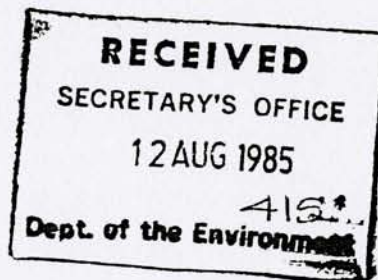


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To: Secretary

From: W E C Ford

Copied to: Mr Coulson
Mr Stutt



CONSTRUCTION INDUSTRY FRAUD

1. Arising from the liaison meeting between the RUC and NI Government Departments on 25 June and following discussions with Mr Buxton and Mr Hill of NIO, I met representatives of the NIO (P Coulson), DED (C Strutt) and the RUC (Senior ACC and) on 7 August to review what has already been done and consider the scope for further action by the public sector to combat extortion and protection rackets in the construction industry. As a basis for discussion I circulated the attached background paper to the participants. It was felt that the Federation of Building and Civil Engineering Contractors should not be included at this stage. You will wish to be aware of the outcome of the meeting.
2. The RUC confirmed that protection rackets at building sites are still considered to be a lucrative source of paramilitary finance. While some contractors are prepared to give them information, the police are disappointed at the level of co-operation received and feel that the industry is overly complacent at the present state of affairs. The police have no doubt that the measures introduced by the Minister in May last year had a considerable impact, but feel that some additional steps are now needed to both stiffen the resolve of the industry and demonstrate the Government's determination to drive the paramilitaries off building sites.
3. The concensus view of those at the meeting is that there are four possible areas of action:
 - (1) Further tightening of tender conditions : compulsory registration for VAT

A requirement that any firm wishing to tender for a public sector contract must be registered for VAT would have the following effects:

Pros

- (a) put pressure on the firm's operating margins and lessen the scope for 'under the counter' payments or 'donations' to paramilitary or other similar groups;
- (b) open the firm's accounts to scrutiny and ensure that it met its statutory tax liabilities.

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Cons

- (a) The majority of firms already employed on public sector contracts are likely to be registered for VAT.
 - (b) It would reduce competition by excluding non-registered firms.
 - (c) It would increase bureaucracy.
 - (d) Government policy is to increase the threshold for registration.
- (2) Extension of the Approved List system of tendering to all sub-contractors in the public sector

As you are aware, the Housing Executive recently extended the Approved List to all sub-contractors employed on its contracts.

Pros

- (a) The scrutiny involved would be a pressure on firms to maintain a clean reputation and proper records.
- (b) Registration would help to open up to scrutiny the sub-contracting sector of the industry in which most shady deals are reputed to take place.
- (c) It would give "suspect" firms less room to manoeuvre.

Cons

- (a) It would require a large administrative commitment on the part of public bodies.
 - (b) It is accepted that most of the problems associated with sub-contractors lie in the housing sector where action is already being taken by the Housing Executive. It is questionable whether the extension of approved listing to the other building and civil engineering sectors would be worth the effort involved.
- (3) Make the employment of approved security firms compulsory on all public sector contracts

The 1 May 1984 measures require contractors to obtain the approval of the employing Department to any security firm they want to employ. For some work Departments already require contractors to employ a security firm as a condition of the contract. It is suggested that consideration should be given to making it a general requirement that a security firm should be employed on all public sector contracts in Northern Ireland. This would, it is thought, significantly reduce the opportunities for terrorist front organisations to force contractors to employ their security men. Such a measure would work well in parallel with the NIO

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proposals for registration of security firms. The most obvious argument against such a measure is its cost implications for public expenditure if applied across the board. A very rough guesstimate is that for 1985/86 in which capital contracts to the value of £233m are due to be let by Government Departments in Northern Ireland, across the board employment of security firms could add £ 11 m to the bill.

(4) Penalise firms believed to be paying protection money

It is considered that a measure such as this, introduced on the basis of "public interest defence", would be an important weapon in strengthening the resolve of contractors to resist approaches by racketeers and make them more likely to co-operate with the police. The question of providing evidence of complicity was raised, but NIO felt that bearing in mind Counsel's opinion on the withholding of grants to "suspect" community groups, it was possible that similar reasoning could be applied to firms making protection payments. Legal advice would have to be taken on the proposal which could be on the lines that any construction firm which the Government believes to have paid protection money to a paramilitary organisation will be debarred from receiving a public sector contract for a period of 3 years.

4. In view of the implications of the above proposals you may wish to alert Mr Bloomfield on what is being considered before we make any further moves or involve the Builders Federation.

W E C Ford

W E C FORD
9 August 1985

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