

Dr Ritchie

ASST/
SEC
25/1/6
28 JUN 1997
C.C.R.U.

To: J A Canavan ✓
CCRU

cc: Mr Carson

20th June 1997

From: D J Ritchie

PREAS AN PHOBAIL - LA (IRISH LANGUAGE NEWSPAPER)

1. The purpose of this submission is to outline the current problems associated with the funding of Preas an Phobail (La), and to consider the options for the future funding of the organisation.

BACKGROUND NOTE

2. CCRU initially provided Preas an Phobail/Ultach Trust with grant of £15k to fund a 12-month pilot for the production of a daily newspaper in the Irish language, to run from April 1990-March 1991. The £15k figure reflected the "organisers" estimate, at the time, of their operating deficit but it turned out to be insufficient. Consequently, CCRU agreed to offer an additional £8,250 to the organisation in respect of the period January-March 1991 subject to:-
 - (a) the completion of Eamon Hanna's audit of the annual accounts; and
 - (b) a commitment to install appropriate annual financial systems.
3. CCRU funding was provided at the outset on the basis that the newspaper would become self-financing after the first year of operation. However, it became clear that

3625/JMF

subvention would be required for the foreseeable future. Towards the end of 1991 CCRU involved LEDU in assessing the commercial viability of the newspaper, and their view was that it was unlikely to be self-sustaining.

4. CCRU decided to offer grant of £24,000 to La for 1992/93 subject to the following conditions:-
 - (a) CCRU support to be acknowledged in the newspaper;
 - (b) CCRU representative to attend board meetings as and observer and such meetings to be arranged bimonthly;
 - (c) any payments to volunteers to be strictly in accordance with DHSS regulations;
 - (d) a copy of the previous year's accounts to be forwarded for examination as early as possible;
 - (e) grant only to be paid on the basis of receipts for expenditure incurred, and to be clearly identified in the accounts;
 - (f) grant to be on the basis of targets on circulation levels, and future funding only to be considered if future certified circulation levels reached 2,000 copies per day by the end of the financial year; and
 - (g) evidence to be demonstrated about efforts to improve marketing.

5. Mr P Curran, LEDU consultant, was appointed in November 1992 to advise on the commercial operation of La. In December 1992 the first board meeting was held and attended by a CCRU observer. Various issues were discussed:-
 1. Viability - turnover - subscription list.
 2. Draft accounts 1991/92.
 3. Conditions/requirements for funding.
 4. Tax and NIC problems.
 5. Status of paper i.e. daily/weekly.It was obvious that the paper could not continue without major changes in operational methods (viz a change from

3625/JMF

daily to weekly, and a substantial increase in production from the existing level of around 300 papers per day [as compared to 2,000 per day per the relevant conditions of offer]), and without CCRU funding. Subsequently, La ceased publishing daily and move to a once-weekly enlarged edition in February 1993.

6. Notwithstanding the conditions of grant, La's 1991/92 accounts were not certified and filed with the Companies Office until April 1993. But nevertheless CCRU offered grant of £24,000 for 1993/94 towards printing costs with the same general conditions applying as at para. 5 and the same again for 1994/95 but with an altered circulation target of at least 900 copies per week.
7. La's 1992/93 financial statements and modified accounts were not lodged with the Registrar of Companies until October 1994, having been overdue since 31 January 1994. After grant they recorded a loss of £958 and an accrued debit balance of £7,617. The 1993/94 accounts were eventually presented in February 1995. A loss of £7,062 was recorded with an accrued debit balance of £14,679. Both accounts were qualified by Hanna & Co due to lack of information, explanations and inadequate accounting records. However subscription levels were apparently now over 1,000 per week.
8. An evaluation of La, commissioned by CCRU, was carried out by Capita in late 1994, with the report being published in February 1995. The report concluded that there was a low degree of correlation between the documented objectives of La and those of CCRU, although the work was considered to contain a valuable community relations component. The report also indicated that grant income is essential if La are to continue operating. A more detailed and comprehensive summary of

3625/JMF

the findings of the evaluation is attached for reference.

9. Following the evaluation, CCRU has continued to fund La at the same level (£24k p.a.) as in previous years for 1995/96 and 1996/97. It seems very clear that La is unlikely to survive without continued Government support.

PROBLEMS

10. La's inability to meet the conditions of grant continues to be a cause for concern. The scarcity of Board Meetings, and, more often than not, the lack of any invitation to CCRU to attend these, means that there is no indication as to the direction in which La aims to move, either as a business or as an organisation. It is understood that there is also an outstanding debt of around £10,000 to the Inland Revenue, which, according to Eamon Hanna, both sides would appear to have basically chosen to ignore.
11. Perhaps of greatest concern is the quality of La's book-keeping. The auditor, Eamon Hanna, has had to qualify La's accounts due to the lack of effective book-keeping procedures. No ledgers of any description are kept, and the accounts have to be produced from notes of cheques paid in and out (there are no cash transactions) reconciled against bank statements. The material for the creation of the accounts for 1995/96 was presented to Mr Hanna less than a week before the deadline required by the Companies Office. As a result, Mr Hanna had to obtain an extension of three months from the Companies Office, something which he has informed CCRU will not be granted again.

3625/JMF

12. Of some reassurance is Mr Hanna's opinion that there is no financial irregularity or fraud taking place. Whilst La's book-keeping is far from ideal, all the cheques could be reconciled with the bank statements, and CCRU's grant is clearly identified in the accounts. However whether La is operating in a business-like manner, particularly with regard to pricing and the recovery of outstanding debts from subscribers is another question altogether, the answer to which is obscured by their book-keeping inadequacies.

VALUE FOR MONEY

13. The evaluation of La indicated that there was a low degree of correlation between the documented objectives of La and those which CCRU sets down for the bodies which it funds. However, the evaluation showed that the paper was performing a community relations role when measured against the criteria specified by CCRU. The paper strives to encourage interest in the Irish language not only across the political and religious divide within Northern Ireland, but also across Northern Ireland and the Republic of Ireland. Its effectiveness is enhanced by its translation service through which it strives to be an effective instrument in increasing mutual respect and understanding between the different parts of the community.

CURRENT POSITION

14. La have recently submitted a request for funding for 1997/98. The amount of funding sought is £60,000, based on an increase of 25% on CCRU's 1996/97 grant of £24,000, together with £30,000 to improve La's marketing strategy, a deficit mentioned in Capita's evaluation.

3625/JMF

OPTIONS

15. Three main options (and sundry variations on these) are available to CCRU regarding the future funding of La. Broadly speaking these are as follows.

Option 1 - Cease Funding

16. La have regularly failed to fulfil the conditions of grant as laid out in CCRU's letters of offer. Consequently CCRU would be entitled to cease to fund the organisation. Also, funding from CCRU cannot be guaranteed for any organisation indefinitely, and La have been in receipt of funding direct from CCRU since 1993/94. The lack of co-operation from the organisation to both CCRU and the Auditors has been a cause of frustration and concern, with La now having put themselves in bad odour with the Companies Office for failing to submit their accounts by the due date. It would appear also that La has a major debt to the Inland Revenue (c.£10,000) which it is unlikely to be in a position to pay.

17. However, if CCRU were to cease funding La it would undoubtedly lead to much negative publicity in parts of the Irish language community, with CCRU and the Government being lined up for heavy criticism, particularly from Republican sources. Ironically though, La's position is far from Republican and tends to be very middle of the road.

Option 2 - Continue funding at the present level

18. If convincing assurances can be obtained from La that the conditions of grant will be met, CCRU might continue funding La at the present level. This would be

3625/JMF

consistent with CCRU's funding approach for 1997/98, where no organisations in receipt of funding from CCRU have received additional funding because of pressure on resources.

19. Prior to the award of any future grant, a meeting with the Directors and Mr O'Caireallain needs to be set up by CCRU to discuss our concerns. Even if La give a cast-iron guarantee to meet the conditions of grant in future, I would suggest that any grant awarded would have to be on a probationary, say six month period and subject to fairly rigorous conditions, with it clearly highlighted that any future grant would be dependent on these being met in full. If La failed to meet the conditions without good reason, then CCRU funding of La, unless the Minister was prepared to approve it as a special case, should cease.
20. To continue funding without taking steps to address the accountability issues arising from La's failure to meet the conditions of grant would put the Accounting Officer at severe risk of criticism by NIAO and PAC. There are also other considerations; the fact that the current level of grant is inadequate to cover La's trading deficit could render CCRU liable for their debts while the substantial debt to another Government Department, the Inland Revenue, might also create complications. We would, I think, need to take advice about the ramifications of these before any decision to continue funding.

**Option 3 - Increase funding to (1) that requested by La
or (2) to the amount required to cover their trading
deficit**

21. For the 1997/98 financial year La have requested an

3625/JMF

increase in funding to the level of £60,000. This is based on a 25% increase in printing costs (La have received no grant increase since CCRU began funding in 1993/94) from £24,000 to £30,000, together with a request for £30,000 towards the setting up of a marketing section to bring about a significant improvement in La's sales.

22. La are currently operating in a position where they cannot survive without Government funding. Even after grant, their operating loss in 1995/96 was about £4,000. Accumulated current liabilities at 31 March were over £21,000 as against current assets of some £150.
23. The evaluation of La considered that the organisation had weaknesses in its marketing, and recommended that funding should be increased in order to effect improvements in that respect. However, for CCRU to provide funding for this would mean that the grant allocation for another organisation(s) would have to be cut as existing resources are already over-committed. The same applies if flexible deficit funding was introduced and in this case we would also wish to be very sure that we were not just funding inefficiencies in the running of the newspaper.
24. Obviously the issues mentioned in para 20 are also relevant to this option and would need to be addressed.

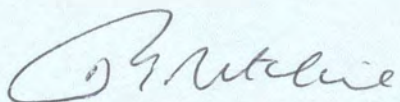
Recommendation

25. La have continued to provide an Irish language newspaper of a high standard which meets CCRU's cross-community objectives insofar as any Irish language organ can. However, they have also continuously failed to fulfil important conditions of grant set out in their letter of

3625/JMF

offer.

26. In my view option 2, involving the offer of grant for a six-month period only under fairly rigorous conditions, represents a possible way forward. However, beforehand we would need to take advice about the ramifications of La's operating deficit and their debt to the Inland Revenue. Assuming this identified no insurmountable problems, CCRU would then meet with members of the board of La to obtain assurances that, if further grant was made available, the conditions of offer will be met in full, and La would be given warning both orally and in writing that failure to do so will result in the termination of funding at the end of the period. This would mean increasing the total cumulative amount paid to La by, say, £12,000, and there would still remain a distinct risk of their continuing to default on their obligations, but at least presentationally we could say we had given them every chance.
26. Since La are currently awaiting CCRU's response to their funding request, I should appreciate having your views at an early date.



D J RITCHIE

3625/JMF

SUMMARY OF CAPITA'S EVALUATION OF LA

Section 2 History of La and objectives

Capita conclude: There is a low degree of correlation between the documented objectives of La and those which CCRU sets down for the bodies it funds. However in Section 5 the work of La does contain a valuable community relations component.

Capita recommend: La develops a statement of corporate objectives which better reflects the balance between its commercial aims and its CR function.

Section 3 Organisation, Mode of Operation and Activities

Capita conclude: Main objective is to achieve 900 copies per week. The evidence indicates this. That the funded activities of La do support the overall objectives of the organisation.

Section 4 Financial Position

LA is heavily dependent upon grant income. **According to Capita grant income is essential if the newspaper is to continue operating.** The balance sheet shows that the company could, technically, be regarded as insolvent as there are not sufficient assets to repay the company's creditors. However, the Auditor's report states that the company can be treated as a going concern provided that it continues to receive state support. Two additional points: provision for tax amounting to £11,237 shown in accounts to cover tax liabilities relating to the employment of staff at La prior to the current operating structure ie 4 years.

Capita request: La to ask Tax Inspectorate to make a decision regarding the status of this liability.

Secondly there are loans to directors and another to a separate Irish drama group outstanding since 1991/92 viz Directors £3320 and Irish drama grant £8994.

Capita recommend: that these issues are taken up directly with the paper's Board of Directors with a view to establishing the nature of the loans and the intended repayment period. Until this is done, Capita cannot confirm whether or not the conditions of CCRU funding have been breached in any way.

Section 5 Impact and Effectiveness - Community Relations Perspective

Capita conclude: Community relations work undertaken by La is effective. Also consider that La is performing a community relations role when measured against the criteria specified by CCRU and CRC. La's effectiveness is enhanced by its translation service through which it strives to be an effective instrument in increasing mutual respect and understanding between the different parts of the community.

Section 6 Capacity to become self financing

The current and future viability of La is heavily dependent upon the grant aid it receives. There is very little likelihood of La becoming self

financing in the foreseeable future through increases in subscription revenue alone. There continues to be a need for substantial additional revenue which can only be funded by CCRU or another **external body**.

RECOMMENDATIONS

The Capita review highlights a number of areas which La may wish to consider for the future. Capita has categorised these under two headings; Defining The Business and Roles and Responsibilities.

Defining the Business

In this category, we would recommend that:

- La develops a statement of corporate objectives which better reflects the balance between its commercial aims and its community relations function.
- La considers how to meet its community relations objectives by nominating a member of staff to look at expanding its market commensurate with CCRU's objectives.
- La actively seeks to make best possible use of all resources and contacts both inside and beyond the organisation in order to develop an overall business plan and a marketing plan.
- The marketing plan which La would develop should be commercially-oriented and should adequately examine the market opportunities and constraints, define a marketing strategy and outline the changes that would be required, both organisationally and financially, to implement the marketing strategy.
- La should, as a prelude to the marketing strategy, undertake a customer survey to establish current levels of satisfaction and glean ideas for future improvements. This market

"intelligence" will be useful if price rises are to be considered. Whilst we recognise that resources will remain a constraint in the medium term at least, we recommend that La uses its network of contacts to explore how this might be carried out.

- La develops feedback channels and procedures internally between its staff and Directors to ensure such that the plan can be updated readily on an on-going basis.

Roles and Responsibilities

- La defines and formally documents the terms of reference of the Board of Directors so that the limits of responsibility are clear.
- La defines and formally documents the criteria which individuals must satisfy before being appointed as a Director.
- La makes its a condition of Director status that the individual concerned attend a specified number of Director meetings within any twelve month period.
- La minutes all meetings of the Board of Directors.