

# EXECUTIVE COUNCIL

## RESTRICTED

**Title of Report:** FLH Recovery Plan Review 07-08  
**Paper No:** 114/09  
**Date:** 25 May 2009  
**Report of:** GM-FLH

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### **1.0 Purpose**

To provide Honourable Members with a review of the FLH Recovery Plan 2007/08 to assist in understanding the proposals presented in the FLH Restructure Paper No. 113/09

### **2.0 Recommendations**

No recommendations, this paper is for information only.

### **3.0 Summary of Financial Implications**

None

### **4.0 Background**

- 4.1** In February 2005 a paper was submitted to Executive Council (Paper No.44/05) by the Chief Executive and the General Manager (FLH), which gave options for the future of FLH one of which was the introduction of a Recovery Plan.
- 4.2** The plan outlined the financial position of FLH and the investment necessary to bring FLH back into profit. Of the investment required (£1.233m total) FIG agreed to fund the operating loss over three financial years 04/05, 05/06 and 06/07 (£630K) and it was the responsibility of FLH to raise the necessary funds from the sale of certain assets to fund the development portion of the plan.
- 4.3** Funds were released (£519K) for the 04/05 & 05/06 financial years, FLH performed financially better than expected and the final payment of £111K was adjusted to £13K - 07/08 , £59K – 08/09 and £39K in 09/10.

The 07/08 subsidy was foregone to keep the school teacher in Goose Green, the 08/09 estimates showed that FLH required a subsidy of £78K however FIG instructed that an overdraft be used to fund this deficit.

**4.1** FIG assistance is subject to periodic review and on the understanding that financial support from FIG will be withdrawn if satisfactory improvement is not achieved. This report outlines the position after the first four years of the plan.

## **5.0 Review of Progress**

**5.1** The Recovery Plan objectives are reported under four main headings **Sheep, Cattle, Human and Investment/Financial**. Each of these headings was also separated into phases. Given the reliance of Falklands agriculture and the recovery plan on sheep, this report focuses more on the sheep aspects of the plan at this stage.

### **5.1.1 Sheep- Phase 1**

There were five strategic objectives that were, and still are, regarded as critical to the future success of the business as follows:

- Reduce FLH micron
- Improve lambing percentages
- Improve stock numbers
- Reduce death rates
- Increase lambs sold

There were five main objectives

- Convert Fitzroy to a finishing and horticultural unit;
- Take productive ewes off Fitzroy to Lafonia in 2005/06 season leaving terminal sire breeding flock(s);
- Aim to provide the opportunity to extend the abattoir season and facilitate an appropriate matching of slaughter season to lamb availability;
- Establish a flock ram breeding nucleus of an appropriate size and quality to cover the entire ram requirements of FLH in 2007;
- Evaluate farming systems on FLH land to determine applicability to the FLH business in terms of minimising mortality rates, increasing reproductive rates and lamb growth rates;

## **Outcomes**

The establishment of a finishing unit at Fitzroy was one of the most controversial issues. However plans were put in place to have this unit operational for lamb production to the abattoir, although in a modified format. Initially it was intended to move a large proportion of the ewes out of Fitzroy, lamb would then be returned to spelled pasture for finishing, in hindsight and

with more detailed input from farm managers it was felt more appropriate to keep the current breeding flock in Fitzroy and produce more new season lamb for the abattoir.

- To date lamb production in Fitzroy has risen from approximately 2000 to 3500 lambs whilst retaining sufficient numbers for replacements, but more importantly income has risen from £14.50 to just over £17 per head through improved quality. Lamb income has risen from approximately £40K to £66.5K. North Arm also continues to supply old season lamb to the abattoir although numbers dropped this year due to a timing issue and teeth coming into wear.
- FLH had originally committed itself to supply FIMCO with 11,000 wethers and 11000 lambs in the 2006/07 season however it became quite evident that this was having an adverse impact on FLH recovery plan. This figure was adjusted and the guarantee for FIMCO was reduced to 16000 total including all other local sales. The actual supply for 2007/08 was 8106 wethers and 7268 lambs and includes approximately 900 mutton and Xmas lamb for the local market. FLH continues to supply over 50% of the total FIMCO production without which, it is suggested, FIMCO and the Falkland Islands meat industry could not survive.
- Meat income was very close to predictions
- Average micron for FLH has improved as outlined in the table below, there has been an improvement of approximately 0.5 micron per year over the first two years, however 06/07 saw a slight increase and is likely to be as a result of ceasing pre-lamb shearing. i.e. higher fleece weights in older sheep with stronger wool.

| 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 |
|---------|---------|---------|---------|---------|
| 28.3 μ  | 27.6 μ  | 26.82 μ | 26.99 μ | 26.30 μ |

- Fencing and ditching programmes continue. The ditching carried out in hogget camps in Goose Green appears to have been successful; a reduction in hogget death rates of between 5 and 8 percent over previous years has been achieved.
- Reproduction rates in the past have been below par; the cessation of pre-lamb shearing appears to have been successful in that lambing was much improved last season, there is no doubt that this practise has had a significant impact on sheep numbers which will continue to show for a number of years.
- Wool income for the 2007/08 season was higher than originally predicted this was as a reflection of both improved micron and an improved market.

- FLH has signed up to join the Organics Scheme in North Arm and Goose Green, and aimed at wool production only at this point in time. Some areas are being kept out of the Organic system to allow current practises for lamb production to continue and hence the reason for not including Fitzroy at this point in time.

Other than a change in the use of the type of shear cut treatments there are no costs involved other than a joining fee of £250, an annual fees £120 and a 1% levy on wool sold as organic subject to a maximum of £2000.

The total cost for FLH in 2008-09 will be £500 and £4240 approximately each year thereafter. There will be no income benefits in 2008/09, at 10% benefit has been budgeted for 2009/10 (estimated £80K) a 15% benefit in 2010/11 (estimated £100K) and 20% benefit each year thereafter (estimated £150K). Both costs and income have been included in the revised projections.

### **5.1.2 Cattle-Phase 1**

There were two main objectives: -

- Breeding herd centralised
- Investigate the merits of managing weaners and finishers separately

#### **Outcomes**

Given the current overproduction of beef in the Falklands and the limited local market, there is little gain from detracting from the two herds of Goose Green and North Arm for the time being to supply to the abattoir albeit in reduced numbers. These two herds are used for pasture management as well as beef supply, operated as at present there is no need for intensive pastures/crops for finishing. FLH continues to have an annual demand for approximately 80 weaners. The breeding herd in Fitzroy has been much reduced in favour of sending animals there from the other two farms for finishing/holding for the abattoir if necessary.

### **5.1.3 Human Impacts**

- Lafonia – one farm management unit with a more mobile labour, Goose Green the centre.
- Change mind sets
- Change pay/reward structure
- Workforce ratio of 1:10000 dse (including management)

#### **Outcomes**

Mindsets are changing but it takes time and it to help facilitate this change a workshop was held at the end of August 08 to examine the way forward for FLH in terms of the longer term and in particular where we want to be in say ten years. Participants were the FLH Board, Farm Managers and Assistant

Managers, the Director of Agriculture & Minerals and the Senior Agricultural Advisor.

The Broad outcomes of this Workshop were:-

### **Strengths of the present Structure**

- Size/scale
- Secure employment
- Committed workforce
- Knowledge & expertise
- Location & infrastructure
- Tourism potential
- Planning resource & accounts
- Abattoir
- Good stock balance for diverse income

### **Weaknesses of present structure**

- Governments cannot run farms
- Lack of flexibility – management & reward
- Accounting – public requirements divorced from normal farming activity
- Settlement overheads
- Restrictive immigration rules leading to lack of skilled seasonal workers
- Insufficient co-operation/unproductive competition
- No performance incentives
- Farm too big with lack of roads to tourist destinations (North Arm)
- No involvement at Board level leads to suspicions of not being involved in decision making
- Different working practises

### **Options**

The options discussed were;-

**a) Remain with a similar structure but with a much reduced central administration, and a smaller more mobile workforce** – at face value this appeared quite attractive however on closer examination with the managers it soon became quite apparent that operational difficulties with travel etc would still require the four settlements to operate year round. The same labour savings can also be made in option C.

**b) Lease the entire property/s to independent operators** – this would remove the financial burden from FIG but may only serve to place the current difficulties onto someone else; as well as the rent the leaseholder could also be burdened with maintenance on buildings that were not required for farming.

**c) Independently Operated Government Owned Farms** – whilst there were some merits in all three the most favoured by the group was the Independent Government Owned Farms option. The advantages were seen as:-

- Farms work separately
- Form own company/ leasing farms or part
- Own boards/own accounts
- Split off settlement services
  - run like Fox Bay Village
  - sell services to farms
- No General Manager or central accounting/auditing required
- Do not have to raise capital.

There were no disadvantages listed and this is probably largely true as this workshop concentrated at looking at the best possible options for the farming activities of FLH Farms. There would however be other financial consequences for FIG (or another provider) if it were to accept responsibility for providing the settlement utilities (power & water) and other buildings surplus to the farming activities.

It can be seen in the financial section that the greatest impact on FLH performance over the last three years has been the significant increases in fuel/energy costs. The Energy Advisor for FIDC is reasonably confident that there are options for introducing wind power into these larger settlements but he is not able to provide quantifiable information at this point. The General Manager FLH has also identified some options for FLH but it would seem premature to consider such investments prior to a fuller investigation of the more whole community options that may be available, especially since the FLH options would involve reducing generator times and not include any capital investment required in private/rented homes in its settlements, which could potentially leave some homes without any form of heating at times.

It is perhaps appropriate at this point to note that there needs to a more formal integration between the Rural Development Strategy and settlement services.

There is much more work still to be done on both the operation/ownership models, renewable energy for both electricity and heating and settlement services.

The option of the Independent Owned Farms whilst perhaps more radical than perhaps first envisaged would achieve the goals of change to the pay/reward structure, reduce farm labour and the creation of a more mobile workforce contained in the original Recovery Plan.

#### **5.1.4 Investment Plan/Finances**

The original Recovery Plan required FLH to examine the disposal of surplus assets to fund the development e.g. micron reduction, fencing, pasture development etc.

This disposal of assets has not generated the levels of income originally anticipated; this is particularly true where houses have been offered for sale as prospective purchasers are not prepared to pay anything other than small amounts for holiday/secondary homes in camp. To date the Old Bunkhouse (Goose Green), 3 Beaver Road (Stanley), Pleasant Island (Fitzroy), No.14 (Goose Green), Stone Cottage (Goose Green), No.16 (Goose Green), Bunkhouse (Fitzroy) and No1 Coseley (North Arm) plus some other minor assets have been sold achieving an income of £200K in total which has been used to fund Recovery Plan Investment.

## **6. Summary**

It is quite evident that FLH is behind in the speed of its progress toward achieving the financial goals set in the original Recovery Plan; most of the farming activities are making progress albeit slower than originally planned and in particular the beef market.

The key objectives of the FLH Recovery Plan were to reduce the average wool micron, to move to a breeding flock, reduce death rates and to increase the overall number of sheep on the farms.

- So far FLH is on target to achieve the reduction in micron and the move to a breeding flock.
- FLH has been able to reduce hogget death rates in Goose Green through a programme of ditching
- The objective to increase sheep numbers has not been achieved. Analysis shows that this is an Island-wide issue, but in FLH it has been compounded by pre-lamb shearing which reduced lambing percentages and ewe survival. Although the practice has now ceased, ongoing sheep numbers are still affected.

The three most significant costs to the FLH operation is:-

- a) the price of fuel – has increased by 95% since the inception of the plan and has had the largest single impact in moving toward profitability; FLH has no access to renewable energy such as wind power; indeed if the 2008/09 fuel prices from the original plan were to be inserted into the current financial projections FLH would be near to breaking even in its trading activities and fully profitable after development costs in 2010/11
- b) employment costs – there is some room for a reduction in these but are unlikely to be achieved unless a change in the operational pay/reward structure is implemented
- c) overhead costs – being part of FIG also has its drawbacks for FLH, the overhead costs currently £126K is very high by comparison to what a privately owned farm might expect similar services to cost; it is estimated that these could be reduced to probably to as little as £50K if the farms were operated independent of FIG.

**7.0 Revised Financial Forecast**

Appendix A attached is the originally approved 10 year financial projection.  
Appendix B the revised financial projections 2008/09 to 2016/17.

**8 Financial Implications**

None

**9 Legal Implications**

None

**10 Human Resources Implications**

None



Appendix A

FALKLAND LANDHOLDINGS CORPORATION  
RECOVERY PLAN CASHFLOW PROJECTION

|                                   | 2004-05          | 2005-06          | 2006-07          | 2007-08          | 2008-09          | 2009-10          | 2010-11          | 2011-12          | 2012-13          | 2013-14          |
|-----------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| <b>INCOME</b>                     |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Wool sales                        | 690,799          | 750,650          | 804,960          | 861,450          | 943,878          | 942,230          | 993,443          | 1,039,342        | 1,081,440        | 1,082,500        |
| Skin/hide sales                   | -                | -                | -                | -                | -                | -                | -                | -                | -                | -                |
| Sheep Sales                       | 90,652           | 203,000          | 211,000          | 298,297          | 316,710          | 352,007          | 355,708          | 354,413          | 315,519          | 315,500          |
| Cattle Sales                      | 19,500           | 23,500           | 25,000           | 25,000           | 17,500           | 25,000           | 25,000           | 47,686           | 59,743           | 59,500           |
| Horticultural sales               | 25,000           | 25,000           | 25,000           | 25,000           | 25,000           | 25,000           | 25,000           | 25,000           | 25,000           | 25,000           |
| <b>TOTAL INCOME</b>               | <b>825,951</b>   | <b>1,002,150</b> | <b>1,065,960</b> | <b>1,209,747</b> | <b>1,303,088</b> | <b>1,344,237</b> | <b>1,399,150</b> | <b>1,466,441</b> | <b>1,481,702</b> | <b>1,482,500</b> |
| <b>DIRECT COSTS</b>               |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Wool freight and marketing        | 134,322          | 144,001          | 148,658          | 153,617          | 156,205          | 159,110          | 158,008          | 156,849          | 151,131          | 151,300          |
| Shearing supplies                 | 5,100            | 8,160            | 8,323            | 8,490            | 8,659            | 8,833            | 9,009            | 9,189            | 9,373            | 9,373            |
| Feedstuffs                        | 2,000            | 2,100            | 2,100            | 2,100            | 2,100            | 2,100            | 2,100            | 2,100            | 2,100            | 2,100            |
| Horticultural purchases           | 5,050            | 6,500            | 6,500            | 6,500            | 6,500            | 6,500            | 6,500            | 6,500            | 6,500            | 6,500            |
| Contracting                       | 170,000          | 176,938          | 182,180          | 182,157          | 183,307          | 179,471          | 175,218          | 170,766          | 171,001          | 171,201          |
| Animal welfare                    | 13,000           | 13,463           | 13,861           | 13,860           | 13,947           | 13,655           | 13,332           | 12,993           | 13,011           | 13,000           |
| <b>TOTAL DIRECT COSTS</b>         | <b>329,472</b>   | <b>351,162</b>   | <b>361,622</b>   | <b>366,723</b>   | <b>370,719</b>   | <b>369,669</b>   | <b>364,167</b>   | <b>358,398</b>   | <b>353,116</b>   | <b>353,474</b>   |
| <b>ON-FARM CASH OVER HEAD COS</b> |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Fencing repairs                   | 8,875            | 14,280           | 14,566           | 14,857           | 15,154           | 15,457           | 15,766           | 16,082           | 16,403           | 16,403           |
| Buildings repairs                 | 31,500           | 10,200           | 10,404           | 10,612           | 10,824           | 11,041           | 11,262           | 11,487           | 11,717           | 11,947           |
| Farm equipment repairs            | 19,800           | 15,300           | 15,606           | 15,918           | 16,236           | 16,561           | 16,892           | 17,230           | 17,575           | 17,915           |
| Vehicle expenses                  | 26,400           | 20,400           | 20,808           | 21,224           | 21,649           | 22,082           | 22,523           | 22,974           | 23,433           | 23,778           |
| Fuel and oil                      | 132,000          | 132,132          | 132,264          | 132,473          | 133,122          | 133,785          | 134,461          | 135,150          | 135,853          | 135,950          |
| Insurances                        | 43,648           | 45,830           | 48,122           | 50,528           | 53,054           | 55,707           | 58,492           | 61,417           | 64,488           | 67,712           |
| Employment costs                  | 378,844          | 382,632          | 386,459          | 390,323          | 394,227          | 398,169          | 402,151          | 406,172          | 410,234          | 414,336          |
| Pasture Improvement               | 5,000            | 5,500            | 6,050            | 6,655            | 7,321            | 8,053            | 8,858            | 9,744            | 10,000           | 10,200           |
| Miscellaneous expenses            | 3,240            | 3,500            | 3,500            | 3,500            | 3,500            | 3,500            | 3,500            | 3,500            | 3,500            | 3,500            |
| <b>TOTAL</b>                      | <b>649,307</b>   | <b>629,775</b>   | <b>637,778</b>   | <b>646,091</b>   | <b>655,087</b>   | <b>664,354</b>   | <b>673,905</b>   | <b>683,755</b>   | <b>693,202</b>   | <b>701,741</b>   |
| <b>Total Farm Costs</b>           | <b>978,779</b>   | <b>980,937</b>   | <b>999,400</b>   | <b>1,012,814</b> | <b>1,025,806</b> | <b>1,034,023</b> | <b>1,038,072</b> | <b>1,042,153</b> | <b>1,046,318</b> | <b>1,055,216</b> |
| <b>Gross Farm Profit (Loss)</b>   | <b>- 152,828</b> | <b>21,213</b>    | <b>66,559</b>    | <b>196,933</b>   | <b>277,281</b>   | <b>310,214</b>   | <b>361,078</b>   | <b>424,288</b>   | <b>435,384</b>   | <b>427,284</b>   |
| <b>ADMINISTRATIVE CASH OVERHE</b> |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Office staff costs                | 60,000           | 61,200           | 62,424           | 63,672           | 64,946           | 66,245           | 67,570           | 68,921           | 70,300           | 71,600           |
| Rent and rates                    | 3,960            | 4,000            | 4,080            | 4,162            | 4,245            | 4,330            | 4,416            | 4,505            | 4,595            | 4,687            |
| Vehicle running costs             | 7,200            | 5,202            | 5,306            | 5,202            | 5,520            | 5,631            | 5,743            | 5,858            | 5,975            | 6,075            |
| Travelling                        | 6,500            | 6,565            | 6,631            | 6,697            | 6,764            | 6,832            | 6,900            | 6,969            | 7,039            | 7,109            |
| Entertaining                      | 3,975            | 2,081            | 2,122            | 2,165            | 2,208            | 2,252            | 2,297            | 2,343            | 2,390            | 2,390            |
| Postage and stationery            | 4,920            | 4,969            | 5,019            | 5,069            | 5,120            | 5,171            | 5,223            | 5,275            | 5,275            | 5,275            |
| Telephone                         | 9,400            | 10,404           | 10,612           | 10,824           | 11,041           | 11,262           | 11,487           | 11,717           | 11,800           | 11,900           |
| Advertising                       | 340              | 343              | 347              | 350              | 354              | 357              | 361              | 365              | 369              | 373              |
| Legal and professional            | 40,500           | 42,525           | 44,651           | 46,884           | 49,228           | 51,689           | 54,274           | 55,988           | 56,988           | 57,988           |
| Repairs and renewals              | 600              | 2,081            | 2,122            | 2,165            | 2,208            | 2,252            | 2,297            | 2,343            | 2,390            | 2,390            |
| Bank interest and charges         | 13,500           | 4,375            | 4,375            | 4,375            | 4,375            | 3,500            | 3,500            | 3,500            | 3,500            | 3,501            |
| Equipment purchases               |                  | 3,060            | 3,121            | 3,184            | 3,247            | 3,312            | 3,378            | 3,446            | 3,515            | 3,600            |
| Sundry expenses                   | 600              | 600              | 600              | 600              | 600              | 600              | 600              | 600              | 600              | 601              |
| <b>TOTAL</b>                      | <b>151,495</b>   | <b>147,405</b>   | <b>151,411</b>   | <b>155,349</b>   | <b>159,856</b>   | <b>163,433</b>   | <b>168,047</b>   | <b>171,830</b>   | <b>174,736</b>   | <b>177,488</b>   |

|                                  |                  |                  |                  |               |                |                |                |                |                |                |               |
|----------------------------------|------------------|------------------|------------------|---------------|----------------|----------------|----------------|----------------|----------------|----------------|---------------|
| <b>OTHER INCOME</b>              |                  |                  |                  |               |                |                |                |                |                |                | -             |
| Store profit/(loss)              | 5,000            | -                | -                | -             | -              | -              | -              | -              | -              | -              | -             |
| Insurance claim                  | -                | -                | -                | -             | -              | -              | -              | -              | -              | -              | -             |
| Sundry farm stock sales          | -                | -                | -                | -             | -              | -              | -              | -              | -              | -              | -             |
| Tourism                          | 11,000           | 11,000           | 11,000           | 11,000        | 11,000         | 11,000         | 11,000         | 11,000         | 11,000         | 11,000         | 11,000        |
| Other income                     | 41,591           | 25,000           | 25,000           | 25,000        | 25,000         | 25,000         | 25,000         | 25,000         | 25,000         | 25,000         | 25,000        |
| Grants and subsidies             | -                | -                | -                | -             | -              | -              | -              | -              | -              | -              | -             |
| Sale of assets                   | 4,000            | -                | -                | -             | -              | -              | -              | -              | -              | -              | -             |
| Bank interest                    | 1,000            | 1,000            | 1,000            | 1,000         | 1,000          | 1,000          | 1,000          | 1,000          | 1,000          | 1,000          | 1,000         |
| <b>TOTAL OTHER INCOME</b>        | <b>62,591</b>    | <b>37,000</b>    | <b>37,000</b>    | <b>37,000</b> | <b>37,000</b>  | <b>37,000</b>  | <b>37,000</b>  | <b>37,000</b>  | <b>37,000</b>  | <b>37,000</b>  | <b>37,000</b> |
| <b>Net Profit/(Loss)</b>         | <b>- 241,732</b> | <b>- 89,192</b>  | <b>- 47,851</b>  | <b>78,584</b> | <b>154,425</b> | <b>183,780</b> | <b>230,031</b> | <b>289,458</b> | <b>297,648</b> | <b>286,796</b> |               |
| <b>CAPITAL EXPENDITURE</b>       |                  |                  |                  |               |                |                |                |                |                |                |               |
| Livestock purchases Including AI | -                | -                | -                | -             | -              | -              | -              | -              | -              | -              | -             |
| Fencing                          | 30,000           | 25,000           | 25,000           | 25,000        | 25,000         | 25,000         | 25,000         | 25,000         | 25,000         | 25,000         | 25,000        |
| Equipment purchases              | 78,000           | 37,740           | 38,495           | 39,265        | 40,050         | 40,851         | 41,668         | 42,501         | 43,351         | 43,500         |               |
| Ditching                         | -                | -                | -                | -             | -              | -              | -              | -              | -              | -              | -             |
| <b>TOTAL CAPITAL EXPENDITURE</b> | <b>108,000</b>   | <b>62,740</b>    | <b>63,495</b>    | <b>64,265</b> | <b>65,050</b>  | <b>65,851</b>  | <b>66,668</b>  | <b>67,501</b>  | <b>68,351</b>  | <b>68,500</b>  |               |
| <b>NET CASH SURPLUS</b>          | <b>- 349,732</b> | <b>- 151,932</b> | <b>- 111,346</b> | <b>14,319</b> | <b>89,375</b>  | <b>117,929</b> | <b>163,363</b> | <b>221,957</b> | <b>229,297</b> | <b>218,296</b> |               |
| No. Sheep                        | 188921           | 192324           | 198021           | 197996        | 199247         | 195077         |                |                |                |                |               |
| No. Ewes                         | 71826            | 79498            | 85913            | 91601         | 98423          | 98837          |                |                |                |                |               |
| DSE (Ewes 1.5)                   | 224,834          | 232,073          | 240,978          | 243,797       | 248,459        | 244,496        |                |                |                |                |               |
| Abattoir Numbers - Sheep         | 9144             | 21000            | 22000            | 29591         | 31383          | 38103          |                |                |                |                |               |