



Cllr Gerald Vernon-Jackson CBE
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Our ref:
Your ref:

17 November 2020

Dear Leader

Re: Victory Energy Supply Limited (VESL)

I am writing to you in your capacity as Shareholder for Victory Energy Supply Limited (VESL) and in my capacity as the Director with delegated authority from the VESL Board to deal with all matters relating to the disposal or otherwise of the company.

By way of reminder, the Cabinet resolved on 27 November 2018 inter alia

Recommendation 2)

"External support be sought to enable the Council to cease its investment in Victory Energy Supply Limited (VESL) and seek to dispose of the Council's interest at the best possible value for the Council and to delegate to S151 and City Solicitor to conclude all of the necessary agreements to facilitate a sale"

Given my role as the nominated VESL Director in the matters of disposal, the resolution requires my nominated Deputy (acting on behalf of the Shareholder - Portsmouth City Council ("the Council")), the authority to conclude all matters relating to the disposal or winding up of VESL in terms that are in the best financial interests of the Council.

Whilst delegated authority is given to the Section 151 Officer (or nominated Deputy) and the City Solicitor, I felt it prudent to consult you on matters at this critical juncture.

As such, the VESL board are seeking agreement of the Shareholder to following:

1. Agreement to placing the VESL into Creditors Voluntary Liquidation, including for the avoidance of doubt, helping to identify a candidate to take office as liquidator;
2. Confirmation that, in the circumstances described (below) there will be no further funding be made available to VESL for its continuation in the ordinary course; and
3. Confirmation that the Shareholder will ensure funding will be made available in connection with the administrative process only of winding up of VESL (i.e. the costs of retrieving and securing data/information of VESL plus the costs of the insolvency process)

As you are aware, the VESL Board have been seeking a disposal of the company since the Cabinet Resolutions were passed in November 2018. A full chronology of events is provided at Appendix 1 for your information outlining all of the disposal activity that has taken place to date.

In my last report to the Cabinet in September 2019, you will recall that just prior to that report in August 2019, the Council rejected a joint venture opportunity from "Bidder A".

In the period between then and now the following significant events have taken place:

4 September 2019	PCC was contacted directly by an advisor acting on behalf of Bidder H
26 September 2019	Bidder H submitted an offer to acquire VESL
Early November 2019	PCC received notification from Ofgem that they were minded to revoke VESL's Gas and Electricity Supply Licence (the "Supply Licence")
5 February 2020	Bidder H signed detailed heads of terms for the acquisition of VESL
6 February 2020	Bidder H withdrew from the transaction over concerns re: the revocation of the Supply Licence by Ofgem
12 February 2020	Chris Ward wrote to Mary Starks (Executive Director, Ofgem Energy & Markets), requesting licences remain intact with full rationale
18 February 2020	Mary Starks (Executive Director, Ofgem Energy & Markets) replied stating they had already made exceptions following PCC's previous representations and were proceeding to revoke the licences
18 June 2020	Bidder I provided an offer to acquire VESL
30 September 2020	Bidder I confirmed its interest in acquiring VESL was on hold
23 October 2020	Issue of PKF Addendum to the Disposal Process Summary

It should be noted that as a consequence of the COVID-19 pandemic, the Council invoked its Business Continuity Plan on 17 March 2020 and proceeded to provide Business Critical Services for a period of three to four months after which Business as Usual Services started to be re-instated gradually. Throughout this period, disposal activities relating to VESL were at a minimum.

Throughout the period, VESL has been incurring minimum costs to maintain the company in a state suitable for sale at a cost of between £2,000 to £3,000 per month.

The Board Directors have taken advice from both PKF Francisclark LLP (Corporate Finance advisors) and CMS McKenna Cameron Nabarro Olswang LLP (Legal advisors) and has come to the conclusion that formal proceedings for a Creditors Voluntary Liquidation (i.e. voluntary "Winding Up") of VESL should commence. This conclusion has been arrived at on the following basis:

- There is no certainty of a proceedable offer for VESL at this time.
- VESL no longer holds an energy supply licence which was its key asset of value and therefore the interest in acquiring VESL will be materially reduced.
- Some parties have shown interest in the software and supplier relationships held by VESL, but not at a sufficient level to enable a transaction. As time passes the value of these types of assets is more likely to reduce, as software becomes outdated and relationships decline.

- The current outstanding liabilities of VESL amount to circa. £3.4 million of which PCC is the largest creditor at £3.3 million. In the circumstances, without any reasonable prospect of sale, the VESL Board can only foresee the position of the creditors worsening - that for the most part being PCC. Further, possible claims may be substantiated by creditors when becoming aware of the future financial position of VESL.

For these reasons, the VESL Board recommends that in the absence of any further funding to VESL from the Council as shareholder for its activities in the ordinary course of maintaining VESL for sale, that formal proceedings for a Creditors Voluntary Liquidation commence.

Given the current circumstances described above VESL has now ceased all spending with the exception of the costs of holding and maintaining the data and information for VESL by the external IT provider whilst its transfer to PCC is in progress. These contracts have a 3 month notice period and amount to £1,100 per month.

Yours sincerely

Chris Ward
Director
For and on behalf of Victory Energy Supply Limited

Appendix 1

Date	Milestone
17 October 2018	<ul style="list-style-type: none"> • PKF appointment finalised • Kick-off meeting with Chris Ward, Dan O'Hara and Jo Butlin
19 October 2018	<ul style="list-style-type: none"> • Investor list agreed. Calls to > 80 investors commenced
29 October 2018	<ul style="list-style-type: none"> • Teaser and NDA finalised and issued to interested parties
Early November 2018	<ul style="list-style-type: none"> • Work on the IM and Management presentation • Agreeing and entering 11 NDAs with interested parties
27 November 2018	<ul style="list-style-type: none"> • PCC cabinet meeting to ratify the decision to dispose of VESL • It was not deemed appropriate by PCC to share the IM and open the dataroom to parties ahead of this decision
03 December 2018	<ul style="list-style-type: none"> • IM issued to interested parties
19 December 2018	<ul style="list-style-type: none"> • Management meetings with Bidder E and Bidder D
10 January 2019	<ul style="list-style-type: none"> • Management meeting with Bidder C
28 January 2019	<ul style="list-style-type: none"> • Management meeting with Bidder A
30 January 2019	<ul style="list-style-type: none"> • Bid deadline – albeit no submissions made on time • 20 February 2019 detailed as the final deadline to enable receipt of offers from Bidder A, Bidder C and Bidder B
12 February 2019	<ul style="list-style-type: none"> • Follow up meeting with Bidder A in Dublin
13 February 2019	<ul style="list-style-type: none"> • Management meeting with Bidder B
20 February 2019	<ul style="list-style-type: none"> • Deadline for non-binding offers • EOIs received from Bidder A and Bidder B
17 April 2019	<ul style="list-style-type: none"> • Meeting with PCC (+ advisers), VESL management and Bidder B's due diligence team
26 April 2019	<ul style="list-style-type: none"> • Draft Heads of Terms received from Bidder B
01 July 2019	<ul style="list-style-type: none"> • Notification from Bidder B that they would no longer consider an outright acquisition of VESL
24 July 2019	<ul style="list-style-type: none"> • Revised Bidder A proposal received
29 August 2019	<ul style="list-style-type: none"> • Bidder A revised proposal rejected by PCC
09 September 2019	<ul style="list-style-type: none"> • Issue of PKF Disposal Summary report
04 September 2019	<ul style="list-style-type: none"> • PCC was contacted directly by an advisor acting on behalf of Bidder H
26 September 2019	<ul style="list-style-type: none"> • Bidder H submitted an offer to acquire VESL
Early November 2019	<ul style="list-style-type: none"> • PCC received notification from Ofgem that they were minded to revoke VESL's Gas and Electricity Supply Licence (the "Supply Licence")
05 February 2020	<ul style="list-style-type: none"> • Bidder H signed detailed heads of terms for the acquisition of VESL
06 February 2020	<ul style="list-style-type: none"> • Bidder H withdraw from the transaction over concerns re the revocation of the Supply Licence by Ofgem
21 February 2020	<ul style="list-style-type: none"> • Ofgem issued a Notice of Revocation of the Supply Licence
18 June 2020	<ul style="list-style-type: none"> • Bidder I provided an offer to acquire VESL
30 September 2020	<ul style="list-style-type: none"> • Bidder I confirmed its interest in acquiring VESL was on hold
23 October 2020	<ul style="list-style-type: none"> • Issue of PKF Addendum to the Disposal Process Summary