SUMMARY REPORT OF THE FINANCE LESSONS LEARNED WORKING GROUP
OCTOBER 2024

Summary

This report provides a summary of the lessons to be learned from key financial events of 2022 and 2023 that led to the challenging financial position faced by the John Muir Trust in the first half of 2024. The Trust's reserves fell below the minimum acceptable level and significant cost reductions had to be made to ensure the Trust remained financially sustainable.

Subsequently, the Board set up a small working group to review events, identify the critical lessons to be learned and make recommendations. This report summarises the work.

As a note of caution, it is important to remember that hindsight provides a different perspective from the reality of taking decisions at any time. The report identified and examined the factors that contributed to the challenging financial position. The conclusion was that one single event did not cause the adverse financial position; there were several factors involved, any one of which might not have been significant in other times. However, taken together they provided something of a perfect storm .

Key findings

The underlying financial premise of the 2022-26 Strategy was to run a financial deficit for several years while building significant growth in income, which would eventually bring the Trust into surplus. The deficit years were to be bridged' through appropriate use of available reserves. Critical financial assumptions underlying this, such as, the impact of variations in the level and timing of planned increases in income generation, or possible changes in the value of investments could have been tested more rigorously so that possible adverse scenarios could be modelled, likelihood assessed, and assurance provided that the worst case' was still financially sustainable.

An increase in income of 30% for 2023 was planned with 15% year-on-year increase thereafter. These plans were not unreasonable given previous trends but with hindsight look quite ambitious, particularly in a post-COVID economic environment. The Trust's income sources are particularly lumpy' and the timing of legacies are notably difficult to predict. The absence of modelling the possible implications of a significant shortfall left the Trust exposed to additional financial risk.

It was assumed that additional spending in key areas would generate significant additional income. The assumptions that investment in staff will generate significant new monies relied on suitable staff being recruited. A deficit of £2m had been budgeted for 2023 so the resulting deficit reported in the accounts was in line with plan. However, the original plan was on the basis that the income base would have increased significantly, and this did not happen. The shortfall of income was also significant because of its impact on cash flow.

The Reserves Policy specified minimum and maximum levels, but the Reserves position was not routinely reported to the Board during 2022 and not subject to regular scrutiny, which might have highlighted the emerging issues earlier.

A cash flow forecast was not part of regular reporting during 2022 and 2023. Had this been in place there would have been earlier warning of the need to divest funds and set up a loan facility in the latter half of 2023, when the Trust was also facing other challenges. Also, during 2022 the value of investments fell by £0.8m which contributed to the 2022 reported deficit. The risk of a change in the valuation of investments was not factored into the Strategy affordability model or subject to any sensitivity analysis.

The Trust has a small Finance Team and at the critical period during the latter part of 2023, when the Trust was facing other management challenges with the suspension of the CEO, the Finance Team along with other senior staff was under considerable pressure. Financial systems and controls were heavily reliant on key staff and needed considerable improvement. This inherent pressure was compounded by sickness absence and turnover in the small Finance Team.

In summary, one single event or factor did not cause the adverse financial position which arose; several contributory factors were involved. Any one of these might not have been significant in other times but the aggregate effect was that taken together they provided something of a perfect storm and required urgent and unpalatable measures to ensure the Trust remained financially sustainable.

Key recommendations

The financial risks of major plans and developments can be more effectively managed if key assumptions are subjected to **sensitivity analysis**. The Trust can then be assured that plans remain sustainable even in the worst-case scenario.

Predicting the scale and timing of **income** is particularly problematic due to its nature. Granular detail highlighting key assumptions on likelihood, scale and timing of key income streams already exists. Adding **sensitivity analysis** to this would enable differing scenarios to be even better managed. Also, close and regular liaison and checking of assumptions between the Income Generation and Finance Teams will ensure that financial plans, cash flow forecasts and use of reserves are coherent and owned.

A **three-year financial plan**, comprising income and expenditure, balance sheet, cash flow forecast, and analysis of reserves should be prepared and updated as part of the annual budget preparation cycle, recognising that this is likely to change over time.

Financial reporting and monitoring by the Finance Committee and the Board should comprise:

- Quarterly reporting pack to the Finance Committee and Board covering income and expenditure, key variances and commentary, Statement of Financial Activities (SOFA) and cash flow to be produced as quickly as possible after the period end to meet Board timetable.
- Quarterly reporting to the Finance Committee and Board on the Balance Sheet and Reserves position.

All Trustees should receive induction and regular training on sound financial management and governance.

A development programme should be implemented to improve the financial literacy and understanding of sound financial management across the Trust.

The recommendations are set out below.

SUMMARY OF RECOMMENDATIONS

1	Financial risks of major plans and developments should be stress tested using **sensitivity analysis** so that the Trust can then be assured that plans are financially sustainable even in the worst-case scenario.
2	**Three-year financial plan**, comprising income and expenditure, balance sheet, cash flow forecast, and analysis of reserves should be prepared and updated alongside the annual budget preparation cycle.
3	**Income generation:** • Income budgets should be subject to sensitivity analysis • Monthly monitoring of income plans should be undertaken jointly by Finance and the Income Generation team and owned by the Leadership Team.
4	The **timing** of the quarterly Finance Committee and Board meetings should be set to ensure that the most up-to-date financial position is routinely reported in a timely way.
5	A **quarterly reporting pack** to the Finance Committee and Board should include income and expenditure, position against plan, key variances and commentary, Statement of Financial Activities (SOFA) and cash flow.
6	**Quarterly reporting** to the Finance Committee and Board on the Balance Sheet and Reserves position should take place.
7	Matters considered by the Board for decision, such as new investments, should routinely include a section that identifies any **financial implications**, whether plans are covered by existing budgets, source of funds where new and any financial risks and how they will be managed.
8	All Trustees should receive induction and regular training on sound financial management and governance.
9	A Development Programme should be implemented to improve the financial literacy and understanding of sound financial management across the Trust.