

E. R.

- 1. Secretary to see
- 2. Mrs Campbell to file

cc Mr Green
for advice please.

cc 10/6/86

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X is what we need!

10/6/86

To Members of PCC

LEAKAGE OF PUBLIC FUNDS TO PARAMILITARY BODIES

- 1. I would like to have an early discussion at PCC about our arrangements for stopping the leakage of public funds to paramilitary bodies.
- 2. Existing policy is set out in Mr Hurd's Parliamentary answer of 27 June 1985:-

"It is the Government's policy to encourage voluntary and community-based activity which has the genuine aim of improving social, environmental or economic conditions in areas of need, and various grant-aid schemes exist for such purposes. However I am satisfied, from information available to me, that there are cases in which some community groups, or persons prominent in the direction or management of some community groups, have sufficiently close links with paramilitary organisations to give rise to a grave risk that to give support to those groups would have the effect of improving the standing and furthering the aims of a paramilitary organisation, whether directly or indirectly. I do not consider that any such use of government funds would be in the public interest, and in any particular case in which I am satisfied that these conditions prevail no grant will be paid."

- 3. Recently, this policy has been extended to include the withholding of grant from companies and individuals as well as community groups.
- 4. I would like colleagues to have a clearer appreciation of the very real risks of paramilitary groups securing resources from public funds and a senior officer from NIO will be present to provide graphic examples of what has been happening.
- 5. I am concerned that our present approach lacks consistency as we rely too heavily on Departments spotting grant applications which might merit investigation. On the other hand, I doubt if we can seriously contemplate the establishment of extensive vetting covering all applications to Departments and public bodies for all kinds of financial assistance.
- 6. I know also that there is some unease about the present policy and concern that worthy organisations are being penalised for the presence on their management body of a few undesirable people.
- X 7. As preparation for the PCC discussion, it would be helpful if you would identify the major categories of grants payable by your Department and its public bodies in respect of which there may be a risk of leakage of moneys to paramilitary bodies.

K P Bloomfield

K P BLOOMFIELD

6 June 1986

Secretary's Office

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No. 9.6/23

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Dept of the Environment

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1 Mr Parker
2 Mr [unclear]
3 Co-ord for filing
SE37

PSE 96/262

cc NI Perm Secs

Mr Bloomfield

LEAKAGE OF PUBLIC FUNDS TO PARAMILITARY BODIES

1. I refer to your minute of 6 June on this subject, in advance of a PCC discussion.
2. Within DOE responsibilities, there are 2 categories of expenditure which would be worth considering. The first would be **capital expenditure** both by the Department itself and by the other public bodies for which we are responsible. The second would be **grants payable** again either directly by the Department or by other public bodies to local groups, small companies or individuals under the terms of various schemes.
3. In relation to **capital expenditure**, I thought it might be helpful as a backcloth to the discussion to include for you the summary figures in the attached Appendix on levels of expenditure for 85/86 and 86/87 on construction work. These figures were recently produced for the Construction Industry Advisory Council but I think they would also serve a useful purpose for colleagues in that they summarise across various Departmental responsibilities the amount of money paid by way of direct capital work. Direct Departmental expenditure would be on the major services of Roads, Water and Works but the larger amounts of expenditure would be through the Housing Executive. In addition - but not included in these figures - would be capital expenditure by District Councils, the Transport Companies and the Fire Authority. You are aware of the history of allegations that Contractors (for example, on housing and road schemes) have been paying protection money. As Mr Fell indicates in his reply to you, this situation is not one which is easy for either the Department or a public body such as the Housing Executive to control, particularly since there will be construction projects in all areas and all communities throughout the Province. The more recent difficulties about the construction of Police Stations highlights the threat in certain areas to private Contractors.
4. The attached Appendix also classifies construction expenditure generated by **grants and loans** and you will see that for the current financial year the total amount of construction work generated in Northern Ireland is £631 million, from a wide range of functions. I have listed below the main categories of Departmental grants which might be considered in a future discussion. I have highlighted these because of the nature of the grant (eg, payable to a local community) and not because I have any specific evidence that leakage has occurred or is occurring.
 - (a) Urban Development Grant is available and in great demand in both Belfast and Londonderry. There have been instances where DOE has sought advice from Central Secretariat about certain applications. We do have an internal vetting process but are happy to take advice from Central Secretariat in relation to any specific case.

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- (b) Environmental Improvement Grants are paid to local community groups again largely in Belfast and Derry City Council areas to clean up and develop small areas. The grants are administered through our local Area Officers who do have firm roots in the community and again we use local knowledge and contacts to check out, where necessary, any such group.
- (c) Housing Association Grant is paid by the Department to registered Housing Associations in respect of scheme and for revenue purposes. A number of Housing Associations are community based and we have a close monitoring arrangement on each Association. The Association is however responsible for its own Contractors and so the degree of control exercisable by the Department over such Contractors is somewhat removed.
- (d) Grants to other housing bodies such as the NI Federation of Housing Associations, National Federation of Housing Associations, Belfast Housing Aid Society and the Tenant Participation Advisory Services are made directly by the Department. The total amount of money is relatively small and these bodies have significant standing in the eyes of both the Department and the Housing Executive.
- (e) Grants to conservation bodies such as the National Trust, District Councils, anti-litter organisations and other local bodies. These would be heavily weighted towards the cost of manpower and materials and, given the status of the body and the nature of the work involved, are unlikely to have as high a degree of risk as other grant aided expenditure.
- (f) The grant to Community Technical Aid for the provision of a local technical aid service. This organisation has been closely monitored by the Department during the past year and detailed information has been obtained about the schemes in which it has been involved and the nature of its expenditure. Again most of the expenditure relates to the cost of staff which has a relatively low degree of risk.
- (g) Grants for historic buildings. Such expenditure is related to detailed estimates of costs necessary to refurbish historic buildings and, as such, is subject to detailed scrutiny by Departmental officials.
- (h) Grants to community groups by District Councils. This area of expenditure would be better known to the Department of Education but is included in the DOE return because of the overall DOE responsibility for Councils and particularly for the local government audit of such Councils. DOE would have no control, as such, over such grant aid and in circumstances where there is increasing polarisation in certain Council areas, there must be some degree of risk of leakage.
- (i) Renovation and Improvement Grants. You will see from the attached schedule that there is very considerable expenditure by the Housing Executive in the implementation of these schemes. There have been

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considerable criticisms about the Executive's ability to handle large numbers of such Grants and so there must be some degree of risk of leakage to the Contractors involved or the individual applicant.

(j) Grants in respect of road safety. Grants to ROSPA, the Road Safety Council and local Road Safety Committees are largely in relation to manpower costs and so it is unlikely that there would be a high degree of risk of leakage in this function.

5. You will see from the information attached and my comments above, that in my view, the degree of risk would be higher where Contractors are involved in capital expenditure. Where monies are being paid in respect of manpower costs, then it is less likely that such money could eventually find its way to paramilitary bodies.

6. I hope this information is of help.



D BARRY
Department of the Environment (NI)

20 June 1986

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CONSTRUCTION WORK GENERATED BY PUBLIC EXPENDITURE

ACP(86)1

NEW CONSTRUCTION WORK - DIRECT CAPITAL EXPENDITURE

NOTE: Figures are £ fm

DEPARTMENT	WORKS PROGRAMME	1985/86 @ CASH PRICES: PROVISIONAL OUTPUT			1986/87 @ CASH PRICES: ESTIMATED EXPENDITURE		
		TOTAL <u>(1)</u>	NEW STARTS		TOTAL <u>(4)</u>	NEW STARTS	
			SPEND IN 85/86 <u>(2)</u>	CAPITAL VAL. <u>(3)</u>		SPEND IN 86/87 <u>(5)</u>	CAPITAL VAL. <u>(6)</u>
Agriculture	Agricultural buildings and drainage	5 (7)	2 (2)	4 (2)	8	4	7
Economic Development	Industrial buildings, harbours, tourism and specialised buildings	13 (14)	5 (6)	8 (9)	12	7	11
Education	Schools and colleges	10 (10)	3 (3)	10 (10)	12	2	2
	Further education	1 (1)	1 (1)	1 (1)	1	1	1
	Libraries, youth, sports, etc	8 (8)	1 (1)	3 (3)	7	1	1
Environment	Housing	160 (164)	24 (33)	87 (124)	127	30	80
	Roads	15 (18)	10 (13)	15 (20)	15	10	20
	Water and other environmental services	36 (39)	16 (17)	39 (34)	35	16	38
	Office accommodation	4 (3)	3 (1)	4 (3)	1	1	1
Health & Social Services	Hospital buildings, health centres, etc	18 (17)	4 (5)	18 (17)	14	5	21
NIO and UK Departments	Law, order and protective services	21 (27)	11 (16)	20 (23)	27	17	23
NI Postal Board	Post Office buildings	1 (1)	- (-)	- (-)	1	1	1
TOTAL A		292 (309)	80 (98)	209 (246)	260	95	206
MAINTENANCE WORK	TOTAL B	87 (97)			87		
CONSTRUCTION WORK GENERATED BY DEPARTMENTAL GRANTS AND LOANS	TOTAL C	320 (313)			284		
GRAND TOTAL		699 (719)			631		

NOTE 1: The table provides an assessment of the total construction work which was/will be generated in NI by public expenditure in the financial years 1985/86 and 1986/87.

NOTE 2: The figures provided are the best estimate currently available.

NOTE 3: The figures in brackets are those supplied to NICIAC in ACP(85)2 in October 1985.

ANALYSIS OF CONSTRUCTION EXPENDITURE GENERATED BY GRANTS AND LOANS

GRANTS/LOANS FOR:	1985/86 PROVISIONAL OUTTURN ⑦ £m		1986/87 ESTIMATED EXPENDITURE ⑧ £m
Farm Improvements, etc	93	(98)	65
House Renovation	80	(81)	72 ✓
New House Building (Housing Associations, etc)	57	(57)	61 ✓
Industrial Development	49	(36)	40
Northern Ireland Electricity Service	-	(-)	-
Criminal Damage (Compensation)	8	(9)	9
Further Education, Arts, Youth, Sport	9	(9)	10
Improvement of the Environment - Urban Development	14	(13)	18 ✓
Other (Ports, Harbours, Transport, etc)	10	(10)	9
	<u>320</u>	<u>(313)</u>	<u>284</u>
	—	—	—

NOTE : Figures are in £ million at Cash Prices.

1 Mr Parkes 23/6
2 Megaw
3 Co-ordinator for
filing SE 37

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PSDED 423/86

cc NI Perm Secs

MR BLOOMFIELD

LEAKAGE OF PUBLIC FUNDS TO PARAMILITARY BODIES

1. Thank you for your minute of 6 June on this subject, which I know you wish to put on the agenda for a PCC discussion.
2. I suppose that in almost any scheme in Northern Ireland where public funds are transferred to the private sector there must be some degree of risk that money will find its way, even if very indirectly, into the hands of paramilitaries. That said, however, it is clear that some schemes are more open than others to exploitation by paramilitaries, and as you know, in some DED-funded schemes we have already had to take action to stop payments because such exploitation was suspected.
3. I list below, with brief comment, DED's main categories of funding which might give worries. Apart from those areas where I note that action has already been taken, I have no evidence of leakage, though it would be difficult to say categorically that leakage could not occur.
 - (i) Seven sponsors of project under the ACE Scheme - three in Londonderry and four in Belfast - have been refused funding on the direction of the Secretary of State over the past year. These refusals have attracted substantial press attention.
 - (ii) Despite the similarity of its objects with those of ACE, Enterprise Ulster operates in a different way, with projects carried out largely on behalf of public bodies, and is less exposed to any risk of leakage.
 - (iii) A number of applications for selective financial assistance from the Local Enterprise Development Unit have been turned down under the present policy. If LEDU suspects the promoters of a project of having paramilitary links, it alerts DED which in turn consults Central Secretariat. Similar consultation takes place if

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LEDU has suspicions about local groups applying for assistance under the Local Enterprise Programme (LEP), in which the 'community' aspect might seem to open possibilities for paramilitary involvement. One local group has been refused LEP funding on the direction of the Secretary of State.

(iv) The Community provision under the Youth Training Programme might also seem to give openings, but as far as we are aware, there appears to be no leakage. Detailed finance inspections of Community Workshops and Youth Community Projects are relied on to check the position and where there is a suspicion about members of management committees or management teams, a more careful watch is kept on the situation. In one case (the Derry Youth and Community Workshop), concern about the Director of the Workshop led to a very detailed finance inspection by DED. Neither that, nor other sources, revealed any evidence of paramilitary associations or misuse of funds though the finance inspection identified weaknesses in the recording of financial information and materials usage which have been or are being remedied.

(v) There is no evidence that any funds provided by the Department under training schemes or for training-related purposes have been diverted to paramilitaries. Payments to companies are often in respect of named individuals and direct abuse is deterred by payroll checks, submission of certificates or invoices and so forth, as appropriate to individual schemes. Likewise under the Standard Capital Grant Scheme companies are paid in respect of physical assets which are inspected and for which invoices are required. The RUC Fraud Squad has expressed the view that leakage to paramilitaries from this scheme is unlikely. Both training grants and Standard Capital grants may be at risk of indirect forms of leakage, eg if bona fide employers pay 'protection money' out of general revenues, some small part of which may be accounted for by such grants. If this situation does occur, it is clearly not one over which the Department could exercise much, if any, control.

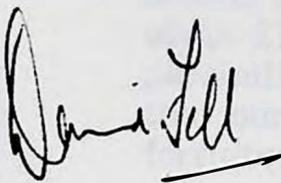
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(vi) DED's Tourism Branch makes payment to public bodies (mostly District Councils) under a Tourist Amenity Grant Scheme, and to hotels and guesthouses under the Accommodation Grant Scheme. Both types of grant are related to construction work and there may therefore be some risk of leakage; though this should be negligible in the case of the grants to public bodies. There has been no case of a refusal of these grants on grounds of possible paramilitary links.

(vii) Port Modernisation Grant is paid on capital projects (equipment and construction) carried out very largely by the statutory harbour authorities. There could be a risk of leakage where private companies are involved in construction work, but such projects are very small and comparatively rare.

4. I hope this information will assist preparation for the PCC discussion of this very important subject. I agree with your view that the essential difficulty is in finding a balance between reliance on ad hoc spotting of dubious applications and an unwieldy vetting system that might clog up grant payment mechanisms through the Service.



DAVID FELL

19 June 1986

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Secretary's Office

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Mr Bloomfield

LEAKAGE OF PUBLIC FUNDS TO PARAMILITARY BODIES

1. Thank you for your minute of 6 June. I agree a discussion at PCC would be useful and look forward in particular to hearing the NIO examples of what has been happening.
2. I believe the DANI grants and payments to outside organisations are not a concern in this area. We are not in the business of grant-aiding organisations who are likely to have any obvious paramilitary connections. Our main grants and payments to outside organisations go to -

The Agriculture Research Institute (whose Director is a member of staff)

Queen's University in respect of the work of the Faculty of Agriculture and Food Science.

Foyle Fisheries Commission.

Fisheries Conservancy Board.

Fishery Harbour Authority (capital only).

Down Royal Corporation of Horse Breeders.

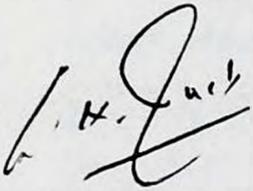
Young Farmers of Ulster and various show societies.

3. DANI grants of some £2.7m per annum are paid to companies in pig and poultrymeat processing and egg packing. We also have responsibilities for scrutinising and issuing payments on behalf of the Commission to firms in the animal feed sector who are beneficiaries under EEC Reg 1943/81. These average about £1m per annum. So far as I am aware there has never been any question of paramilitary involvement in any of the companies concerned but I have to admit that our systems would not bring this to light except through the application of fortuitous local knowledge or notification from the Security Services.
4. Our direct payments to farmers (mainly at present as an agent of MAFF) are made to individuals in accordance with the conditions of the relevant schemes. These payments relate either to physical assets being provided by the producer and generally confirmed by inspection or supporting documentation verifying the expenditure, or to the number of livestock held which again is confirmed by inspection. Clearly the individual producer may be associated with paramilitary organisations, but his right to the grant rests on his qualifications and compliance with the scheme rules and would not be withheld if these were met.
5. We have recently established a 2-man Fraud Investigation Unit to act mainly in the field of the grant schemes and under the Medicines Act. The squad undertakes duties formerly directly handled by MAFF fraud investigation officers. I am advised that in the very short period they have been in operation (6 months) they have not come across any suspicion of leakage of funds to paramilitary organisations.

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6. So far as the Department's direct expenditures are concerned I would mention one case where I did agree that the lowest tender for certain fuel supplies should be rejected on the basis of security doubts in respect of the firm concerned which was based in South Armagh. I refer to this to confirm your concern at the ad hoc nature of the intervention. The action taken only arose because staff chose to seek advice from Security Branch on account of the address of the firm concerned.
7. I presume the discussion will embrace construction contracts but I have no separate DANI concerns on this front.



W H JACK
PERMANENT SECRETARY
16 June 1986

cc: NI Permanent Secretaries

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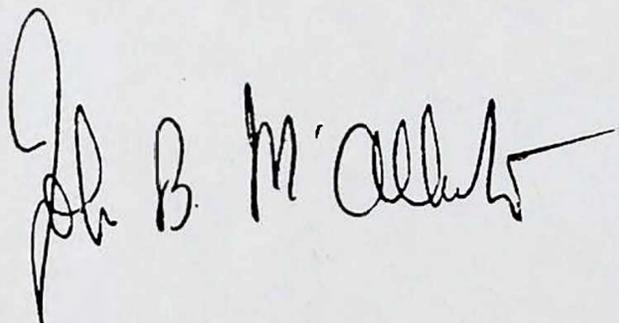
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Mr K P Bloomfield:

LEAKAGE OF PUBLIC FUNDS TO PARAMILITARY BODIES

1. Your minute of 6 June to PCC members invited Departments to identify areas where there may be a risk of leakage to the paramilitaries.
2. I think that, so far as IDB is concerned, the main area where this may be a possibility - and we have no evidence that it is - is in IDB's factory construction/expenditure (£10m in 1986/87). My only reason for identifying this area is the reported practice of "protection money" being demanded, and paid, in particularly difficult areas, and paramilitary-backed fraud involving sub-contractors tax certificates.
3. In another expenditure area, the employment of security firms for patrolling IDB-owned factory estates, there already are vetting procedures in place to safeguard against such malpractice.
4. In respect of individual companies and bodies which are supported by IDB, we have no evidence that any of the Government's contributions finds its way into the hands of the paramilitaries.
5. I hope you find this helpful.



JOHN B McALLISTER
Chief Executive

16 June 1986

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