

Chapter 9 Department of Agriculture and Food

9.1 Exhibition and Show Centre at Punchestown

The Initial Proposal

In November 1999 the Minister for Agriculture and Food (the Minister) received a proposal from the trustees and executives of Punchestown Racecourse (Punchestown) seeking funding for a development project. The project comprised an indoor exhibition facility, an entrance complex, a new stabling block, as well as additional car parking and landscaping. It was to be known as the National Agricultural and Eventing Exhibition and International Show Centre.

Punchestown indicated that on the basis of an exercise carried out by its Quantity Surveyors, costs would be €6.9m. The level of State support sought was not indicated.

On 19 January 2000 Departmental officials recommended to the Minister that funding of €6.9m should be given to Punchestown representing 100% of the anticipated construction costs. The Minister accepted the recommendation and on 20 January requested the Minister for Finance to provide additional funds of €6.9m in the Department's Estimates for 2000 to finance the proposal. The Minister for Finance acceded to the request on 27 January 2000.

The Revised Proposal

On 6 April 2000 Punchestown informed the Department of Agriculture and Food (the Department) of proposed changes to the project which would impact on costs, and on 2 June 2000 submitted a revised proposal costing €12.8m. The Minister accepted the revised proposal and on 23 June 2000 wrote to the Minister for Finance requesting additional funding of up to €6.4m for the project. The Minister for Finance agreed to the request for additional funding on 7 July 2000.

Table 9.1 compares the costs of the original and revised proposals.

Table 9.1

Element	Nov 1999 €	June 2000 €
Exhibition and Event Centre	3,174,000	6,488,000
New Stables Enclosure (147 stables + 7 rooms + toilets)	1,270,000	2,013,000
Entrance Complex - incorporating Entrance Canopy, Garda Rooms, communications/press room and Creche	1,143,000	1,130,000
Landscaping - incorporating grass arenas and all-weather cross country course	126,974	317,435
Allowance for Drainage and Site Services	63,487	126,974
General Hardstanding Parking	63,487	-
Roads, Access etc.	-	520,593
Sandstone to Parade Ring	-	188,556
Client Direct Items	-	126,974
Contingency Allowance and Inflation	317,435	507,895
Design Team Fees	761,843	1,363,937
Total (Excluding VAT)	6,920,226	12,783,364

The main changes to the first proposal were:

- An increase in costs of the centre from €3.17m to €6.49m
- A reduction in the area of the centre from 10,000 square metres to 7,535 square metres (due mainly to the removal of interior building supports)
- An increase in cost of stabling by €743,000 due to the provision of additional parking
- The addition of an access road costing €520,593.

Consulting the European Commission

On 26 April 2000 the Department wrote to the European Commission seeking its opinion on whether the Department's proposed financing of the centre constituted State Aid within the meaning of Article 87(1) of the Treaty of Rome. The Department said the proposed financing should not be considered a State Aid because:

- The project promoter was a non-profit making trust which holds the lands at Punchestown for the benefit of the farming community as a whole and would be required to operate the proposed centre on the same basis.
- The Centre would
 - Be available to all farm and farm related organisations on a non-discriminatory basis as part of the public infrastructure for the sector
 - Most likely operate in a breakeven situation and was unlikely to ever generate profits
 - Not operate in a competitive market situation either at national or international level
- Funding would only be provided in respect of the establishment costs of the Centre.
- The development could be viewed as a public good.

On 10 May 2000 the Commission said it was satisfied that State Aid was not involved.

Agreement and Conditions

An agreement was made with Punchestown on 9 August 2000 by way of an exchange of letters. The agreement provided that:

- The money would be repayable if the Event Centre was sold, leased, or its uses altered significantly without the prior written approval of the Department.
- The Centre would be used for:
 - Horse and Cattle Fairs/Shows
 - Eventing and other Competitions
 - Breed Congresses
 - General Agricultural and Machinery Exhibitions and Displays
 - Special Pedigree Cattle Sales
 - Other purposes agreed from time to time by the Department.
- There would be no call on Exchequer funding for:
 - Construction costs in excess of €13.3m
 - The costs of running the centre.
- Any profits made must be re-invested in the centre.
- The centre must be:
 - held for the benefit of the farming community as a whole
 - available to all farm and farm related organisations on a non-discriminatory basis.
- The Department could require repayment of the grant in whole or in part if the grant conditions were not met.

Further Contributions to Finalise the Project

In October 2001 Punchestown sought a further €1.5m mainly for works to satisfy the planning requirements of Kildare County Council. This was sanctioned by the Minister for Finance on 31 January 2002 bringing total State funding for the project to €14.8m.

Audit Concerns

The audit established that proper tendering procedures were observed in connection with the placing of contracts, and that the Department had satisfactory controls in place in relation to the processing of payment claims in terms of on-site inspections and detailed administrative checks. However, I did have concerns as to the adequacy of the evaluation carried out by the Department on the project, and some apparent weaknesses in the agreement from the point of view of adequately protecting the State's interests.

Evaluation of Project

My concerns in relation to the evaluation of the project centred on whether the project had been comprehensively evaluated from a cost/benefit viewpoint prior to its approval – in particular if it met the criteria set down in the guidelines issued by the Department of Finance for the evaluation of major capital projects. The fact that the scale of the development changed soon after its initial approval lent weight to my concerns. Accordingly, I sought the views of the Accounting Officer in relation to these and other associated matters.

In response to my enquiries the Accounting Officer informed me that the project was considered worthy of support because for many years the Department had been aware of the need for a facility of international standard for the holding of agricultural shows and displays which could attract significant agricultural events to Ireland. Such a facility would be part of the infrastructure of the industry. The project put forward by Punchestown fully met the Department's objectives and in view of its benefits to the agricultural sector it was, in effect, a national facility and as such was considered worthy of 100% funding.

The 100% level of support given to the project (apart from the site) was agreed because the Department was aware that the Centre would require a considerable amount of finance to meet running costs such as maintenance, insurance, reinvestment etc. As Punchestown was obliged to operate the facility as an Event Centre indefinitely and were operating in an area where profits were difficult and as they were not allowed to dispose of the property, the running costs would be a constant liability on the organisation. In the circumstances the arrangement whereby the Department would fund the construction costs and Punchestown would use its own resources and considerable expertise to run the project was considered a good partnership arrangement, and one from which the agricultural industry as a whole would benefit. The Department was further satisfied that anything less than full funding for the construction of the facility would mean that the project would not proceed and the potential benefits to the agriculture sector and the country, in terms of attracting certain prestigious equine events in particular, would be lost.

In relation to the decision to accept the more expensive second proposal the Accounting Officer stated that the Department had for some time been aware of the need for a centre for agricultural events. The evaluation of the two Punchestown proposals had focussed on the extent to which the proposals met the Department's needs. Under both proposals Punchestown would provide the site and would run the Centre thereafter. The initial proposal was the one which Punchestown were at the time prepared to apply their resources and expertise to running. Having given the project due consideration it was decided that as it met the Department's basic requirements financial support was justified.

Having obtained approval in principle, the promoters set about progressing their proposals. They subsequently indicated that following more detailed consideration of the needs of the proposed Centre

which included inspection by the design team of similar facilities in the UK, Continental Europe and North America they proposed to make some structural and costly changes to the design of the main building in particular. The finalised proposal provided for the holding of a wider range of activities and made the centre more user friendly. Its clear span interior made it suitable for the holding of a wider range of machinery shows than could be accommodated in the first proposal and the general specification was also upgraded to cope with internal climate control. The finalised proposal was the Department's preferred option if funding could be made available.

The Department did not accept that the evaluation of the first proposal was not as thorough as it should have been. In the event that funding could not be made available for the revised more costly proposal the Department would have funded the original proposal as it met its basic need for a centre.

As to why the Department did not obtain independent technical advice on the proposals, the Accounting Officer stated that his Department was aware, and had sight of, the architectural and engineering advice obtained by Punchestown and all their plans. The Department had applied its own considerable experience and expertise to evaluating that advice and did not consider it necessary to acquire and pay for further independent advice. The Department had also ensured that proper procurement procedures were undertaken by Punchestown as the project progressed to ensure that the best value for money was obtained.

In relation to research carried out by the Department on the need for the facility the Accounting Officer stated that the Department was keenly aware, through its on-going interaction with societies such as the Pedigree Breed Societies and with the Irish Cattle Breeders Federation (ICBF), of the need for a facility such as the Event and Exhibition Centre for non-equestrian events. It was also aware that most of the Pedigree Cattle Breed Societies were linked to and participated in annual international and world congresses, fora, shows, competitions and sales, some of which it felt could be attracted to Ireland at reasonable intervals if the facilities were available at a suitable venue. It was further aware of the work being done through ICBF and other breed societies using Exchequer and EU co-financed Structural Funds to improve and market quality cattle breeding, and was anxious to complement that work by having the appropriate international status facilities in Ireland to promote the end products.

He stated that in the equine eventing area Ireland had been the lead stud book in the World Breeding Federation evaluations for many years, and in this context it was considered important to underpin this success with a suitable modern eventing facility in Ireland.

Formal research had not been carried out by the Department as it was considered that it already had sufficient information on these issues. The larger organisations had been informally consulted, they supported the venture and indicated that they would use the facility when it became available, and Punchestown had carried out research in relation to the Centre's equestrian activities and undertook a feasibility study on the tourism aspect.

In relation to the non-submission by the promoters of projections of costs and revenues for the Centre, the Accounting Officer stated that the principal issue for the Department was the provision of a national agricultural eventing and exhibition centre for the farming sector. While the Department was naturally concerned about its long-term viability it was satisfied that this could best be achieved as part of the wider Punchestown complex.

As to whether any attempt was made to quantify the financial benefits of the project to the farming community and the economy generally, the Accounting Officer stated that the Centre was envisaged as a public utility for the use and benefit of the agricultural industry. It was seen therefore as a public good development, the benefits of which were long term, reputational, and marketing through standards and presentation, and could not readily be measured in immediate and direct financial terms.

On the question of why no enquires had been made by the Department as to whether there may have been other promoters willing to provide such facilities at a possibly lower cost to the Exchequer, the Accounting Officer stated that the central and accessible location of Punchestown, its spacious setting, the synergies to be derived from the racecourse, its proven expertise in eventing shown through its successful hosting of a 3 day Eventing Competition since 1968 uniquely made Punchestown the ideal location for the Centre. Ireland had lost out in bringing the prestigious World Equestrian Games here in 1999 and an application had already been submitted to stage the 2003 European Eventing Championships. As Punchestown was recognised as the premier location for a National Eventing Centre it would have been unthinkable to have located it anywhere else. No other promoter had made an approach to the Department to provide such facilities, which was understandable in the context of the scale of the facilities required, many of which were already available at Punchestown.

The Accounting Officer stated that the Department operates a number of capital grant schemes under the National Development Plan. Applications under these schemes were subject to a thorough assessment and evaluation process. Detailed procedures manuals were in place for each scheme, and he stated that he was satisfied that the processes and procedures within the Department for processing capital grant applications were thorough. The Punchestown project was very much a “once off” and not part of any particular scheme, and the project work and all grant payments relating to it had been subjected to particular and intense scrutiny.

He also stated that all of the capital works relating to the project had been completed and that the centre had commenced operating. While it was still early days, demand for the Centre had been reasonably good, and feedback received by Punchestown had been positive. In its first 10 months of operation to the end of September 2003 the centre would have hosted an average of one event per month, the majority of which were agricultural in nature. Demand for the centre was expected to increase as it became established, and in September the highly prestigious European Eventing Championships which came around every 3 years, and the Endurance Championships would be held there.

In view of the fact that the Department was required by Government Financial Control Procedures to obtain the approval of the Department of Finance for the funding it provided for the project, I asked the Accounting Officer of the Department of Finance whether his Department was satisfied that the project proposal had been adequately evaluated by the Department and that the guidelines laid down by his Department on the evaluation of capital projects had been followed, and whether the withdrawal by the Department of its first proposal for funding of €6.9m and its replacement by a proposal for funding of almost double the original amount, raised any concerns within his Department on this question.

The Accounting Officer of the Department of Finance stated that it was the responsibility of the Department of Agriculture and Food to formulate, evaluate and deliver on projects such as Punchestown, and to ensure that proper procedures were in place to do so in a transparent, responsible, and accountable manner. In doing this they were assisted by and must have regard to appropriate guidelines (including the 1994 Capital Appraisal Guidelines), the formulation and dissemination of which were the responsibility of his Department.

The Agreement

My concerns in relation to the agreement centred on the fact that the conditions governing the State's financial support were covered only by an exchange of letters and had not been referred to the Department's legal advisers to ensure that they were properly constructed and legally sound. I also noted that the funding had not been made conditional on a certain minimum number of agricultural and equestrian related events being held there and that the agreement was silent as to a minimum length of time for which the Centre must operate. Moreover, the agreement did not cover the matter of payment by the racecourse company for use of the facilities of the centre including the stables and entrance

complex. I also felt that the wording in the agreement left some doubt as to whether the Department had the power to prevent the holding of events of a non-agricultural and non-equestrian nature, as intended, if it so wished.

The Accounting Officer stated that any concerns which the Department had with the holding of non-agricultural and non-equestrian events were mainly to ensure that they did not prevent, from a timing or structural viewpoint, the holding of the type of events for which the Centre was funded. The Department was satisfied that should it wish to do so, it could prevent the holding of certain types of events.

He also stated that as the Department considered it had the power to veto non-core events it was not considered necessary to seek an agreement as to number and type of events in the Centre. With regard to the minimum period during which the facility must be operated, he cited the Food Industry where the Department has operated a capital grant system for many years, and where beneficiaries are required to have the grant-aided facilities operated for the purpose for which they were funded for a period of at least eight years. However in the case of the Centre at Punchestown it was decided to be more restrictive and by not imposing a limit the requirement was left open ended, which meant that the facilities must be made available indefinitely for the purpose for which funded, and that this reflected the 100% grant paid.

The Accounting Officer informed me that, although not incorporated in the agreement, arrangements had been put in place to cover payment for use of the centre's facilities by companies in the Punchestown group.

However the Accounting Officer also informed me that in the light of my concerns on possible deficiencies in the agreement, he had referred it to the Legal Services Division of the Department for legal consideration. He understood that a new agreement may be considered which would where possible, address my concerns, and that Punchestown had indicated that they were willing to enter into a new agreement if the earlier one was found to be deficient and that the new agreement would be completed by one or all of the three companies within the Punchestown organisation, if required.