

# EXECUTIVE COUNCIL

## CONFIDENTIAL

**Title of Report:** Falklands Landholdings Corporation Budget 2012/13  
**Paper No:** 174/12  
**Date:** 27 June 2012  
**Report of:** GM-FLH

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### 1.0 Purpose

Clause 9 of the Falklands Landholdings Corporation Ordinance 2000 requires FLH to submit its estimates of receipts and expenditure to the Financial Secretary no later than 30 June each year and the Financial Secretary shall cause the same to be considered by Executive Council; this paper aims to fulfil the obligations of both FLH and the Financial Secretary and seeks approval of the FLH 2012/13 Budget. This paper also seeks approval of a reserve policy for FLH.

### 2.0 Recommendations

Honourable Members are requested to approve:-

- a) the draft FLH budget for 2012/13 (appendix 1).
- b) that £300,000 is allocated from previous years profits for the purchase of Wind Turbines, Inverters & Batteries for Goose Green and Fitzroy.

### 3.0 Summary of Financial Implications

None

### 4.0 Background

This Draft Budget, proposal to reserve funding for the installation of Wind Turbines, Batteries and Inverters in Goose Green and Fitzroy and the need to establish a reserve policy for FLH were all discussed and approved by the FLH Board at its meeting of 26 April 2012; these approvals are now placed before Honourable Members and form the basis of this paper.

#### 4.1. Draft Operating Budget

**4.1.1** The draft budget and cash flow for 2012/13 are attached as appendix 1 and 1a respectively.

Appendix 2 is attached for information and contains the actuals for 2008/09 to 2010/11 and forecasts produced last year for the period 2011/12 to 2015/16, these forecasts were based on the five year plans approved by the Board in March last year for each of the three farms.

**4.1.2** The budget for 2012/13 has also been formulated on the basis of those farm plans and the main differences/adjustments over the March 2011 forecasts for 2012/13 can be summarised as follows.

#### **Income**

- The increase in wool sales of £80K is due to both sheep numbers and an increase in wool prices of 15p/kg which is both realistic and achievable in today's market.
- Meat sales are budgeted to be £5k higher than originally forecast
- Miscellaneous income is forecast at £10K higher, this is for haulage of non FLH stock to the abattoir and the contract with Workboat Services for attending tie ups for the ship.
- Savings of £12K were also achieved in 2011/12 from the use of the Goose Green truck for livestock and wool haulage for FLH.

#### **Expenditure**

- Wool income is offset somewhat by an increase of £28K in shearing and marketing costs
- Fuel and Oil has been increased by £21K to take account of increased fuel prices; North Arm fuel and oil has been left the same as last year until the savings from the new power system can be more accurately calculated.
- An allowance for an increase in salaries £10.6K has been made which also includes a reallocation of £1K for insurance.
- Included in this budget but not in last years forecasts is £51K for staff bonus which was only approved later in the year
- Vehicle repairs and maintenance has been increased by £10K
- There is a £6k increase in capital expenditure for fencing
- Tourism income was forecast at £25.8K and this has been reduced by £12K due to staffing
- An allowance for the reduction in the Stanley overhead costs (£33K) was allowed for, however this is a timing issue as it should have begun in the 2013/14 financial year

## **4.2 24-Hour Alternative Power Systems**

**4.2.1** At its Board meeting of 13 October 2011 FLH Board approved the purchase of a 24-hour alternative power system including wind turbines, inverters and batteries for North Arm; the sum of £110K was allocated from the profits of the 2010/11 financial year for the purchase.

- 4.2.2** At its Board meeting of 26 April 2012 the FLH Board approved a proposal to reserve a further £300K of its profits from 2010/11 financial year for the purchase of similar equipment for Goose Green and Fitzroy once the North Arm equipment had been installed and operating for a reasonable amount of time, six months, thus giving time to assess its capabilities and allowing for any modification to the specifications that might be required before placing further orders.
- 4.2.3** The FLH Board made this decision with the background knowledge that FLH is on track to make a profit at the end of June 2012 which is anticipated to be not too dissimilar to that of 2010/11 (Operating Profit £596K) and work by Tim Cotter FIDC and FLH with some input from Glenn Ross indicates that FLH should be able to source approximately 50% of its electricity through wind power and battery storage which equates to £15K worth of diesel fuel and running costs of the current generators in North Arm.
- 4.2.3** The FLH Board in approving the purchase of 24-hour alternative power systems for Goose Green and Fitzroy also agreed that these funds should be reserved to the General Manager who will report to the Board on the performance of the North Arm system and give specifications and final quotes prior to ordering units for Goose Green and Fitzroy.
- 4.2.4** The purchase of these power systems has not been included in the 2012/13 budget but it is included in the Cash Flow of Appendix 1a.

## **5. Reserve Policy for FLH**

- 5.1** At the FLH Board meeting of 26 April 2012 the Acting Financial Secretary noted that a reserve policy has never previously been set for FLH and because FLH had made a significant profit in 2010/11 and is on track for a similar profit this financial year the Board should consider an appropriate reserve level. Given the past subsidies from FIG and the profits now being made consideration needs to be given to whether any funds should be returned to FIG.
- 5.2** FLH both as a limited company and as a statutory corporation recorded losses on its accounts from the late 1990's until 2009/10 when FLH recorded its first profit in over ten years; this prolonged period of losses resulted in FIG subsidy for the four financial years 2005/06 to 2008/09 inclusive and an FIG guaranteed overdraft for two further years. As shown by Appendix 1a the opening cash position for 2012/13 is anticipated to be £1.2M.
- 5.3** FLH made profits of £97K in 2009/10, £660K in 2010/11 and is on track to make a profit of not less than £500K in this current financial year. The profits of the last two financial years are excellent but they should not be taken out of context as wool sales over the last two years have not only benefited from higher market prices but currency and the weaker pound against the dollar has also played a significant part and the Falklands wool industry has received excellent prices through the combination of the two. Three years ago FLH received approximately £550K less for the same amount of wool.

**5.4** Over the period of low wool prices and losses incurred by FLH there are a number of larger projects for the maintenance of infrastructure that have tended to be of lower priority due to the lack of funds e.g a replacement roof for the wool shed at Fitzroy which is estimated to cost in the region of £60K for materials alone.

**5.5** There is no doubt that both wool and meat markets will be subject to periods of poor prices in the future; whilst FLH is in a much better position now with having access to both wool and meat for its income there will still be periods when profits are minimal, FLH therefore needs to be permitted to build itself a reserve to counter fluctuations in markets without having to turn to FIG for assistance.

**5.6** At its Board meeting on 26 April 2012 the Acting Financial Secretary suggested that a reserve policy be put in place to ensure funds were available for commitments and prevent the need for an overdraft. The FLH Board concurred with this suggestion and approval is now sought from Honourable Members.

**5.7** For comparison purposes FIG has a policy of 2.5 times departmental spend and FIDC a reserve policy of holding £250,000 in balances. For FLH projections in Appendix 1a show closing cash balances at the end of 2012/13 of £1M. The following areas should be considered regarding FLH:

- 2.5 times operating expenditure would be £3.6M which is considered by the Acting Financial Secretary to be typing up excessive public funds;
- 2.5 times administrative expenditure would be £340,000. This would cover the greatest net cash outflow projected in any month of £172,000. However, would result in £660,000 of funds being returned to FIG leaving small levels of reserves for reinvesting into the farms;
- It is therefore suggested that a policy of 2.5 times administrative and staffing costs would be appropriate. This is on the basis that these expenses are to some extent committed. This would result in target balances of £1.3M. At present the projections show balances at the end of 2012/13 of £1M after taking into account capital expenditure of £300,000. Therefore no funds would be returned to FIG at this stage.

## **6 Financial Implications**

**6.1** There are no direct financial implications for FIG though approval of the reserve policy as recommended would result in retention of funds within FLH rather than funds being returned to FIG.

## **7.0 Legal Implications**

None

## **8.0 Human Resources Implications**

None

**FLH Budget Projections 2012/13**
**Appendix 1**

<b>2011/12</b>		<b>2012/13</b>			
<b>FLH Total</b>		<b>FLH Total</b>	<b>Goose Green</b>	<b>North Arm</b>	<b>Fitzroy</b>
888,179	50010 Wool Sales	999,261	567184	372973	59104
405,500	50130 Meat and livestock sales	427,400	169500	158500	99,400
39,710	50140 Horticultural Sales	41,350	-	-	41,350
<b>1,333,389</b>		<b>1,468,011</b>	<b>736684</b>	<b>531473</b>	<b>199854</b>
154,771	51010 Wool Freight & Marketing	177,044	88041	73411	15593
16,250	51020 Shearing Expenses	16,250	9500	5500	1,250
181,310	51030 Shearing contractors	192,395	106660	68,640	17,095
2,000	General contractors	14,000	-	12,000	2,000
29,000	51050 Livestock Expenses	37,000	15000	17,000	5,000
1,550	51070 Vet Costs	1,550	500	1,000	50
5,500	51090 Fencing Maintenance	5,500	1500	2,000	2,000
41,387	51100 Pasture development	40,382	19268	16,590	4,524
50,000	51120 Farm Build Repairs & Maint	50,000	28000	12,000	10,000
5,450	51140 Farm Equipment Repairs & Maint	5,450	450	2,500	2,500
45,000	51170 Vehicle Repairs & Maintenance	45,000	26000	15,000	4,000
267,500	51200 Fuel & Oil	279,500	175000	77,000	27,500
(73,200)	51210 Utilities Income	(73,196)	-48000	(9,000)	(16,196)
12,500	51240 Horticultural purchases	12,500	-	-	12,500
7,000	51260 Miscellaneous Purchases	3,000	500	2,000	500
37,200	51270 Buildings Insurance	37,200	21000	12,000	4,200
372,000	51340 Farm Staff Salaries	378,500	183500	153,000	42,000
	Farm Staff Bonus	51,000	28500	12,500	10,000
<b>1,155,218</b>		<b>1,273,075</b>	<b>655419</b>	<b>473141</b>	<b>144516</b>
45,000	51701 Farm Stores Sales	45,000	-	45000	-
40,000	51702 Farm Stores Purchases	40,500	-	40500	-
<b>5,000</b>		<b>4,500</b>	<b>0</b>	<b>4500</b>	<b>-</b>
125,790	52010 Central (Stanley) Overhead	131,850	69,881	51,422	10,548
-	52080 Rent	-	-	-	-
-	52120 Veh Fuel & Oil Stanley	-	-	-	-
-	52160 Local Travel	-	-	-	-
150	52190 Entertainment	-	-	-	-
1,200	52210 Postage & Stationery	1,200	600	300	300
6,500	52220 Telephone	6,500	2500	2,000	2,000
220	52230 Advertising	220	120	50	50
-	52250 Audit Fees	-	-	-	-
-	52290 Professional Fees	-	-	-	-
-	52310 Office Repairs & Renewals	-	-	-	-
1,000	52360 Subscriptions	500	-	500	-
-	52440 Donations	-	-	-	-
(3,000)	52390 Asset disposals gains/losses	(3,000)	-3000	-	-
-	Finance Costs	-	-	-	-
<b>131,860</b>		<b>137,270</b>	<b>70101</b>	<b>54272</b>	<b>12898</b>
25,860	53020 Tourism Income	13,700	1000	10,000	2,700
19,500	53030 Miscellaneous Income	18,500	14000	4,000	500
1,000	53040 Horse Grazing	1,000	1000	-	-
12,000	53060 House rental income	12,000	12000	-	-
1,260	53065 Service Charge income	1,260	1260	-	-
-	53070 Interest Received	-	-	-	-
13,940	53080 Grants & Subsidies	12,026	6676	5,100	250
<b>73,560</b>		<b>58,486</b>	<b>35936</b>	<b>19100</b>	<b>3,450</b>
94,000	55160 Farm P & E additions	35,000	15000	10,000	10000
13,500	55410 Fencing additions	9,000	3000	5,000	1,000
<b>107,500</b>		<b>44,000</b>	<b>18000</b>	<b>15000</b>	<b>11,000</b>
(107,500)	TOTAL CAPITAL	(44,000)	-18000	(15,000)	(11,000)
124,871	TOTAL P & L	120,652	47101	27661	45,890
<b>17,371</b>	NET	<b>76,652</b>	<b>29101</b>	<b>12661</b>	<b>34890</b>

12 month Cash Flow Forecast

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
	2012 Jul	2012 Aug	2012 Sep	2012 Oct	2012 Nov	2012 Dec	2013 Jan	2013 Feb	2013 Mar	2013 Apr	2013 May	2013 Jun
Net cash b/fwd	1,223,969	1,212,574	1,232,849	1,124,330	1,017,928	898,216	725,874	565,008	674,754	870,082	982,860	902,672
Income per summary	140,318	118,194	18,983	15,458	11,283	11,183	120,658	226,383	281,171	262,358	226,171	172,033
Expenditure per summary	(151,713)	(97,918)	(127,502)	(121,860)	(130,995)	(183,525)	(281,524)	(116,638)	(85,842)	(149,580)	(306,359)	(74,085)
Net Cash c/fwd	1,212,574	1,232,849	1,124,330	1,017,928	898,216	725,874	565,008	674,754	870,082	982,860	902,672	1,000,620
Overdraft facility available	-	-	-	-	-	-	-	-	-	-	-	-
Net funds available	1,212,574	1,232,849	1,124,330	1,017,928	898,216	725,874	565,008	674,754	870,082	982,860	902,672	1,000,620
Net movement	(11,395)	20,276	(108,519)	(106,402)	(119,712)	(172,342)	(160,866)	109,745	195,329	112,778	(80,188)	97,948

## Net Inflow/Outflow based on summary budget as follows:-

## Income

Wool Sales	120,000	99,261	-	-	-	-	60,000	100,000	140,000	150,000	175,000	155,000
Meat/Livestock sales	200	5,200	200	5,900	900	200	45,000	115,000	130,000	92,000	32,500	300
Other Sales	8,000	5,000	6,350	-	-	-	-	-	-	6,000	8,000	8,000
Utilities recharge	7,933	5,933	5,933	5,933	5,933	5,933	5,933	5,933	5,933	5,933	5,933	5,933
Other income	4,185	2,800	6,500	3,625	4,450	5,050	9,725	5,450	5,238	8,425	4,738	2,800

<b>Total</b>	<b>140,318</b>	<b>118,194</b>	<b>18,983</b>	<b>15,458</b>	<b>11,283</b>	<b>11,183</b>	<b>120,658</b>	<b>226,383</b>	<b>281,171</b>	<b>262,358</b>	<b>226,171</b>	<b>172,033</b>
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## Expenditure

## Cost of sales

Wool production and selling costs	21,793	17,768	8,850	12,660	48,075	42,375	52,104	65,488	31,322	25,780	31,289	28,185
Livestock expenses	50	-	12,050	50	550	100	550	1,050	1,050	1,050	22,000	50
Pasture improvement	-	17,750	22,632	-	-	-	-	-	-	-	-	-
Asset upkeep	8,450	8,450	11,950	8,450	6,800	8,850	15,150	6,650	8,250	6,450	8,450	8,050
Fuel and oil	45,000	-	25,000	50,000	24,500	-	56,000	-	4,000	70,000	5,000	-
Insurance	-	-	-	-	-	37,200	-	-	-	-	-	-
Employment costs	28,500	28,500	29,000	30,500	35,000	35,000	36,500	35,000	31,500	30,000	29,500	29,500
Bonus	-	-	-	-	-	51,000	-	-	-	-	-	-
Other farm costs	6,250	3,900	9,650	1,000	1,950	300	200	550	1,650	2,150	1,750	150

## Administration

Central Stanley overheads	14,000	10,000	7,700	13,600	14,200	8,050	20,250	7,100	8,050	13,600	7,700	7,600
Other costs	(330)	550	670	600	(80)	650	770	800	20	550	670	550

## Capital

Fencing/pasture development	3,000	1,000	-	5,000	-	-	-	-	-	-	-	-
Equipment	25,000	10,000	-	-	-	-	-	-	-	-	-	-
24 hour power	-	-	-	-	-	-	100,000	-	-	-	200,000	-

<b>Total</b>	<b>151,713</b>	<b>97,918</b>	<b>127,502</b>	<b>121,860</b>	<b>130,995</b>	<b>183,525</b>	<b>281,524</b>	<b>116,638</b>	<b>85,842</b>	<b>149,580</b>	<b>306,359</b>	<b>74,085</b>
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Appendix 2

	Actual 2009 Totals	Actual 2010 Totals	Actual 2011 Totals		2011/12 Total	2012/13 Total	2013/14 Total	2014/15 Total	2015/16 Total
<b>FARMING TURNOVER</b>									
Wool sales	707,336	1,002,566	1,334,835	Wool Sales	888,179	910,687	926,435	945,704	965,974
Meat and livestock sales	204,520	301,572	432,676	Meat and livestock sales	405,500	422,200	441,000	471,225	481,225
Horticultural sales	48,513	9,852	31,959	Horticultural Sales	39,710	41,350	46,250	46,250	46,250
Utilities income	76,376	66,667	75,156	Utilities Income	73,200	73,200	73,200	73,200	73,200
	1,036,745	1,380,657	1,874,626		1,406,589	1,447,437	1,486,885	1,536,379	1,566,649
<b>COST OF SALES</b>									
Wool Freight & marketing	115,119	135,688	168,056	Wool Freight and Marketing	154,771	158,507	160,895	164,182	167,634
Shearing expenses	11,175	19,489	18,593	Shearing Expenses	16,250	16,750	17,500	18,250	19,250
Shearing contractors	165,230	165,309	164,936	Shearing Contractors	181,310	184,345	188,245	192,145	193,259
Livestock expenses	16,886	58,685	19,790	Livestock Expenses	38,000	39,650	41,000	41,500	42,000
Vet costs	-	230	-	Vet Costs	1,550	1,550	1,550	1,550	1,550
Fencing maintenance	11,180	3,309	3,637	Fencing maintenance	5,500	5,500	5,500	5,500	5,500
Pasture development	19,903	10,635	13,602	Pasture Development	41,387	48,364	55,021	58,486	62,004
Building repairs & maint	39,125	20,923	18,790	Farm Build Repairs and Maint	50,000	50,000	50,000	50,000	50,000
Equipment repairs & maint	4,680	6,353	7,273	Farm Equipment & Maintenance	5,450	5,450	5,450	5,450	5,450
Vehicle expenses	26,156	38,378	45,818	Vehicle Repairs & Maint	35,000	35,000	35,000	35,000	35,000
Fuel & oil	285,999	217,763	237,569	Fuel & Oil	258,500	258,500	258,500	258,500	258,500
Horticultural purchases	10,927	15,126	10,386	Horticultural expenses	12,500	12,500	12,500	12,500	12,500
Miscellaneous purchases	4,277	1,859	3,210	Miscellaneous Purchases	6,000	6,000	6,000	6,000	6,000
Insurance	41,263	35,373	36,314	Buildings Insurance	37,200	37,200	37,200	37,200	37,200
Employment costs	367,850	341,434	345,590	Farm Staff Wages	372,000	372,000	372,000	372,000	372,000
General contractors	-	5,759	13,207	Contract labour (non shearing)	2,000	6,000	5,000	1,000	-
Depreciation	127,288	111,280	107,861						
Recovery plan expenditure	2,434	-	-						
Miscellaneous expenses	-	475	48						
Tourism Expenses	-	1,458							
	1,249,492	1,189,526	1,214,679		1,217,418	1,237,316	1,251,361	1,259,263	1,267,847
<b>FARM STORES TRADING</b>									
Farm stores sales	56,546	55,041	57,364	Farm Stores Sales	45,000	45,000	45,000	45,000	45,000
Farm stores purchases	45,776	49,452	50,551	Farm Stores Purchases	40,000	40,000	40,000	40,000	40,000
Farm stores opening stock	18,091	13,202	14,336						
Farm Stores Closing Stock	(13,202)	(14,336)	(13,869)						
	5,881	6,723	6,347		5,000	5,000	5,000	5,000	5,000
<b>OTHER OPERATING INCOME</b>									
Tourism income	10,825	13,130	9,898	Tourism Income	25,860	25,860	25,860	25,860	25,860
Miscellaneous income	15,195	10,223	24,789	Miscellaneous Income	8,500	8,500	8,500	8,500	8,500
Horse grazing	1,135	1,933	1,863	Horse Grazing	1,000	1,000	1,000	1,000	1,000
House rental income	21,628	28,393	31,245	House rental income	12,000	12,000	12,000	12,000	12,000
Service charge income	-	1,260	1,000	Service Charge income	1,260	1,260	1,260	1,260	1,260
	48,783	54,939	68,794		48,620	48,620	48,620	48,620	48,620
<b>ADMINISTRATIVE EXPENSES</b>									
Central(Stanley) Overhead	124,660	117,901	127,716	Central (Stanley) Overhead	125,790	92,990	76,590	76,590	76,590
Employment costs	-	80	40		-	-	-	-	-
Rent & rates	-	-	-		-	-	-	-	-
Vehicle costs stanley	-	-	-		-	-	-	-	-
Travel	-	-	-						
Entertainment	-	-	-	Entertainment	150	150	150	150	150
Postage & stationery	650	956	355	Postage & Stationery	1,200	1,200	1,200	1,200	1,200
Telephone	5,921	5,218	5,048	Telephone	6,500	6,500	6,500	6,500	6,500
Advertising	100	214	248	Advertising	220	220	220	220	220
Professional fees	-	540	-		-	-	-	-	-
Office repairs and renewals	155	336	44		-	-	-	-	-
Bank charges	-	-	93						
Tourism expenses	-	-	65	Tourism Expenses	1,000	1,000	1,000	1,000	1,000
Office equipment depreciation	-	-	-						
Bad debts	-	-	-		-	-	-	-	-
Sundry expenses	-	-	-						
Donations/subscriptions									
	131,486	125,245	133,609		134,860	102,060	85,660	85,660	85,660
<b>OTHER OPERATING CHARGES</b>									
Grants & subsidies	170,500	16,477	15,229	Grants & Subsidies	13,940	13,940	13,940	13,940	13,940
<b>INTEREST RECEIVABLE</b>									
Interest received	1,925	86	-	Interest Received	-	-	-	-	-
<b>OTHER INCOME</b>									
Asset disposals gains/losses	15,746	18,832	-	Asset disposals gains/losses	3,000	3,000	3,000	4,500	4,500
Livestock revaluation	15,702	(65,342)	43,371						
	31,448	(46,510)	43,371		3,000	3,000	3,000	4,500	4,500
				Farm P & E additions	94,000	30,000	55,000	60,000	35,000
				Fencing additions	13,500	8,000	8,500	10,000	11,000
					107,500	38,000	63,500	70,000	46,000
				TOTAL CAPITAL	(107,500)	(38,000)	(63,500)	(70,000)	(46,000)
				TOTAL P & L	124,871	178,621	220,424	263,516	285,202
NET	(85,696)	97,600	660,078	NET	17,371	140,621	156,924	193,516	239,202
<b>SUMMARY</b>									
Farming turnover	1,036,745	1,380,657	1,874,626						
Cost of sales	(1,249,492)	(1,189,526)	(1,214,679)						
Farm stores trading	5,881	6,723	6,347						
Other operating income	48,783	54,939	68,794						
Administrative expenses	(131,486)	(125,245)	(133,609)						
Other operating charges	170,500	16,477	15,229						
Interest receivable	1,925	86	-						
Other income	31,448	(46,510)	43,371						
	(85,696)	97,600	660,078						