



**Northern Ireland
Assembly**

**PUBLIC ACCOUNTS
COMMITTEE**

**OFFICIAL REPORT
(Hansard)**

**‘Irish Sport Horse Genetic Testing Unit
Ltd: Transfer and Disposal of Assets’**

8 October 2009

NORTHERN IRELAND ASSEMBLY

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‘Irish Sport Horse Genetic Testing Unit Ltd: Transfer and Disposal of Assets’

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Members present for all or part of the proceedings:

Mr Paul Maskey (Chairperson)
Mr Roy Beggs (Deputy Chairperson)
Mr Jonathan Craig
Mr John Dallat
Mr Jeffrey Donaldson
Ms Dawn Purvis
Mr Jim Shannon

Witnesses:

Mr John Fay)
Mr Roy McClenaghan) Department of Agriculture and Rural Development
Dr Malcolm McKibbin)

Also in Attendance:

Mr Kieran Donnelly) Comptroller and Auditor General
Ms Fiona Hamill) Deputy Treasury Officer of Accounts

The Chairperson (Mr P Maskey):

We will now hear evidence on the 2008 Audit Office report ‘Irish Sport Horse Genetic Testing Unit Ltd: Transfer and Disposal of Assets’.

We are joined by Dr Malcolm McKibbin. You are very welcome, Dr McKibbin. I see that you are in a bit of pain today, so hopefully the evidence session will not last too long. However, Committee members have some questions for you, on which we will need detail. I will hand over to Dr McKibbin to introduce his team.

Dr Malcolm McKibbin (Department of Agriculture and Rural Development):

With me is Roy McClenaghan, who is the deputy secretary in the Department's service delivery group, and John Fay, director of the College of Agriculture, Food and Rural Enterprise (CAFRE). We thank the Committee for the opportunity to give evidence to it.

The Committee will be aware that this is quite an unusual session, as it is the third time that the Department of Agriculture and Rural Development (DARD) has given evidence to this Committee on this very challenging, innovative, high-risk and, ultimately, problematic project. The Sport Horse company was established in 1996, and it went into liquidation in 2001. The Committee will be aware from evidence given in Committee previously, the last time as far back

as September 2001, and in subsequent correspondence, that problems were identified and acknowledged as having existed at the time.

I was encouraged to learn, after discussions with the new Comptroller and Auditor General — I formally congratulate Mr Donnelly on his appointment — that we would be focusing today primarily on the content of the 2008 report. For that I am grateful, because we should be trying to deal with the few outstanding issues, in order to move forward and improve future control.

From my perspective, Chairperson, thank you very much for making arrangements to make it slightly easier for me to get in and out of the Building. I appreciate the sympathy and understanding, which, I trust, will continue for the next hour, or for however long we are here.

The Chairperson:

We are sometimes caring. I appreciate your saying that this is the third time that DARD has appeared before the Committee on the same subject. That is unfortunate, because if some issues had been addressed, you would not be in front of us today. You and some of your departmental

colleagues need to ask yourselves why you are here for a third time.

Paragraph 2.11 of the Audit Office report, 'Irish Sport Horse Genetic testing Unit Ltd: Transfer and Disposal of Assets', which was published in September 2008, says that the Department told the then Comptroller and Auditor General that work was well advanced on the economic appraisal, which was considering the Department's options for equine education. Has that appraisal been completed, and if so, what were the results?

Dr McKibbin:

The appraisal was completed in mid-2008 in DARD. It went through our economic and policy branch, which approved it in autumn 2008, and the Department of Finance and Personnel (DFP) approved it in March 2009. The report concluded that it would be best if DARD removed itself from the Necarne estate and relocated its equestrian education services to the Enniskillen campus. Capital costs of between £750,000 and £900,000 would be associated with that move. The move would produce net resource savings of around £167,000 per annum.

The Department has obviously had to liaise with Fermanagh District Council, and any such move would depend on an agreement with the council. The state of play is that the Department's top management group has considered the issue in the light of the economic appraisal, and it will shortly make a recommendation to our Minister. Should that answer be in the affirmative, we would, in conjunction with Fermanagh District Council, surrender the leasehold, probably in March 2012. We would have to pass the estate across in its existing state, with DARD responsible for maintaining the assets that are there up to that date. At that stage, we would also be removing horses to the value of probably £60,000.

Again, if the answer to move were yes, we would also give the council permission to market the Necarne estate. Those would be the general conditions attached to a move. A condition report would also have to be undertaken in order to ensure that any asset that we transferred to the council was in the appropriate condition. I stress, however, that any decision is subject to our Minister's approval, and it will depend on the necessary capital resources being available and on any policy decision's being coincidental to or aligned with our education policy.

The Chairperson:

Is there a timescale for that recommendation going to the Minister?

Dr McKibbin:

Within a matter of weeks — it may well go this month.

The Chairperson:

If there is a specific timescale, the Committee may, as on the previous occasion, ask for more information and the outcome of the recommendation before we complete our report. Will the Department provide the Committee with that information in writing?

Dr McKibbin:

Absolutely. That is not a problem.

The Chairperson:

OK. Paragraph 2.4 states that the Department is paying more than £200,000 every year for the Necarne site, and you have given us some details about that. Do you think that the Necarne site represents value for money for the taxpayer?

Dr McKibbin:

We should ask ourselves why we took out the lease in the first place, but I do not know whether you want to venture into that territory now. We are spending £200,000 a year at present. If we relocate to the Enniskillen campus, the economic appraisal indicates that we will save £166,700 a year, which would reduce the costs that the Department incurs.

The Chairperson:

Without going into great detail, I take it that £200,000 a year was not and is not value for taxpayers' money?

Dr McKibbin:

We have to go back to when the decision was made. In 1995, we began to offer an HND course for the equine industry in conjunction with Fermanagh District Council. We wanted to introduce a degree course, but we could not do that without the ability to use the Necarne site. The council had spent £4.5 million on a top-class equestrian facility at Necarne. Pages 5 and 24 of the Northern Ireland Audit Office (NIAO) report give an impression of the quality of the estate.

We did not have any budgetary provision to locate in a different facility. Press reports, and internal correspondence that I read, made it clear that Fermanagh District Council was incurring losses that it could not sustain. If we were to continue our education provision, we were going to have to invest in Necarne. The then Valuation and Lands Agency (VLA) concluded that the 25-year lease, at a cost of £500,000, represented reasonable value for money. When the decision was made, it was thought to have been a reasonable one. Indeed, in 2005, a review of the equine industry identified a need for more skilled and more qualified staff to meet the industry's needs, and concluded that the number of students should be increased. In order to continue to provide an equine education service, we were going to have to invest somewhere. Around that time, the VLA concluded that the £500,000 lease over 25 years, with an annual nominal rent of £1, was

reasonable value for money.

Mr Craig:

I listened to that with some interest. You told us about the reasoning behind your entering into a 25-year lease of the equestrian centre, but you made a strange statement when you said that you thought that £500,000 a year represented value for money. Perhaps you can outline why you think that that was value for money and why you think that the Department did not get it wrong when it entered into a 25-year lease.

Dr McKibbin:

What I said was that the Valuation and Lands Agency concluded that it was value for money. It was the expert in determining what should be an appropriate rent, not me. We believed that it was a good deal because there was a commitment to continue with equine education. If we had not invested in Necarne and had entered into the lease agreement, we would not have been able to continue with the HND course, nor would we have been able to commence the degree course. For the past four years, on average, 130 students a year have been involved in equine education.

There is quite a demand; it is a significant industry in its own right. We believed that, in order to continue to provide equine education services, it was an appropriate lease to enter into.

Mr Craig:

Did the Department not have any concerns that it may have been signing a lease that was too long?

Dr McKibbin:

The question over the future of Necarne did not arise because of the difficulties in providing equine services. It arose because of the significant and dramatic decrease in the number of agricultural students applying to the college. In 2004-05, fewer than 10 students applied for the course on agricultural studies at Enniskillen, and, therefore, no agricultural course was run. That freed up additional capacity, which allowed the need for Necarne to be reassessed. If your question is whether such a decrease in applications by agricultural students was foreseen, the answer is no.

It has been acknowledged at previous Public Accounts Committee (PAC) meetings and in correspondence that a clause should have been written into the agreement to allow for better conditions should a change in circumstances require an early termination of the contract. Undoubtedly, there was an oversight by DARD and the Departmental Solicitor's Office (DSO), as was acknowledged at each of the previous PAC meetings and in subsequent correspondence. I agree that it was a flaw not to have such a provision in the contract.

Mr Craig:

Two obvious questions arise from that. You openly admitted that a clause should have been included in the contract, and, to me, that would have been common sense, but that is in short supply everywhere. Is it now the Department's policy that, when entering into any such negotiations in future, a get-out clause will be included in the lease? I am also slightly puzzled that the entire lease of £500,000 was paid up front? Should that payment not have been made in stages?

Dr McKibbin:

In answer to your first question, clauses to deal with early termination of a contract and to address what would happen over time with capital investment into land, for instance, will be included in future.

I cannot answer your question on why it was agreed to pay £500,000 up front and a nominal £1 yearly rent. That was the result of the negotiations at the time between DARD and Fermanagh District Council. The lease was signed in 1998, and I do not have the answer to your question, nor do I believe that I would easily be able to get it.

Mr Craig:

It occurred to me that the chief executive of Fermanagh District Council deserved a huge bonus for what happened, because, frankly, he wiped your eye.

Another glaringly obvious question arises: why was a clause not built into the lease whereby, ultimately, there would be some clawback of any investment that you made in the site? As it

stands, and as is outlined in paragraph 2.2 of the report, it seems that the Department will not be able to claim back any money for the new sheds that you erected, which were valued at more than £400,000, or for other upgrades to the value of £250,000?

Dr McKibbin:

Irish Sport Horse Developments (ISHD) erected the sheds, not the Department.

I return to your point about the Department's getting its eye wiped, as you so eloquently put it. From the information that was available at the time, the VLA considered the deal to be reasonable. At that stage, no one predicted the huge downturn in the number of agricultural students applying to campuses throughout Northern Ireland.

Hindsight is wonderful, but we should look back at decisions that were made in 1998 and assess the information that people had at their fingertips when they made those decisions. I accept the criticism: there should have been, as you pointed out, Mr Craig, a clause in the contract to deal with capital investment over that period and, indeed, to deal with early

termination.

Mr Craig:

You mentioned, rightly, that some buildings were not erected by the Department. Given that the Department was involved in the process, how closely did it keep an eye on events at the centre? Paragraphs 3.5 to 3.8 explain that much of the construction was on registered parkland and that the Department had to apply for retrospective planning permission because it did not bother to apply in the first place. The less that is said about that, the better. It is unbelievable that that happened on land that was leased to the Department.

Dr McKibbin:

When ISHD was constructing the centre, it utilised the services of the senior building control officer on Fermanagh District Council to manage and supervise the project. At the time, the Department assumed that that individual's involvement in the project would provide sufficient assurance of compliance with planning permission and building control. As it transpired, that was a false assumption, and we had to rectify the situation subsequently.

Mr Craig:

That brings me back to the statement that I made earlier about the council.

Anyway, I have no further questions.

Mr Shannon:

It is nice to see you again, particularly Roy, whom I have not seen for a long time. I hope that we are not too hard on you. A rumour is going around that we will take your stick away, Malcolm, if you do not answer the questions correctly. You need to be dead careful. *[Laughter.]*

I want to discuss paragraph 3.11. “Gentlemen’s agreement” is a loose term at the best of times. The Public Accounts Committee is concerned that the Irish Army had cherry-picked eight of Sport Horse’s best horses. The nature of the term “cherry-picked” means that they took the best horses. The Irish Army did that shortly before Sport Horse was wound up. However, the

Committee is concerned that, contrary to the gentleman's agreement, not all the horses were later returned to the Department, as had been agreed. The appendices to the report show that very clearly. The Irish Army retained the two most successful horses in competition for breeding. Did that not breach the gentlemen's agreement? Moreover, why did you allow that to happen? Ultimately, we, as a Committee and as elected representatives, have a responsibility to the taxpayer and to our constituents. Did they lose out as a result?

Dr McKibbin:

Those are fair questions. As an accounting officer, I would have wanted and expected a formal contract between ISHD and the Irish Army. That point has been acknowledged during previous PAC evidence sessions and in correspondence. I fully accept that public bodies should not do business on the basis of gentleman's agreements. Having said that, it would be helpful to highlight a couple of points.

Since the start of the project in 1996, Irish Sport Horse tried to evolve a collaborative arrangement with the Irish Army equitation school. It has an international reputation as Ireland's

premier showjumping organisation. However, DARD did not permit the subsequent sale of the eight horses on the basis of a gentleman's agreement. The company had the right to dispose of the assets, excluding tangible fixed assets, at its own discretion and in the normal course of trading under the memorandum and articles of understanding that it had. Indeed, DARD did not know how the valuation of the eight horses was reached. The Irish Sport Horse development board and the Irish Army arrived at the valuation between them.

Moreover, throughout the process, ISHD maintained that it had a firm understanding with the Irish Army that the animals would be returned once the Irish Army equitation school no longer required them. You point out correctly that there was no formally signed contract; however, a draft contract and a letter from ISHD support that belief. Discussions with and letters from the commanding officer of the Irish Army did not dispute ISHD's view and indicated the Irish Army's willingness to work with ISHD or its successor organisation.

A letter written by the Irish Department of Defence to the Department of Agriculture and Rural Development on 4 April 2003 stated:

“the School remains willing to co-operate with any official disciplined breeding programme in Northern Ireland, overseen by the Northern Ireland Authorities, and dedicated to the production of quality sport horses for the benefit of all Irish breeders. Such co-operation could include return of mares for breeding once their competitive careers are finished, irrespective of what stage that might be”.

In other words, in some cases the mares might be quite young, if, for example, they were injured. The Department of Defence went on to offer additional services, such as semen from Irish Army stallions, as well as advice. That is what the letter said on the agreement.

The Committee asks whether the Irish Army equitation school lived up to that gentleman’s agreement. Of the eight horses originally sold to it for £15,000, three were returned. Two were sold by DARD for £6,770, and a further animal, valued at £2,000, was retained. At the time when the Northern Ireland Audit Office report before us was published, three of the remaining horses had died: two as a result of injuries in competition and one from colic. That left two out of the original eight, and at the time of the report, both were involved in competition. Since then, one of those horses has had to be euthanised, so one remains.

Therefore, as Mr Shannon said earlier, the Irish Army still has one horse. However, that is in line with the gentleman's agreement of 2000, which stated:

“When their competitive career is complete, the Army Equitation School will retain the mares for breeding. However, should the Army Equitation School not wish to retain all the mares they will be returned to ISHD or Enniskillen College of Agriculture for breeding purposes subject to the agreement of both parties.”

At our previous appearance before the PAC, Mr McClenaghan explained the very high attrition rate and the great risk involved in dealing with these animals.

What else did the Irish Army do? More than the eight animals mentioned were involved — it also donated four further horses to DARD. Two of those were sold for a total of £3,500 and the two others retain a value of £4,500. That means that we have sold, returned or received donated horses from the Irish Army for over £10,000, and we own others valued at over £6,500. That makes a total of £16,700, which is more than the £15,000 that the Irish Army paid us or ISHD originally. In addition, the Irish Army has also transferred two young horses produced under the donor mares scheme, offered semen from Irish Army stallions, and provided advice and support

to breeders in Northern Ireland who ask for it.

Although I absolutely agree that there should have been a formalised agreement, I cannot look at the agreement and say that DARD or ISHD was short-changed. They got the services outlined in the gentleman's agreement and more.

Mr Shannon:

Appendix 7, on page 44 of the report, lists the horses and their status at 2008. Look at the two horses that the Irish Army retained for breeding. I am not an expert on horses, but I have many friends who are. They have fed information on this matter through to me.

Are you aware of the background of the horse Killeter? I believe that the correct terminology in the horsey world is "bloodline". Diamonds Clover was the dam for Killeter. Are you aware of that?

Dr McKibbin:

You are right to pick that horse out, because it is the only one that the Irish Army retains. I am not an expert in horses, nor did I hurt my back falling off one. Horses that enter competitions are graded from A to E. I think that Killeter reached the top of grade C, and that would have allowed it to compete nationally. Killeter, therefore, was the best performing of the horses that went to the Irish Army.

However, I do not have any information on the breeding lines.

Mr Shannon:

This line of questioning is important. I am not saying that Dr McKibbin is trying to avoid answering; however, if he checks, he will find that the dam, Diamonds Clover, is from the same bloodline as King of Diamonds and Clover Hill. If that fact is confirmed, the value of Killeter far outweighs the £10,000 that came from the Irish Army. Are you aware of the status of Killeter's sire, Cruising?

Dr McKibbin:

No, I do not have bloodline details with me.

Mr Shannon:

I make the point because Cruising made the Irish Olympic team. Consequently, every horse to come from Killeter will be top of the tree in the horsey world, so it must be looked on as being much better and more valuable, and the Irish Army has retained it for breeding purposes in order to further that bloodline. Did we, therefore, get value for money for the people whom we represent? I do not believe that we did, because Killeter's bloodline clearly indicates that its progeny should be highly valuable.

Dr McKibbin:

Cruising was also Clogher's sire, and it was returned to the Department and sold for just over £5,000. We have talked about the high risk that is associated with sports horses, and we have seen that at least four of the eight horses have since died. It is a high-risk business, and there is no certainty that a good showjumping lineage will produce a horse of great value.

Mr Shannon:

Everyone in the horsey world will tell you that they are working towards getting that one great horse. Indeed, today, a very good friend of mine is at the Horse of the Year Show and, if his horse does well, he will probably retire from the butchery business. That is how it works.

Nonetheless, when Diamonds Clover is put with Cruising to produce Killeter, you have something special that is above everything else on the list in appendix 7. I shall not labour the point, but does the Department have any arrangements in place to obtain a share of the value of any progeny that come from the two horse retained by the Irish Army according to appendix 7? Am I right to believe that Killeter is now the only horse that is retained by the Irish Army?

Dr McKibbin:

I shall ask John Fay to answer your questions about the horses, because he knows a great deal more about the animals than I do.

Mr John Fay (Department of Agriculture and Rural Development):

It is notoriously difficult to breed a very good horse, even given a good dam line and a good sire line. For anatomical reasons, a horse may turn out to be neither a good showjumper nor a good racehorse. That is a characteristic of both the thoroughbred and non-thoroughbred sides of equine breeding. People have endeavoured to change that, and the initial purpose of the project was to bring together the good sire and dam lines using the best reproductive technology that was available at the time. Those technologies included artificial insemination and embryo transfer — where embryos from, for example, a combination of Cruising and a high genetic-merit mare were taken and disseminated throughout the equine industry.

However, as Dr McKibbin said, very few of those horses, particularly in the showjumping world, make it to the top. Very few horses make the grade from the thousands of horses that are bred; therefore, it really is a chance meeting if a dam and a sire do so successfully. However, I acknowledge what Mr Shannon said about the need to breed good dam and sire lines.

Mr Shannon:

It is not really a chance meeting, because those horses are produced artificially. Man puts them together. The chances are different, the probabilities outweigh the possibilities, and I do not believe that the project provided good value for money.

Did the Department press for compensation, or was it not able to do so because the information was unavailable? Chairman, can the Committee pursue the matter further at this stage?

Dr McKibbin:

As I said, the Department does not have a contract: no contract was drawn up between ISHD and the Irish Army. There was an unwritten agreement, and, as yet, the Department does not know whether Killeter will be returned. Currently, it is being used for breeding in the South, and, to repeat what I said, the highest level that it reached was the top of group C from a banding of A to E.

Mr Shannon:

Yes, but it was the best horse that was produced, and that is the point that I am trying to make.

The value of Killeter is much greater than any of the other seven horses.

Paragraph 3.21 of the report deals with the Department's response to a freedom of information (FOI) request. We are all aware that, when a question is asked or information sought under the Freedom of Information Act 2000, all the information must be made available. However, I was disturbed by the fact that paragraph 3.21 — the Department's FOI response — records the fact that the Department carried out an internal review but could not establish how the loss of semen occurred, yet paragraph 3.15 of the report states:

“the semen was lost as a result of poor communications.”

How could the Department not explain how that semen was lost yet later decide that it was as a result of “poor communications”? The Department should have disclosed all the information under FOI rather than try to hide it.

Dr McKibbin:

The FOI request that was put to the Department asked it to detail whether anyone had been found to be responsible, and the answer given was that no one was held responsible.

The Department believes that the response that it gave provided the information that was requested of it, and that it has satisfied its obligations under the Freedom of Information Act. Indeed, on receipt of the NIAO comments, the Department asked a senior departmental officer, who was specifically trained in FOI, to review that matter, and he also concurred that the Department had complied with the provisions of the Act.

Furthermore, the journalist who requested the FOI release did not ask for a formal review of the information that was released, and he was able to use the information that he received from the Department to produce his newspaper article. If he had been dissatisfied with that information, he could have complained to the Information Commissioner under section 50 of the Act, rather than whistle-blow to the NIAO.

Moreover, although the NIAO has suggested that the response was incomplete, because other information that was available to the Department that was not released would have been relevant or helpful, that goes beyond the adequacy issue associated with FOI requests. Indeed, it moves into the more complex area of how helpful someone should be in responding to an FOI request.

We frequently face difficult dilemmas. I do not want my staff going into the business of second-guessing a correspondent's motives or acquirments by providing information that they thought that the correspondent may have wanted but did not request. The information request was from a professional journalist who, I imagine, had experience in submitting FOI requests and knew that if he was dissatisfied, there was an appeal mechanism for him to go through. However, I believe that our reply satisfied the specific terms of the question.

We do find the situation difficult at times, Mr Shannon. When someone asks a question, and other pieces of information are available, do we or do we not supply that information? We tend to try to give a direct answer to the question that was asked and deal with supplementaries as they come to us.

Mr Shannon:

The freedom of information request in paragraph 3.21 states:

“the semen cannot be used on College or any other horses.”

In its freedom of information response, the Department said that the semen had been retained by the college for educational purposes only. However, in 2002, it was used to impregnate three mares at the college. Did the Department’s response misrepresent that position?

Mr Fay:

No, I do not believe that our response misrepresented the position. In 2002, the College of Agriculture, Food and Rural Enterprise used the semen to inseminate three mares as part of an educational programme. At that stage, the mares were the Department’s property. There were no third parties involved. I believe that it was entirely appropriate to use the semen from ISHD on those mares as part and parcel of an educational programme.

When the Horserace Betting Levy Board code of practice was published in 2006, we realised that there were increased biosecurity risks with that semen, and we have not used any of it in any college horses since then. It has never been used outside of that, and it certainly has no commercial value. That is why, when it was initially transferred to the Department, it was not allowed to be used on a recommendation from the liquidator.

Mr Shannon:

Your freedom of information response at paragraph 3.21 states:

“Under the Horserace Betting Levy Board [HBLB] Code of Practice, the semen cannot be used on College or any other horses.”

Does that not mean that, by using it on three college mares in 2002, that code of practice was contravened? You said that it was used for educational purposes, but did that contravene the code of practice?

Mr Fay:

Yes, but that code of practice was only published in 2006. It did not exist in 2002 when the

mares were inseminated. Those guidelines were not available to us at that time.

Mr Dallat:

Initially the project did a great deal for Irvinestown. I remember being there: it attracted the good and the great, including members of the Royal Family, and Secretaries of State strutting around. If the project had been done properly, it might have been a real investment in Irvinestown. At the end of day, do you agree that the people who were responsible for this and who have never been unmasked did the people of Irvinestown a terrible disservice and hurt the whole concept of rural development? Has the Department addressed that situation?

Dr McKibbin:

One must consider what the project achieved against what its original objectives were. The original objectives were set out in the economic appraisal of 1996, and the company was formed in 1997. Undoubtedly in that economic appraisal, some of the assumptions on the cost of the processes were wrong and the ultimate demand for services was overestimated. The PAC concluded at a previous evidence session that ISHD had met its objectives only partially, but it

contributed towards the peace and reconciliation fund.

Mr Dallat:

Surely the first thing that anybody who is designing an arena for horses should find out what is the international size for such an arena. The arena in Necarne was three metres short of that. Do you agree that that was one of the reasons that it could not meet its objectives? Despite three inquiries, we never got to the bottom of who did that awful disservice to the people of Irvinestown and practically ruined the whole concept of rural development at a time when the area was coming out of 30 years of conflict and desperately in need of economic regeneration, and when rural development was essential. We get caught up in discussing the horses, their names, and all that stuff. However, the people who really suffered, the businesspeople of Irvinestown in particular, have never had answers. The people involved just walked away.

Dr McKibbin:

The first thing to appreciate is that the arena that you are referring to was not built as part of this project. I am fully aware of the issues around the arena, but it was not built as part of the project

that I am here to give evidence on today.

On the question of the project's key outputs, it is a mistake to imply that the project did not deliver anything.

Mr Dallat:

Of course.

Dr McKibbin:

The project quite clearly did not achieve all its objectives, but it did produce around 150 superior foals that were born and went into the industry. There was a breeders' association forum with around 50 members that helped to reduce the fragmentation of the industry. There were 70 local people trained to a much higher level of expertise than ever before; two veterinarians were qualified to a much higher level of expertise in embryo transfer techniques; and 150 individuals availed themselves of the equine technology centre facilities. There was a substantial contribution to the educational programme at Enniskillen College of Agriculture. All the

activities were cross-border-based and the project employed seven people locally and, through contracts with contract rearers, put a significant amount of money into the local economy. Although the project did not achieve all the objectives that it should have achieved, those outputs were of benefit not only to the people of Irvinestown but to the industry and to that area of Fermanagh.

Mr Dallat:

My case could not be made better. If the project had been properly planned and designed, had met the international standards and had had any degree of supervision, it is possible that Irvinestown might have a state-of-the-art equestrian centre today. Do you agree that your Department played a dreadful role in the demise of the whole project?

Mr McClenaghan:

With respect, the indoor arena of a smaller size to which you are referring was built by Fermanagh District Council, which received up to £4.5 million for the project. DARD was not involved in that.

Mr Dallat:

Who was co-ordinating the whole project?

Mr McClenaghan:

DARD was not co-ordinating that bit.

Mr Dallat:

That is like talking about a leisure centre with no swimming pool. I am sorry, but I feel sore about this.

Dr McKibbin:

Mr Dallat is clearly concerned. What we are trying to say is that DARD, for which Mr McClenaghan was working at the time, was not involved in the project that delivered the indoor arena that is causing Mr Dallat such concern.

The Chairperson:

I think that — *[Inaudible.]*

Mr Dallat:

Totally.

Mr Beggs:

Can you clarify the nature of the gentleman's agreement with the Irish Army? Was it said that the horses would be returned if they were not used for breeding by the Irish Army?

Dr McKibbin:

Yes; after the horses had finished competing, and if they were not being used for breeding, it was expected that they would be returned.

Mr Beggs:

Essentially, the agreement was that the Irish Army could keep and breed the successful horses and the centre would take back the unsuccessful ones and pay for their long-term retirement, perhaps, in grazing costs. It strikes me as being a lose-lose agreement — the centre lost the good horses and the bad ones came back to it.

Dr McKibbin:

First, the horses that came back to us were either sold or used for educational purposes. As I said, DARD got £6,770 for the first two that were returned to us and then sold, and a further £3,500 for two others that were sold. There was clearly a benefit to DARD from that. The only horse that the Irish Army retains is the one that Mr Shannon has referred to already.

Mr Beggs:

The Irish Army holds the only one that has any significant value.

Mr Shannon:

That is the point that I am making.

Mr Beggs:

Another point is worth pursuing. If a local community group received assets from Peace II funding and then had to wind up, there are procedures in place that dictate how it would have to properly dispose of those assets, which would be of much smaller value than the very expensive horses about which we are talking. Have you assessed whether proper procedures were followed by the directors of the ISHD when it disposed of those assets? If they were not, have any of the then directors been held liable for the disposal of public assets?

Dr McKibbin:

In April 2001, when the decision was made to no longer fund ISHD, its board decided to adopt the recommended route of going into voluntary liquidation, which would involve a managed disengagement. PricewaterhouseCoopers helped us with that process and stated that, on the subject of value for money, a managed disengagement, and a retention and subsequent disposal of

strategic assets would alleviate concerns over value for money in respect of European and national funds. The process also ensures that out-turns can be safeguarded and, subject to consultation with the industry, that the Department is able to exercise its duty of care.

The assessment of assets and liabilities indicated that the assets marginally exceeded the liabilities. After the assets were transferred across, the Department stated that it had to make sure that those assets were disposed of in such a way that taxpayers' interests were protected and the benefits of the project were not lost. There were two groups of assets of value and one that was not of value, which I have no doubt we will come back to later. There were 95 horses, 61 of which were either offered to contract breeders or sold, after independent valuation, on the market. Of the remaining 34, DARD retained five. The remainder were either offered to contract breeders or were sold at market value. The disposal of the horses was dealt with in the best interests of the taxpayer and so that those who wished to stay involved in the project had the opportunity to do so.

The second issue was around the centre itself. The preferred option that arose out of the

disposal of assets plan was a leasing of the centre. For a variety of reasons, which, no doubt, will be highlighted, the centre was never leased. The third asset, which was valued at £0, was the semen. PricewaterhouseCoopers made an assessment of the plan to dispose of the assets and concluded that it was the best option for value for money. It also came to the conclusion that the plan complied with the obligations that DARD had given to the Public Accounts Committee in previous evidence sessions and correspondence.

The disposal issue was also approved by the Department of Finance and Personnel, which, although not having to do so, gave the opinion that the managed disengagement and the disposal of assets was best value for money. A great deal of effort was put into trying to get that part of the process right, if that assuages some of the Committee's concerns.

Mr Beggs:

I understand that effort was put in, but the public purse pays the lease agreement and the maintenance costs of the building. The limited funds in the Northern Ireland block grant continue to pay for those assets. It was not a break-even situation, because we still had to pay money from

Executive funds to maintain those buildings.

Has the Department examined whether the disposal of those assets, which were publicly owned property in Northern Ireland, was properly dealt with? The most valuable horses were cherry-picked by the Irish Army, which was given permission to breed whichever horses it chose. Those very expensive assets and the future breeding prospects of successful horses were passed on to the Irish Army.

Has the Department assessed whether the directors of Sport Horse carried out their duty as members of a public body to represent the public's interest? Did they carry out the disposal appropriately, and if not, has the Department pursued them for failure to carry out their duties as directors, bearing in mind that one of those directors was, I understand, in the Irish Army?

Dr McKibbin:

That is correct. One of them was in the Irish Army, yes. There are two issues: first, after 3 July 2001, all assets were transferred to the Department. We believe that every effort was made or is

being made to dispose of those assets in a manner that will secure value for money to the taxpayer. Secondly, at previous meetings and in correspondence, the Public Accounts Committee acknowledged that there were flaws in the way in which those assets were disposed of or purchased by the board of Sport Horse before 3 July 2001.

As I said earlier, the board had the authority under the memorandum and articles of understanding to dispose of assets. We would have wished to have seen a contractual written agreement with the Irish Army, but that did not exist.

Mr Beggs:

My very first point was that a small community group cannot dispose of its laptop computer in anyway that it chooses; rather, it must follow appropriate procedures. My very specific question was: did the then directors of Sport Horse dispose of those assets in an appropriate manner, and if not, has the Department considered pursuing them?

Dr McKibbin:

The conclusion of the Committee and the Department was that the assets were not disposed of by following the best procurement or disposal practices. Has any of the directors been pursued for culpability or liability? The answer is no. At the end of the last PAC session on the issue in September 2001, the issue of whether there was any suspicion of any of the directors having carried out fraud was raised. The Committee and the Department concluded that there was not.

Mr Beggs:

Yet public assets have been lost. No doubt those directors have some sort of public liability insurance that should have been tapped into.

Dr McKibbin:

Without going back over the history, at that time that the board made the point — indeed, the point was made at some of the evidence sessions — that, although best practice procurement and disposal procedures were not always followed, it did not always mean that value for money was not obtained. I am just saying that that is a —

Mr Beggs:

Do you think that value for money was obtained when there was cherry-picking of the horses by the Irish Army?

Dr McKibbin:

First, I have never used the word “cherry-picking”. I am not aware of how particular animals were selected exactly, so I cannot answer that question honestly.

Mr Beggs:

I will rest on that point.

The Chairperson:

I suppose that much of the confusion came down to the gentleman’s agreement. It is hard to believe, in this day and age, that something like that even exists.

Dr McKibbin:

I do not think that that will happen again.

The Chairperson:

I will take that as an assurance. Have gentleman's agreements been used by anyone else in DARD? You said that that should not happen again, and I agree.

Dr McKibbin:

I am certainly not aware of it. The procedures are quite clear: if we arrange to dispose of or purchase assets, proper contract documentation or formal agreements should be put in place.

The Chairperson:

It is astonishing that that happened.

The Committee may put some more questions to you in writing; however, you will be glad to

hear that those are all questions that we have for you today. You mentioned that you might not be able to find the information relating to the payment in advance for the lease that Mr Craig asked for. If you find that information, please send it to the Committee, as it will be useful. On behalf of the Committee, I thank John, Roy and Malcolm for attending today's session.

Mr Shannon:

Before you go, will you confirm the situation with the dam and sire for Killeter? That will clearly illustrate our point that the Irish Army held on to the horse that was worth the most money. It kept the one horse that had the ability to donate semen to create progeny worth around £500,000.

The Chairperson:

The Committee will ask for that information in writing. Once again, thanks for coming today.