



City of Westminster

Shareholder Committee Report

Meeting or Decision Maker:	Shareholder Committee
Date:	October 2022
Classification:	Confidential Report
Title:	Summary Report
Wards Affected:	All
Company Affected:	Westco Trading Limited
Key Decision:	No
Report of:	Westco Board of Directors

Executive Summary

1. Westco Communications is a marketing agency wholly owned by Westminster City Council with more than 40 employees, generating in excess of £4m in turnover and having contributed more than £2m in profit contributions to the Council since its incorporation in 2008. The agency provides communications, research, creative and engagement services to more than 20 local government, NHS and 3rd sector clients across the UK such as the British Red Cross and the David Nott foundation.
2. While the agency has been profitable since its inception, the combination of the impact of the Covid pandemic and the significant reduction of services commissioned by Westminster City Council has resulted in losses in all of the first 5 months of the 2022/23 financial year for the first time in the agency's history. Additionally, despite low profitability in the last financial year, the Council has decided to draw from reserves a contribution for the financial year 2021/22 further worsening the agency's financial standing.
3. Throughout the pandemic, Westco was able to protect employment and did not utilise the Government's furlough scheme but the combination of costs retained during the pandemic in areas of work where work still has not recovered to previous levels and the impact of the Council's decisions on withdrawal of

reserves and cessation of the majority of commissioned services from Westco necessitate actions to secure the agency's viability.

4. Therefore and to secure the agency's short and long term future, the following is proposed for the Shareholders' committee's decision making at its meeting on the 31st October 2022:
 - a. The Committee reviews the agency's financial results for the first 5 months of the financial year (April – August 2022) noting the negative financial performance and the reasons behind this.
 - b. The Committee to be aware of the proposed agency restructure which will deliver a forecast in-year cost saving in order to bring the agency back to profitability in the second half of the financial year.
 - c. The Committee to approve the cessation of the current fixed annual contribution method and its replacement as of the financial year 2022/23 with a performance-linked contribution as is the case with most companies.
 - d. The Committee to approve an exercise to review the operational cost paid by Westco annually to the Council for Technology, Accommodation and Consultancy services provided to reflect the agency's new operating model
 - e. In response to the changed relationship between the Council and Westco, the Committee to decide on the future structure of the agency. The Westco preferred option is the transition from a Council to an Employee-owned company.

Background to Westco

5. Westco has operated since its constitution in 2007/8 selling marketing and communications expertise to the public sector. In that time the agency has driven turnover in excess of £28m and contributed in excess of £2m back to the City Council through a financial contribution comprising a council recharge for services and a share of profits. Since its launch, Westco has employed over 100 communications professionals, trained thousands of public servants and developed more than 15 heads of communications providing Westminster staff opportunities to further their careers and bring back experience to the City Council.

6. The agency has undertaken over 40 audits and reviews of public sector organisations' communications functions, placed over 50 interim professionals, and worked with Leaders and Chief Executives from local authorities of every political hue. To the best of our knowledge Westco is the most successful local authority-owned marketing and communications agency in the UK and achieved industry recognition as such in 2016 winning the Chartered Institute of Marketing (CIM) Agency of the Year award.
7. Westco provides the following services:
 - a. **Communications consultancy** including audits of communications services, narrative development, strategy, media training, board level advice and guidance.
 - b. **Interim/managed placement** of communications professionals including Heads of Communications, media, internal communications, marketing and digital.
 - c. **Digital Marketing** including strategy, content, analytics and media buying via partnerships.
 - d. **Research and evaluation** including qualitative and quantitative research services.
 - e. **Creative services** including branding, content and graphic design.
 - f. **Academy Training**, including thought leadership events, online and classroom training.
8. The agency since its inception has supported clients to deliver communications to more than 1.5 million Londoners, helped respond to crises such as Grenfell, a fatal shooting in Plymouth, Child Sexual Exploitation cases and the C19 pandemic, ran hundreds of communications campaigns and motivated thousands of staff through internal communications and change programmes.
9. Westco has had a close working relationship with its parent company with strong representation over time on its board from Cabinet Members, Executive Directors and for a short period the Council's Chief Executive as a non-executive director. The agency supported since its inception Westminster in the provision of a range of communications services. These services, including community engagement services provided to the Council since 2015. Westco is now undergoing significant change as a result of the impact of the Council's restructure of Communications and Engagement services in 2021 which saw the cessation, or significant reduction of these services.

Financial context - challenges

10. The pandemic severely affected Westco Research and Insight services as fieldwork ended abruptly from the first lockdown in March 2020 due to social distancing regulations and requirements. Our mainstay products pipeline such as consultation and resident surveys collapsed, and we had to pivot quickly to delivering online services. This was successfully achieved with some notable projects but the pipeline of external clients for online services did not replace the lost revenue. In the financial year 19/20 the pandemic resulted to a reduction in turnover of Research and Insight services compared to the year before of 92%. The Research and Insight function has worked hard to rebuild its client base and return to a break-even position in 2022 following a 50% reduction in its workforce in 2021.
11. Creative services (Design) were also impacted. During the pandemic, Westco prioritised workload from Westminster City Council as our parent company needed resources to respond to the pandemic. Award winning work such as the 'Sight See Crowd Free' and 'Opening up the City' and the protection of public health took precedence over new business development. As the work on the pandemic diminished from Westminster and the Council reduced other services commissioned from the Westco Creative team, we have found a lag in building up the pipeline with other client work.
12. The City Council has also sought to drive efficiencies through restructuring its communications and engagement services to meet its own financial challenges. As a result the work Westco does for the City Council has reduced significantly. This work will reduce further especially in creative services.
13. Although the financial impact was severe, Westco took the decision not to apply for the Government's furlough scheme in line with Cabinet Office guidance for public sector organisations (and those owned by public sector organisations) during the pandemic. The agency also took the decision not to make any redundancies during the last two years as we reviewed the changing landscape and protected our workforce.
14. To mitigate the above, Westco proactively developed and launched three new service areas in 2021/22:
 - a. **Westco campaign hub:** We developed digital marketing capabilities quickly to meet emerging need in the sector including the provision of media buying through our partnership with the Council Advertising Network (CAN). This innovative hub approach for the first time brought councils together to address common communications issues. Westco

develops free campaign strategy and collateral, pools budgets, develops media buying strategy and shares analytics on effectiveness of digital marketing campaigns.

- b. **Westco Works:** We increased our placement of expert communications resources to external clients to support both emergency requirements (e.g. resources to support a Council's response to the pandemic) and emerging areas of practice (e.g. digital communications resources)
- c. **Westco Academy:** We increased provision of thought leadership, networking and training services to public and third sector communicators through the Westco Academy. More than 1000 people attended Westco Academy events in 2021/22.

15. The pivoting to these new services areas resulted in much better than forecast results for the last financial year. The focus on digital marketing and the Campaign Hub generated significant income from media buying through our partnership with CAN and through additional services provided via the Campaigns hub (e.g. development of client campaign microsites).

16. In addition to the challenges presented by the pandemic and the Council's restructure of communications services, the agency is facing additional challenges as the national economic landscape is forged by rising inflation and further budget reductions to client Local authorities.

Financial performance in 2022/23

17. Westco has reported a loss in the first quarter of 2022, a situation predicted to continue in the second quarter. This level of forecast losses combined with a low level of reserves following the payment the contribution to WCC for the last two years means the agency will need to reduce costs to bring it back into profitability in the second half of the year.

18. The financial and operational considerations listed above necessitate us to plan for a new operating model to be live from November 2022 which means having to restructure the agency, reduce costs and rationalise development in some areas. The new operating model should return the agency to monthly profitability and therefore needs to identify cost savings alongside new income streams to cover the current levels of monthly losses.

19. This restructure will help the agency to focus on areas that are profitable and to become much better at forecasting development costs against strict revenue targets and timelines.

Financial contribution to Westminster City Council

20. Westco has paid an annual contribution to Westminster City Council since its inception in 2007/8. Over that period, it has contributed over £2m back to the City Council. A decision is made annually as to the amount of actual contribution to be paid dependent on profitability.
21. It is unclear what the existing target budget contribution from Westco represents. This is likely to include the value of support provided into Westco by the Council in terms of accommodation, IT and WCC staffing support for financial management but also a distribution of expected profits from the company.
22. In 2021/22 the contribution paid to the Council was split into two elements. An in year recharge of support costs and a distribution of prior year company profits. This total payment reduced the company's reserves and balances. At that time concerns were raised by the company with regards to the impact of this decision on the company's future available cashflow.
23. It is recommended that shareholders agree actions to mitigate the potential consequences of reducing reserves.

Future structure and governance of Westco

24. It was recognised by the shareholders at 17th March 2022 meeting that the landscape in which Westco operates and the relationship with its parent company (WCC) has changed significantly. In response to a request by shareholders a report has been compiled on the future governance options for Westco to help meet immediate and future challenges.
25. Appendix 3 sets out in detail the options appraisal and recommendations for the future governance of Westco to meet these challenges.