

Laurie Magnus
Chairman of the Finance Committee



‘The Trust’s overall financial position has been greatly assisted by the resilience of its income at a time of considerable challenge...’

A conservator painting the walls at the top of the stairs at Llanerchaeron. Above him the cupola designed by John Nash sheds light on to the interior.

NTPL/PAUL KAY

The Chairman of the Finance Committee’s

Accounts Commentary

These accounts include some remarkable achievements for the Trust. Subscription income rose by 13% to £75.6m, reflecting the continuing and very welcome increase in members. Since the Trust’s centenary in 1995, our membership has grown by more than a third to over 3 million.

The Trust’s overall financial position has been greatly assisted by the resilience of its income at a time of considerable challenge, reflecting both general economic difficulties and specific issues for the Trust.

Legacies reached a record £45m (including a big increase in the pipeline), providing our most important source of funding for conservation projects. Income from visitors increased by 27% to £10.7m, and our Enterprise business increased its contribution by 30% to £11.5m, in both cases a tremendous bounce back from the financial damage caused by the foot and mouth outbreak.

We financed the most expensive acquisition in our history, Tyntesfield, under severe time pressure, with a magnificent grant from the National Heritage Memorial Fund and the help of generous donations from 70,000 members and supporters. Our efforts continue, however, to secure the necessary level of

endowment for this property to ensure its permanent inalienable status within the Trust’s portfolio.

The Trust faced relentless pressure on expenditure during the year with building maintenance and insurance costs increasing by substantially more than the rate of inflation. Our investment income declined by £3.8m (15%), mainly reflecting lower interest earnings from our shorter term investments. The overall value of our investment portfolio fell by £101m (15%), including falls in share values in line with the experience of financial markets during the year.

The Trust, with the approval of the Charity Commission, adopted a total return investment policy during 2002. Despite the significant decline in the stock market, most of our endowment funds are still showing considerable capital growth from the time they were



Flame heating a surface of bronze before microcrystalline wax is applied to hot metal, at Anglesey Abbey, Cambridgeshire.

NTPL/IAN SHAW

How we performed

Managing our Resources

Membership Income (£m)	
Target	71.4
Actual	75.6

Admission Income (£m)	
Target	9.7
Actual	10.7

Rental Income (£m)	
Target	24.0
Actual	23.6

Legacy Income (£m)	
Target	40.0
Actual	45.1

NTE Contribution (£m)	
Target	10.4
Actual	11.5

given to us. The total return policy, as explained in Note 22 to the Accounts, enables us to realise some of that capital appreciation to distribute to properties for much needed conservation work.

The fall in global share prices during the year has had a severe impact upon the Trust's pension scheme, with the deficit calculated in accordance with the applicable Financial Reporting Standard increasing from £10m to £82m. This deficit calculation is based on actuarial estimates of future financial trends and is very sensitive to share price movements. The scale of the deficit has obliged us almost to double our pension contribution – an increase of £5m per year – with a further increase being possible if the stock market does not recover above recent levels. We have, in common with many organisations, taken steps to limit the Trust's long-term pension exposure by closing the final salary scheme to new members. In addition, our staff have been asked to increase their contributions to the scheme, thereby sharing a part of this additional burden.

The increased pension charge almost equals the entire amount of the Trust's general fund operating surplus of £5.2m for 2002-3. This surplus, with legacies, is a vital source of funding for conservation work and development work. It also provides a means of boosting the general reserve funds of the Trust to enable us to cope with unforeseen emergencies such as the foot and mouth outbreak. The Finance Committee is currently working with the Management Board to establish a set of financial targets within which the Trust needs to operate over the medium term to ensure that it generates a reasonable, but realistic, operating surplus. This will necessitate yet more focus on income generation and tight cost control.

The Finance Committee continues to pay close attention to the Trust's substantial

investment in new processes and systems. The reorganisation of the management structure (costing £7m during the year) and the installation of new information technology systems (costing £5m during the year) are both of critical importance for the Trust's future. This expenditure includes a significant element of 'catch up' on under-investment in the past, which will continue in 2003-4, but should reduce thereafter. It is vital to ensure that the Trust realises the optimum benefit from these investments.

No commentary on the Trust's accounts should conclude without reference to the scale of its financial obligations. We are committed to the conservation and the provision of access to our properties for ever. Their inalienable status means that they can never be sold, or even given away, to enable us to escape or mitigate our liability for their upkeep. Our estimated backlog of repairs alone amounts to £180m. Our freely available resources are very limited, with our General Fund reserves currently sufficient to cover only three weeks of operating expenditure. The Trust cannot simply 'live within its means': it must generate operating surpluses every year in order to meet this enormous burden.

The Trust has started the current financial year with continuing strong income numbers. The Management Board is fully aware of the need to control costs, particularly in the light of the higher pension charge and increased National Insurance contribution rates. We face some difficult challenges ahead, but I am confident that the Trust's management and staff will meet them with the characteristic determination that has served the Trust so well to date.


20 June 2003

Ten Year Financial Statistics (£m)

	Membership income
	Direct Property Income*
	Legacies

* including revenue grants and contributions

1993		37
		20
		22
1995		41
		22
		22
1997		49
		32
		27
1999		56
		34
		33
2001		63
		38
		39
2003		76
		37
		45

Expenditure on the work of the Trust (£m)

1993		106
1995		109
1997		138
1999		148
2001		176
2003		241

Routine property repairs and maintenance (£m)

1993		8.4
1995		9.9
1997		10.7
1999		11.5
2001		13.0
2003		15.1

Checking that a replacement arm is aligned properly and fits the original statue during conservation work at Anglesey Abbey.

NTPL/IAN SHAW



The Financial Picture

Summary Statement of Financial Activities

Income

2001/02	£m	2002/03	£m
66.8	Membership	75.6	
57.2	Enterprises	68.7	
39.0	Legacies	45.1	
19.6	Grants and contributions	36.3	
22.9	Rents	23.6	
25.9	Investment income	22.1	
7.4	Appeals and gifts	16.0	
8.5	Admission fees	10.7	
1.6	Sales of freeholds and leaseholds	3.3	
2.4	Other property income	2.2	
£251.3m	Total	£303.6m	

Expenditure

2001/02	£m	2002/03	£m
93.3	Routine property running costs	97.1	
48.4	Enterprises	57.3	
55.7	Capital projects <small>Note 1</small>	51.9	
6.3	Acquisitions <small>Note 2</small>	31.4	
22.9	Membership, recruitment and publicity	27.8	
13.8	Support costs	24.3	
5.1	Conservation and advisory services	6.4	
2.5	Fundraising	2.6	
1.6	Charity administration	1.6	
1.0	Investment management fees	1.1	
£250.6	Total Expenditure	£301.5	
3.4	General Fund Operating Surplus *	5.2	
(2.7)	Surplus/(deficit) on other funds	(3.1)	
£251.3m	Total	£303.6m	

* The Trust's untied operating surplus for use at the discretion of the Trustees.

The National Trust's Balance Sheet

(This shows the financial resources of the Trust and how they are all committed.)

£439.0m	Tied Funds	Investments	£556.4m
	Tied by the donors to properties, new acquisitions or for particular purposes	Stocks and shares and investment property	
£137.4m	Designated Funds <small>Note 3</small>	Fixed assets	£22.3m
	Tied by the Trust to properties, new acquisitions or for particular purposes	The assets the Trust needs in order to operate, eg. tractors, computer equipment, etc	
£9.7m	The General Fund	Other assets	£7.4m
	This has to support the running costs of all the Trust's properties which are not fully endowed	Current assets less current liabilities	
£586.1m	Total	Total	£586.1m

Notes

1. Capital Projects	£m	3. Designated Funds	£m
Coast and countryside	20.6	Committed Maintenance Fund	27.5
Historic buildings	29.4	Under-endowed Property Reserve	17.5
Gardens	1.9	Fixed Asset Reserve	20.2
	£51.9m	Development Fund	24.4
		Levy Capital Retained Fund	4.9
2. Acquisitions	£m	Other designated Funds	42.9
Coast and countryside	6.3		£137.4m
Historic buildings	21.2		
Collections	3.9		
	£31.4m		