

<b>Title of meeting:</b>	Cabinet
<b>Date of meeting:</b>	27 September 2022
<b>Subject:</b>	Portico Shipping Limited - Three Year Business Plan
<b>Report by:</b>	Port Director
<b>Wards affected:</b>	All
<b>Key decision:</b>	No
<b>Full Council decision:</b>	No

---

## 1. Purpose of report

- 1.1. The Council wholly owns Portico Shipping Limited ("**the Company**"), a company which provides cargo handling and stevedoring services from Portsmouth International Port.
- 1.2. The Company's board of directors are required, by their Articles of Association, to prepare a Business Plan covering the next three years and to seek the approval of Cabinet as shareholder, of that Business Plan. Once approved, the directors of the Company must ensure that the Company's business is conducted in compliance with that plan.
- 1.3. The report sets out the advice and recommendations from the Council's officers together with areas of concern and key risks for Cabinet to consider in its on-going investment in the Company.

## 2. Recommendations

- 2.1. It is recommended that.
  - 2.1.1. the Company's three-year business plan is approved, as set out in Appendix A.
  - 2.1.2. Cabinet notes the likely call-down on the £15 million loan approved within the Council's existing Capital Programme in the Financial Year 2022/2023, as set out in Appendix C which will be:
    - a) at a rate of interest consistent with Subsidy Control rules.
    - b) necessary either for the sustainability of existing income streams of the Company or for the generation of additional income for the Company.
    - c) represents the most favourable return to the Council
  - 2.1.3. Cabinet directs the Company to provide the Cabinet with an indicative business plan by the 31 December each year, and for the Company to bring forward its next annual business plan to Cabinet for approval by no later than the 31 March in each year.



- 2.1.4. The Company business plan, in addition to the requirements set out in article 146 of its' Articles of Association, must in addition demonstrate to the Cabinet's satisfaction that it is:
- a) based on robust assumptions with a more than reasonable chance of being achievable.
  - b) prepared to illustrate the financial effect of reasonable optimistic and reasonable pessimistic scenarios to enable the Cabinet to understand the reasonable range of risk associated with the "Base Case" Business Plan.
  - c) reflects the exposure of the company to cyclical trade factors and adverse weather and demonstrates to the Cabinet that the three-year Business Plan provides an overall net return to the Council over the period considering all returns received by the Council through rents, dues and all other profit elements of services provided by the Council (including the Portsmouth International Port).

### **3. Background**

- 3.1. On 26 February 2019 Cabinet approved making available to the Company a Loan Facility of up to £15m. To 31 March 2022, the Company had drawn down £7.6m of the £15m loan facility.
- 3.2. On 14 February 2022 Cabinet approved the Company's revised Articles of Association. One of the requirements of the Articles is for the Company to prepare and submit a Business Plan for approval by the Cabinet on behalf of the shareholder covering the next three years. The Company intend that the report at Appendix A fulfils this obligation for the years 2022/23 to 2024/25.

### **4. The Company's business plan**

- 4.1 The Company's business plan should include the following:
- 4.1.1. Annual operating revenue plan and capital expenditure requirements.
  - 4.1.2. A balance sheet forecast.
  - 4.1.3. A minimum 3-year term financial strategy plan to include (amongst other things) all proposed investments, borrowing and new business of the Company and a list of key risks of its business.
  - 4.1.4. A plan for the use of any surpluses made in each year including the making of any distribution of profit subject to law.
  - 4.1.5. An annual profit and loss account; and
  - 4.1.6. Any other such information as requested in writing by the Cabinet.
- 4.2. In addition to addressing the above requirements, it provides an overview of the company's financial performance over the last three years and provides information about the Company's board structure and director appointments. The Company's business plan is provided in Appendix A.
- 4.3. The Company operates in a highly competitive market and needs to be able to offer shippers an efficient and cost-effective operation. The Managing Director



(MD) is focused on delivering the best possible financial return and has produced a strong management cost control culture. There remain some legacy agreements at the Company (MMD customer contracts) that are sensitive to market conditions and commercial volatility e.g., fruit trade and changes to EU trading conditions impacting on transshipment of deep-sea cargo to EU (removing the need for landing cargo in the UK). The UK Government decision to refocus border controls towards a new Target Operating Model by the end of 2023, has immediately added risk to the 2022/23 budget which was approved by the Company Board due to delays and uncertainty in bringing into operation the Border Control Post (BCP). The MD is focussing the team on mitigation, with the BCP income loss of £675,000 reduced to a 'net' impact of £450,000.

- 4.4. It should be noted that the Portico budget also includes £1.36 million of fuel and energy costs. This takes into account the significant increase in electricity costs and new rules that prevent businesses from using red diesel on equipment. Portico will closely follow the details of the support to businesses for energy costs announced by the new Prime Minister and, subject to meeting the criteria, will seek funding support to help mitigate the financial burden.
- 4.5. A further risk to the budget is any delay to the planning process for Brett Aggregates concrete batching operation. The Company suffered an impact on the sand and gravel imports due to planning delays in the last two financial years and, although work has commenced on the approved sand and gravel terminal, risk remains to further delays if the planning decision on the concrete batching operation is delayed further.
- 4.6. The Company has also suffered from lack of available operational land due to the reduction of 2 acres for the construction of the BCP. The Portsmouth International Port (PIP) masterplan has recognised this need along with the cruise and ferry demands and the port is working with the Portsmouth City Council property team to identify short, medium, and long-term opportunities.
- 4.7. The Company is outperforming on its business plan to handle general cargo other than fruit and, subject to availability of operational land, has a strong pipeline of commercial opportunities.
- 4.8. Other than the Port of Southampton, the Company operates the only deep-sea general cargo facility on the South Coast. This is an asset that is being exploited to its full potential. Suitable hinterland to support operations will be needed to realise the long term overall economic benefits to the port.
- 4.9. Given all the factors above there has been a robust budget procedure overseen by an experienced board of directors and, although it is not without risk, Council officers are satisfied that the Cabinet should support the Company business plan.

## **5. Reasons for recommendations**

- 5.1. The Company's business plan identifies that it will provide a return to the shareholder (Council) over the 2022/23 to 2024/25 period. On balance, there is a good, commercially justified case for the shareholder (Council) to make further investment in the Company to enable diversification of the Company's existing operations while increasing capacity and responsiveness to changes in the



market. It is reasonable to conclude that this provides the best prospects to deliver commercially attractive returns to the Council over the three-year term.

## **6. Integrated impact assessment**

- 6.1. An integrated impact assessment is not required as the recommendation does not have a negative impact on any of the protected characteristics as described in the Equality Act 2010. The capital investment set out in the Company's business plan is not for any service that could impact on customers from an equality perspective.

## **7. Legal implications**

- 7.1. As outlined in paragraph 3.2, the Company are required to produce a Business Plan on an annual basis for approval by Cabinet (on behalf of the shareholder). Once approved, the directors of the Company are responsible for managing the Company in accordance with the Business Plan. Cabinet may wish to receive regular updated from the directors as to the performance of the Company against the approved Business Plan, as it is Cabinet's responsibility to hold the directors to account for their performance.
- 7.2. The Company has appointed to its board of directors two Councillors as well as one of the Council's finance managers. Those individuals will have legal duties as directors to the Company that may conflict with their duties to the Council, and Cabinet should, in the interests of good governance, ensure that it monitors those conflicts and addresses them where necessary.
- 7.3. As a result of the cabinet decision of the 26<sup>th</sup> July 2022, the Council has appointed the cabinet member for Culture, Leisure and Economic Development as the portfolio holder responsibility for company matters. A Company Advisory group is in the process of being established, chaired by the cabinet member, which will, amongst other things, review and scrutinise business plans of the Council's companies. Due to the timing of this report however (before the establishment of the advisory group), this business plan has not been considered by the advisory group and instead been subject to scrutiny and review by the Council's finance team.

## **8. Deputy Director of Finance's comments**

- 8.1. The Company is required to produce as part of its business plan.
- 8.1.1. Annual operating revenue plan and capital expenditure requirements - this would set out how, through the setting of targets, the business plan will be achieved.
- 8.1.2. Whilst a full balance sheet has not been provided, a high level summary of assets and liabilities is set out in paragraphs 3.13 and 3.14 of Appendix A.
- 8.1.3. A minimum 3-year term financial strategy plan to include (amongst other things) all proposed investments, borrowing and new business of the Company and a list of key risks of its business - this has been provided in Appendix A.
- 8.1.4. A plan for the use of any surpluses made in each year including the making of any distribution of profit subject to law - this is not applicable as deficits are forecast over the 3-year period.



8.1.5. Due to the commercial sensitivity of such information, the three year business plan set out in paragraph 3.6 of Appendix A is presented in a summarised format, however the Deputy Director of Finance has been provided with more detailed Profit & Loss forecasts covering the periods 2022/23 to 2024/25.

8.2. The Budgeted and Forecast shareholder contributions provided for within the Budget Report approved by City Council in February 2022 as compared to the contributions assumed within the Company Business Plan approved by the Company Board in March 2022 (and set out in Appendix A) are as follows:

	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Shareholder Contribution (PCC Budget &amp; Forecast)</b>	1.000	1.000	1.000
<b>Shareholder Contribution (Portico Business Plan)</b>	1.350	0.395	0.465
<b>PCC Budget &amp; Forecast deficit/(surplus)</b>	0.350	(0.605)	(0.535)

8.3. Since the Company Board approval of the Business Plan, and as a result of UK Government decisions as outlined in paragraph 4.3, it is forecast that a further net loss of income in 2022/23 of £650,000 will arise. Therefore, mitigations totalling £200,000 have already been identified by the Company Board and the budget risk is currently assessed to be £450,000. Therefore, there is currently a potential requirement for a Council shareholder contribution of £1.8m compared to the £1m currently budgeted. It remains early in the financial year and the Company are continuing to investigate cost mitigation measures/income opportunities and the level of the required Council Shareholder Contribution will be reassessed when the Council's Budget and Forecasts are comprehensively reviewed in the autumn. This includes on-going discussions with the Government about the potentially abortive costs the Government's change of policy on Border Controls might incur.

8.4. From 2023/24, the Company will be aligning its budget setting timetable with the Council's to remove the timing differences in budget assumptions that currently exist between the City Council Budget and Forecast and the Company Business plan.

- 8.5. The defining financial consideration for the Council is the total return to the Shareholder (often referred to as the "net benefit"). This considers all other income streams to the Council derived as a direct consequence of operating the Company, net of all costs, in deriving that income and is described below:

<p>Portico Profit / Loss</p> <ul style="list-style-type: none"> <li>+ Net Income to Port (from port dues etc.)</li> <li>+ Net Income to PCC (from rent and interest on loans and leases etc.)</li> <li>+/- Dividend / Financial Support</li> <li>- PCC Capital Financing Costs</li> <li>+/- Increase / reduction in the investment value of Portico (i.e. capital gain / loss)</li> </ul> <hr/> <p><b>= Total Return to Shareholder (Portsmouth City Council)</b></p>
---

- 8.6. Accordingly, the Company's profit / loss is not the same as return to PCC, rather it is one component of the overall return to which other income streams and costs are added. It follows therefore that a loss by the Company does not necessarily translate into a negative return for PCC.
- 8.7. Based on the Company's business plan, the return to PCC is summarised in the below table:

**Table 1: Return to PCC**

	2022/23 £	2023/24 £	2024/25 £
Return to PCC	54,100	1,259,100	1,467,600

- 8.8. The table shows that the return to the Council increases year on year and exceeds £2.2m over the 3-year period.

.....  
Signed by:

**Appendices:**

Appendix A - Report from Portico Shipping Limited and 3 Year Business Plan.

**Background list of documents: Section 100D of the Local Government Act 1972**

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by ..... on .....

.....  
Signed by: