



**Comptroller and Auditor General
Special Report**

**Development of
Limerick Greyhound Racing Stadium**

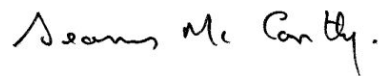
Special Report of the Comptroller and Auditor General

Development of Limerick Greyhound Racing Stadium

I have, in accordance with the provisions of the Comptroller and Auditor General (Amendment) Act 1993, prepared a special report which sets out the results of an examination of an investment project carried out by Bord na gCon for the development of Limerick greyhound racing stadium.

The report was prepared on the basis of work undertaken by staff of my Office, drawing on information, documentation and explanations obtained from the bodies and persons referred to in the report. Bord na gCon, the Department of Agriculture, Food and the Marine and the Department of Transport, Tourism and Sport were asked to review and comment on the draft report. Where appropriate, the comments received were incorporated in the final version of the report.

I hereby submit my report on the examination for presentation to Dáil Éireann pursuant to Section 11 of the Act.



Seamus McCarthy
Comptroller and Auditor General

29 August 2014

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Summary

Summary

Bord na gCon is a commercial State body established under the Greyhound Industry Act 1958, with the objective of improving and developing the greyhound industry. It operated under the aegis of the Department of Arts, Sport and Tourism from 2002 until 2010 when responsibility for the Greyhound Acts transferred to the Department of Agriculture, Food and the Marine.

Bord na gCon has considerable autonomy in regard to operational matters. However, the approval of the Minister is required where it plans to increase its borrowing requirements. In addition, the conduct of business by Bord na gCon is governed by the *Code of Practice for the Governance of State Bodies*. As a result, it must adhere to guidelines produced by the Department of Public Expenditure and Reform for the appraisal and management of public capital expenditure proposals. Proposals in relation to all significant capital expenditure projects must be approved by the Board.

Bord na gCon's borrowings have increased significantly since 2007. From a net borrowing level of around €10 million to €11 million in 2006-2008, it now has borrowings of twice that level. Over the period 2007 to 2012, Bord na gCon's capital investment totalled just under €28 million. Over €15 million of the investment was funded from operating surpluses with the remaining €12.5 million funded by way of increased bank borrowings.

The main project undertaken involved the construction of a new stadium in Limerick. The development of the new stadium had been contemplated since 2000. Total expenditure of over €21 million was incurred in relation to the project. The new stadium, at Greenpark, was completed in October 2010.

Site Acquisition

Meelick Site

On 7 April 2005, the Board approved a sum of €1.4 million to bid on a site for the construction of a new stadium in Limerick. The Board minutes indicate that, at the time, a number of sites were under consideration and a specific site was not proposed.

On 29 April 2005, Bord na gCon purchased at auction a 16-acre site at Meelick at a cost of €1.02 million (€63,750 per acre). Further expenditure of €935,000 was incurred on stamp duty, site investigations and development, and project planning and design.

A firm of consultants was engaged by Bord na gCon to prepare a report on the site at Meelick prior to the auction. They identified specific risks in relation to access. There is no record that this report was presented to or discussed by the Board. In addition, while the Board had agreed a sum of up to €1.4 million for site acquisition, there is no evidence that the proposed purchase of the site at Meelick was formally referred to the Board for sanction.

It subsequently became apparent that required direct access from the Meelick site to the adjacent national road would not be allowed, and that alternatives for construction of an access road would require additional costs and risks. As a result, Bord na gCon decided not to proceed with its planning application in relation to this site.

The site at Meelick is still held by Bord na gCon and is currently valued at €150,000. A total of €1.6 million of the site purchase and development costs has been written off. Approximately €180,000 of the design fees were transferred to the subsequent development project at Greenpark

Decision making on property acquisition is a reserved function of the Board. All such decisions should be referred to the Board for sanction. In addition, in order to make informed decisions, the Board should have access to all relevant information, including analysis of risks.

Greenpark Site

In June 2008, Bord na gCon purchased an alternative site of 11.5 acres at Greenpark at a cost of €3.4 million – €304,900 per acre. A valuation report on the Greenpark land prepared for Bord na gCon in 2003 had concluded that a price of €160,000 per acre was reasonable at that time, given the nature and location of the site. Many factors relevant to the value of the site had changed between 2003 and 2008, in a context where land prices were very volatile, but an up-to date valuation report was not obtained in advance of the site purchase. In April 2009, a valuation conducted for the purpose of loan security valued the site at €3 million.

Bord na gCon incurred additional costs and risks as a result of issues that arose in relation to the filling of the site and the use of an adjoining car park. It is not possible to ascertain whether Bord na gCon got good value in the purchase of the site at Greenpark (taking account of the subsequent costs and risks incurred) in the absence of a contemporaneous valuation report.

Business case for the project

Before a public body commits resources to any significant investment, it is obliged under Department of Public Expenditure and Reform guidelines to carry out an appraisal of the business case for the project. The appraisal should consider whether the investment is justified on economic grounds – that is, that the benefits of the project exceed the proposed cost – and whether the body can afford to undertake the project from available sources of funding. The capital project evaluation should be completed before any significant funds are committed to a project.

The Board approved a budget of €17.8 million (excluding VAT) for the design and construction of the stadium in April 2008. That approval was given without the benefit of the required capital project appraisal.

A capital project evaluation was presented to the Board in June 2008 and an updated evaluation was presented in April 2009 when tenders for the construction had been received. The April 2009 evaluation projected an excess of net project revenues of €1.4 million (in net present value terms), based on capital investment of €19.8 million.

This examination has found that there was a lack of thoroughness in the manner in which the capital appraisal of the Limerick project was undertaken. In particular, based on information that was available at the time the appraisal was completed, the projected net revenues from the operation of the Limerick stadium were overstated by an estimated €2.9 million (in net present value terms). In addition, projected cash flows from property disposals which accounted for over one third of the total revenues from the project were not backed up by current valuations of the relevant properties.

The examination found no evidence that Bord na gCon had conducted sensitivity analysis which would have allowed it to identify that the commercial viability of the project was heavily dependent on assumptions around increases in the tote betting contribution and track profit at Limerick. Bord na gCon's profit from racing had declined significantly in 2008 – the year before the decision was taken to proceed with the Limerick development. The capital investment appraisal did not take account of this or consider the effect of a potential further decline in profits. In contrast, the fall in construction prices in 2008/2009 was reflected in the appraisal analysis.

The capital investment appraisal undertaken in relation to the Limerick racecourse development was inadequate in the context of a proposed investment of the order of €20 million. The absence of an appraisal underpinning the initial strategic decision to construct a new stadium on a greenfield site rather than re-develop the existing stadium at Markets Field, albeit it at a much earlier stage in the process, is also of concern.

Had better analysis and more soundly based assumptions been used, it is likely that the analysis would have indicated that the development of the Limerick stadium was, at best, a marginal commercial proposition. There might nevertheless have been strategic arguments in favour of proceeding with the project (or a less expensive development), but in pursuing such a course, the Board should have recognised that the project might adversely affect its financial position.

Forecasted profits from the track operation and the tote at Limerick have been well below the levels projected and are forecast to remain so in the period to 2015. This, combined with decreasing profits in other stadia, means that Bord na gCon faces significant challenges in reducing its debt to more sustainable levels.

Development of Limerick Greyhound Stadium

1 Introduction

- 1.1 Bord na gCon is a statutory body which was established under the Greyhound Industry Act 1958, with the objective of improving and developing the greyhound industry. It operated under the aegis of the Department of Arts, Sport and Tourism from 2002 until May 2010 when responsibility transferred to the Department of Agriculture, Food and the Marine (the Department).¹
- 1.2 Bord na gCon's racing track activities are operated through eleven subsidiary companies. Nine of the companies are wholly owned by Bord na gCon and are vehicles through which local racing tracks are operated. It has a 51% share in a company which operates the Mullingar track. The remaining subsidiary is a property holding company. Bord na gCon also manages the privately-owned Newbridge track, and licenses privately owned greyhound racing tracks.² It regulates the conduct of racing at all tracks. The track locations are indicated in Figure 1.1.

Figure 1.1 Location of greyhound stadia, by type



1 Bord na gCon operated under the aegis of the Department of Agriculture from its establishment until 2002, when it transferred to the Department of Arts, Sport and Tourism. Responsibility for sports now rests with the Department for Transport, Tourism and Sport.

2 Bord na gCon licences a total of 17 tracks.

- 1.3** Bord na gCon's income is generated primarily from its tote betting operations¹ and greyhound racing tracks, and annual State funding received from the Horse and Greyhound Racing Fund.
- 1.4** Turnover from racing activities (gate receipts and tote betting) has halved over the period 2007 to 2012. The grant income received from the Horse and Greyhound Racing Fund also decreased by just over one fifth in 2012 as compared with 2007.
- 1.5** The amount paid out in relation to tote bets has decreased in line with betting activity. Bord na gCon also reduced its other operating expenses by over one third over the period.
- 1.6** Bord na gCon's strategic plan 2007–2012 included a programme of capital development which required an increase in borrowing levels to €25 million. The Department of Arts, Sport and Tourism, with the approval of the Department of Public Expenditure and Reform, approved the proposed increase in borrowings in November 2007 on the basis that Bord na gCon had full responsibility for repayment of the relevant borrowings, and without further recourse to Exchequer resources.
- 1.7** Over the period 2007 to 2012, Bord na gCon's capital investment totalled just under €28 million. €15 million of the programme was funded from operating surpluses with the remaining €12.5 million funded by way of increased bank borrowings.

Governance Structures

- 1.8** Bord na gCon is headed by a Board, to which the Chief Executive Officer (CEO) reports. While each subsidiary company has a Board, the individual subsidiaries do not have a CEO and in practice are operated as business units within Bord na gCon.
- 1.9** The conduct of business by Bord na gCon is governed by the Code of Practice for the Governance of State Bodies. The Code includes the following requirements.
- Certain matters are reserved for Board decision. In the case of Bord na gCon, proposals in relation to capital expenditure in excess of €100,000 must be approved by the Board.
 - State bodies must adhere to guidelines produced by the Department of Public Expenditure and Reform for the appraisal and management of capital expenditure proposals in the public sector.

¹ Bord na gCon operates the tote at greyhound tracks. Tote betting is a system of betting in which the aggregate stake, less an administration charge, is paid out to winners in proportion to their stake.

Examination Focus and Methodology

- 1.10** The main project undertaken under the 2007–2010 Bord na gCon capital programme involved the construction of a new stadium in Limerick. The development of a new stadium had been contemplated since 2000. The timeline for the project is set out at Appendix A. Total expenditure of over €21 million was incurred in relation to the project.¹
- 1.11** This report examines the acquisition of land for the project and the construction of the new stadium. The report examines Bord na gCon's compliance with its governance procedures and with those developed by the Department of Public Expenditure and Reform in relation to the appraisal and management of capital projects. The report also examines the business case for the project and reviews the results of the project to date.
- 1.12** The examination was conducted by staff of the Office of the Comptroller and Auditor General.
- 1.13** The examination findings are based primarily on a review of relevant Bord na gCon records and papers provided by the Department of Agriculture, Food and the Marine, and on responses and explanations received from Bord na gCon and from the Department.
- 1.14** A significant degree of reliance has been placed on the Board minutes documenting the decisions in relation to the Limerick development. The management letter issued by the Office of the Comptroller and Auditor General in relation to the 2008 audit of Bord na gCon's financial statements drew attention to inadequacies in the recording of Board decisions, in particular, in relation to the proposed Limerick development. This point was accepted by Bord na gCon's senior management who committed to ensuring that Board minutes would clearly state the precise details of the decisions taken.
- 1.15** The draft report was sent to Bord na gCon, the Department of Agriculture, Food and the Marine and the Department of Transport, Tourism and Sport. Where appropriate, the comments received from Bord na gCon and the departments were incorporated in the final version of the report.
- 1.16** A number of factors contributed to delays on the part of Bord na gCon in providing responses required to allow completion of this report.
- Many of the key personnel involved in the redevelopment of Limerick greyhound stadium are no longer with the organisation. As a result, the Bord na gCon staff dealing with examination enquiries had to familiarise themselves with the issues and records, in order to provide responses.
 - Bord na gCon's 2011 financial statements were examined by the Public Accounts Committee during the clearance process (in November 2013) and the Committee sought additional information from Bord na gCon. Priority was given to responding to the Committee, over responses to examination queries.
 - The CEO left the organisation at the end of 2013 when his contract expired. The Chief Financial Officer was appointed Acting CEO pending the appointment of a new CEO (in July 2014).
 - Bord na gCon has been operating in a challenging business environment, requiring significant management attention.

¹ This includes the net costs incurred in relation to a site at Meelick (€1.8 million) and the cost of the site and construction of the stadium at Greenpark (€19.8 million).

Report Structure

- 1.17** The report is presented in two parts. Chapter 2 examines the process of acquiring land for the development of a new stadium in Limerick. Chapter 3 examines the adequacy of the business case made for development of a new stadium at the Greenpark site, and the operational impact of the stadium since its opening.

2 Site Acquisition

- 2.1 Bord na gCon operated greyhound racing facilities at the Markets Field in Limerick up to July 2010. Its office headquarters were also located in Limerick, in a building owned by the group.
- 2.2 Around 1999/2000, Bord na gCon looked at a number of options in relation to redeveloping its racing facilities at Limerick. A site was purchased in Meelick in 2005. Due to anticipated planning difficulties, Bord na gCon did not complete a planning application in respect of this site. In the first half of 2007, Bord na gCon sought to identify a suitable alternative site. In June 2007, the Board authorised the purchase of a site at Greenpark and the sale was completed in June 2008.
- 2.3 This chapter examines the procedures in place for the purchase of the sites, including the adequacy of information presented to the Board when decisions about land acquisition were made.

Initial Site Assessment

- 2.4 During 2000, the Board discussed a number of options in relation to the development of its greyhound racing facilities in Limerick. At the time, the Markets Field stadium was not making profits and its revenues from tote betting were significantly lower than those at comparable stadia.
- 2.5 In June 2000, the Board decided that rather than modernise its existing track at Markets Field, a new facility, incorporating a headquarters building, should be developed on a greenfield site over the short to medium term and the CEO was instructed to conduct a search for a suitable site for such a development. It was recognised that the level of funding available for the proposed development would be affected by the sale price achieved in respect of its head office building and the site of the existing stadium at Markets Field.
- 2.6 In February 2001, the Board noted that a site was available at Greenpark at the former Limerick horse racing course at a cost of €2.2 million. However, the Board decided to defer the development of the new stadium until 2003 as it sought to have the site of the existing stadium at Markets Field rezoned. This would increase the value of the site at Markets Field thereby reducing the borrowing requirement for the new development.
- 2.7 Bord na gCon experienced difficulties with the rezoning of the Markets Field site and accordingly the funds available for the new development were curtailed. In June 2001, taking account of overall cash flows, the Board decided that the funding available for the Limerick development would be capped at €6.3 million.
- 2.8 At the Board meeting in November 2001, it decided to re-examine the options for development. There is no record to indicate that, at that time or subsequently, the Board conducted a formal appraisal which compared the projected relative costs and benefits of redeveloping the existing stadium at Markets Field with those of constructing a new stadium on a greenfield site.
- 2.9 Bord na gCon continued its assessment of possible alternative sites. As part of that exercise, it commissioned a valuation report in 2003 of the land on offer at Greenpark.

- 2.10** The valuation report noted that a 13.9 acre site had been offered at a price of €2,222,042 equating to a cost per acre of €160,000. The report took account of the fact that the land did not have planning permission for any purpose, was not serviced, did not have appropriate access and would require site filling. The report concluded that on this basis, the cost per acre was reasonable in the context of prevailing prices in the area. However, the report also noted that due to the nature of the land and the possibility of flooding, the site would require filling and that this could cost in the region of €1.5 million. Taking account of this cost would effectively increase the price to €268,000 per acre and the valuation report concluded that this was "rather high in the general scheme of land sales and purchases in the general area".
- 2.11** In February 2005, the Board discussed the overall capital programme and the related requirement to increase its borrowing facility from €17.7 million to €25 million. The Board approved a submission to the Department of Arts, Sport and Tourism to increase its borrowing facility to €25 million.
- 2.12** At that meeting, the Board approved a capital spend of €14 million in relation to the new stadium in Limerick which would be funded by increased borrowings (€8.4 million) and the proceeds of the sale of the old head office building and the existing track at Markets Field (a combined €6 million).
- 2.13** On 7 April 2005, the CEO briefed the Board in relation to the Limerick development. The CEO informed the Board that
- he had had meetings with the owner of the site at Greenpark and the owner indicated he would remove the restrictive covenants in the contract
 - the support of Limerick County Council would be required to fast track planned road improvements adjacent to the site, which would allow for the construction of a new stadium at Greenpark around 2007
 - sites other than that at Greenpark were also under consideration.
- 2.14** Following the CEO's presentation, the Board approved a sum of €1.4 million to bid on a site purchase.

Meelick Site

- 2.15** In April 2005, Bord na gCon engaged a firm of consultants formally to examine a site in Meelick, Co Clare and to report on its potential. Their report concluded that the construction of a stadium on the site was feasible. The key risk identified by the report was road access to the stadium. The preference was to create direct access from the N18 (Ennis Road). The report noted that the policy of the National Roads Authority was not to allow new access to a national primary route. However, it stated that the planned construction of Phase 2 of the Limerick Southern Ring Road would result in the declassification of the N18 as a national primary route, and that this declassification would most likely result in access being allowed from the N18 to the stadium.¹
- 2.16** The report recommended that Bord na gCon would discuss the matter further with the National Roads Authority prior to purchasing the site. The consultants' report was completed a few days before the Meelick site was due to be auctioned. It was not presented to the Board for their consideration in advance of the purchase of the site.

¹ The consultants' report also identified some other potential problems with developing the site but these were not highlighted as matters that would prevent development proceeding.

- 2.17** On 29 April 2005, the Meelick site was purchased at public auction by solicitors acting on behalf of Bord na gCon. The contract was signed by the then CEO. The site, comprising circa 16 acres, cost €1.02 million (€63,750 per acre). Expenditure of €385,000 including stamp duty and site investigations was incurred in acquiring the site, bringing the total site acquisition cost to €1.4 million. Further expenditure, including design costs of €550,000, was subsequently incurred on the development project. Bord na gCon stated that the subsequent development at Greenpark utilised some of the design developed in relation to Meelick. On this basis, approximately €180,000 of the design fees were transferred to the subsequent development at Greenpark. The remainder of the fees were written off.
- 2.18** In June 2005, the CEO briefed the Board in relation to the site at Meelick. He noted that the site was currently zoned for agricultural use. He also noted that two new roundabouts were being built as part of the new road network around Limerick city.
- 2.19** Bord na gCon held a pre-planning application meeting with Clare County Council in April 2006. Planning documents were submitted in August 2006. The planning documents proposed direct access from the stadium to the N18. In October 2006, the Council stated that it would not permit direct access from the stadium to the N18. The Council proposed an alternative access route to the N18 which would have required the purchase of additional land from neighbouring landowners.
- 2.20** Bord na gCon initiated negotiations with the landowners but it was not possible to reach agreement. In addition, Bord na gCon were of the view that the alternative route posed significant risks since it would have to purchase additional land, construct and maintain the access road and would have responsibility for insurance claims that might arise as a result of any accidents on the road. In addition, construction of the stadium would be delayed pending the construction of the required access roads.
- 2.21** Due to the difficulties encountered, Bord na gCon did not proceed with its planning application. Bord na gCon was of the opinion that it could dispose of the site at minimum net cost and proceed with the proposed development at an alternative site.
- 2.22** Bord na gCon continues to hold the Meelick site. The total cost incurred (including site investigations and written-off design fees) was €1.75 million. At the end of 2012, the site was valued at €150,000. The loss in value, amounting to €1.6 million, has been recognised in the financial statements.¹

¹ The loss in value was recognised as follows:
2007: €0.281 million, 2011:
€0.368 million, 2012: €0.95
million.

Acquisition of the Greenpark Site

- 2.23** After its decision not to proceed further with the Meelick site proposal, Bord na gCon decided to identify and evaluate alternative sites, appointing a subcommittee of the Board in October 2006 to carry out the review.
- 2.24** The sub committee provided the Board with high level details in relation to access, quality of land, zoning and size of site in relation to eleven sites, including the site previously considered at Greenpark. The results of this exercise were not collated into a report which identified sites suitable for further investigation. In addition to the work of the sub committee, between January 2007 and June 2007
- Consulting engineers evaluated a further site but, on the basis of the access issues identified, further investigations were not progressed.
 - A firm of architects was employed to evaluate the suitability of three sites. This included the Greenpark site, and two further sites which had not been identified by the Board sub-committee. In the case of the two further sites investigated, additional lands would have to be acquired to cater for the proposed development. As a result these two sites were deemed unsuitable.
- 2.25** In June 2007, the Chairman briefed the Board about a meeting with the vendor of the site at Greenpark. The Chairman circulated the map of the site and indicated the proposed location for the new track. He noted that the cost of this 10 acre site was €3.25 million. (In the end, the site purchased at Greenpark was 11.15 acres.)
- 2.26** The Chairman informed the Board that the vendor had indicated that
- He would construct the public car park but reserved the right to use it when no greyhound racing events were taking place.
 - There would be parking for a further 1,000 cars at adjacent commercial developments which could be used as an overflow car park for race meetings.
 - He did not currently have a licence to fill the site but had submitted an application for a licence and would fill the site if that application was successful.¹
 - He wished to 'project manage' the stadium development up to the planning stage.
- 2.27** The Board unanimously approved the purchase of a site at the Greenpark racecourse for the development of a greyhound stadium and new head office accommodation.
- 2.28** In June 2008, Bord na gCon signed a contract for the purchase of 11.15 acres at Greenpark at a cost of €3.4 million (excluding VAT), subject to obtaining planning permission. The cost per acre was €304,900.
- 2.29** A valuation report in relation to the site was not sought at this time. Instead, reliance was placed on the 2003 valuation report which concluded that a cost of €160,000 per acre was reasonable in the context of prevailing prices. The characteristics of the site had changed considerably since the 2003 valuation was conducted. The site offered road access to the newly constructed road network around Limerick and it was serviced by gas, electricity and sewerage. The cost per acre paid in 2008 represented a 91% increase in price, relative to the 2003 valuation.
- 2.30** In March 2009, Bord na gCon's bankers sought a valuation of the Greenpark site for the purpose of loan security. The valuation report, issued in April 2009, valued the site at €3 million.

¹ The vendor required a licence to accept and dispose of building rubble from construction sites in the area.

Site Filling

- 2.31** While it was communicated to the Board that the vendor would provide the site filling at no charge to Bord na gCon (subject to obtaining a licence) when the Board sanctioned the purchase of the site in June 2007, the provision of fill was not included as a condition of the contract which was concluded between the parties in June 2008.
- 2.32** The vendor received a licence and started to fill the site, but Bord na gCon's design team became concerned both with the pace of delivery of the fill and with its quality. Bord na gCon have pointed out that the vendor's offer to fill the site was given at a time when the construction sector was buoyant and a site open to accept building rubble from other sites was a potentially valuable commodity. However, the collapse of the construction sector resulted in many fewer projects proceeding, with much less rubble for disposal.
- 2.33** In December 2008, following a tender competition, Bord na gCon approved the appointment of a contractor to fill the site at a tender price of €0.87 million (around €78,000 per acre).
- 2.34** Bord na gCon have pointed out that the Greenpark site had a 'boggy' soil type which needed to be excavated and replaced with fill. The process required settlement of the initial fill, with additional fill thereafter to bring the site to the required levels. Bord na gCon is of the opinion that since it controlled the pace and quality of the fill delivered, it was able to offer potential construction contractors more certainty as to what type of foundations would be required for the stadium and office development, with consequent construction price savings.
- 2.35** Bord na gCon stated that it did consider seeking a contractual obligation for the filling of the site at Greenpark as a condition of purchase in order to achieve savings of approximately €1 million but concluded that if it delayed the project, the whole project might have fallen through.

Public Car Park

- 2.36** While the site purchased by Bord na gCon was sufficiently large to accommodate the new greyhound stadium and headquarters, it did not purchase land for public car parking. Instead, when the site was purchased, the contract provided that Bord na gCon would enter into a 999 year lease agreement with the vendor to lease the public car park. The licence agreement provided that Bord na gCon would have use of the car park on race nights for payment of a nominal rent of €1 per annum together with a management fee¹ which has yet to be decided. The understanding was that the public car park would be used as an overflow car park for a planned commercial development adjacent to the greyhound stadium, when it was not required by race attendees.
- 2.37** The contract provided that, subject to the vendor obtaining planning permission for the car park, the vendor had responsibility for the construction of the public car park on the adjoining site. Bord na gCon paid €1.17 million as a contribution to the car park's construction. This cost was included in the car park licence agreement² and was included in the budget for the development of the stadium.

¹ The management fee outlined in the contract provided for the payment of a service charge to the site vendor and a management company. The service charge was to be computed on the basis of recovery of all costs incurred in providing services to the car park. The management company has not yet been formed. As a result, the costs incurred in managing and maintaining the car park are paid directly by Bord na gCon.

² The contract for sale of the site provided for a payment by Bord na gCon of €2,600 per car space permitted by the planning permission. It was anticipated that 450 spaces would be provided.

- 2.38** One of the conditions attached to the planning permission, issued by Limerick County Council in August 2008 was that the car park could only be used for greyhound racing events i.e. it would not be available as an overflow car park for adjacent developments. As a result, the vendor proposed appealing the planning decision, which gave rise to a risk of delay in the Bord na gCon project. This matter was discussed at a Board meeting in September 2008 and the Board approved the purchase of the 3.7 acre site for the car park. The minute of that Board meeting does not record any discussion or decision in relation to the proposed cost.
- 2.39** In October 2008, Bord na gCon signed a supplemental agreement with the site vendor. Under this agreement, the vendor of the site is entitled to call upon Bord na gCon to purchase the freehold of the car park at a price of €1 million under certain conditions. Specifically, the call option may be exercised by the vendor if within 30 years of the date of the contract, planning permission issues arise which prevent the vendor from using the car park as an overflow car park for a planned commercial development adjacent to the greyhound stadium, or the vendor does not make an application for the commercial development.
- 2.40** Bord na gCon stated that while the Board minute records approval for the purchase of the car park site, it was never intended to purchase the site immediately but rather to conclude the revised arrangement which provides for the purchase of the site under certain conditions.
- 2.41** Bord na gCon stated that it concluded the revised arrangement – which might require the purchase of the land in certain circumstances – in order to avoid costly delays to the project. It stated that the nature of the agreement means that Bord na gCon did not have to purchase the land which it estimates would have cost in the region of €1.2 million, based on the cost per acre of the site purchased for the development.

Conclusions

- 2.42** In April 2005, the Board agreed a sum of €1.4 million to bid on a site for the construction of a new stadium in Limerick. It was indicated that a number of sites were under consideration at the time, and a specific site had not been selected.
- 2.43** A report prepared by a firm of consultants in relation to a site at Meelick identified specific risks in relation to access. There is no record that this report was presented to or discussed by the Board. The site at Meelick was purchased in April 2005. Because subsequently it became clear that the required access would not be allowed, and alternatives would require additional costs and risks, Bord na gCon decided not to proceed with its planning application in relation to this site. The site is still held by Bord na gCon and is currently valued at €150,000. The loss in value, amounting to €1.6 million, has been recognised in the financial statements.

Recommendation 1

Decision making on property acquisition is a reserved function of the Board. All such decisions should be referred to the Board for sanction. In addition, in order to make informed decisions, the Board should have access to all relevant information, including analysis of risks.

Chief Executive Officer's response

Agreed. In recent years, all capital expenditure proposals have been brought to the Board for decision.

- 2.44** In June 2008, Bord na gCon purchased an alternative site at Greenpark at a cost of €3.4 million, or €304,900 per acre. An up to date valuation report was not obtained in advance of the site purchase. The previous valuation in 2003 had concluded that a price of €160,000 per acre was reasonable at that time. In practice, many factors relevant to the value of the site had changed in the interim, in a context where land prices were very volatile. In April 2009, a valuation conducted for the purpose of loan security valued the site at €3 million.
- 2.45** Bord na gCon incurred additional costs and risks as a result of issues that arose in relation to the filling of the site and the use of an adjoining car park. It is not possible to ascertain whether Bord na gCon got good value in the purchase of the site at Greenpark (taking account of the subsequent costs and risks incurred) in the absence of a contemporaneous valuation report.

Recommendation 2

An up to date independent valuation report should be obtained in all instances where land is being purchased.

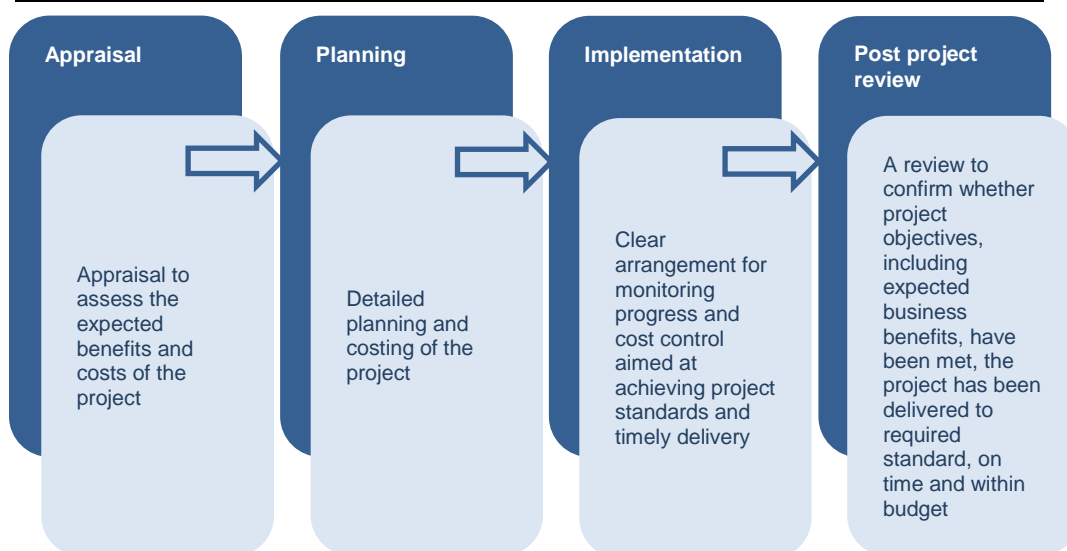
Chief Executive Officer's response

Agreed. Bord na gCon have committed to ensuring that due care and diligence will be followed to ensure value for money is obtained for any land acquisitions in the future.

3 Business Case for the Project

- 3.1** Under the terms of the Code of Practice for the Governance of State Bodies, all public bodies are obliged to comply with the capital appraisal and project management guidelines developed by the Department of Public Expenditure and Reform. The key stages in the process are outlined in Figure 3.1.
- 3.2** The guidelines specify that before a public body commits resources to any significant investment, it is obliged to carry out an appraisal of the business case for the project. This should address the following key questions.
- Is the investment economically justified?
 - Can the body afford to undertake the project from available sources of funding?
- 3.3** The Board of the public body must conclude, based on objective and unbiased analysis in the appraisal report, that the project is both economic and affordable, before final approval is given for the project (and the associated costs). Thereafter, the business case analysis provides benchmarks that can be used to monitor the costs incurred as the project proceeds, and to assess the impact of the project on the business, once the assets come into use.
- 3.4** This chapter reviews the extent to which Bord na gCon applied capital appraisal guidelines in relation to the Limerick stadium development.

Figure 3.1 Control process for capital expenditure programmes



Source: Public Spending Code, Department of Public Expenditure and Reform, 2013

Note: The guidelines recognise that, in practice, the appraisal and planning stages may overlap as good detailed appraisal will require some design and planning work.

Investment Appraisal

- 3.5** Arising from the audit of Bord na gCon's annual financial statements, the Office of the Comptroller and Auditor General wrote to the CEO in March 2008 in relation to the procedures employed in respect of the purchase of sites at Meelick and Greenpark. The letter noted that the required formal appraisal of the development project had not been conducted. It drew attention to the need for the Board to ensure strict adherence to the relevant guidelines in relation to appraisal of capital investment projects. The letter was brought to the attention of the Board at a Board meeting in April 2008.
- 3.6** At the Board meeting in April 2008, the Board approved a budget for the construction of the stadium, based on a report prepared by a firm of quantity surveyors. The budget approved was €19.4 million (VAT inclusive) or €17.8 million when VAT is excluded. There is no evidence that the Board considered the expected benefits of the project at this time.
- 3.7** In June 2008, the Board meeting notes that the CEO circulated a "capital project evaluation template" on the overall spend for Limerick. The Board minute does not record any discussion around the projected commercial viability of the project, as set out in the evaluation.
- 3.8** As part of this examination, Bord na gCon have supplied copies of the investment appraisal completed at that time. It projected that future cash flows at Limerick would exceed the cost of development by €2 million in net present value (NPV) terms.¹ The estimated costs of development were derived from cost projections provided by a firm of consultants as the contract had not, at this time, been tendered.
- 3.9** Bord na gCon issued a request for tenders for the construction of the stadium, headquarters offices and associated facilities. The closing date for the receipt of tenders was March 2009.
- 3.10** In April 2009, the Board approved a proposal for the construction of the new stadium. The relevant Board minute records that the Board reviewed the tender, the process of selection and overall project viability.
- 3.11** The evaluation accompanying the proposal compared the estimated cost of constructing the stadium with the projected cash inflows from asset disposal and stadium trading from 2011 (the expected first year of stadium trading) for 20 years. The cash flows were discounted to give results on a NPV basis.
- 3.12** The evaluation concluded that the future cash flows over a 20 year period would exceed the cost of developing the stadium by €1.4 million in NPV terms (see Figure 3.2). The Board approved the project on this basis.

¹ Net present value (NPV) is the present value of all future cash flows. Future cash flows are discounted to take account of the time value of money.

Figure 3.2 Expected cash flows over 20 years compared to cost of construction

Cost/revenue element	€ million	NPV € million
Capital costs		
Land acquisition cost	4.0	4.0
Cost of site development design and construction		
Landfill	0.9	0.9
Construction, design and fit out ^a	14.9	14.6
Total capital costs	19.8	19.5
Projected net cash receipts		
Revenue from capital disposals	8.0	7.3
Net recurring revenues		
Gate receipts/other	7.2	4.2
Tote betting	11.9	7.2
Miscellaneous savings	3.5	2.2
Total net revenues	30.6	20.9
Excess of net revenues over capital cost	10.8	1.4

Source: Bord na gCon

Note: a At April 2009, the total budget for site development and construction was €16.2 million, but the amount included in the evaluation was €15.8 million. The reason for the exclusion of costs of €0.4 million is not clear.

Adequacy of the Investment Appraisal

- 3.13** The information supplied to the Board at its April 2009 meeting is reproduced at Appendix C. This comprised a spreadsheet setting out the projected cash flows in relation to the proposed project. A report explaining the basis of the cash flows and of the assumptions made was apparently not produced for Board members, and the relevant Board minute does not record any discussion of the information included in the appraisal. The Board minute does not record discussions around the project's commercial viability but records the decision to appoint the successful tenderer to construct the stadium.

Projected Cash Flows from Stadium Operations

- 3.14** Bord na gCon projected net cash receipts from the operation of the stadium of €11.4 million in NPV terms. This included €4.2 million from track net profits, including gate receipts and €7.2 million from tote betting at the stadium.

- 3.15** In preparing the spreadsheet, Bord na gCon assumed that
- Track profits at Limerick would amount to €250,000 in the first year of operation (2011) and would then grow to €400,000 a year by 2015 and would remain at this level for the period to 2030.
 - Amounts generated from tote operations at the track would be €550,000 in 2011 and €629,000 a year thereafter.
 - Track profits would not grow after 2015 and profit from tote operations would not grow from 2012 levels.
- 3.16** The track profit projections were stated to be based on an assumption that profits at the Limerick stadium would be 85% of the profits at the Cork stadium. Profit in Cork for the period 2007 to 2009 is shown in Figure 3.3.

Figure 3.3 Track profit in Cork, 2007 to 2009

	Track profit €000	Tote profit €000	Total profit €000
2007	361	726	1,087
2008	289	575	864
2009	21	474	495

Source: Bord na gCon

- 3.17** In practice, the first year of operation figures used in the projections for the Limerick stadium were almost 93% of the 2008 outturn for Cork. Furthermore, the budgeted profit for the Limerick stadium did not take account of the decreasing profit in Cork. By the time the capital project evaluation was completed, there would have been clear evidence of declining track profits in Cork.
- 3.18** If the actual 2008 profits in Cork had been taken into account, as stated, the annual projected cash flows from stadium operations would have been some €2.9 million lower (in NPV terms).

Projected Cash Flows from Property Disposals

- 3.19** The evaluation of the business case assumed that the proceeds of land and sales over the period 2009–2013 would amount to €8 million, as set out in Figure 3.4.

Figure 3.4 Expected cash flows from property sales

Property	Assumed selling price	Assumed selling date
Markets Field site	€3 million	2010
Meelick site	€1.5 million	2013
Head office (104 Henry Street)	€3.5 million	2010
Total (excluding VAT)	€8.0 million	

Source: Bord na gCon

- 3.20** The estimates of disposal receipts were not based on current valuations for the individual properties. Bord na gCon has stated that the estimates used in the evaluation (in April 2009) reflected the prices realised during 2007/2008 for sales of similar properties.

Development Cost

- 3.21** Between April 2008 and April 2009 (when tenders for the construction had been received) the projected cost of construction had decreased from €17.8 million (excluding VAT) to €16.2 million (see Appendix B). This was accounted for by
- A reduction of €4.8 million in direct construction costs. The tender evaluation report noted that the tender prices submitted were between 21% and 28% below the expected norm and prevailing market conditions.
 - A reduction of €0.5 million in the cost estimate for fixtures and fittings.
 - An increase of €3.7 million due to the inclusion of other works and a contingency sum. €2.6 million related to additional site works while the remainder related to works not included in the tender and known variations.
- 3.22** The evaluation conducted in April 2009 reflected the drop in construction market prices. In fact, the cost of construction was included at €15.8 million, whereas the cost reports available at the time projected the cost of development (excluding land) at €16.2 million. That understatement of construction cost was offset by valuation of the site at €4 million, when it had been purchased (in 2008) at a cost of €3.4 million.

Projected Savings

- 3.23** Miscellaneous net savings with a cash value of €3.5 million (NPV €2.2 million) were projected over the 20 year life of the project. These included expected manpower savings, information technology savings and rent savings as set out in Figure 3.5.
- 3.24** Projected savings in relation to the relocation of Bord na gCon's sales centre in Thurles to the new stadium campus were based on actual rental and information technology costs being incurred in that regard.
- 3.25** The appraisal did not quantify the existing running costs at the Henry Street head office or the projected running costs at the new head office in order to calculate projected savings from moving to the new premises.
- 3.26** Projected savings included savings on interest as a result of the proceeds of sale disposals being used to reduce bank debt. It was not correct to include such savings as the discounted cash flow model already takes account of the cost of capital.

Figure 3.5 Projected savings over 20 years

Type	Projected savings € m (NPV)	Rationale
Renting of sales centre	0.3	The sales centre would be located in the new head office. Saving the cost of renting existing sales centre in Thurles – €24,000 per annum
Information technology costs at sales centre	0.3	Savings of €25,000 per annum due to locating sales centre in new head office
Manpower savings	0.8	Reduction of 2 staff at €35,000 each per annum – location not specified
Running costs at Henry St	0.6	Savings on running costs (repairs, heating and electricity) at existing head office at Henry Street – total of €50,000 per annum
Head Office interest costs	0.2	Interest saving of €40,000 per annum from 2011 to 2018
Total	2.2	

Operational Outturn

3.27 This section of the report considers the actual cashflows from property disposals and the cost of constructing the stadium as compared to the amounts projected in the capital appraisal.

Proceeds of Property Disposals

- 3.28** To date, one property sale has been completed. An amount of €1.5 million was received in respect of the sale of the site of the former greyhound race course at the Markets Field, in May 2011. The capital appraisal had anticipated Bord na gCon receiving €3 million from the sale of that site in 2010.
- 3.29** Bord na gCon continues to hold the other two properties identified for disposal. The site at Meelick, which it was assumed would yield net cash of €1.5 million in 2013, is now valued at €150,000 and has not yet been sold.¹
- 3.30** The old head office building was expected to realise €3.5 million in 2010/2011. Its current value is estimated at €1.4 million.
- 3.31** Bord na gCon has stated that the value of its property portfolio was affected by the significant drop in commercial property values and the slowdown in the commercial property market. It is of the view that disposal of the site at Meelick and of the old head office building at the dates assumed in the appraisal would have had a detrimental effect on its finances. It now intends to hold the properties until the commercial property market in Limerick stabilises.

Cost of Construction

3.32 Following a competitive tender process, the contractor for the construction of the stadium was appointed by Bord na gCon in April 2009. As outlined earlier, the tender for the site fill was awarded in December 2008. The tender sums and the contract outturn are outlined in Figure 3.6 below. A detailed breakdown of project costs is set out in Appendix B.

¹ Bord na gCon receives a nominal rent for rental of the lands at Meelick.

Figure 3.6 Budget and actual construction costs

	Cost (excluding VAT) €000		
	Tender price/provision	Outturn	Variance
	€000	€000	€000
<i>Main construction contract</i>			
Tender price	8,616		
Contractor contingency sum	1,000		
Provision for additional groundworks	700		
Work not included in tender and variations	577		
Additional enabling works	195		
Total for main contractor	11,088		
Works removed from contract ^a	(365)		
Total for main construction contract	10,723	10,596	(127)
<i>Site filling</i>			
Original contract for site filling	873		
Works added ^a	365		
Total for site filling and associated works	1,238	1,400	162
<i>Other costs</i>			
Design team fees	1,136	1,740	604
Car park contribution	1,170	1,170	—
Fixtures and fittings	1,258	577	(681)
Other costs - mainly payments to local authority	699	643	(56)
Total (excluding VAT)	16,224	16,126	(98)

Source: Bord na gCon

Note: a The works removed from the main contract were completed as part of the site fill contract.

Main Construction Contracts

- 3.33** The outturn for the overall cost of construction was in line with the amounts estimated in April 2009.
- 3.34** The main contractor received a total of €10.6 million in relation to the stadium construction. The tender price was €8.6 million. The difference was accounted for by
- Ground improvements of €1.1 million. Bord na gCon advised that this element of work was not included in the tender due to insufficient information on settlement levels at the time of tendering. The design team advised that once this information became available the contractor would be asked to price these works. A contingency sum of €1 million had been provided in this regard.
 - Additional amounts of €904,000 mainly due to additional works to increase accessibility, requirements of the fire officer and the Office of Public Works.

Site Filling

- 3.35** The amount tendered in relation to the site filling was €0.87 million. The contractor received €1.4 million. The increase is accounted for by
- an increase of €145,000 in the cost of the fill
 - additional associated works totalling €365,000 including the filling of drains and the movement of ESB wires, which had been planned for inclusion in the main contract.

Other Costs Associated with the Development

- 3.36** A further €4.2 million had been budgeted in relation to other costs associated with the development. The outturn was €4.1 million. The amount paid to the design team was €0.6 million (53%) more than budgeted. This was offset by an underspend of €0.7 million on fixtures and fittings.
- 3.37** Bord na gCon stated that while the amounts paid to the design team exceeded the budgeted amount, their involvement contributed significantly to the delivery of the project on time and on budget.

Remedial Works on the Stadium

- 3.38** The stadium was completed and commenced operations in October 2010. Some works, including the completion of the laboratory and 'snagging' issues, were not completed until February 2011.
- 3.39** The number of injuries to greyhounds at the new stadium since it commenced operation was considered to be higher than normal. As a result, some changes were made to the track. The cost of the additional works completed is estimated at approximately €100,000.

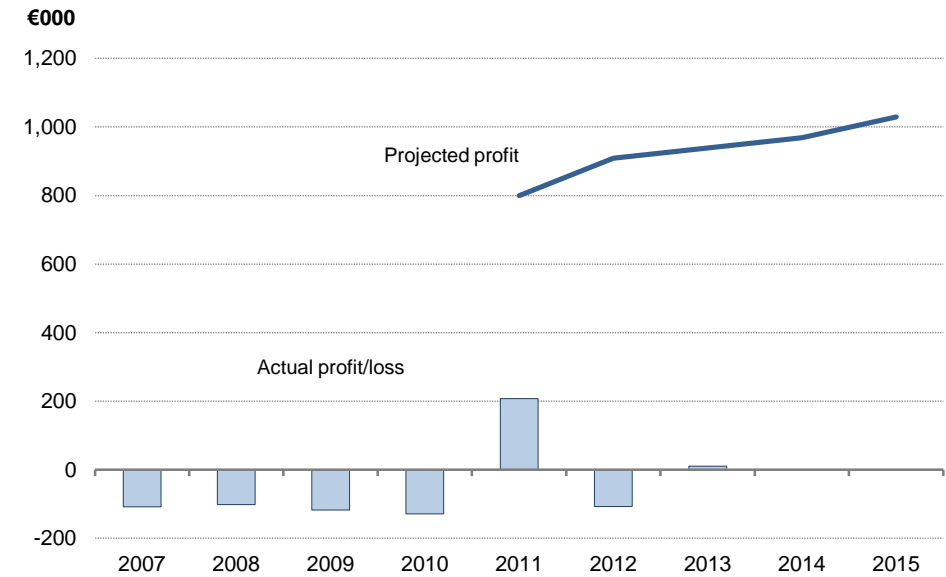
Actual savings

- 3.40** The appraisal completed in April 2009 included projected savings of €2.2 million (NPV) over the life of the project.
- 3.41** Bord na gCon has stated that projected savings in relation to reductions in staff costs and running costs (accounting for about two thirds of the projected savings) have been delivered since it now employs less staff in head office roles and the new building would incur significantly reduced running costs as compared to the existing head office at Henry Street which was an aged building.
- 3.42** Most of the remaining one third of projected savings were related to the proposed relocation of Bord na gCon's sales centre at Thurles to the newly constructed head office. The sales centre has not been relocated. Bord na gCon noted that the transfer remains under consideration but could involve redundancy costs which could erode the savings. Information technology costs amounting to €25,000 a year at the sales centre were projected to be eliminated due to relocation, but Bord na gCon has stated that while the sales centre had not been relocated, it has succeeded anyway in reducing the annual information technology costs from €25,000 to €12,500.

Financial Impact

3.43 As outlined earlier, the investment appraisal projected profits of just over €1 million at Limerick from 2015 onwards. The projected and actual profits to date are shown in Figure 3.7.

Figure 3.7 Projected vs. actual track profit, 2007 to 2015

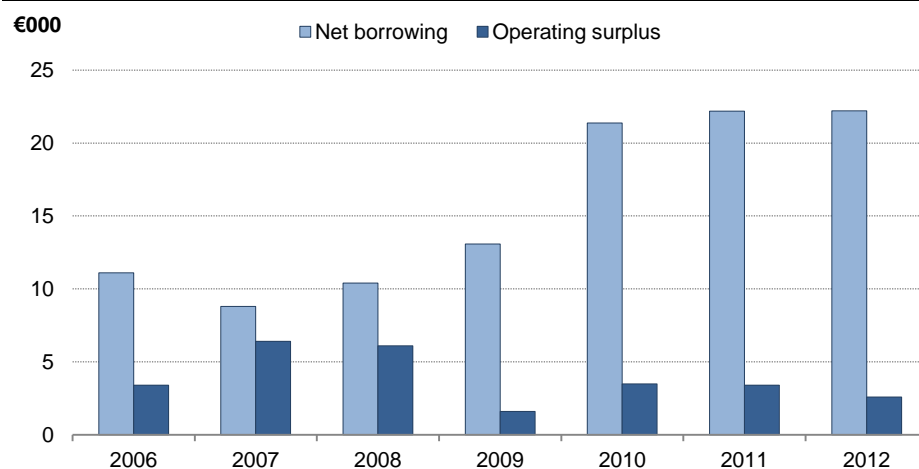


Source: OC&AG analysis of data provided by Bord na gCon

Funding Situation

3.44 Bord na gCon's borrowings have increased significantly since 2007. From a net borrowing level of around €10 million to €11 million in 2006-2008, it now has borrowings of twice that level. Its ability to repay these borrowings can be estimated on the basis of the level of cash generated from its operations on an annual basis. Figure 3.8 sets out Bord na gCon's borrowings and the cash inflows from operations (operating surplus) for the period 2006 to 2012.

3.45 Because of its decreasing profits, Bord na gCon faces significant challenges in reducing its debt to more sustainable levels.

Figure 3.8 Net borrowing, 2006 to 2012

Source: Bord na gCon annual financial statements

- 3.46** Bord na gCon has a borrowing limit of €25 million, sanctioned by the Department of Arts, Sport and Tourism and the Department of Public Expenditure and Reform (in 2007). In approving the increase in the borrowing limits, the Department of Arts, Sport and Tourism noted Bord na gCon's assurances that the capital appraisal guidelines had been fully applied in assessing the proposed investment. In 2009, Bord na gCon reconfirmed to that Department that the capital appraisal guidelines had been fully applied in assessing the proposed investment in the Limerick project.
- 3.47** At December 2012, Bord na gCon's total borrowings stood at €23 million. Its current loan facilities comprise a bank overdraft of €12.5 million and a term loan facility of €12.5 million. Bord na gCon stated that it is currently finalising revised arrangements in relation to borrowing facilities of €24.75 million comprising a term loan of €12.5 million which will be repaid on an interest only basis, a term loan of €7 million repaid on a fixed repayment basis until December 2016 and a bank overdraft of €5.25 million.
- 3.48** Bord na gCon's strategic plan for the period 2013–2017 envisages that the borrowings will be reduced to €17 million over the period. The key assumptions underpinning the achievement of this borrowing target are
- growth of 4% a year in tote betting income
 - significant growth in other income including new forms of income
 - gate receipts (all stadia) growing by 6%.
- 3.49** The assets of some of Bord na gCon's subsidiaries are used as security for the borrowing.¹

¹ Dublin Greyhound and Sports Association Limited, Waterford Greyhound Race Company Limited, Clonmel Greyhound Racing Company Limited, Shelbourne Greyhound Stadium Limited, Limerick Greyhound Racing Track Limited, Cork Greyhound Race Company Limited and Kingdom Greyhound Stadium.

Bord na gCon comments

- 3.50** Bord na gCon noted that the timing of decisions in relation to the Limerick development and the decline in the economy cannot be ignored. The project evaluation was conducted at a time when the economy was growing and property prices were increasing whereas the current business environment is more risk conscious. The economic crisis had a significant effect on the project outcome. It also noted that Limerick in particular suffered significant job losses and that, in 2011, the unemployment rate in Limerick City was almost twice that occurring nationally.
- 3.51** Bord na gCon stated that the deterioration suffered in the Irish economy had obvious effects on its projected returns, particularly for the Limerick stadium and noted that while losses in Limerick had been particularly disappointing in 2012, the 2013 draft results indicate breakeven was achieved for the year.
- 3.52** Bord na gCon stated that even a pessimistic sensitivity analysis would, in all likelihood, not have contemplated the dramatic decrease in property prices that only became evident when the project was well advanced. This decrease mitigated against its ability to dispose of non-core assets as planned which had a severe impact on its financial position.
- 3.53** Bord na gCon drew attention to a number of factors which influenced its decision to proceed with the project which are not captured by the evaluation model.
- The existing head office property would have required substantial investment to maintain safe working conditions. A new head office building was constructed as part of the development. This allowed for new improved information technology infrastructure which is critical to its plans to sell greyhound racing to a wider television and betting audience.
 - Limerick stadium had been experiencing significant losses. Bord na gCon was of the view that continued investment in stadia in particular, the Limerick stadium, was critical in order to compete with similar products. In addition, without development of a new stadium there was a risk that the industry could have been damaged in the south west region.
 - The development of the stadium has led to wider economic benefits which cannot easily be measured. Such benefits include employment during the construction phase and after the stadium commenced operations as well as other economic activity associated with the stadium.
 - Bord na gCon's remit extends to improving and developing the greyhound industry and this aspect of its operations is difficult to quantify in financial terms. It noted that while the number of active greyhound owners has declined by 32% nationally, the decline in the Limerick area has been much lower at 19%.
 - Bord na gCon noted that the significant capital development programme undertaken has resulted in modern stadia which offers the potential to export the product in the form of electronic pictures, thereby creating additional income streams.
- 3.54** It also noted that the Board had, at all times, been updated in relation to progress of the development of the stadium in Limerick.

Views of the Department of Agriculture, Food and the Marine

- 3.55** Bord na gCon operated under the aegis of the Department of Arts, Sport and Tourism until responsibility for the Greyhound Acts transferred to the Department of Agriculture Food and the Marine on 1 May 2010.
- 3.56** The Department noted that Bord na gCon is a commercial State body with considerable autonomy in regard to operational matters. It noted that under the Code of Practice for the Governance of State Bodies, the Board is responsible for leading and directing the body's activities. However, Bord na gCon is required to obtain the approval of the Minister in certain situations. The development of Limerick greyhound stadium was highlighted as a key element of the Bord na gCon strategic plan 2007–2012 which was submitted to the Department of Arts, Sport and Tourism.
- 3.57** In addition, the Code of Practice for the Governance of State Bodies states that the Guidelines for the Appraisal and Management of Capital Expenditure Proposals in the Public Sector apply to all State bodies. In this regard, the Department noted the following assurances from Bord na gCon in relation to compliance with the Code in relation to appraisal of capital projects.
- In May 2009, in response to a query from the Department of Arts, Sport and Tourism (which then had responsibility) related to increasing Bord na gCon's borrowing limit, the CEO of Bord na gCon reconfirmed that capital appraisal guidelines had been fully applied in assessing the proposed investment in Limerick.
 - From 2007 to 2012, the Chairman of Bord na gCon confirmed in his annual report to the Minister that the organisation had complied with the capital appraisal guidelines.¹
- 3.58** Since the transfer of responsibility for the Greyhound Acts to the Department in 2010, officials from the Department meet with senior executives in Bord na gCon twice yearly to discuss key matters of mutual interest. Corporate governance is always an agenda item for these meetings.
- 3.59** The Board of Bord na gCon has adopted its strategic plan 2013-2017 which inter alia envisages an augmentation of the senior management team within the organisation.
- 3.60** The Department commissioned Indecon Consultants to undertake a review of certain matters relating to Bord na gCon. The review encompassed the policy, governance and regulatory framework and the financial situation of Bord na gCon.
- 3.61** The report was completed in July 2014. The Department accepts the recommendations included in the report and is responding as follows.
- The Department have asked Bord na gCon to present a plan outlining a programme of action and a timeframe for implementation of the recommendations by end September 2014.
 - Officials from the Department are considering the legislative changes that may be required to give effect to the recommendations.

¹ The Code requires that the Chairman of each State body furnish, in a report made to the Minister on an annual basis, confirmation that the capital appraisal guidelines are being complied with.

Conclusions

- 3.62** The Board approved a budget of €17.8 million (excluding VAT) for the design and construction of the stadium in April 2008. In addition, in June 2007, the Board had approved the purchase of a site at Greenpark at a cost of €3.4 million. Those approvals were given in advance of a capital project appraisal which would compare the costs of the project with the expected benefits.

Recommendation 3

A capital project evaluation should be completed before any significant funds are committed to a project.

Chief Executive Officer's response

Agreed. Bord na gCon has developed new procedures in relation to capital project appraisal and evaluation which stipulate that an appraisal must be presented to the Board for consideration in relation to all proposals for capital projects in excess of €25,000. While the procedures have not as yet been formally adopted by the Board, Bord na gCon stated that it has not approved significant capital expenditure in recent years and it does not have a significant capital programme forecast for the future.

- 3.63** A capital project evaluation was presented to the Board in June 2008 and an updated evaluation was presented in April 2009 when tenders for the construction had been received. The April 2009 evaluation projected an excess of net revenues over cost of €1.4 million (NPV), based on costs of €19.5 million (NPV).
- 3.64** This examination has found that there was a lack of thoroughness in the manner in which the capital appraisal of the Limerick project was undertaken. In particular,
- Based on information that was available at the time the appraisal was completed and the assumed ratio of projected earnings to those at Cork stadium, the projected net revenues from the operation of the Limerick stadium were overstated by an estimated €2.9 million in NPV terms. No account was taken of recent declines in profits from racing in Cork, against a backdrop of deteriorating economic conditions. This contrasts with the incorporation of reduced construction costs, reflecting a drop in market prices.
 - Projected cash flows from property disposals were not backed up by current valuations of the relevant properties.
- 3.65** The examination found no evidence that Bord na gCon had conducted sensitivity analysis which would have allowed it to identify that the commercial viability of the project was heavily dependent on assumptions around tote contribution and track profit.

Recommendation 4

Assumptions underpinning capital investment appraisals should be soundly based. Cost and revenue projections should take account of the most up to date information available and in particular, require careful analysis of assumed values.

Chief Executive Officer's response

Agreed. The Board is a non-executive body that relies on the information presented to it. The appraisal presented to the Board in 2009 was prepared and presented in the absence of a senior financial officer within the organisation. Bord na gCon's revised procedures in relation to capital investment stipulate that the appraisal presented to the Board must include an appraisal of the benefits of the projects, planning and costing of project and risk assessment. Bord na gCon has employed a Chief Financial Officer since February 2012.

Recommendation 5

Capital project evaluations should include sensitivity analysis to allow for an identification of the assumptions which have a significant effect on the success of the project. These assumptions should then be tested to establish the levels at which the project is no longer commercially viable.

Chief Executive Officer's response

Agreed. While the economic decline suffered in recent years would most likely not have been predicted even using the most pessimistic sensitivity analysis, the lessons learned underpin the importance of sensitivity analysis for all appraisals. Bord na gCon's revised procedures for appraisal of capital projects stipulate that sensitivity analysis should be conducted.

- 3.66** The capital investment appraisal undertaken in relation to the Limerick racecourse development was inadequate in the context of a proposed investment of the order of €21 million. The absence of an appraisal underpinning the decision to move from Markets Field, albeit it at a much earlier stage in the process, is also of concern.
- 3.67** Had better analysis and more soundly based assumptions been used, it is likely that the analysis would have indicated that the development of the Limerick stadium was, at best, a marginal commercial proposition. There might nevertheless have been strategic arguments in favour of proceeding with the project (or a less expensive development), but in pursuing such a course, the Board should have recognised that the project might adversely affect its financial position.
- 3.68** Forecasted profits from the track operation and the tote at Limerick have been well below the levels projected and are forecast to remain so in the period to 2015. However, much of the shortfall relative to the projections is likely to be attributable to the impact of the economic downturn which has occurred in parallel to the development in Limerick.

Appendices

Appendix A Project Timeline

April 2005	<ul style="list-style-type: none"> • Purchase of site at Meelick at a cost of €1 million
October 2006	<ul style="list-style-type: none"> • Decision not to proceed with planning application on Meelick site, and to identify alternative site
June 2007	<ul style="list-style-type: none"> • Board approval to purchase Greenpark site at a cost of €3.4 million (subject to planning permission)
April 2008	<ul style="list-style-type: none"> • Board approved budget for stadium construction at €19.4 million inclusive of VAT of €1.6 million. Budget based on bill of quantities from surveyor
June 2008	<ul style="list-style-type: none"> • Initial project evaluation completed • Contract for purchase of site completed
August 2008	<ul style="list-style-type: none"> • Planning permission issued. Condition of planning that car park can only be used for greyhound events
October 2008	<ul style="list-style-type: none"> • Revised leasing agreement for car park including a call option
December 2008	<ul style="list-style-type: none"> • Board approves contract for filling of site at €0.87 million
January 2009	<ul style="list-style-type: none"> • Request for tender for stadium construction issued
April 2009	<ul style="list-style-type: none"> • Capital project evaluation presented to Board • Board examines tender evaluation • Board approves appointment of main contractor for construction
July 2010	<ul style="list-style-type: none"> • Existing stadium at Markets Field closes
October 2010	<ul style="list-style-type: none"> • Stadium completed and opened

Source: Office of the Comptroller and Auditor General

Appendix B Projected and actual project cost

Cost element	Budget	Budget	Outturn
	April 2008	April 2009	
	€000	€000	
Direct construction costs			
Stadium	6,944	4,329	
Offices	2,896	1,763	
Kennels	535	393	
External works	2,693	1,800	
Specialist works	—	331	
Total direct construction cost	13,068	8,616	8,616
Other works			
Contingency (mainly related to ground conditions)	—	1,000	
Site filling	—	873	
Provision for risk associated with groundwork condition	—	700	
Work not included in tender and known variation	—	577	
Additional enabling works	—	195	
Total other works	—	3,345	3,380
Other costs			
Design team fees	1,243	1,136	1,741
Contributions to local authority and utility companies	592	700	643
Car park	1,170	1,170	1,170
Fixtures and fitting	1,715	1,258	577
Total other costs	4,720	4,264	4,131
Total	17,788^a	16,225	16,127
Site acquisition	4,000	4,000	3,400
Total project cost	23,390	20,225	19,527

Source: Cost reports completed for Bord na gCon in March 2008 and April 2009.

Note: a The Board approved a budget of €19.4 million in April 2008 (VAT inclusive) or €17.788 million (VAT exclusive).

Appendix C Bord na gCon's capital project evaluation

Proposed Project : Development New Limerick Stadium and Head Office Presented to April 2009 Board Meeting

Outlays	Investment	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
In this section enter the proposed capital spend and the timing of the spend, also allow for maintenance or follow up spend in the future									
Land	-	4,000,000							
Land Fill	-	870,000							
Construction Cost - Track	-	5,500,000	- 6,930,000						
Construction Cost - Head Office	-	2,500,000							
	-	12,870,000	- 6,930,000	-	-	-	-	-	-

Operational Cashflow

In this section enter all cashflow impacts positive and negative upon the implementation of the proposed Capital Expenditure. Cost Avoidance and Cost Savings associated with the project directly or otherwise should also be listed below.

Car park saving		-							
Sale of Markets Field		3,000,000							
Sale of 104 Henry Street		1,500,000	2,000,000						
Sale of Meelick					1,500,000				
Saving on Renting of Sales Centre			24,000	24,000	24,000	24,000	24,000	24,000	24,000
Saving IT Connection costs at Sales Centre			25,000	25,000	25,000	25,000	25,000	25,000	25,000
Manpower Savings			70,000	70,000	70,000	70,000	70,000	70,000	70,000
Saving on running Henry St			50,000	50,000	50,000	50,000	50,000	50,000	50,000
Head Office Interest Saving (€3.5m-€2.5m=€1m @ 4.0%)			40,000	40,000	40,000	40,000	40,000	40,000	40,000
Tote Contribution			550,000	629,000	629,000	629,000	629,000	629,000	629,000
Track Contribution			250,000	280,000	310,000	340,000	400,000	400,000	400,000
		-	4,500,000	3,009,000	1,118,000	2,648,000	1,178,000	1,238,000	1,238,000
Net Cash Flow	-	12,870,000	- 2,430,000	3,009,000	1,118,000	2,648,000	1,178,000	1,238,000	1,238,000

Rate of Inflation	1.50% Reflects the reduction in the value of Money over time
Deposit Interest Rate	3.50% Interest Foregone by Investing in the Project
Money Discount Rate	5.00%

NPV €1,466,395.14 NPV = Payback after taking into account Inflation and Interest Rates

IRR of Project 6.2% This needs to be within the acceptable payback threshold as determined by the Business

Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20
-	-	-	-	-	-	-	-	-	-	-	-
24,000	24,000	24,000	24,000	24,000	24,000	24,000	24,000	24,000	24,000	24,000	24,000
25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000
50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000
629,000	629,000	629,000	629,000	629,000	629,000	629,000	629,000	629,000	629,000	629,000	629,000
400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000
1,238,000	1,198,000	1,198,000	1,198,000	1,198,000	1,198,000	1,198,000	1,198,000	1,198,000	1,198,000	1,198,000	1,198,000
1,238,000	1,198,000	1,198,000	1,198,000	1,198,000	1,198,000	1,198,000	1,198,000	1,198,000	1,198,000	1,198,000	1,198,000
Net cashflow constant from Year 10											
