

<b>Report from</b>	The Managing Director of Portico Shipping Limited ("the Company") on behalf of the board of directors of the Company
<b>Title</b>	Portico Shipping Limited - update to shareholder and submission of Business Plan for approval

## 1. Purpose of report

1.1. The purpose of this report is to:

1. Provide an overview of Portico's financial performance over the last three years.
2. Gain Portsmouth City Council's approval of Portico Shipping Limited's three-year business plan.
3. Inform the Cabinet of the new Portico board structure and appointments.

## 2. Background

2.1 On 26 February 2019 Cabinet approved a loan facility of £15m to Portico, for the necessary Capital Investment required to deliver a return of £19.3m over the 5-year period 2019/20 to 2023/24. The loan facility was approved in principle by the City Council on 12 February 2019.

2.2 On 14 February 2022 Cabinet approved Portico's revised Articles of Association. One of the requirements of the Articles is for Portico to prepare and submit a Business Plan for approval by Portsmouth City Council as shareholder covering a three-year period.

## 3. Trading Position

3.1. Portico is progressing through a transition phase, with a new management team and an evolving strategy of diversification. The company is adapting to a changing shipping market as well as diversifying its customer base.

3.2. To adapt to these changing circumstances, a £15m loan facility (referred to above) was agreed by the shareholder in February 2019. To 31 March 2022 Portico had drawn down £7.6m of the £15m loan facility, which gives a remaining draw down balance of £7.4m.

3.3. The £7.6m draw down of the loan facility was invested in a range of areas including building refurbishments, IT infrastructure and equipment. Exempt Appendix A provides a summary of the investments funded by the £7.6m loan drawdown. In addition to the £15m loan facility, Portico also received from the shareholder a £3.5m loan in substance which financed the demolition of a warehouse and resurfacing of the area.

3.4. Portico's trading results for the previous three years, excluding provision of support to Portico in the form of a revenue grant, are summarised in the following table

**Table 1: P&L Summary for Previous Three Years**

	<b>2019/20</b> <b>£</b>	<b>2020/21</b> <b>£</b>	<b>2021/22</b> <b>£</b>
Turnover	11,804,561	11,508,849	13,620,470
EBITDA / (Negative)	(3,975,601)	(2,990,951)	(2,723,140)
Net (Loss)	(4,218,759)	(3,282,769)	(3,184,608)

The table shows an improving financial position over the three-year period. Over the last two years Portico's turnover increased significantly which reflected an increase in Customs Agency income due to increased clearance requirements as a result of Brexit. Although fresh produce coming through Portico reduced, Portico gained significant success in attracting increased volume of General and Project Cargo, which is in line with the company's diversification strategy. The Portico board remains concerned over lack of available land with current demand unable to be realised due to the terminal footprint which has fed into the Portsmouth International Port masterplan and the local plan consultation.

- 3.5. The revenue grant Portico received from the Council for the previous three years reduced year on year. This is shown in the below table:

**Table 2: Revenue Grant for Previous Three Years**

	2019/20 £	2020/21 £	2021/22 £
PCC Revenue Grant	4,300,000	3,300,000	3,250,000

- 3.6. The trading environment, driven by factors including the impact of Brexit, delays to border controls, Covid-19, significant delays in planning approval for a new customer (Brett Aggregates), a reduction in operational land due to the new Border Control Post development, customer requirements and competitors, meant that the revenue grants Portico received were higher than what had been forecast. However, Portico's future three-year business plan shows an improving financial position. The Board has signed off the business plan for 2022/23 and is in the process of approving the plan for 2023/24 and 2024/25. The three-year business plan is summarised in the following table, excluding revenue grant from PCC:

**Table 3: Three Year Business Plan**

	2022/23 £	2023/24 £	2024/25 £
Turnover	17,955,000	19,954,000	20,750,000
EBITDA	620,000	1,787,000	1,801,000
Net Profit / (Loss)	(1,350,000)	(395,000)	(465,000)

- 3.7. The table shows that Portico's turnover is forecast to increase year on year and turnover exceeds £20m by 2024/25. EBITDA is also forecast to increase year on year and Portico's bottom line is significantly improved in 2023/24 and 2024/25 compared to 2022/23. Portico's operating profit is positive, and representative of the business development targets sought by the organisation. Please see Exempt Appendix 3 for further information.
- 3.8. Portico proposes that over the 2022/23 to 2024/25 three-year period, any surpluses generated are reinvested in the company. This will reduce Portico's CAPEX borrowing requirement and will allow the company to increase future income generation.
- 3.9. Portico's capital requirements are summarised in the below table:

**Table 4: Three Capital Requirement**

	2022/23 £	2023/24 £	2024/25 £	Total £
Capital Requirement	6,700,000	300,000	3,800,000	10,800,000

- 3.10. To 31 March 2022 Portico had drawn down £7.6m of the existing £15m loan facility, which gives a remaining drawn down balance of £7.4m. The table shows that Portico's capital requirement over the 2022/23 to 2024/25 period totals £10.8m. At a later point in time, Portico will seek the necessary permissions from the Council to increase its loan facility.
- 3.11. Portico's capital requirements reflects the need for the business to continue to invest in facilities to enable the company to meet customer demand and attract business. This includes investment in a warehouse, land modifications and equipment. Exempt Appendix B provides further detail.
- 3.12. To allow Portico to further expand, increase its turnover and improve its bottom line, the company is in need of further land. Portico is actively working with its property advisors and the Council to identify suitable land to enable expansion of the business.
- 3.13. Portico's balance sheet identifies the company's assets and liabilities, and this balances to the company's equity. As at 31 March 2022, the company's fixed assets totalled £13.6m, current assets totalled £8.5m which gives total assets of £22.1m. Liabilities totalled £16.9m which gives net assets of £5.2m.
- 3.14. Portico's business plan will impact on its balance sheet. The gross book value of the company's fixed assets will increase by the £10.8m of capital investment identified in this report. Those assets, created as a result of the investment, along with Portico's existing fixed assets, will be depreciated in line with Portico's depreciation policy. The loans sought from the Council to finance this investment will be recognised as liabilities in Portico's balance sheet and will reduce in line with loan repayments. Portico's equity will change to reflect the overall change in the company's net assets.
- 3.15. Portico maintains a comprehensive risk register which is regularly reviewed and updated. It contains mitigation actions to minimise risk exposure. There is a robust internal audit procedure carried by the Council's Internal Audit Team on a regular basis, which provides assurance to the Company and the Council. Brexit remains a risk to the business including the uncertainty over the Northern Ireland Protocol and the Border Operating Model. Land availability is a risk as Portico needs further land to meet demand and to realise its full potential. This need has fed into the Portsmouth International Port masterplan and the local plan consultation. Another risk facing the business is staff recruitment and retention given the current labour market.

## 4. Portico Board

- 4.1. Portico has recently undertaken a review of its corporate governance, Board structure and Articles of Association. This was set out in a report to Cabinet on 14 February 2022. Portico's Board has been restructured, which now includes independent Non-Executive Directors, to provide independent external expert input to the company.
- 4.2. The current structure of the Portico Board and appointments is as follows:
- **Camilla Carlbom Flinn – Chair, Independent Non-Executive Director**  
Camilla is Chair of Carlbom Shipping Ltd, specialist shipping agents based on the Humber. Camilla is also Honorary Consul for Sweden for Humberside, Lincolnshire and Nottinghamshire; Honorary Consul for Finland for Immingham, Grimsby and Hull and Deputy Lieutenant of the County of Lincolnshire.

- **Justin Atkin – Independent Non-Executive Director**  
Justin is the UK and Ireland representative for the Port of Antwerp and an independent industry expert.
  - **Cllr Gerald Vernon-Jackson – Non-Executive Director**  
Cllr Vernon-Jackson is a Liberal Democrat Councillor and the Leader of the Council.
  - **Cllr Simon Boshier – Non-Executive Director**  
Cllr Boshier is a Councillor and the Leader of the opposition Conservative group.
  - **Steve Williams MBE – Managing Director, Executive Director**  
Steve is employed by Portico and is responsible for the strategic direction of the company. He has over 30 years' experience in the port sector and is a full-time employee of Portico. Steve was awarded the MBE in the Queen's honours in 2020 for his work at Portico during the pandemic to maintain operations and ensure essential supplies continued to flow to supermarkets.
  - **Richard Lewis – Operations Director, Executive Director**  
Richard is employed by Portico and is responsible for the Health and Safety and the day to day running of Portico. Richard's career in maritime and shipping began in the merchant Navy where he served as a Deck Cadet to Chief Officer, sailing worldwide on ocean salvage vessels. He then moved to onshore operations, working as a General Manager at Geest Line for 30 years. He was previously Head of Operations at Portico.
  - **Mark Webb – Chief Financial Officer, Non-Executive Director**  
Mark is employed by the Council as a Finance Manager and has been based at Portsmouth International Port since 2010. He heads up the finance team at Portico and brings a wealth of financial and commercial expertise to the company.
- 4.3. Portico employs its own Company Secretary, Shakira Hiron, who is a professional in maritime law and a full-time employee of Portico.
- 4.4. Portico ensures that its directors, together with its wider workforce, maintain the necessary skills to discharge their responsibilities.

## 5. Reasons for recommendations

- 5.1. Portico's business plan identifies that it will provide a return to the Council over the 2022/23 to 2024/25 period. The continued investment in Portico by the Council will enable further diversification of Portico'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 Company, and ultimately the Council over the three-year term.
- 5.2. Like all businesses, the past 2-years global trade supply chain, Brexit and the pandemic has impacted significantly on the progress of the Portico business plan. However, despite this the trend has continued to show an improvement particularly in diversifying to general and project cargo. The Portico board are committed to the long-term strategy that will give PCC a long-term return on investment and would therefore recommend the 3-year business plan for approval.

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Signed by:

## **Exempt Appendices**

Exempt Appendix 1: Portico's Capital Investment Funded from the £15m Loan Approval

Exempt Appendix 2: Future Three Year Capital Requirements

Exempt Appendix 3: Years 2 & 3 Business Plan (confidential)