Briefing Material for Public Accounts Committee
– Tuesday 23 February 2021

Exceptional Loss to HRI Group of €389,000 in 2019

Horse Racing Ireland suffered a net loss of €389,000 when its cash in transit (CIT) service provider Senaca went into liquidation in July 2019.

The losses were incurred through subsidiary companies Tote Ireland Ltd and HRI owned racecourses and are reflected in the income and expenditure accounts of those companies which are consolidated into the Group Accounts. There was no loss of State funds provided to Horse Racing Ireland through the Horse and Greyhound Racing Fund.

The liquidation, which was well publicised in the media, saw 61 separate organisations impacted, including other racecourses, charitable institutions, educational establishments and companies in the hospitality and financial services sector, with a total net loss of circa €2.1m.

Following an EU public procurement tender process, Senaca (who were the incumbent service provider) were awarded this service contract in September 2017.

As part of the tender process the following information was obtained.

- Evidence of tax compliance
- Details of turnover
- Evidence of insurance
- Declaration of bona fides
- Declaration of statutory obligations
- Confirmation of Private Security Authority (PSA) licensing

A Service Level Agreement was entered into with the provider, which required next day lodgement of cash collected into the relevant HRI bank accounts.

In June 2019, following delays in receipt of lodgements to the HRI bank account, HRI raised concerns with the Chief Operating Officer of Senaca. Undertakings were given and there was some improvement in the service, but after a short time, difficulties recurred.

On Thursday 11 July 2019, HRI requested an urgent meeting with Senaca to address their deviation from the Service Level Agreement.

Senaca proposed a meeting for Monday 22 July, stating that their Chief Operating Officer was on leave until that date. At Senaca's request, the meeting was rescheduled by one day to Tuesday 23 July. However on that date, HRI received notice that the Senaca Group had been put into liquidation as of 4.00 pm the previous day.

The liquidation had been sought in the High Court by the company with affidavits admitting that it had been using clients' funds to meet its own operating costs.

As soon as the problem became apparent, the Board, Audit and Risk Committee, Internal Auditors, Comptroller and Auditor General and Department of Agriculture, Food and the Marine were notified.

The services provided by Senaca to the HRI subsidiary companies involved the following steps :-

1. Delivery of notes and coins to racecourses on behalf of the Tote and the racecourse following receipt of a float order and an Electronic Funds Transfer (EFT) of monies to the Senaca bank account.

2. Collection of notes and coins from the racecourse at the end of day and return to Senaca counting room for counting and processing for lodgement

3. Confirm receipt of the notes and coins to HRI subsidiaries

4. Lodgement of notes and coins to the Senaca's treasury account (Separate Client Account)

5. Transfer these funds to the bank account of the relevant HRI subsidiaries.

During the course of the liquidation, it became apparent that while Steps 1 – 3 had continued and there was no interruption to delivery or collection, Step 4 was not being carried out and instead Senaca had mixed funds from various clients for the purpose of orders from other clients, while Step 5 was happening with delays. It also became apparent that Senaca had been using clients' funds to a significant level to fund its own working capital.

HRI engaged with the liquidator to seek to maximise the recovery of its funds and the matter ended up in the High Court where the liquidator sought guidance on the distribution of the remaining clients' money.

HRI's arguments were :-

- Cash collected in the four days running up to the liquidation (Thursday to Sunday) should be separate and readily identifiable as it could not have been processed or lodged to the bank in that period (this totalled €229k).
- Senaca were custodians of HRI cash only, so monies should not be considered as assets in the liquidation as ownership did not transfer.
- As the petition for appointment of the liquidator was presented by Senaca on 22 July, they must have known their solvency position in the days / weeks leading up to that date, but they had continued to accept and collect monies for a number of racemeetings in that period.

- Cheques totalling €62k had been paid by Senaca to three individuals in the days prior to the petition being presented to the Courts. This raised serious concerns which we understand were reported to the Garda National Economic Crime Bureau.

Ultimately however, having taken direction from the Court, the liquidator determined that distribution of €723k should be made to the clients, leaving an overall shortfall of €2.1m of which €389k related to the HRI subsidiaries, split as follows:-

- Tote Ireland €281k
- Leopardstown Racecourse €50k
- Leopardstown Golf €27k
- Fairyhouse Racecourse €18k
- Tipperary Racecourse €12k
- Navan Racecourse €1k

While the Tote insurance policy would not cover this type of loss, the HRI owned racecourses has pursued the possibility of a claim should fraud be proven.

The matter was considered by the HRI Board and by the Audit and Risk Committee on the following occasions:-

Board:

- September 2019
- October 2019
- December 2019
- February 2020

Audit and Risk Committee:

- September 2019
- December 2019
- February 2020
- December 2020

Current CIT Processes

A new supplier of this CIT service was subsequently put in place with a Service Level Agreement to return monies to HRI bank accounts within a time period of Race day plus one.

- All funds are to be in the HRI Bank accounts within 24 hours of the race day.

- Formal daily monitoring is in place with immediate follow up of discrepancies
- Any delays to trigger formal meetings with the service provider.

- The CIT supplier is being held to account to ensure that any discrepancies in the time between cash collection and lodgement are addressed immediately.

HRI Procurement have also added supplementary procedures using external credit control software to monitor selected suppliers and has subscribed to receive alerts from Credit Safe with respect to changes to any suppliers' publicly available financial information. The system provides financial analysis and credit scoring reports based on the most recent accounts filed with the Companies Registrations Office.

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Brexit Implications regarding Tote arrangements

Brexit is a major issue for the equine industry as the British and Irish horse racing and breeding sectors are very closely interlinked and Britain is by a long way Ireland's leading market for the sale of horses.

Since January 1, with various industry bodies and Government authorities, we have been working through the implications on the movement of horses between Ireland and Britain in the following areas:-

- Sanitary / Phytosanitary
- Customs
- VAT

Undoubtedly the situation is much more difficult since January 1, and much work remains to mitigate the barriers to trade and prevent the industry in Ireland being marginalised as a result of its geographical location.

With regard to Horse Racing Ireland and its subsidiaries, the main Brexit implication is in relation to our supply chain for which we use a small number of UK based suppliers where delivery has become more complicated or price has increased as a result of the United Kingdom's departure from the European Union.

Other than the above, there has been no direct impact of Brexit on Tote arrangements and, with effect from January 1 2021, Tote Ireland entered into a new partnership / alliance with the UK Tote Group which will see Tote Ireland retain control over the betting pools on Irish racing, but the UK Tote Group take over the marketing and international distribution of Tote products.

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Curragh Development Review

The total rebuild of the Curragh Racecourse has been a complex project stretching back to 2015. It is the biggest capital project undertaken in Irish racing.

A previous initiative to develop the Curragh in 2007 had to be abandoned due to economic conditions and lack of funds. Ultimately, the redevelopment was made feasible through the establishment of a new company called Curragh Racecourse Ltd (CRL) which was comprised of the Turf Club (previous owners of the racecourse), Horse Racing Ireland and a group of private investors made up of significant players in the international bloodstock business. More than half of the total funding for the development has been provided from private sources.

In reality, the Curragh had not seen any significant redevelopment since 1962 and the stands were becoming a health and safety risk. The pictures (**attached**) illustrate this - there was little choice but to redevelop.

Now that it is completed, Horse Racing Ireland has conducted a formal post project review as part of a lessons learned exercise as required under the Public Spending Code.

The main conclusion is that the decision to proceed with the redevelopment of the Curragh was correct and that despite some difficulties along the way, the project benchmarks favourably against other flagship racecourse projects in Great Britain (Ascot) and France (Longchamp) which are the other most recent examples of a total rebuild of racecourses.

The findings will be incorporated into HRI's future Racecourse Capital Development Guidelines and will be very helpful.

The final cost of the Curragh development was €82.7m against a contracted cost of €72m and an originally proposed cost of €66.3m. Some issues in relation to the roof and doors are still being addressed with the contractor and the Curragh has reserved its legal position on these matters.

A summary of the key movements on cost for the project is **attached**.

Funding for the Curragh development was provided as follows:-

1. HRI Contributions

• Equity investment	€23.0m
• Capital grant	€12.5m
• Convertible loan	€9.0m
• Rental of facilities	€0.5m
	€45.0m

2. Investors Contributions €47m

One private investor also contributed significantly to a substantial upgrading of the Curragh Training Ground and Gallops.

The lands at the Curragh Racecourse are owned by the State through the Department of Defence and are leased on a long lease to CRL. Through Horse Racing Ireland, the State also owns a 35.29% share in the operating company.

All necessary approvals for HRI participation in this company were obtained from the Minister for Agriculture, Food and the Marine and the Minister for Public Expenditure and Reform and the funding proposal was reviewed by NewEra.

In addition to the capital cost of redevelopment, shareholder funds have been necessary to cover working capital needs and trading losses in CRL during the redevelopment and opening phase. Despite Covid-19, the company returned a cash profit in 2020 which is expected to grow significantly when customers are allowed back onto the racetrack.

As of 31st March 2021, CRL will have residual bank debt of €5.5m, €4.7m of which will not fall due for repayment until 2027.

Among the positive outcomes of the project are as follows:-

1. The design has been well received and nationally and internationally acclaimed

2. Irish racing has a headquarters facility which reflects the status of the country's racing and breeding industries.

3. The Curragh training grounds have been upgraded to a world leading standard

4. The contribution by major international players to this project in partnership with the Irish Government, through Horse Racing Ireland, is a positive signal for the Irish racing and bloodstock industry.

5. The development provided 650 jobs during construction and supports 38 permanent jobs in the operating company.

6. State ownership of the Curragh lands has been retained, together with a 35.29% share of the operating company.

7. The project has been completed with low debt levels going forward.

8. HRI now takes an active role in the day to day management of the Curragh through a Service Level Agreement which is yielding synergies and cost savings.

9. The sophisticated building design, combined with the Curragh location, provides the possibility of development of non-raceday business.

Financial Treatment

The company (CRL) is treated in the financial statements of Horse Racing Ireland as an Investment in an Associated Company with the cost shown under Financial Assets in the Balance Sheet and the share of the operating loss (or profit) shown in the Group Statement of Income and Expenditure.

As mentioned above, the company incurred significant trading losses during the development and opening phase, primarily associated with the fact that racing continued while construction was taking place and each year, HRI's share of the CRL loss (or profit) is reflected on the Statement of Income and Expenditure.

An element of these losses relate to depreciation which is a non-cash item and despite the impact of Covid-19, the company returned a cash profit for 2020.

Given that the company will be generating cash profits but a loss after depreciation, we will continue to discuss the future accounting treatment of this investment with the Comptroller and Auditor General.

Curragh Cost Analysis

December 2016	Project cost submitted to HRI for first evaluation	€66.3m
August 2017	Project cost after tenders received and contracts awarded	€71.9m
July 2018	Project cost submitted to HRI for second evaluation	€77.4m
April 2019	Final project cost on completion	€82.7m

The principal reasons for the cost increase were planning conditions, market price movement (building inflation), scope changes at client request and claims arising from changes requested by the contractor or the design team on behalf of the Curragh.

Ultimately, a final settlement figure was reached with the contractor but some of the major cost increases or cost claims were as follows:-

	€
• Extra work on relocation of Queen's Room	355k
• Construction of 20 new stables	291k
• Refurbishment of existing stables	407k
• Planning permission requirement for waste water treatment plant	700k
• Professional fees on increased costs	2,600k
• Siteworks for temporary facilities	293k
• Scope changes to pre-tender estimates (glazing, gantries, electrical, water services)	1,437k
• Parade ring works	631k
• Changes to PA system	346k
• Steel claim on roof	1,661k (disputed)
• Electrical services for legacy and temporary facilities	171k
• Contractor extension of time claims	1,270k (disputed)

The project was tightly controlled but the nature of the contract, whereby the client was obliged to contract separately with both the main contractor and the sub-contractors, resulted in a high level of claims.


LONGINES