

The Trust's finances – a message from the Chairman of the Finance Committee

2003/04 was a year of considerable progress for the Trust, both in terms of financial results and the establishment of Trust-wide targets for the future.

Financial performance

Our membership numbers rose to 3.27 million, assisting membership income to increase by 11.4% to £84.2 million. Legacies reached a record £48.2 million (up £3.1 million over 2002/03). Our total visitor numbers increased by 8% to 13.6 million – an impressive performance during a year when much of the heritage sector experienced a decline in visitor levels.

The profit from National Trust (Enterprises) rose by an impressive 44.9% to £16.6 million. This tremendous performance, partly attributable to higher visitor numbers, was also achieved by delivering quality products, controlling costs carefully and taking opportunities to generate more income outside the main season. Retail, catering and holiday cottages all beat their targets and reached record levels.

The Trust spent £60.4m on capital projects in 2003/04 compared with £64.2m in 2002/03. These included a major re-servicing project at Snowhill Manor, improving the water supply to Trust-owned cottages in the Lake District, major conservation work at Ightham Mote and providing fresh water to Brownsea Island.

Our investment portfolio increased by 16.8% to £650 million, benefiting from the stock market recovery during the year, but still remaining below the high point achieved in 2000/01.

The General Fund operating contribution, which provides essential

funding for conservation project expenditure, was £3.9 million (after the impact of a change in accounting policies as described below). Total Net Incoming Resources amounted to £14 million compared with £5.8 million in 2002/03.

Accounting policies

There have been three important changes to the Trust's accounting policies this year which have been discussed and agreed by the Council on the recommendation of the Audit Committee. The impact of these changes is explained in more detail on page 21 of the accounts. They are being implemented in order to more accurately present the underlying annual operating financial results of the Trust.

Information systems

The investment in Information Systems is starting to deliver real benefits. A new membership system is about to go live, a new rent management system is being rolled out over the next two years and a new Human Resources system has been introduced. This investment is designed to strengthen the Trust's core infrastructure: to simplify processes as far as possible and to produce information that the practitioners in the Trust really need to do their job.

Pensions

The Trust, in common with many other charities and commercial organisations, decided to close its Defined Benefit pension scheme to new members during 2003/04. The scheme remains open for existing members. The outstanding net liability of the Trust's pension scheme, as at 29 February 2004, was estimated to amount to £80 million. This estimate reflects an actuarial calculation of the present

value of the scheme's liability to pay pensions compared with the current value of its assets. During 2003/04, after receiving actuarial advice concerning how it might endeavour to reduce this deficit, the Trust increased its annual contribution to the pension fund from £6.1 million to £10.8 million. The next formal revaluation is due in April 2005 and this is likely to result in a further significant increase in contributions by the Trust. The Trust's pension position is being carefully monitored by the Finance Committee.

Investment portfolio

The Trust's Investment Panel continues to monitor the performance of the Trust's fund managers. They are tasked with maximising the overall investment return (within agreed risk parameters) as part of the Trust's total return policy, and their performance is measured against agreed external benchmarks. The details of their performance are set out on page 31. The Consolidated Statement of Financial Activities (page 16) shows the actual income earned in 2003/04, which is approximately £6 million below the amount that the Trustees have agreed to distribute to properties. The Trust's total return policy permits distributions to properties from capital appreciation, subject to strict guidelines designed to ensure that the original capital value of endowment funds is preserved.

The future

During 2003/04, the Finance Committee assisted the Management Board to develop a Strategic Financial Plan to sustain the Trust into the future. We had jointly become increasingly concerned by the diminishing size of the Trust's annual operating margin

Introductions

The Trust's finances (continued)

over the last few years and the consequentially reduced contribution made from operations towards meeting the Trust's ever increasing long-term liabilities. These liabilities include the huge backlog of property conservation work (estimated at £198 million, but probably more), the cost of building up capital funds to support our under-endowed properties (for which we are liable in perpetuity) and the need to build a reserve for 'rainy days' (our General Fund reserve is currently sufficient to meet only four weeks of operating expenditure).

The Strategic Financial Plan has resulted in the production of a few simple long-term financial targets. The most important of these is to increase the General Fund operating result from its current low point (£3.9 million in 2003/04) to more than £20 million in 2006/07 and thereafter to keep it at that level as a percentage of income. This target, which takes account of the increased pension contributions referred to above, is very challenging. It is not, however, considered to be unrealistic and has been adopted throughout the Trust, both centrally and in the regions, as a critical component of the refreshed National Trust Strategic Plan for the period 2004–2007.

The Trust is working on a number of fronts to increase income and reduce unnecessary expenditure. Nationwide contracts have been negotiated which have reduced costs substantially in areas such as electricity, stationery and communications. This focus on our procurement of supplies and services is continuing in 2004/05. National Trust (Enterprises) Ltd continues to make impressive progress, with its retail, catering and holiday cottage arms in increasingly

popular demand. Opportunities are being explored to increase sponsorship income and to create partnerships with organisations which are sympathetic to the Trust's objectives. It remains of cardinal importance, however, that an appropriate balance is maintained throughout the Trust to ensure that commercial considerations are pursued in harmony with delivery of the Trust's core purpose.

Conclusion

There is a real recognition, throughout the Trust, that significant improvements can be made to our financial performance. This will generate vitally needed additional funding to meet our long-term financial liabilities – our obligation to look after our unique estate in perpetuity for ever, for everyone. None of this would be achievable without the tremendous support of our members and visitors. It would also be impossible without the passionate dedication of over 5,000 regular full-time and part-time staff and our 39,000 volunteers. We are certainly not a wealthy organisation, but there is a vast reservoir of goodwill to help us.

Laurie Magnus

Chairman of the Finance Committee
1 July 2004