PORLOCK PARISH COUNCIL

POLICY – BANKING ARCHITECTURE, POLICY & FINANCIAL PROCEDURES

Date: 02 November 2026 **Author:** Clerk & RFO

1. Purpose
This policy establishes a secure banking structure for the management of parish council funds by separating operational cash, reserves, grants and capital funds into dedicated accounts as required under the Local Government Act 1972, Accounts and Audit Regulations, and Joint Panel on Accountability and Governance (JPAG) principles for parish councils and consistent with Council's Financial Regulations, Investment and Reserves Policies.

The objectives are to:

- Improve financial transparency.
- Strengthen internal controls.
- Protect public funds.
- Simplify reserve management.
- Ensure compliance with Proper Practices.
- Support long-term financial planning.

2. Banking Structure
The Council shall maintain the following bank accounts:

Account	Type	Purpose
Operational Spend Account	Current Account	Day-to-day transactions and payments
Investments Account	Savings/Deposit Account (Notice)	Restricted Investment funds
Capital Reserves Account	Savings/Deposit Account (Instant Access)	Capital projects and asset replacement funds
General Reserves Account	Savings/Deposit Account (Instant Access)	Unallocated reserve funds
Earmarked Reserves Account	Savings/Deposit Account (Instant Access)	Specific council-approved reserve allocations

3. Account Definitions
3.1 Operational Spend Account
This shall be the Council's primary current account.
Income Received

- Precept payments
- VAT refunds
- Fees and charges
- Miscellaneous income
- Transfers from reserves

Payments Made

- Salaries
- HMRC
- Contractors
- Utilities
- Insurance
- Memberships
- All approved expenditure

Working balance will be reviewed by council monthly

3.2 Investments Account
This account shall hold funds specifically for receiving dividends and interest from investment bonds held by the council.

Funds may only be transferred to the Earmarked Reserves or Capital Reserves Account or spent on their approved purposes.

Interest earned shall remain within the fund.

3.3 Capital Reserves Account
This account shall hold monies earmarked for future capital expenditure as set out in the Capital Reserves Portfolio

Capital receipts shall normally be deposited into this account.

A schedule of capital reserves shall be reported annually.

3.4 General Reserves Account
This account shall hold the Council's General Reserve.

The Council shall aim to maintain: Minimum Level of 50% of its total annual expenditure.

General Reserves may only be used following Council approval.

3.5 Earmarked Reserves Account
This account shall hold funds allocated by resolution for specific purposes as set out in the Earmarked Reserves portfolio.

A schedule of earmarked reserves shall be reported annually.

3.5 Corporate Credit Account
This account shall be for the sole purpose of spend where payment on receipt of invoice is not available.

4. Banking Providers
The Council may use:

- Community-focused banks
- UK clearing banks
- Building societies
- Public sector investment providers

Selection criteria shall consider:

- Financial Services Compensation Scheme protection
- Interest rates
- Security
- Service quality
- Online banking functionality
- Public sector suitability
- Social & ethical banking

4A. Banking Arrangements
In accordance with Council's Financial Regulation 1.7 and Section 6 (Banking and Payments), the Council shall regularly review and determine the bank mandate for all Council bank accounts and ensure appropriate banking controls are maintained. The Council shall maintain a banking structure that provides clear separation between operational funds, restricted funds and reserves, while ensuring sufficient liquidity for day-to-day activities.

Banking Account Structure
The Council shall operate the following accounts:

- Operational Spend Account (Current Account)
- Investments Account
- Capital Reserves Account
- General Reserves Account
- Earmarked Reserves Account
- Corporate Credit Account

4B. Banking Arrangements and Authorised Access
The Council shall:

- Maintain a minimum of three councillor bank authorisers wherever possible.
- Maintain dual-authorisation controls for all electronic payments.
- Ensure no payment can be released by a single individual.
- Review bank mandates annually and when councillor or officer roles change.
- Require Multi-Factor Authentication (MFA) on all online banking facilities.
- Ensure all reserve and savings accounts are held in the name of Porlock Parish Council.

The Responsible Financial Officer shall maintain a schedule of:

- Bank accounts.
- Account purposes.
- Signatories.
- Online banking users.
- Deposit maturities.

This schedule shall be reviewed annually by Council.

5. Deposit Protection
The Responsible Financial Officer (RFO) shall monitor cash balances and seek to minimise exposure above Financial Services Compensation Scheme limits where practical.

The Council shall diversify holdings when balances become significant.

6. Authorised Signatories
The authorised signatories shall be:

- Clerk/RFO (Admin & Requisition only)
- Chair
- Vice Chair
- FHR Chair
- Up to three additional councillors

Minimum authorised signatories: Five recommended.

7. Payment Authorisation
7.1 Online Banking
Payments shall follow a dual-authorisation process:

Stage 1
Clerk/RFO prepares payment.

Stage 2
Two councillors independently authorise payment.
The authorising councillors must verify:

- Supplier name
- Amount
- Invoice
- Budget heading

7.2 No Single Person Control
No individual shall:

- Create a payee;
- Authorise a payee;
- Authorise payment;

without independent verification.

8. Transfers Between Accounts
8.1 Routine Transfers
Transfers may be initiated by the Clerk/RFO and authorised by two councillors.
Examples include:

- Precept allocation to reserves.
- Transfer of grant income.
- Funding approved projects.

8.2 Council Approval
Transfers exceeding: **£5,000** shall require formal Council resolution.

9. Banking Procedure
Receipt of Funds

- **Step 1** Income received is recorded in accounting software.
- **Step 2** Funds deposited to:
- Operational Spend Account, or
- Sponsorship & Grants Account if restricted.
- **Step 3** Receipt recorded with audit trail.
- **Step 4** Reported to next council meeting.

Payment Procedure

- **Step 1** Invoice received.
- **Step 2** Invoice checked.
- **Step 3** Budget and authority verified.
- **Step 4** Payment included on payment schedule.
- **Step 5** Council approves payments or payment authority under Financial Regulations applies.
- **Step 6** Payment submitted online.
- **Step 7** Two councillors authorise.
- **Step 8** Payment confirmed and reconciled.

10. Monthly Reconciliation Process
The RFO shall each month:
Reconcile

- Operational Spend Account
- Investment Account
- Capital Reserve Account
- General Reserve Account
- Earmarked Reserve Account
- Corporate Credit Account

Verify

- Bank statements
- Cashbook
- Accounting software

Produce

- Bank & Cash reconciliation report
- Reserve summary

Reports shall be presented to Council.

11. Reserve Management Procedure
At financial year end:

- **General Reserve -** Balance reviewed against risk assessment.
- **Earmarked Reserves -** Each reserve justified and reviewed.
- **Capital Reserve -** Projects reviewed and replenishment planned.
- **Investments -** Balance reviewed and investments confirmed.

Council shall approve all reserve balances annually.

12. Investment Principles
The Council's priorities are:

1. Security
2. Liquidity
3. Yield

in that order.

No speculative investments shall be undertaken.

13. Business Continuity Measures
The Council shall:

- Maintain multiple authorised users.
- Retain bank mandate records.
- Secure online banking credentials.
- Use Multi-Factor Authentication (MFA).
- Restrict banking access to authorised officers.
- Maintain emergency access procedures.

14. Suggested Allocation Model
A practical reserve structure may be:

Fund	Target Balance

Fund	Target Balance
Operational Spend	Operating Balance
General Reserves	50-100% of annual expenditure
Capital Reserves	Asset replacement programme value
Earmarked Reserves	Council-approved obligations
Investment Account	Actual restricted balances

This structure provides clear segregation of funds, strong audit trails, easier AGAR reporting, clearer reserve management and improved financial resilience for Porlock Parish Council.

11A. Investment and Counterparty Risk Policy
The Council's primary investment objectives shall be:

1. Security & Liquidity of investments.
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2. Return on investment.

The Council shall not undertake speculative investments.

Funds shall be invested in accordance with the Local Government Act 2003 and current statutory guidance applicable to parish councils.

11B. Approved Banking Institutions
To protect public funds, Council deposits shall only be placed with banking institutions that are demonstrably financially strong and highly rated.

The Council shall normally use banks or building societies meeting one or more of the following criteria:

- UK Government-owned or majority government-backed institutions.
- UK clearing banks with strong capital adequacy ratios.
- Financial institutions with an investment-grade credit rating from recognised agencies.
- Banks assessed as low-risk by independent treasury management advisers.
- Building societies with strong balance sheet strength and regulatory compliance records.

Where ratings are available, the Council shall seek to use institutions holding a minimum long-term rating of A or at a minimum of BBB.

Should a bank fall below the Council's minimum acceptable rating, the RFO shall report the matter to the next Council meeting and recommend whether funds should be transferred.

11C. Diversification of Deposits
The Council shall seek to minimise financial risk through diversification.
Subject to operational requirements:

- Operational banking may be held with one primary banking provider.
- Consideration shall be given to Financial Services Compensation Scheme (FSCS) protection limits when allocating deposits.

11D. Annual Investment Review
The RFO shall present an annual report to Council showing:

- Current bank balances.
- Reserve balances.
- Interest earned.
- Banking counterparties used.

- Creditworthiness review of institutions.
- Recommended changes to deposit arrangements.

The Council shall formally review its banking and investment arrangements annually as part of its review of Financial Regulations, Risk Management and Reserve Policies.

This addition aligns the banking architecture with Council's Financial Regulations requirement for Council oversight of bank mandates and strengthens the investment policy by restricting deposits to highly rated and financially secure banking institutions.

Dual-Authorisation Controls
Dual-authorisation is a key internal financial control that requires **two separate authorised individuals** to approve a transaction before money can leave a council bank account.
Its purpose is to:

- Protect public funds.
- Reduce the risk of fraud.
- Prevent unauthorised payments.
- Ensure independent verification of expenditure.
- Comply with good practice for local council financial management.

Dual Authorisation of Payments
All electronic payments shall be subject to dual authorisation. The Responsible Financial Officer may prepare payment instructions but shall not be able to unilaterally authorise or release funds. Every payment must be independently approved by two authorised councillors using the Council's online banking system. Authorisers must verify the payee, amount, supporting documentation and budget provision before approval. No payment shall be processed where one person has sole control over the creation, approval and release of funds.

Transfers Between Council Accounts
The council shall apply dual authorisation to **internal transfers** between the Operational Spend, General Reserve, Capital Reserve, Earmarked Reserve and Sponsorship & Grants accounts. Although the money remains within Council ownership, transfers can materially affect the Council's financial position and therefore require:

- Initiation by the Clerk/RFO.
- Independent approval by two authorised councillors.
- Reporting to the next Council meeting.

This creates a consistent control framework across all Council banking activities.
For Porlock Parish Council, the process would operate as follows:

Step 1: Payment Preparation
The Clerk/RFO:

- Receives and checks the invoice.
- Confirms the goods or services have been received.
- Verifies that expenditure is within an approved budget.
- Uploads the payment to online banking.

The Clerk/RFO **cannot release the payment alone**.

Step 2: First Authorisation
An authorised councillor logs into the banking system and reviews:

- Supplier name.
- Bank details.
- Invoice amount.
- Purpose of expenditure.

- Council approval (where required).

If satisfied, the councillor authorises the payment.

Step 3: Second Authorisation
A different authorised councillor independently reviews the same information and submits the second approval.

Only after the second approval is received will the bank release the payment.

Example
Invoice received from:
ABC Grounds Maintenance Ltd £850.00

1. Clerk/RFO uploads payment.
2. Councillor A reviews and approves.
3. Councillor B reviews and approves.
4. Payment is released.

If either councillor rejects the payment, it is not processed.

Segregation of Duties
Good practice requires that no one person should be able to:

Action	Clerk/RFO	Councillor A	Councillor B
Enter payment	✓		
Check invoice	✓	✓	✓
First approval		✓	
Second approval			✓
Release funds	Bank only after both approvals		

This creates an audit trail and significantly reduces financial risk.

12. Policy Review
This Policy will be monitored periodically by the Finance & HR Committee to judge its effectiveness and reviewed every three years or sooner if required by legislative, organisational or operational changes.

Dated: 11 November 2026

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Duncan McCanlis
Chair

Johnathan Jones
Clerk & Responsible Financial Officer