

<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 update on Portico's trading position in 2022/23; and
  2. Gain Portsmouth City Council's approval of year one of Portico Shipping Limited's three-year business plan.

## 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.

## 3. Trading Position

- 3.1 Portico is continuing through a transition phase, and within difficult trading limitations, the management team are continuing its strategy to diversify its operations into general cargo. Fresh produce now accounts for less than 40% of Portico's trade and the company is gaining significant success in attracting general cargos including aggregates, agribulks, and ad hoc cargo.
- 3.2 Portico's forecast trading results for 2022/23, excluding provision of support to Portico in the form of a shareholder contribution, are summarised in the following table.

**Table 1: 2022/23 Forecast Trading Results**

	<b>Budget £</b>	<b>Forecast £</b>	<b>Adverse / (Favourable) Variance £</b>
Income	(17,955,645)	(15,573,574)	2,382,071
Direct Costs	7,615,701	7,833,255	217,554
Indirect Costs	9,719,425	9,212,637	(506,788)
Capital Charges & Interest	1,970,518	1,947,759	(22,759)
<b>Net Loss</b>	<b>1,350,000</b>	<b>3,420,078</b>	<b>2,070,078</b>

- 3.3 The table identifies that Portico's net loss for the year ending 31 March 2023 is forecast to total £3.42m, which is £2.07m higher than the budgeted net loss of

£1.35m. The loss derives from Portico's forecast income to be £2.4m less than budgeted. However, Portico has identified a reduction in expenditure that has offset in part this downturn in income.

- 3.4 The challenging trading environment, driven by factors including the UK recession, impact of Brexit, delays to border controls, Covid-19, a reduction in operational land due to the new Border Control Post (BCP) development, customer requirements and competitors, are the key reasons why income is forecast to be lower than budgeted. The main income areas this has affected are anticipated new services, stevedoring associated with the BCP, and custom clearances. However, there are a number of income streams that are ahead of budget including transport income, fresh produce, ad hoc cargo and grain revenues.
- 3.5 Compared to previous years Portico's financial position continues to improve, and the company's future three-year business plan also shows an improving financial position (please see section 4 below). The company continues to closely monitor its financial position and is working hard to win new business and control its costs.
- 3.6 To adapt to changing circumstances, a £15m loan facility (referred to above) was agreed by the shareholder in February 2019. It is estimated that by 31 March 2023, Portico will have drawn down a total of £12.4m of the existing £15m loan facility, which gives a remaining draw down balance of £2.6m, the loan facility was always going to be front loaded due to the approved business plan to diversify away from fresh produce which accounted for 100% of the business in 2016/17/18.
- 3.7 The £12.4m draw down of the loan facility is being invested in a range of areas including building refurbishments, IT infrastructure and equipment. Exempt Appendix 4 provides a summary of the investments funded by the £12.6m 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.

## 4. Business Plan

- 4.1 Portico's business plan for 2023/24 is summarised in Table 2 below.

**Table 2: 2023/24 Business Plan**

	<b>2023/24 £</b>
Income	(19,687,000)
EBITDA	(164,000)
Net Loss	2,100,000

- 4.2 Portico has a strong budget management system in place that includes monthly budget monitoring meetings with a wide range of budget holders. In terms of income, each customer is allocated a key account manager and regular meetings are held with customers, ranging from daily contact to monthly and quarterly business review meetings.
- 4.3 Monthly budget reports are produced which feed into a monthly budget summary report, inclusive of a forecast to year end, which is reviewed by Portico's Directors. Portico has a strong track record of controlling its costs. Business cases need to be prepared and approved for non-routine unbudgeted spend to be incurred, including for the recruitment of staff. These systems in place allow the company to remain agile and respond in a timely manner to prevailing circumstances.

- 4.4 In addition to producing a business for 2023/24, Portico has produced an indicative business plan for 2024/25 and 2025/26 which is summarised in Table 4 below.

**Table 3: 2024/25 and 2025/26 Business Plan**

	2024/25 £	2025/26 £
Income	(20,868,000)	(21,494,000)
EBITDA	(272,000)	(477,000)
Net Loss	2,100,000	1,900,000

- 4.5 The table shows that Portico's income is forecast to increase over this period and income exceeds £21m by 2025/26. EBITDA is also forecast to increase, and Portico's net loss reduces to £1.9m by 2025/26. Much of the income growth relates to Portico's diversification into General and Ad Hoc Cargos, and an expansion of freight forwarding services. Please see Exempt Appendix 1, 2, 3, & 6 for further information.
- 4.6 To allow Portico to further expand, increase its turnover and improve its financial position, the company needs further land. Portico is actively working with its property advisors and the Council to identify suitable land to enable expansion of the business and to diversify its portfolio outside of the terminal boundary.
- 4.7 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. The Portico management team are exploring opportunities outside of the terminal footprint that will add value added income streams to support the bottom line, the business plan therefore has reflected the existing terminal footprint.
- 4.8 Portico's future year capital requirements are summarised in the below table:

**Table 4: Three Year Capital Requirement**

	2023/24 £	2024/25 £	2025/26 £	Total £
<b>Capital Requirement</b>	1,800,000	4,700,000	2,000,000	<b>8,500,000</b>

- 4.9 The table shows that Portico's capital requirement over the 2023/24 to 2025/26 period totals £8.5m. It is estimated that by 31 March 2023 Portico will have drawn down £12.4m of the existing £15m loan facility, which gives a remaining draw down balance of £2.6m. At a later point in time, Portico will seek the necessary permissions from the Council to increase its loan facility.
- 4.10 Portico's capital requirements reflect 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 warehouses and land modifications to facilitate a growth in trade. Exempt Appendix 5 provides further detail.
- 4.11 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 £8.4m which gives total assets of £22m. Liabilities totalled £16.8m which gives net assets of £5.2m.
- 4.12 Portico's business plan will impact on its balance sheet including the planned capital investment in fixed assets. Portico's tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses. This means the capital investment

identified in this report would increase the gross book value of the company's fixed assets. These assets created as a result of the investment, along with Portico's existing fixed assets, will be treated in accordance with Portico's depreciation and impairment policy.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives. At each reporting period end date, the company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

- 4.13 Portico's current assets, totalling £8.4m as at 31 March 2022, consists of cash at bank and in hand, debtors and stock. Cash and stock balances are unlikely to materially change over the 3-year business plan period. Debtors are forecast to reduce, which is in line with the company's debt collection policy.
- 4.14 The largest movement of Portico's liabilities over the 3-year period is forecast to result from the £8.5m loans sought from the Council. These would be recognised as debt in Portico's balance sheet and will reduce in line with loan repayments.
- 4.15 Portico's overall assets and liabilities equate to the company's equity in the balance sheet, which consists of a share premium account and profit and loss reserve.
- 4.16 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 out 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.

## **5. Corporate Social Responsibility**

- 5.1 As a socially responsible company, Portico seeks to support the local economy, environment and its stakeholders through the activities undertaken by the organisation within Portsmouth and the wider community to generate a positive social impact.
- 5.2 Portico. employment areas range from lower skilled operatives and administrative jobs to higher skilled technical and management positions. The company also supports a number of local contractors for outsourced skills such as electrical engineering, cleaning and security. All these jobs have a direct positive impact on the local economy, as well as supporting the UK service infrastructure and wider national economy.
- 5.3 Portico also recognises the need to mitigate the environmental impact on the local and global environment, not only in terms of carbon emissions, but also other forms of local social pollution directly affecting Portsmouth residents such as particulates, noise, light and congestion. As such, Portico has undertaken two major commitments to mitigate the negative impact on the environment.
- 5.4 Firstly, the organisation has developed a sustainability roadmap which pledges Portico to become carbon neutral by 2030. This ambitious plan includes important

investment projects in the electrification of terminal equipment and utilisation of photovoltaic cells on terminal buildings to generate significant levels of renewable energy. By pledging to be carbon neutral by 2030, Portico hopes to showcase to the wider port and business community the future of port operations in Portsmouth.

- 5.5 Secondly, the organisation is in the process of developing a robust impact assessment framework which allows the business to measure, understand and mitigate any negative impact of new developments on the local community. This framework will help to ensure that local stakeholders, including residents, business and communities, are always at the heart of the future growth of Portico.
- 5.6 Finally, Portico recognises its opportunity to help grow and develop the local community through social corporate engagement activities. Each year Portico supports business students at the University of Portsmouth undertake a final year project in areas of interest to help develop their understanding of different industries and the working environment. The company also engages with local schools to help promote the importance of the maritime industry for the local community. Portico recognises opportunities to help communities further afield, including partner nations. This has recently included helping to ship essential firefighting and safety equipment to the Ghana National Fire Service. Portico has also signed a cooperation agreement to support the Bangladesh government exploring renewable energy options (windfarms), a first for the country.
- 5.7 The attached slide, from an Economic Impact Assessment Oxford Economics undertook in 2019 of Portsmouth International Port, shows the economic impact of the Port to the local and wider communities. Portico makes up an important element of this economic activity generated by the Port. The slide also shows the roles required to bring in one container ship to Portico and how the company supports the UK's critical freight routes.

## **6. Reasons for recommendations**

- 6.1 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 a commercial market.
- 6.2 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 medium to long term.
- 6.3 Like all businesses, the past 3 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 therefore recommend the 2023/24 business plan for approval.

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Signed by:

## **Exempt Appendices (confidential)**

Exempt Appendix 1: Detailed Three Year Overall Budget

Exempt Appendix 2: Key Income Budgets

Exempt Appendix 3: Activity Forecasts / KPIs

Exempt Appendix 4: Capital Investment Funded from the £15m Loan Approval

Exempt Appendix 5: Future Three Year Capital Requirements

Exempt Appendix 6: Business Summary and Business Plan