

EXECUTIVE COUNCIL

CONFIDENTIAL

Title of Report: Falkland Landholdings Corporation (“FLH”) – Revised Budget Submission 2009/2010 & Overdraft Facility request
Paper No: 99/09
Date: 25th May 2009
Report of: General Manager - Falkland Landholdings Corporation

1.0 Purpose

To seek approval for the FLH Budget for 2009/2010 and to renew the existing overdraft facility with Standard Chartered Bank plc (“Standard Chartered”) for a further year to 30 June 2010 with an increase in the facility from £250,000 to £300,000.

2.0 Recommendations

- (a) That members approve the draft FLH budget for 2009/2010
- (b) That members approve either:
 - i) the renewal of FLH’s existing overdraft facility with Standard Chartered, for a further year from 1 July 2009 to 30 June 2010 with an increase the facility from £250,000 to £300,000, and agree to guarantee the £300,000 as required by the bank; or
 - ii) the provision of temporary funding to FLH to assist with cash flow which would be repayable with interest at the SCB overdraft rate.

3.0 Summary of Financial Implications

If funding is provided as recommended by means of a guaranteed bank loan, rather than cash subvention in support of the FLH operating costs, there is no additional operating cost to FIG.

4.0 Background

- 4.1 FLH experienced difficult trading conditions in the financial year 2008-2009 with depressed wool prices serving to reduce revenues for the sale of wool from £820k in 2007-2008 to forecast £676k in the current year. Average wool prices in the current year were 20% below those of last year. FLH’s budget for 2009-2010 projects a recovery in the financial fortunes of the business. Revenues from wool sales are budgeted to rise to £809k in 2009-2010 as wool prices are forecast to rise in line with world commodity markets as they

emerge from the current economic malaise. Movements in wool prices can be summarised as follows:

	2007/8	2008/9	2009/10
Wool prices - £/kg	2.65	2.20	2.35
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4.2 FLH's trading performance in recent years has demonstrated that operating costs have been disproportionately high as measured against the businesses' revenues. With the recent commodity price reductions, it has been realised that more urgent steps are needed to achieve the FLH Recovery Plan. Measures are now planned (details of which will be submitted to Exco separately) which if agreed and implemented should deliver increased revenues and reduce operating costs commencing at Fitzroy in 09/10. Revenues will be increased from the expansion of the sheep and horticultural business. Labour costs will be reduced by £20k per annum with staff reductions. It should be noted that labour costs in 2008/9 have been running at £360k per annum compared to the budget of £390k. Therefore a budgeted labour cost of £340k appears attainable. Utility costs will be pared back as electricity is charged at cost recovery rates to private consumers at the settlement. Other costs will also be trimmed with a more rigorous approach by the manager.

4.3 The anticipated net savings at Fitzroy, budgeted at £40k, have been included in the budgeted results for 2009-2010. Similar measures are being considered for Goose Green and North Arm following the initial introduction at Fitzroy, although no savings have been anticipated in the 09/10 budget at this stage.

4.4 As FLH proceeds with the recovery plan, the central overhead costs (circa £115k) of the business (comprising a GM, accounting services by FIDC and an annual audit) will need to be reduced where possible although audit costs of £13k are likely to continue for the foreseeable future. The budget assumes that these costs will continue in full for the 09/10 financial year, as central co-ordination will be needed to drive through the changes.

4.5 FLH received a FIG subsidy of £160,000 in the financial year 2008-2009 to augment the cash resources of the business following additional losses arising from low wool prices.

4.6 Notwithstanding the restructuring measures that are proposed above to reduce operating costs, FLH will not have sufficient working capital to meet its operating costs. The attached appendix 1/2 shows that between July to December 2009, there will be a cash outflow of nearly £250k for additional costs during the shearing season whilst there is minimal cash generated from wool sales. By December 2009, FLH is expected to be nearly £260k overdrawn which will need to be financed. The overdraft balance is expected to reduce thereafter as FLH enjoys cash receipts from wool sales of over £800k in the six months to June 2010.

4.7 As the revised budget projects a £68k positive cash inflow for 09/10 compared to 2008/9 and bearing in mind the tight budget round, it is proposed that FLH operations be funded by means of a further guaranteed overdraft, rather than requesting a subsidy at this stage.

4.8 In absence of a cash subsidy from FIG, the expected shortfall will need to be financed by borrowings from Standard Chartered. FLH currently has a £250,000 overdraft facility with the bank which is due to expire on 30 June 2009. It is proposed that this facility be renewed for a one year period to 30 June 2010 and that the level be increased to £300,000.

4.8 As with the existing facility, the new facility will need to be guaranteed by FIG and the guarantee will be a contingent liability for FIG.

5.0 Current Situation

5.1 The budget for 2009-2010 will need to be approved prior to the commencement of the new financial year on 1 July 2009 as the current budget expires on the 30 June 2009. Approval of the budget will also enable the auditors, Messrs Deloitte & Touche, to sign the 2008 FLH statutory accounts.

5.2 The present overdraft at Standard Chartered of £250,000 is due to expire on 30 June 2009 and a new facility, with a limit of £300,000, will need to be approved by EXCO at its 25 May 2009 meeting. Also the granting of the new facility will need to be approved by Standard Chartered's New York office. Given the short time scales involved, this request will need to be formalised as soon as possible, if it is to be in place for 30 June.

6.0 Financial Implications

6.1 FLH Budget 2009/2010 can be summarised as follows:

£000s	2007- 2008 Actual	2008- 2009 Forecast	2009- 2010 Budget	2010- 2011 Budget	2011- 2012 Budget
Revenue from trading operations	1,056	938	1,067	1,150	1,260
Other income	171	146	144	140	140
FIG subsidy	-	160			
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	1,227	1,244	1,211	1,290	1,400
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Operating profit/(loss) before FIG subsidy	6	-210	-32	39	140
Cash inflow/(outflow) from operations	-78	-185	68	-18	83
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Cash balance at 30 June	173	-11	80	62	145
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The budgeted operating loss for 2009/10 is £32k which after deducting capital expenditure of £45k and a favourable working capital movement of £145k due to lower trade debtors and raised trade creditors should result in a year end cash balance of £80k.

6.2 The budget for 2010/11 onwards shows that provided the recovery plan progresses and the overdraft is renewed, FLH should not require a subsidy. The overdraft facility will need to be guaranteed by FIG and the guarantee will be a contingent liability for FIG.

6.3 It should be noted that provision of an overdraft guarantee by FIG will result in a 'no-risk' scenario for the bank. Given these circumstances it may be more appropriate for FIG to provide the temporary funding direct. This could be done by advancing a temporary subsidy to FLH that is repaid (with interest) when cash flow is available.

7.0 Legal Implications

Falklands Landholdings Corporation may not borrow any money, give any guarantee, or give any security over any of its assets without the prior consent of the Governor advised by the Executive Council.

8.0 Human Resources Implications

None.

**FALKLAND LANDHOLDINGS CORPORATION
BUDGET PROJECTIONS**

	Actual 2007-08	Forecast 2008-09	Budget 2009-10	Projection 2010-11	Projection 2011-12	Notes on changes between years
INCOME						
Wool sales	820,089	676,000	809,706	877,196	969,208	Very good prices were achieved in 07/08
Skin/hide sales	-	-	-	-	-	
Sheep Sales	209,382	203,000	208,500	217,500	235,500	gradual increase in no's to abattoir
Cattle Sales	-	19,000	20,500	25,000	25,000	
Horticultural sales	17,726	40,000	30,000	30,000	30,000	Poor yr in 07/08, addl acres in 08/09 onwards
Other Sales	8,850	-	-	-	-	
TOTAL INCOME	1,056,047	938,000	1,068,706	1,149,696	1,259,708	
DIRECT COSTS						
Wool freight and marketing	136,508	134,921	146,805	150,288	154,673	Reflects forecast increase in sheep no's
Shearing supplies	4,576	10,500	10,500	10,500	10,500	
Livestock Expenses	8,740	11,000	9,000	9,000	9,000	
Horticultural purchases	8,715	16,923	6,923	6,923	6,923	
Contracting	177,651	179,439	181,399	184,624	188,851	Reflects forecast increase in sheep no's
Animal welfare	2,498	3,000	3,000	3,000	3,000	
TOTAL DIRECT COSTS	338,688	355,783	357,627	364,334	372,947	
ON-FARM CASH OVER HEAD COSTS						
Fencing repairs	(3,388)	13,900	8,900	8,900	8,900	07/08 reflects movement on stock in year
Buildings repairs	43,537	45,000	42,000	42,000	42,000	
Farm equipment repairs	3,172	20,000	10,000	10,000	10,000	
Vehicle expenses	30,413	40,000	30,000	30,000	30,000	
Fuel and oil	259,818	271,000	268,565	268,565	268,565	Forecast price increases similar to 07/08, not reflected in 08/09 budget
Insurances	28,634	36,000	30,000	30,000	30,000	
Employment costs	387,572	358,000	340,000	340,000	340,000	Reduced employment costs due to restructuring exercise at Fitzroy
Pasture/crops	6,065	28,000	20,000	20,000	20,000	Increased area to be planted
Miscellaneous expenses	(556)	9,317	4,500	4,500	4,500	07/08 reflects movement on stock in year
TOTAL	755,267	821,217	753,965	753,965	753,965	
Total Farm Costs	1,093,955	1,177,000	1,111,592	1,118,299	1,126,912	
Gross Farm Profit (Loss)	(37,908)	(239,000)	(42,886)	31,397	132,796	
ADMINISTRATIVE CASH OVERHEAD COSTS						
Office staff costs	71,917	71,880	73,680	73,680	73,680	based on current staff costs
Rent and rates	1,783	2,000	2,500	2,500	2,500	
Insurance	-	-	-	-	-	
Heat & Light	-	-	-	-	-	
Vehicle running costs	1,071	1,500	1,500	1,500	1,500	
Travelling	210	1,500	2,000	2,000	2,000	
Entertaining	353	600	1,500	1,500	1,500	
Postage and stationery	1,332	1,500	2,500	2,500	2,500	
Telephone	6,900	2,500	7,500	7,500	7,500	
Advertising	617	800	800	800	800	
Legal and professional	-	-	-	-	-	
Audit	33,863	13,100	14,100	14,100	14,100	
Accounting	-	20,000	20,000	20,000	20,000	
Repairs and renewals	-	-	-	-	-	
Bank interest and charges	820	-	5,000	5,000	5,000	
Equipment purchases	-	500	500	500	500	
Sundry expenses	1,642	1,500	1,500	1,500	1,500	
TOTAL	120,508	117,380	133,080	133,080	133,080	
OTHER INCOME						
Store profit/(loss)	5,598	4,000	4,000	4,000	4,000	Assumed 10% return on store purchases
Insurance claim	-	-	-	-	-	
Sundry farm stock sales	-	-	-	-	-	
Tourism	8,876	10,700	10,700	10,700	10,700	
Utilities	74,018	71,000	74,000	74,000	74,000	
Other Income	46,385	46,800	45,000	41,000	41,000	
Grants and subsidies - Camp Schools	10,500	10,500	10,500	10,500	10,500	
FIG subsidy	-	160,000	-	-	-	
Sale of assets	20,969	3,000	-	-	-	
Bank interest	4,516	-	-	-	-	
TOTAL OTHER INCOME	170,862	306,000	144,200	140,200	140,200	
Net Profit/(Loss)	12,446	(50,380)	(31,766)	38,517	139,916	
CAPITAL EXPENDITURE						
Livestock purchases including AI	43,892	5,500	5,500	5,500	5,500	Reduced as AI programme completed
Fencing	-	10,000	10,000	10,000	10,000	Required as part of recover plan
Pasture development/ditching	-	5,000	5,000	5,000	5,000	
Equipment purchases	36,449	25,000	25,000	25,000	25,000	Replacement of old worn vehicles etc.
Property development	-	-	-	-	-	
TOTAL CAPITAL EXPENDITURE	80,341	45,500	45,500	45,500	45,500	
NET CASH SURPLUS	(67,895)	(95,880)	(77,266)	(6,983)	94,416	
Movement in working capital	(11,097)	(89,229)	145,709	(11,097)	(11,097)	
Net inflow/(outflow)	(78,992)	(185,109)	68,443	(18,080)	83,319	
Opening cash balance	252,876	173,884	(11,225)	79,668	61,588	
Closing cash balance	173,884	(11,225)	79,668	61,588	144,907	

Falklands Land Holdings

Appendix 1/2

Cash Flow Forecast to June 2010

	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Net cash b/fwd	- 191,453	- 104,322	- 42,654	- 22,061	- 11,225	16,806	51,837	7,596	- 34,937	- 143,849	- 256,261	- 213,648	- 131,234	- 55,321	21,592	49,380
Receipts/(Payments) of Current items	75,042															
Net Inflow/(Outflow)	162,173	61,667	20,593	10,836	28,031	35,031	- 44,241	- 42,533	- 108,912	- 112,412	42,613	82,413	75,913	76,913	27,788	30,288
Net Cash c/fwd	- 104,322	- 42,654	- 22,061	- 11,225	- 16,806	51,837	7,596	- 34,937	- 143,849	- 256,261	- 213,648	- 131,234	- 55,321	21,592	49,380	79,668
Overdraft available	145,678	207,346	227,939	238,775	300,000	300,000	300,000	265,063	156,151	43,739	86,352	168,766	244,679	321,592	349,380	379,668
Total overdraft available	250,000	250,000	250,000	250,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000

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

Income	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Wool Sales	36,637	79,936	86,597	66,613	133,227	133,227	39,968	39,968	-	-	128,951	134,951	134,951	134,951	134,951	134,951
Meat/Livestock sales	58,500	78,134	2,000	7,150	-	-	-	-	-	-	55,542	55,542	55,542	55,542	3,417	3,417
Other Sales	12,290	15,612	16,100	16,100	16,808	13,308	13,308	13,308	16,808	13,308	13,308	13,308	16,808	13,308	13,308	13,308
FIG Subsidy	160,000															
Total	267,427	173,682	104,697	89,863	150,035	146,535	53,276	53,276	16,808	13,308	197,801	203,801	207,301	203,801	151,676	151,676

Cost of Sales

Wool selling costs	8,441	18,417	19,951	15,347	30,694	30,694	9,208	-	-	-	24,468	24,468	24,468	24,468	24,468	24,468
Repairs & Maintenance	4,025	3,985	5,025	5,025	5,075	5,075	5,075	5,075	5,075	5,075	5,075	5,075	5,075	5,075	5,075	5,075
Employment	33,833	33,833	33,833	33,333	33,167	33,167	33,167	33,167	33,167	33,167	33,167	33,167	33,167	33,167	33,167	33,167
Shearing/Contractors	6,348	4,000	3,228	304	3,889	3,889	3,889	3,889	48,800	48,800	48,800	20,000	20,000	20,000	20,000	20,000
Fuel/Oil	36,000	19,000	6,000	-	22,380	22,380	22,380	22,380	22,380	22,380	22,380	22,380	22,380	22,380	22,380	22,380
Other farm costs	4,525	14,187	3,275	3,525	16,125	5,625	5,625	5,625	5,625	5,625	5,625	5,625	5,625	5,625	5,625	5,625
Total	93,172	93,422	71,312	57,534	111,330	100,830	79,344	70,136	115,047	115,047	139,514	110,715	110,715	110,715	110,715	110,715

Admin Costs

Staff Costs	5,812	5,813	5,812	5,813	6,140	6,140	6,140	6,140	6,140	6,140	6,140	6,140	6,140	6,140	6,140	6,140
Other admin	6,270	12,780	5,980	5,680	4,533	4,533	4,533	4,533	4,533	4,533	4,533	4,533	4,533	4,533	4,533	4,533
Total	12,082	18,593	11,792	11,493	10,673	10,673	10,673	10,673	10,673	10,673	10,673	10,673	10,673	10,673	10,673	10,673

Capital/Recovery Plan

Capital Expenditure	-	-	-	-	-	-	7,500	15,000	-	-	5,000	-	10,000	5,500	2,500	-
Recovery Plan Expenditure	-	-	1,000	10,000	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	1,000	10,000	-	-	7,500	15,000	-	-	5,000	-	10,000	5,500	2,500	-