

E.R.

DUS(B)/84/1359/9.1SECRETARY OF STATE (L&B)

cc PS/Mr Butler (L&B)
 PS/Mr Scott (L&B)
 PS/Mr Patten (L&B)
 PS/PUS (L&B)
 PS/Sir Ewart Bell ✓
 Mr Brennan
 Mr Buxton
 Mr Doyne-Ditmas
 Mr Angel
 Mr Burns
 Mr Coulson
 Mr Reeve
 Mr Boys Smith
 Mr Bickham
 Mr Davies

1. Sir Ewart *NZJ*
 2. ~~R~~ SEC/6 *4/5*



PARAMILITARY FINANCES

This is a further progress report on the measures which are being taken to stop money reaching paramilitary organisations. There have been two important developments since my last report of 6 December 1983. First, the careful preparatory work which the RUC's Anti-Racketeering Team conducted for some time after their initial establishment, has started to show results. Second, on 1 May, Mr Patten told the Northern Ireland Construction Industry Council of measures he will take against fraudulent practices in the industry.

2. Our analysis of robberies for the (11 month) *Feb* February - March period in 1982/83 and 1983/84 shows aggregate numbers of armed robberies to be fairly stable: there were 1,134 incidents in 1982/83 and 1209 in 1983/84. However, the amount taken fell by some 30% from £1,297,377 in 1982/83 to £881,615 in 1983/84. There are, however, peaks and troughs in the annual figures; indeed, over the last quarter, the number of armed robberies and cash taken were higher than in the previous quarter. So we shall continue to monitor the scene closely to see what new measures become necessary to deal with the changing pattern of armed robberies ie away from banks and Post Offices (where significant efforts have been made to improve security) and towards eg shops, offices and collection agents.

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This displacement effect is brought out in the histograms at ANNEX A & B. We are in fact giving urgent consideration to the possibility of providing for a small capital grant under the existing Security Staff Grants Scheme to provide help in the purchase of time lock safes for small traders. The results of that review will be forthcoming very shortly.

Illegal Use of Tax Exemption Certificates

3. These certificates are presently used exclusively in the building trade. They are issued by the Inland Revenue as a means of reducing administrative costs for large firms and of alleviating the cash flow problems of the smaller contractors. In effect, they relieve a main contractor from the responsibility of deducting tax from payments made to sub-contractors, and in turn permits a sub-contractor to defer payment of tax until the end of the financial year. Commonly, the racket involves the proliferation of contracts from one sub-contractor to another, so confronting the Revenue with a lengthy and usually broken chain when it comes to gathering tax. Equally prevalent are group arrangements between sub-contractors and employees which allow the former to cream off a large proportion of the tax element

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included in the gross sum paid by the main contractor:
at the end of the year the certificates are reported
'lost' or 'stolen', though they remain in the hands
of associates - or else are simply sold to other racketeers.

4. The Anti-Racketeering Squad has just acted to cut off a
major line of supply for these certificates. It seems
that a system of passing on stolen cards from England
to Northern Ireland via the Republic has been in operation
for some time. The Squad has identified the key figures
and the (often bogus) companies set up especially to
handle transmission. In my last report I mentioned
that 17 people were being interviewed about the misuse
of certificates. Since then the RUC have arrested 24
people who are now facing a variety of charges including
conspiracy to defraud, false accounting, theft of stolen
vouchers and handling stolen goods. Those who have been
charged are principally associated with OIRA. But that
does not mean that the Provisionals' misuse of exemption
certificates (which is itself significant) has not been
affected. There appears to be some specialisation of
function to the extent that the OIRA has made its turn
on the sale and supply of certificates whilst the
Provisionals make theirs on the misuse of the exemption
certificates locally. The disruption of a source of
supply will have a 'knock-on' effect.

5. The next stage will be to complete the interviewing of
more minor suspects, to prepare files, to sift over

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5,000 pieces of documentary evidence and to pursue the cases to conviction before the courts. The paperwork is going to be very considerable and will make extensive demands on the manpower resources available to the Anti-Racketeering Team. It will also make significant demands on the resources that the Inland Revenue have devoted to assisting the RUC. Indeed, mindful of PS/Secretary of State's minute of 7 December, we are keeping in close touch with the RUC in case it should become necessary to ask the Inland Revenue to provide more staff to assist.

6. In parallel with case preparation, the RUC will be pressing ahead to determine how best to mop up the remaining tax exemption certificates that are presently being misused here in the Province. The police have already asked the Inland Revenue to analyse handling patterns for vouchers submitted by contractors that are known to be subject to pressure by the Provisionals or else are employing Provisional supporters. I mentioned in my previous report that it would be important to be as ingenious as the criminals and to anticipate and head off future difficulties. The police have themselves taken this thought very much to heart: they hope that a thoroughgoing exchange of information with the Revenue (using the methods successfully deployed over lines of supply) will itself design a productive arrest operation and help in taking pre-emptive action to stop new methods of misusing the certificates. This is likely to be a complex task. Moreover, it may be

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one on which we shall have to ask the Revenue both to take action themselves before the courts and to tighten up safeguards against misuse within the tax exemption scheme. We know the Revenue to be hesitant about this - they are reluctant to invest time, effort and money on action that has low or negative yield to the Exchequer. Again, we are monitoring progress carefully: at various stages our experience has been that after initial diffidence the Revenue turns out to be biddable. This is particularly so when the police have asked for specific and practical assistance in the context of a particular case. As regards the next round of investigation we have not reached the point at which we have a clear prospectus to take to the Revenue. As soon as that point is reached we shall provide advice on whether an approach should be made to the Treasury at Ministerial level. In the meantime, Mr Patten has told the Advisory Council of the Northern Ireland Construction Industry that as from 1 October, all contracts entered into by DED and NIHE will require contractors themselves at least to have valid tax exemption certificates, if they wish to be retained on the approved list of contractors.

Security Firms

7. The Secretary of State is aware that he is to receive advice on the licensing of security firms (your minute to Mr Brennan of 21 March). The RUC have already established a special working group to consider the nature and scale of paramilitary exploitation of bogus security firms. The group is likely to suggest a range of

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possible options the implications of which will be considered by the NIO in consultation, as appropriate, with DED and the Home Office. However, quite separately from the consideration of statutory or non-statutory regulation, Mr Patten has announced his intention to consult interested bodies with a view to developing (with RUC assistance) a list of 'approved' security firms. Only those firms which qualified for admission to the list would be permitted to tender for contracts to provide security at sites of public building works. A scheme of this sort could well be most significant precisely because so much building work in the Province is conducted by public agencies.

8. The Anti-Racketeering Squad has also had discussions with their contacts in the Inland Revenue and with Customs and Excise. So far, the Revenue has been unable to identify any ground on which they might be able to act. At present, they doubt that there is a chance of obtaining a positive judgement from the Commissioners in circumstances where money had in fact been obtained from a 'client' by duress. As for any criminal process, they believe that a well advised firm - or indeed the UDA - could show that money received and not declared for tax, had been spent as some legitimate business expense. Of course, there are difficulties here, but in our contacts with the Revenue we have declined to accept this view as the end of the road. It is always possible that the operators of an intimidation racket may be tripped up by an imaginative and persistent

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approach. So far as intimidation is concerned anything which disrupts and dislocates a racket is likely to be beneficial. For the moment therefore the Revenue is trying a different tack on the basis of suggestions and material that we have given to them (see paragraph 12 below). Aside from this, it seems that action by Customs and Excise against VAT owed by bogus security firms could prove fruitful. The police have a very good working relationship with Customs and have asked them to investigate a specially selected list of firms in which paramilitaries are strongly believed to be operating. Customs are reviewing this information against their own records at present. We must wait to see whether that work produces a tangible result, though I understand that at present the prospects are quite good.

The Construction Industry - Other Action

9. Mr Patten has announced that he will be consulting with civil engineering representatives of the NICI Advisory Council to find out whether approved list tendering, (now operated to DOE Works Service practice by the DHSS), should be extended to include contracts let by DOE Roads and Water Services. A decision on this will be made by the end of June.

10. The Minister has also said that in future any contractor who is convicted of fraud under social security legislation shall have his name removed from the approved list of contractors maintained by government departments and the NIHE. This will affect firms that knowingly use workers who are

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doing-the-double.

Registered Clubs and Accounting Requirements

11. Representatives of RUC Headquarters and of the Anti-Racketeering Squad in particular have met with officials from the NIO and the DHSS to see whether any practical measures can be taken to limit the extent to which registered clubs can manipulate their accounts to the benefit of paramilitaries. For the time being, the police have concluded that however detailed the requirements over presentation of audited accounts may be, they will always rest upon a certain circularity which a cohesive club membership will find it easy to manipulate. It has been agreed that the most productive course would be for the DHSS (which receives the audited accounts of registered clubs each year) to pass on copies of accounts for any club, at the request of the RUC. This will enable the police to target their enquiries - partly by comparing known club activities with those presented in the accounts. The contrast would then serve to direct lines of enquiry whenever the right operational occasion arises. Again, this should be seen in the useful category of preventive policework.

Suggestions to the Revenue

12. In the course of contacts with the Revenue it has become obvious that those responsible for the conduct of investigations (and indeed of policy towards them)

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are largely ignorant of the personalities and of the rackets that seem to us to be worth their attention. We have already made some suggestions (which because they are particular, are also of some sensitivity). We expect to hear the Revenue's reaction soon, and shall continue to keep in close touch with officials there.

Conclusion

13. Mr Patten's call to the construction industry to support action he is taking to root out fraudulent practices will surely find its mark. The police are pressing ahead to frustrate the key rackets presently associated with paramilitary activity. Cooperation between civil departments and the RUC continues to be effective. As these complex police investigations develop we may, as noted above, need to take up the Secretary of State's offer to intervene with Ministers responsible for the Inland Revenue and Customs and Excise. But this point has not yet been reached. There are encouraging signs that all of those involved are prepared to give the RUC practical help and to support inventive approaches to the processes of investigation and disruption. I shall report further in three months and as particular problems arise.

J. B. Bourn

J B BOURN
DUS(B)

4 May 1984

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ROBBERIES

Columns shaded dark = 1 July - 30 September 1983

Columns shaded light = 1 July - 30 September 1984

60
Number of Robberies

50

40

30

20

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