

NTS STRATEGIC REVIEW: KEY ISSUES

The key issues for the strategic review are for NTS to:

1. achieve financial viability,
2. reduce its property portfolio,
3. radically improve the effectiveness of its governance, and
4. increase its profile on heritage issues.

These are listed in order of priority if the Trust is to remain in existence as a viable entity. I shall deal with each in turn, but note that they are not mutually exclusive and that all need to be addressed in the review and in the implementation plan. I conclude by setting out my vision for the NTS of the future.

In addition, but not part of this review, is the need for the CEO to improve radically executive business systems and processes. The organisation is a number of decades behind the leaders in public, private and charitable sectors in the way it does its business. This has resulted in misapplication of resources, procrastination, inordinately slow decision making, and just plain incompetence when dealing with its members and the public. I have already produced recommendations on how to improve the working of the top structure and the coordination of work and these are attached to this paper.

Achieve financial viability

1. What is the problem?

The Trust has been running deficit budgets for the past 6 years at least. It has only been rescued by, successively, use of off budget line legacies and other donations of an unpredictable quantum; the reclassification of funds from reserved to unrestricted to qualify as one off income; the sale of non-heritage unwanted properties; the reduction of paid seasonal volunteers; the reduction of core staff; and the seasonal closure of selected properties. None of these are repeatable and the Trust has run out of options.

The scale of the financial imbalance is driven largely by the interrelated issues of the deficits at most of the properties and the large number of staff needed, directly and indirectly, to maintain the properties. The property issue is dealt with in detail under issue 2 below. Other contributory factors are the inefficient processes at governance and executive levels, and the lack of recognition in the governance and executive structure of the need for financial viability for the survival of the organisation, as exemplified recently in the debate about moving from a high cost to a lower cost HQ.

Despite continuing increases in membership, the annual subscriptions do not cover the basic running costs of the Trust. In fact, there is an argument that increasing membership merely diminishes the entrance takings at properties. Also, retail operations have too often been run at a deficit, including for example the shop and cafe at Wemyss House (although it is likely that it is at least breaking even now). The only commercial activities which appears to make a net profit consistently are the one and two week cruises.

2. What needs to be done?

(1) Change in culture

First and foremost, there needs to be a fundamental change of culture about financial viability. Put simply without adequate financial security in the short term the organisation will not exist. There needs to be recognition throughout the organisation at all levels of the governance and at the senior and middle management levels of the executive that financial viability has to be the key short and medium term goal.

(2) Reduce loss making

Second and fundamental, the numbers of properties in care should be substantially reduced. More effective management and greater use of unpaid volunteers should also reduce the costs of their operation. Income generation activities should be increased provided that they are not detrimental to the heritage conservation interest. This is dealt with under issue 2.

The Trust has been too complacent about loss making activities. It is now essential that all activities that are not needed to support the heritage conservation work and that are loss makers should be stopped immediately.

The membership offer should be reviewed to bring in more net income taking into account that all members get automatic free entry to properties. The life membership scheme should be stopped unless it can be proved to provide a net financial benefit over the next 5 years.

(3) Novel ways of increasing unrestricted reserves

A commercial review of all activities which make a net profit should result in the identification of expansion opportunities and increasing profit margins.

The Patrons Club has been a success. Other mechanisms for raising unrestricted resources from high net worth individuals should be developed.

Many of the Scottish public and the Diaspora have a keen interest in the survival and success of the Trust. A one off Appeal should be made as part of the roll out of the Strategic Review and the money raised used to establish a new operations fund for the longer term care and maintenance of proprieties and colelctions.

(4) Improved assessment of financial performance

It follows from the above that all activities need to be stress tested for their financial viability. There will be those where it is legitimate for a charity to run on a deficit but there are those, such as membership, and all commercial activity, which must run at a net profit.

There is a need for a rigorous independent scrutiny of the areas for reducing costs beyond those measures recently taken. This should include fundamental review of the possibilities of shared back room services with organisations of a similar type. This work should be commissioned urgently by the Board with the aim of targeted annual reductions in costs.

Scrutiny committees, such as the former Finance Committee, should not be reinstated, as they have proved worthless in recognising the problems and advising the higher levels of decision making on the solutions required.

Key performance indicators on fund raising, on new and innovative commercial activity (provided it passes the heritage conservation tests in the Conservation Principles), on cost reduction, and on asset disposal should be developed as a matter of urgency and approved by the Board. They should be used by the Council as the key method of measuring the performance of the Board and for the non-executive Board members to measure the performance of the CEO and the Directors over the next two years.

Reduce the property portfolio

1. What is the problem?

The root cause of the NTS financial problem is the number of properties and the demand they have on resources. The two key facts are that only 8 of the total of 129 are fully endowed and almost all of them run at an annual deficit. This is a reflection of a long standing incompetence in the leadership and management of the organisation which goes back many decades. Sentimentality rather than sense seems to have been the order of the day when opportunities for property acquisition arose. The properties drive the operating costs of the organisation, and in particular are the main determinant of the number of full time and seasonal staff required. Also, the continuing gift of items for perpetual care by the Trust, acting as a museum, without adequate operating costs is a further drain on resources.

2. What needs to be done?

A radical approach is required of a kind and scale which the Trust has never been prepared to contemplate. It has the following components.

(1) Decide what the property portfolio should be

The acquisition of properties and collections has been totally unsystematic and reactive. Although there are acquisition guidelines, these do not give any sense that the Trust is managing a *portfolio*. Indeed, many in the Trust resist the very notion of a portfolio. The first step therefore is to agree that there is a property and collections portfolio and to determine the means of assessing the current properties and collections against this. The guiding principle should be that the Trust's properties and collections should represent the key stages and types of the nation's natural and cultural history in so far as they are not protected through conservation ownership by the public sector or by other charities or by long term private sector owners. Advice on this should be gained from a short-term working group of natural and cultural history experts who should draw up criteria for the agreement of the Conservation Committee and the Board and should present their recommendations within three months to those two levels of governance. This group could be drawn from members of the Conservation Advisory Panels, as well as key external contributors. The Board should make its formal recommendations to the Council for approval within a further three months.

- (2) Determine how to hand over non core portfolio properties to others and dispose of unnecessary items from collections to appropriate collections with conservation adequate safeguards

The Disposal Guidelines provide a basis for reviewing the test for disposal, but they are inadequate as they consider disposals on a case by case basis and not in the context of the portfolio. They need revision as part of this process. Also, criteria for safeguarding the conservation status of disposals of collections and properties are needed. A review of the various mechanisms, including Conservation Agreements and Conservation Burdens, should be undertaken and clear guidance on options for different circumstances provided.

- (3) Radically reduce the running costs at properties

Some good measures were taken early in 2009 to identify the costs and to determine how to reduce them, through, for example, the reduction in the number of paid volunteers, the reduction in permanent staff on certain activities, such as gardens, and the seasonal closure of certain properties. The latter proved to be a tactical mistake and there are no figures to show that any savings resulted, and administrative costs must have increased as a result of the need to defend decisions. All Property Managers should be given a target to reduce costs by a given percentage each year in a way which is most effective at the property and in relation to the heritage assets and the customer base. No volunteer seasonal staff should be paid and a mechanism should be put in place for achieving this which is legally robust. Staff sharing between properties in the same part of Scotland should be an operational norm.

- (4) Increase appropriate income opportunities

There are good models within the Trust of income generation without undermining the heritage assets or degrading the perception of the Trust as a heritage conservation body. Fyvie Castle is probably the exemplar, with increasingly Broughton House and Threave developing examples. Properties make a brilliant venue for private and corporate events and provided they are marketed effectively and the costs are at market rates then additional business should be attracted. Incentivising the Property Managers and the Area Managers is an essential component. Activities requiring high capital investment, such as the failed sky trek proposal at Crathes, are unlikely to provide a reasonable return on investment unless costs are pared and there is firm project management. Too often expenditure has been approved for developments that are either inappropriate or in the wrong place, for example the café at Crathes, and at other properties the Property Manager does not have the discretion to determine what is best as conservation staff with no commercial acumen have too much authority. Improved processes for providing incentives to Property Managers and for placing the conservation advice in the proper context (i.e. that it is *advice*) are needed.

Radically improve the effectiveness of its governance

1. What is the problem?

There are too many people involved and too many structures. The Trust is widely regarded as ungovernable and poorly governed. This reduces not only its effectiveness, but also results in a negative perception of Trust by its supporters. The Mackay Governance Review left far too many of the key issues unresolved, particularly the size

and membership of the Council, the mechanisms for conservation advice, the reporting lines for advisory committees, and the role of scrutiny of the Board to aid the Council in its work.

There is insufficient turnover of individuals which allows old agendas to run and run. There is too much opportunity for the same people to return to the governance structure after a short period of absence. Former staff can also be elected to the Council (and there are a number of current and recent examples) and to the Board (although there are no examples of this occurring). As a result, there are too many cabals and cliques which have their own agendas, ostensibly in the best interests of the Trust. Nothing less than a radical overall is required.

2. What needs to be done?

(1) The Council

The Council should continue as the body which acts as the guarantor of the charity and the conformity of its operation with the Confirmation Acts. The Council sets the strategy for the organisation. It scrutinises the performance of the bodies which report to it, principally the Board, the Audit & Risk Management Committee, and the Nominations Committee and, in particular determines the appointment of members to these committees.

The Council is far too large and only a portion of its members is elected by Trust members. The size should be reduced to between 24 and 30 members as this is sufficient for the purposes stated above and is in line with modern governance practice. All of its members should be elected.

There is no justification whatsoever for Representative Bodies to be part of the decision-making structures of this charity. It makes for cumbersome decision making, confuses responsibilities and authorities and does not materially add to the governance processes. The exercise which was undertaken after the Mackay Governance Review was unnecessary and wasted elected and executive time. If the Trust has a desire to maintain good working relations with partner bodies in the charitable and representative worlds, which it should, then there are other more effective mechanisms, such as annual Scottish heritage events, bilaterals etc.

It is no longer best practice for former staff members to become part of the governance structure. Although there is a mild safeguard of the number of years elapsed before they can stand for Council membership, the practice has meant that old agendas and outmoded ideas and approaches have been brought to bear when new approaches and ideas are sorely needed.

The Council needs to have a much greater focus on key strategic issues concerning the governance and viability of the Trust, and on the heritage conservation agenda. This means a more pro active approach to agenda setting. I commend, therefore, the setting up of the Council Working Group to develop this process and to achieve more effective use of the skills and knowledge of Council members. Also, greater use should be made of the

capabilities of Council members through setting up time limited working groups on key issues to report to the Council.

(2) The Board

Maintaining the authority of the Board in the devolved structure is essential in a modern organisation. In the Trust, this situation needs to be formally reaffirmed by the Council. Attempts by certain Council factions to take roles and responsibilities back to itself should be firmly and formally resisted by the Council, the Chairman and the President.

The size of the Board and the balance between executive and non-executive is satisfactory. It is essential, with the new slimmed down top executive management, that all of its members are members of the Board to improve their reporting and accountability.

The key committees advising the Board should be directly represented on the Board, preferably by the Committee Convenor. This was the case with the first Conservation Committee Convenor but not with the former Finance Committee Convenor or any other committees.

The reporting process from the Board to the Council must be substantially improved and taken seriously by the new Chairman. An informal concordat on the means and nature of reporting should be agreed with the new Chairman.

Proposals by some long standing Council members that there should be a separation of Chairman between the Council and the Board should be strongly resisted. Such a division would create unnecessary conflict, confuse representational roles and blur lines of accountability.

(3) Audit and Risk Management Committee

This committee is reasonably effective in its function. However, it does not appear to drive its agenda through rigorous risk analysis of the Trust's work in the manner of audit committees which the writer is familiar with. It should continue to report to the Council, as part of the latter's guarantor role, but it should also help the Board to perform its functions more effectively by undertaking appropriate scrutinies and reviews.

(4) The Nominations Committee

This committee's role and remit need to be reviewed in the light of its first 6 years of operation. Particular issues needing to be addressed are: its role as advisor rather than decider; its ability to attract the interest of outsiders in participating in the governance structure; its impartiality and rigour; and its standard setting role in appointment procedures throughout the governance and advisory structure.

(5) Conservation Committee

The Committee's work has been largely ignored by the Board despite attempts to set the agenda of the former to suit the needs of the latter. This position needs to be rectified

with the appointment of new Chairs of the Board and the Committee. Otherwise the remit and membership of the committee should remain in its revised form determined in 2006.

(6) Conservation Advisory Panels

A review has been pending but with the changes in Director of Conservation and Chair of the Conservation Committee this is not currently appropriate. It is recommended that substantial improvements to the links between the individual Panels and property and conservation staff be put in place and tested out.

(7) Regional Advisory Committees

These do not in practice report to the Board, but it is the formal reporting line. This needs to be put into practice with agreement on the nature and frequency of reporting between the respective chairs and with the agreement of the Board.

Increase its profile on heritage issues

1. What is the problem?

For an organisation of its size and remit, the Trust plays an inadequate role as a leader in the heritage conservation movement in Scotland and in the international arena. Staff spend too much time reacting to consultations, especially from government, and too little time on advocacy and influencing policy, financial and political agendas which affect the Trust and the sector as a whole. This problem is exacerbated by the lack of attention which the Council and the Board has given to heritage conservation.

Despite early engagement with the International National Trusts Association (INTA) as a founder member, the Trust plays little role with these partner organisations, unless it is kept a secret activity by some staff!

On the other hand, there are many opportunities which the Trust could take, particularly in Scotland, in influencing and helping to fashion the heritage conservation agenda. It is clear from many conversations with those in Scottish public life, including MSPs, that this would be welcomed.

2. What needs to be done?

In most charitable organisations this activity is driven by policy development and influencing staff. With the changes to structure and personnel in late 2007/early 2008, these functions disappeared. The CEO should be asked, as a matter of urgency, to ensure that the Trust has policy development, influencing and advocacy capability.

The agreement of the new strategy by the Council following the Reid Review should result in the development of a clear agenda of heritage conservation debate and policy setting lead by the Council, with input from key expert staff and members of Council, Board and Conservation Advisory Panel members.

Among the topics which need to be more seriously and urgently discussed are:

- climate change implications for building and property maintenance and the Trust's environmental policy as these are either inadequate or out of date;

- landscape, as there is no clear current policy and there are many challenges;
- land use in relation to conflict resolution and the achievement of multi-purpose uses of land;
- improving public access to the Trust's estate and its collections; and
- The Trust's role in education of members and the public in heritage conservation.

The future National Trust for Scotland

I conclude with some thoughts on the future of the organisation and its role in Scottish life and in heritage conservation more generally.

The Trust of the future will be quite different to the present organisation. The Trust will by 2015:

- ✓ be financially viable: annual income from investments, commercial activities, membership and donations will provide an annual surplus equal to the costs of running the organisation to enable a fund for longer development of the Trust and for care and maintenance of properties and collections to be accumulated;
- ✓ have fewer properties and collections, representative of the key types and stages of Scotland's natural and cultural heritage;
- ✓ have reduced running costs by 20% through employing fewer staff, not paying any volunteers, working in partnership with other heritage bodies in the public, private and charity sectors, sharing services, improving its business processes, including radically streamlining its governance, especially at the Council level;
- ✓ be the first body to be asked for its opinion and advice on any matter related to the natural and cultural heritage of Scotland or which is likely to affect its conservation;
- ✓ be respected for the changes it has made and become an exemplar of good organisational practice in governance, strategy and management; and
- ✓ be a leading member of the international national trusts movement.

Roger Crofts

Representative Member of Council for Scottish Natural Heritage 1992-2002

Elected Member of Council 2005-2010

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January 2010