as a resource became more relevant across a larger number of departments. This means that more actors need to trade resources more frequently. Similarly, Australia's effort

³ Woodard, G. (2001) 'Enigmatic Variations: The Development of National Intelligence Assessment in Australia' *Intelligence and National Security*, 16:2, pp.1-22. Woodard states that the ONA was modeled on the CIA's Directorate of Intelligence.

against maritime human smuggling grew increasingly complex, operationally and politically, leading to the creation of the Border Protection Committee of Cabinet, the Border Protection Task Force, and associated infrastructure within the DPMC. Once the sensitivity of the human smuggling file had subsided, and a coherent national approach had been developed, the machinery was disassembled. The same can be said of Canada's Cabinet Committee on Afghanistan and Afghanistan Task Force; they were temporary structures to allow the cabinet to exercise collective governance.

While the convention of collective responsibility can enable the centre in pursuing coherence across the national intelligence effort, the research did note distinct differences in how each of the three governments adhered to the convention. What, then, accounts for these differences? Collective responsibility is not the only type of ministerial responsibility. Ministers are also *individually* responsible for their departments, portfolios, and associated mandates.⁴ There is, inherently, some tension between the collective and individual responsibilities of ministers, and for the central agencies trying to coordinate government activities, it does not take long before ones' efforts start to rub up against the individual responsibility of a portfolio minister. For instance, the Minister of Public Safety in Canada, the Attorney General in Australia, and (now) the Attorney General in New Zealand all have a coordinating role in national security. However, these individual ministers can only coordinate *part* of the IC; neither the Canadian or Australian minister has responsibility for the respective SIGINT agencies, and none of the ministers have any authority over the national IMINT capability. The key question becomes where the balance between collective and individual ministerial responsibility is struck in each government, and it is here where we find subtle but important differences between the three governments.

In Australia, the balance has been decidedly towards collective responsibility. The mainstay of the Australian national security system for the last 20 years has been the NSC and its mirror committee of permanent heads

⁴ Rhodes, Wanna, and Weller, 2009, pp.116-154.

(SCNS) and the available information indicates that the use of the NSC/SCNS machinery has ebbed and flowed only tactically. The process for determining national requirements and priorities for intelligence is handled, virtually entirely, through the central machinery. Most striking is the fact that the tasking to individual parts of the Australian IC through the National Intelligence Collection Requirements Papers happens under the collective authority of the NSC and the central machinery supporting it. Similarly, in expenditure management the focus has been on assessing resourcing needs as part of an overall IC spend, under the authority of ministers collectively as members of the NSC, rather than managing the resourcing of the agencies as parts of individual ministerial portfolios.

New Zealand has struck a unique balance between both types of responsibility by traditionally having the PM as the minister directly responsible for the core IC organisations (with the exception of defence intelligence.) This arrangement essentially means that collective and individual ministerial responsibility is exercised through the same individual, as, at its most minimal form, the collective responsibility of cabinet is embodied in the PM as its chair.

In Canada the system has traditionally tilted towards individual ministerial responsibility. As we have seen, while there is a gravitational pull produced by the convention of collectively responsibility, there has been a tendency for this collective imperative to be exercised only on an as-needed basis at the governance level. CC/S&I and MMSI both met minimally, with governance responsibilities between collective meetings falling to individual ministers or small ad hoc meetings of ministers. Also, in the key systems there has been a noticeable trend towards favouring individual ministerial responsibility. The annual intelligence priorities exercise was traditionally carried out largely through parallel ministerial lines of responsibility for security intelligence (the Solicitor General), foreign intelligence (the Minister of Foreign Affairs), and defence intelligence (the Minister of Defence). It has only been through the 9/11 decade that progress was made 'nationalising' the intelligence priorities to work as broad guidance across the different portfolios. Even today, after progress has been made on the R&P system, the production tasking to

individual parts of the IC is formally made through ministerial directives. This means that the ministers approve the intelligence priorities once, through collective responsibility, and a second time in more detail, through individual responsibility for their portfolios. Similarly, expenditure planning for the intelligence organisations was traditionally based around individual ministerial responsibility. Issues requiring expenditure for the different intelligence organisations were coordinated through the cabinet policy approval process, but then went into a pool of approved initiatives that the Minister of Finance and PM could choose from when crafting the expenditure budget. More importantly, in times of fiscal restraint, the nature of budget cuts were often left to individual ministers in their portfolios, meaning that portfolio priorities could win out at the expense of national capabilities. This trend was readily apparent in the debate over national assessment machinery through the late 1980s and early 1990s.

It is proposed that the different balances between collective and individual ministerial responsibility help us begin to diagnose the tangible impacts of the 'intelligence cultures' in the three governments. While collective responsibility is inherently geared towards achieving more coherent outcomes, the collective convention is messier when it comes to lines of accountability. There is often no clear answer to 'who made that decision?' or 'how did you come to that decision?' On one hand, this lack of clarity is natural; collective debate does not lend itself to clean, clear lines of accountability for particular views. On the other hand, the entire premise of collective responsibility is that the group is accountable as a whole for decisions; cabinet secrecy is meant to protect this concept and, thus, promote debate at the cabinet table. Ultimately, then, the balance between collective and individual ministerial responsibility indicates a national preference between coherence and straight-forward accountability. Canada's national discourse around intelligence has been dominated by accountability considerations. Interestingly, while Canada has cultivated a British-style intelligence system, it has also cultivated an American-

style distrust of it at a national level.⁵ It is often said that not understanding something leads one to fear it; this simple idea summarises decades of Canadian culture towards intelligence. As scholar and practitioner Stephane Lefebvre has noted, public understanding of intelligence as a function of the state in Canada has historically been very low.⁶ Until recently, the same could be said for public servants and ministers not directly engaged in the intelligence effort. What is important is that a paradox exists within the Canadian system to a greater degree than in Australia or New Zealand. The pursuit of coherence across the national intelligence effort, balancing operational effectiveness and democratic legitimacy, requires particularly careful and consistent political management in Canada because the traditionally low levels of trust in the secret state and equally low levels of public understanding. At the same time, however, these same traits greatly increase the *political risk* of engaging in security and intelligence matters at the governance level. Indeed one comparative study of post-9/11 anti-terrorism laws by law scholar Kent Roach notes that “the political costs of enacting new anti-terrorism laws or renewing existing ones [...] have been high for Canadian governments” while the costs have been significantly lower in Australia.⁷ Even after Roach wrote this, the outcome for the Harper government of the debate over Bill C-51 (the *Anti-Terrorism Act 2015*), occurring in a period just before a federal election, reinforces Roach’s conclusion. While increased risk can lead to more considered and nuanced policy by promoting greater debate, it can also ensure that politicians act cautiously. This explains the traditional favouritism showed to individual ministerial accountability in intelligence governance and the avoidance of more effective but less publicly explainable collective responsibility.

⁵ Davies has pointed out that a shared historical factor between the US and Canadian systems is that major periods of public attention for both were sparked by points of ‘moral panic.’ Davies, P.H.J. (2009) ‘Britain’s Machinery of Intelligence Accountability: Realistic Oversight in the Absence of Moral Panic’ in *Oversight of Intelligence Services and its Challenges*, Daniel Baldino (ed.) Annandale, Australia: Federation Press, pp.133-160.

⁶ Lefebvre, S. (2009) ‘Canada’s Intelligence Culture: An Assessment.’ in Russell G. Swenson and Susana C. Lemozy (eds.) *The Democratization of Intelligence: Melding Strategic Intelligence and National Discourse*, Washington: National Defence Intelligence College.

⁷ Roach, K. (2007) ‘A Comparison of Australian and Canadian Anti-Terrorism Laws’ *University of New South Wales Law Journal*, 30:1, 53-85.

Conversely, Australia's geographic position has made it acutely aware of national security considerations through consistent regional conflicts.⁸ Additionally, in the post-9/11 environment, the loss of 88 Australians in the October 2002 Bali bombings introduced Australia to mass-casualty terrorism in their immediate vicinity in a way still not felt by Canadians. Interestingly, however, Australia's more proactive stance is not limited to national security, as its 'politics of initiative' have been contrasted with Canada's 'politics of accommodation' in trade negotiations.⁹ Ultimately, Australia's definition of national interests as material-based contrasts Canada's value-based definition¹⁰ and leaves one with the unavoidable sense that Australia has a more defined sense of its role on the global stage while Canada's principle concern has been maintaining cohesion domestically.

A similar culture towards national security, although more focused on maintaining an edge in internationalism, is apparent in New Zealand. Directly related to intelligence is the sense that, because of its geographic location and size, New Zealand must work harder to protect its economic interests directly through intelligence and counter-intelligence or indirectly through its increased involvement with allies. The most telling sign of this was the passage of the *NZSIS Amendment Bill No.2* in 1996, which widened the definition of 'security' in the *NZSIS Act* to include "ensuring New Zealand's international well-being or economic well-being."¹¹ Ultimately, as Harvard scholar Amy Catalinac has indicated, New Zealand, like Australia, has wished to chart an independent

⁸ The Vietnam War, Indonesian crises, conflict in East Timor, not to mention having Darwin bombed by the Japanese during the Second World War.

⁹ Cooper, A.F. (1997) *In Between Countries: Australia, Canada, and the Search for Order in Agricultural Trade*, Montreal & Kingston: McGill-Queens University Press.

¹⁰ Lefebvre, 2009 and Rostek, M.A. (2006) *Approaches to National Security: A Canadian-Australian Comparison*. Occasional Paper 60, Centre for International Relations. Kingston: Queens University.

¹¹ Privacy Commissioner (1996) *Report by the Privacy Commissioner to the Minister of Justice in relation to the New Zealand Security Intelligence Service Amendment Bill (No 2) concerning amendments to the law on interception warrants and the establishment of a Commissioner of Security Warrants*. Privacy Commissioner of New Zealand. <http://privacy.org.nz/new-zealand-security-intelligence-service-amendment-bill-no-2/> (Accessed May 2012).

course in foreign policy based on its national interests.¹² Intelligence is therefore a means closely connected to larger ends.

Ultimately, then, intelligence communities work as well as they can within their larger environments; far from being isolated from larger environmental demands, the coherence of the national intelligence effort is increasingly defined by them. Balancing amongst environmental demands in the pursuit of coherence is no easy task, and is greatly impacted by the national perception of intelligence as a function of the state. The intelligence communities in Australia, New Zealand, and Canada are, for the most part, well coordinated, and becoming increasingly so. Yet, the capacity for coordination is ultimately determined by what works best in Canberra, Wellington, and Ottawa, given the national culture towards the secret state. One could even go so far as to suggest that the countries have the intelligence communities they deserve.

¹² Catalinac, A. (2010) 'Why New Zealand Took Itself Out of ANZUS: Observing 'Opposition for Autonomy' in Asymmetric Alliances' *Foreign Policy Analysis*, 6:4, 317-338

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