

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 |
| | ----- | ----- | ----- |

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 | | | |
| | ----- | ----- | ----- | ----- | ----- |
| | 1,227 | 1,244 | 1,211 | 1,290 | 1,400 |
| | ----- | ----- | ----- | ----- | ----- |
| Operating profit/(loss) before FIG subsidy | 6 | -210 | -32 | 39 | 140 |
| Cash inflow/(outflow) from operations | -78 | -185 | 68 | -18 | 83 |
| | ----- | ----- | ----- | ----- | ----- |
| Cash balance at 30 June | 173 | -11 | 80 | 62 | 145 |
| | ----- | ----- | ----- | ----- | ----- |

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 | - |