

## **First Steps Bath Reserve Policy**

### **PURPOSE**

The purpose of the Reserves Policy for First Steps Bath is to ensure the stability of the mission, employment, projects, and ongoing operations of the organisation and to provide a source of internal funds for organisational priorities such as building repair and improvement, project opportunities, and capacity building.

The Reserves Policy will be implemented in conjunction with the other governance and financial policies of First Steps Bath and is intended to support the goals and strategies contained in these related policies and in strategic and operational plans.

### **DEFINITIONS AND GOALS**

#### **General Operating Reserve**

The General Operating Reserve is intended to provide an internal source of funds for situations such as sudden and unexpected increase in expenses, unanticipated loss in funding, or uninsured losses. General Operating Reserves are not intended to replace a permanent loss of funds or eliminate an ongoing budget gap. It is the intention of First Steps Bath that any General Operating Reserves used will be replenished within a reasonably short period of time. The minimum amount will be established as an amount sufficient to maintain ongoing operations measured for a set period in months. The Operating Reserve serves a dynamic role and will be reviewed and adjusted in response to both internal and external changes.

The trustees carefully consider the level of free reserves that should be maintained to safeguard First Steps obligations and the needs of users of First Steps Services.

The trustees have agreed to maintain a target level of free reserves (these being unrestricted funds excluding assets, investments, and restricted funds) equivalent to a minimum of three months expenditure, with an absolute minimum threshold of no less than two months expenditure.

Based on the budgeted expenditure for the upcoming financial year, the average monthly spend is approximately £172,788. Accordingly, the minimum reserves target ranges between £345,576 (two months) and £518,364 (three months).

As of end of year 2024 2025, the unrestricted reserves—excluding designated fixed assets—stand at £350,459.

Considering the current economic climate and its impact on both the organisation and our service users, as well as the potential challenges in future fundraising efforts, the trustees will confirm that the existing level of reserves is appropriate. The Board will identify and approve future projects and strategically plan to secure the necessary funding to support these initiatives. This approach will ensure that First Steps can capitalise on opportunities to advance its charitable objectives effectively.

The amount of the Operating Reserve Fund target minimum will be calculated each year after approval of the annual budget and agreed by the Trustee Board and included in the regular financial reports. Any amount more than this is intended to provide a ready source of funds for repairs, furniture, fixtures, and equipment necessary for the effective operation of the organisation and programs as well as unexpected repairs.

### **Designated Fixed Asset Reserve Fund**

The Fixed Asset Reserve is the tangible fixed assets used to carry out the charity's activities, such as land and buildings or the acquisition of further buildings, leaseholds. This amount will equal the carrying value of the fixed assets in the charity's financial statements.

### **Special Project Reserve Fund**

The Special Project Reserve is a designated fund that could not be met from future income. This fund is set aside for a particular purpose or need that further the mission of the organisation which may or may not have specific expectation of incremental or long-term increased income. The Special Project Reserve is also intended as a source of internal funds for organisational capacity building such as staff development, research and development, or investment in infrastructure that will build long-term capacity. This fund will be undesignated or re-designated as agreed upon by the Trustees.

First Steps Bath Board of Trustees will determine the target amount of the Special Project Reserve.

### **Restricted Reserves Fund**

Restricted Reserve Fund is a fund where income has been given for a particular purpose and can only be spent on that purpose and where the assets must be used in a reasonable period from their receipt. Restricted funding includes beneficiary gifts, emergency appeals where money will be raised for a specific purpose, legacies donated for a specific purpose, or a grant given for a project.

## **ACCOUNTING FOR RESERVES**

The Reserve Funds will be recorded in the financial records. The Funds excluding the fixed asset reserves and restricted funds will be available in cash or cash equivalent funds. They will be held with a UK bank or building society in an interest-bearing account linked to the charity's current account allowing for same-day money transfer. Funds for longer-term investment will be agreed with the Trustees.

## **FUNDING RESERVES**

The General Operating Reserve will be funded with surplus unrestricted operating funds. The Board of Trustees may sometimes direct that a specific source of

revenue be set aside for the Special Project Reserves. Examples could include unrestricted one-time gifts or bequests, special grants, or special appeals.

The Designated Fixed Asset Reserve Fund will be funded by setting aside funds received from capital campaigns or similar appeals and identified amounts from the surplus unrestricted operating funds.

The Special Project Reserve will be funded with occasional special designations made by the Board of Trustees from the unrestricted operating funds.

The Restricted Reserves Fund is funded from fundraising campaigns or individual donations or grants for a specific purpose. These funds can only be spent on that purpose and must be used in a reasonable period from their receipt.

## **USE OF RESERVES**

Use of the Operating Reserves requires three steps:

### **1. Identification of appropriate use of reserve funds.**

The Chief Executive and SMT (Senior Management Team) will identify the need for access to reserve funds and confirm that the use is consistent with the purpose of the reserves as described in this Policy. This step requires analysis of the reason for the shortfall, the availability of any other sources of funds before using reserves, and evaluation of the time that the funds will be required and replenished.

### **2. Authority to use operating reserves**

The Chief Executive will submit a request to use Operating Reserves to the Board of Trustees. The request will include the analysis and determination of the use of funds and plans for replenishment. The organisation's goal is to replenish the funds used within twelve months to restore the Operating Reserve Fund to the target **minimum** amount. Following approval by the Board, the Chairperson and Treasurer will jointly approve or modify the request and authorize transfer from the fund. Authority to use Special Project Reserve and Building and Capital Asset Reserve will follow the above process except for the replenishment timescales. Use of the Restricted Reserve Fund is defined by its restriction.

### **3. Reporting and monitoring.**

The Chief Executive is responsible for ensuring that the Reserve Funds are maintained and used only as described in this Policy. Upon approval for the use of Reserve Funds, the Chief Executive will maintain records of the use of funds and a plan for replenishment, if required. They will provide regular reports to the Board of Trustees of progress to restore the Fund to the target minimum amount, if required.

## **RELATIONSHIP TO OTHER POLICIES**

First Steps Bath shall maintain the following board-approved policies, which may contain provisions that affect the creation, sufficiency, and management of the Operating Reserve Fund.

- Financial Rules Policy

### **REVIEW OF POLICY**

This Policy will be reviewed every year or sooner if warranted by internal or external events or changes. Changes to the Policy will be recommended by the Chief Executive and SMT to the Board of Trustees.

Policy drafted by Sarah Elliott, Finance and Administration Manager,  
August 2020

Approved October 2020

Reviewed July 2021

Reviewed by SMT April 2022

Reviewed by SMT April 2023

Reviewed by SMT June 2024

Approved by Trustees July 2024

Reviewed by SMT June 2025