

EXECUTIVE COUNCIL

RESTRICTED

Title of Report: FLH Additional Funding 08/09 and Budget Submission 09/10
Paper No: 59/09
Date: 18th March 2009
Report of: GM FLH

1.0 Purpose

To seek funding to cover the difference between budgeted and currently anticipated wool sales of £85,000; to seek funding to allow the payment of local creditors of £75,000 and to seek approval of the budget for 2009/10 which requests £140,000 subsidy.

2.0 Recommendations

- (a) That funding of £160,000 is approved for the 2008/09 financial year
- (b) That the budget for 09/10 requesting subsidy of £140,000 is approved.

3.0 Summary of Financial Implications

	08/09	09/10
	£	£
Subventions budget	160,000	140,000

4.0 Reduction in Wool Income

4.1 Current MPG

The current Micron Price Guide for the average FLH micron is £2.29 per kilo. This is just 1p per kilo off the average MPG budgeted for the 2008/09 financial year of £2.30 per kilo. If FLH were to achieve current MPG for it's current year clip, this would mean a reduction of just £2,449 in overall wool sales.

4.2 Forecast Price Estimations

An exercise by the GM and the Wool Co has estimated the average price per kilo FLH could experience taking into account the current offers and market situation. This has been conducted based on the 07/08 clip which is felt will be

representative of this year's clip. It is not possible to base this on the current year's clip as not all of it has been tested yet.

This forecast gives an average forecast price per kilo of just £2.04. Using the current forecasted wool volumes this would mean a reduction compared to budget of £84,082 in overall wool sales. This is considered a 'currently expected scenario' forecast. The finer wools carry discounts of 40p from the MPG, whilst the coarser wools have offers of around the MPG.

The table below outlines the budgeted, current and forecast prices per kilo and the total forecast wool income at those prices:

FLH Wool Income Forecast

Price Per Kilo	Wool Sales
Budget 08/09: £2.30	750,215
Current MPG: £2.29	747,766
Forecast by GM & WoolCo: £2.04	666,133
Difference between budget and Forecast:	84,082

4.3 Factors Causing Discount to MPG

FLH has not in the recent past experienced such significant discounted offers. It is believed that the reason for the discounts is twofold: firstly the effect of exchange rates between the Australian/American dollars and Sterling, and secondly the lack of forward sales achieved by European top makers. In a buoyant market buyers will stockpile raw wool knowing that prices are strong and may even get better, but in depressed times they only buy to fill contracts, this is what is happening this year.

4.4 Future Price Expectations

Although there have yet to be any significant sales of FLH wool, and none of the lower micron lots, there is nothing to suggest that the overall market will improve or worsen over the coming months. The price discounts being experienced by FLH may well improve over the coming months due to exchange rate fluctuation or may indeed worsen. If the demand for tops were to improve the discounts on finer wools could improve.

5.0 Effect on Cash Flow – payment of Local Suppliers

5.1 The delay in the start of the wool selling season has had a significant effect on the cash flow for FLH. Please see attached Appendix 1A - Forecast Cash Flow including £85k Subvention Only which has taken into account the £85k wool funding requested and also the effect of the delay in receipt of wool income expected. This shows that without additional funding to cover cash flow, FLH will not be able to keep within its £250k overdraft, nor clear the balance owed by 30th June 2009 as required by the terms of the facility.

5.2 As at the end of January, FLH had total outstanding creditors of £141k, of which £107k relates to local business suppliers as shown in the table below:

FLH Aged Creditors Summary

	60 days	30 days	Current	Total
Local suppliers	14,990	20,533	71,061	106,584
Overseas suppliers	10,960	466	1,710	13,136
FIG	13,306	6,400	1,533	21,239
Total	<u>39,256</u>	<u>27,399</u>	<u>74,304</u>	<u>140,959</u>

Please see Appendix 2 for a full listing of the outstanding creditors. Although FLH makes every effort to pay local suppliers on time, this has not been possible due to the delay in the wool sales. Please see attached Appendix 1B - Forecast Cash Flow Including £85k Wool Subvention & £75k Cash Injection, which shows that a cash injection of £75k would allow FLH to pay its creditors and enable it to clear its overdraft with SCB by 30th June 2009. Unless the overdraft is cleared by this date, FLH will have to request through ExCo that it be extended.

6.0 Budget 2009/10

6.1 Please find attached Appendix 3: FLH Budget Submission 09/10. The appendix also shows actual figures for 07/08 and the budgets for 08/09 through to 2011/12. The budgeted amounts for the years 10/11 and 11/12 are indicative only. The budget requests FIG subsidy of £140k for the 09/10 financial year.

6.2 The budget reflects the depressed wool market, but forecasts a small recovery from current prices. The cost of wages has also been frozen to 08/09 levels for the foreseeable future, and it is proposed that should certain posts become vacant they will not necessarily be re-filled.

6.3 The cost of fuel has been calculated at £268,565k. This assumes a reduction in both volume and price from 08/09 – it has been assumed that there will no longer be 24hr power at North Arm and Goose Green and that the Fuel Allowance system and proposed improvements to heating systems result in reduced usage of heating fuel.

7.0 Financial Implications

7.1 The financial implications are that FLH requires a subsidy of £160k for the 08/09 financial year, but no funding had been budgeted for FLH in this financial year. FLH will also require funding of £140k for 09/10 when the original recovery plan assumed that FLH would not require funding.

7.2 The expected funding requirement for 10/11 is reduced from £140k to £65k whilst currently there is no funding requirement for 2011/12. However, it should be noted that this is based on assumed prices for the volatile wool market and is therefore not a firm budget for those years.

8.0 Legal Implications

None.

9.0 Human Resources Implications

None for FIG – a freeze on wages and re-filling of posts is assumed in the budget for 09/10.