



INDEPENDENT REVIEW OF SUBSCRIPTION INCOME AND DISTRIBUTION FOR THE POLICE FEDERATION OF ENGLAND AND WALES

By BDO LLP | 15 March 2010

DRAFT REPORT FOR DISCUSSION



CONTENTS

Terms of reference	3
Executive summary	5
Conclusions and recommendations	12
PFEW fund rules	16
PFEW subscription income and distribution	
- Overview	20
- Opportunities	29
Foundation activities identified	41
APPENDICES	48

TERMS OF REFERENCE

Specification of service set out by the PFEW

Introduction

In accordance with our proposal document dated 13 January 2010 and our engagement letter dated 19 January 2010, BDO LLP ('BDO') were appointed by the Joint Central Committee ('JCC') of the Police Federation of England and Wales ('PFEW') to undertake 'an independent review of subscription income and distribution throughout the PFEW'.

Background to BDO's appointment

Engagement for the CCC in 2009

In 2009, BDO were appointed by the PFEW's Constables' Central Committee ('CCC') to undertake an engagement focused on 'Sustaining Service Delivery for Constables'. Our review and report were completed in September 2009 and examined three recommendations of the Finance Working Group ('FWG') that had been set up by the PFEW.

The scope of our review for the CCC was limited to the examination of FWG recommendations 14, 15 and 16 and our understanding of the situation facing the PFEW was developed through:

- Analysis of 2008 financial data of the CCC and JCC
- Analysis of 2009 projections of the CCC and JCC
- Meetings with key stakeholders of the CCC.

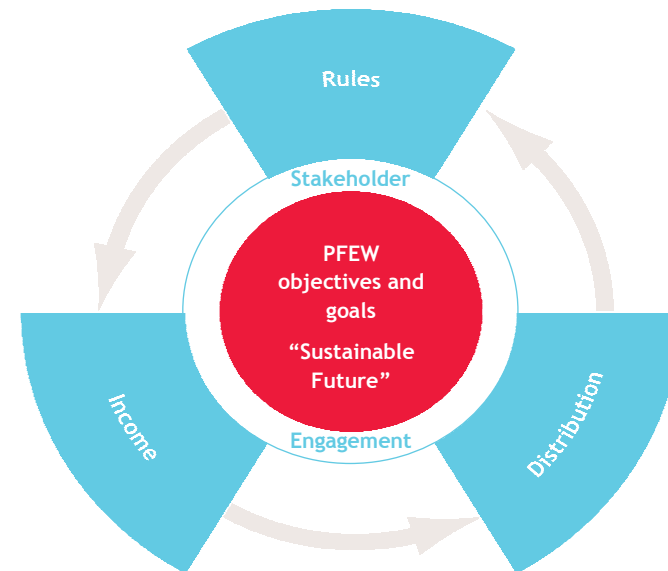
It was not within the scope of the CCC review to analyse financial data for any branch or committee other than the CCC or JCC, or to meet with stakeholders outside of the CCC, other than to present our findings at the CBB conference.

Our review for the CCC resulted in a number of recommendations, one of which was to consider changing the funding model of the PFEW.

This engagement

The focus of this engagement for the JCC is to examine the income and distribution in more detail. There are three main phases for the review, as the PFEW's Rules, Income and Distribution are all inextricably linked:

- Phase 1: Rules - Investigate existing fund rules and regulations
- Phase 2: Income - Review subscription income and expenditure
- Phase 3: Distribution - Review the flow of funding.



TERMS OF REFERENCE

Specification of service set out by the PFEW

Project approach

From the outset of this project, it was agreed that the stakeholder management and engagement process would be key to success. This included ensuring that our approach was transparent and independent, to enable complete buy-in from all stakeholders within the PFEW.

To this end, our project approach centred around meetings with representatives from the rank central committees and a series of eight workshops with stakeholders from each of the PFEW's branches, arranged at eight regional locations. Each stakeholder workshop had three aims. These were to:

1. Inform stakeholders of the financial situation currently facing the PFEW
2. Understand current concerns through structured discussion sessions
3. Survey stakeholders on fund rules, central funding, branch funding and improvement opportunities.

In advance of these workshops, a structured pre-workshop submission form was sent to all stakeholders. The comments and observations from these submissions informed our thinking around the key areas for initial discussion and allowed our team to gauge the temperature across the Federation towards these issues. These pre-workshop submissions also informed our team as to the key questions required for the breakout survey used during the workshops.

The workshops were invaluable for developing a deeper understanding of current stakeholder opinions and consensus across the country and, as such, significant elements of our analysis and recommendations are based upon the representations of these stakeholders.

It was imperative that this process was, at all times, independent and in no way subject to amendment or control from the JCC. Our findings have been developed from a number of sources, independent of the JCC's contribution and are the professional opinion of BDO, based on information gathered from stakeholder workshops, survey questionnaires and our experience of good business practice.

A full list of meetings and stakeholder workshops, including attendee details is available upon request.

Conducted over a four week period from February 2010 to March 2010, this report sets out the findings and conclusions of BDO LLP's review and seeks to establish recommendations for the PFEW in relation to subscription income and distribution.



EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Introduction

The general consensus from stakeholders during our workshops is one of resolve that things need to change, however, it was also commonly implied that it will be someone else within the Federation who will be doing the changing. There were very few who expressed an opinion that the current financial situation was for the Federation as a whole to deal with, with many stakeholders stating that as they had managed their own branch budgets correctly, it was not their problem.

Many stakeholders also expressed concerns that, culturally, the Federation is unwilling or unable to change due to numerous pressures, including personal agendas, politics and the ever present threat of deselection. A level of scepticism towards both the centre and this review were identified, suggesting that, as with previous initiatives of this nature, this process may also fail to realise benefits for the Federation.

Transparency, parity, autonomy and personal agendas are just a few of the key phrases that regularly cropped up during our stakeholder workshops. It is believed that transparency across the Federation, particularly at the centre in relation to budgets and spend, will reduce the scepticism and mistrust.

Parity in relation to branch facilities, policies and basic operating financials will facilitate all boards to establish a common baseline. Boards would also argue that autonomy is in the best interests of their own membership, therefore, to relinquish any control to the centre would not be in their members' best interests.

Personal agenda is both an enabler and a barrier, enabling individuals to achieve more for their members and a barrier to considering the greater good of the Federation. The perception is that, culturally, stakeholders' responsibilities are firstly to their own board, rank, then region and then finally to the Federation as a whole.

In light of the cultural and political barriers it was suggested on a number of occasions that changing the rules or applying standardised, Federation wide policies would not change the culture within the Federation. Good practice in business, however, suggests that applying standardised and consistent policies and procedures would contribute towards the perception of a single Federation, as opposed to 47 individual businesses.

It was conceded by many that the '47 individual businesses' mentality within the PFEW has contributed to a great many opportunities not being capitalised on, due to the lack of joined up thinking. These include leveraging the collective purchasing power of the PFEW as a whole to drive down costs for a variety of services, with the recent issue around legal fees being a good example of an opportunity missed.

Rules

As with any business, Firm, organisation or Federation, rules, policies and procedures are the cornerstones on which to build strong foundations. It is generally agreed, however, that overly prescriptive rules have a tendency to stifle and restrict the ability of individuals to deliver value and, in contrast, vague or ambiguous rules can be open to interpretation.

Although rules and regulations were one of three key discussion topics during our stakeholder workshops, they were not considered by many to be the direct cause of the current financial issues. In addition, when asked directly whether the rules and regulations needed to be amended or changed, many stakeholders believed them to be sufficient and that it would be not necessary to change them.

There were a number of key issues identified, however, that although at first glance may not seem to be directly attributable to the rules and regulations, actually seem to have been caused by a lack of clarity and guidance. This suggests that some rules may require additional clarity, guidance or minor amendment.

EXECUTIVE SUMMARY

Stakeholder discussions focused around three key areas of concern in relation to the PFEW's rules and regulations. These are listed below in order of priority:

1. The lack of parity between boards nationally, with a broad range of different policies for mileage, honoraria, and conference allowances, amongst others
2. The question of why the Federation still operates as 47 separate businesses, with 47 different interpretations of Federation rules and regulations
3. Potential increases in subscriptions, combined with declining membership numbers which may have an impact on the Federation's ability to retain members and maintain a high quality service.

As discussed earlier, each of the above key issues can be traced back to insufficient guidance around expenditure, contributions and rewards within the rules. Indeed, it has been noted that for a number of years, the process set out in rule 4.1 relating to subscription increases has not been correctly followed.

The fact that a number of key rules are open to interpretation and prescribed processes are not followed is likely to contribute eventually to a culture of mistrust and a lack of transparency across the Federation.

Income

Central funding

In 2008, the JCC reported a deficit for the year of £1.8 million and, although audited financial results for 2009 are not yet available, it is expected that the JCC will have also reported a deficit in 2009. In addition, the JCC has produced a budget for 2010 that forecasts a deficit in the region of £6 million. Whilst it was not within the scope of this review to audit these budgets, the magnitude of these deficits highlights a significant issue for the PFEW. Whilst the Federation might, with great difficulty, be able to find enough cash in 2010 to cover this deficit, this is highly unlikely to be the case in subsequent years. As a result, significant doubts exist over the future of the JCC and the PFEW as a whole unless this situation is resolved.

It has been suggested by some stakeholders that there is sufficient cash within the PFEW for the Federation to meet its objectives without increases in subscriptions. In particular, there is a view that the rank central committees and the JCC have sufficient income between them, i.e. their 70% of subscription income, to meet their needs.

Whilst we have not reviewed budgets for the rank central committees in 2010, the net surplus generated by the rank central committees in 2008 was less than £700k and the total combined income of these committees in 2008 was approximately £3.1 million. As such, it is highly unlikely that the rank central committees would be able to cover a deficit with a magnitude of £6 million, as forecast by the JCC.

EXECUTIVE SUMMARY

Branch funding

A further view of some stakeholders is that branches across the country are holding significant subscription income reserves which could be used to address the financial issues faced by the JCC.

During our workshops, stakeholders from a number of branches expressed their concerns that their branches only break even due to additional cash being raised through the provision of Member Services. As such, it is likely that a number of branches would be unable to support the JCC with additional funding requirements.

From our review of F45 returns, it can be seen that cash balances totalling approximately £11.8 million are held by branch boards across the country. It is unclear whether this total includes cash in relation to Member Services, which is not within the scope of our review.

In addition, total net current assets (including cash) and fixed asset investments of the branch boards equate to over £14 million, according to the branch boards' 2008 F45 submissions. Whilst these cash balances and possible investment disposals might cover deficits in the short term, the use of such funds to do so would not be a sustainable action for the Federation.

Furthermore, stakeholders from branch boards identified that a number of branches have been building these cash reserves so that they have the ability to fund their own premises should they no longer receive these from their local Police Force. With this in mind, our workshops identified a resistance from stakeholders across the country to any branch reserves being paid over to the JCC and also, to any increase in the 70% of subscriptions being received by central committees.

As such, it is highly unlikely that the JCC would be able to generate sufficient additional funds from branches to finance its projected deficit in 2010.

Increased subscription rates

During the stakeholder workshops, two primary views were expressed in relation to an increase in subscriptions.

The view expressed by a number of stakeholders, including those that only break even each year due to Member Services income, was that subscriptions do need to rise. The increase would not only help to alleviate the financial issues faced by the JCC but would also help those branch boards with funding shortfalls, as they would benefit from 30% of any additional income raised.

The stakeholders in favour of an increase in subscriptions emphasised, however, that the communication strategy around any increase would need to be well thought out, as the increase would need to be sold to members if it were to be successful. Suggestions included comparing PFEW rates with other similar staff associations and trade unions, and stating the increase as a monetary amount per week rather than a percentage increase.

The opposing view, expressed by a number of other stakeholders, was that current subscription levels are sufficient and that they should not be increased until the Federation has 'got its house in order'. This viewpoint included concerns over Member Services reserves being held around the country and the need for standardisation of expenses and cost reduction initiatives throughout the PFEW.

EXECUTIVE SUMMARY

Distribution

Proportion of funds retained by branches

Currently, branch boards retain 30% of the subscription incomes that they receive. BDO has reviewed F45 submissions for each branch and, where possible, confirmed that the 70% of subscription income payable to rank central committees has been reported correctly. It was noted however, that many branches delay payment to the central committees and owed a number of months worth of subscriptions at the 2008 year end. This was also the case for the rank central committees and their payments to the JCC.

A number of stakeholders expressed a viewpoint that the JCC and rank central committees take a high enough proportion to fund their activities and, therefore, that their branches would be resistant to any decrease in the percentage of funds retained by branch boards. When surveyed on funding allocations, only 41% of stakeholders either agreed or strongly agreed that these needed reviewing. In addition, discussions around this question highlighted that a number of these stakeholders believed that the percentage of funds retained by branch boards should be higher and not lower.

A proposal by some stakeholders outlined a situation whereby there should be a sliding scale of subscriptions payable to rank central committees / the JCC by branch boards, depending on the size of the branch. This would enable smaller branches with higher fixed running costs per member to retain a greater proportion of income whilst larger boards, unlikely to need as much funding, pay more to rank central committees / the JCC.

Only 27% of stakeholders agreed or strongly agreed with this proposal, with specific feedback from some of the large boards being that, whilst they would be prepared to pay an increased percentage of subscription income through to the centre, they would not want to subsidise the activities of other boards until they were happy that appropriate and consistent levels of expenses and honoraria were being paid.

Current funding model

At present, members' subscriptions are collected by branch boards, either at a joint branch board level for most branches or at a rank branch board level for a few larger branches. 30% of this subscription income is retained by the branch boards to meet their own running costs and the remaining 70% is paid to rank central committees.

Where income is from Constables, the branch boards pay the 70% to the CCC, where income is from Sergeants, the branch boards pay the 70% to the Sergeants' Central Committee ('SCC') and where income is from Inspectors and Chief Inspectors, the branch boards pay the 70% to the Inspectors' Central Committee ('ICC').

The rank central committees then retain a percentage of their subscription income to meet their own running costs before paying the remainder to the JCC. Currently, the CCC retains 8.25%, the SCC retains 11% and the ICC retains 17.25% of their respective incomes.

Major criticisms have been levelled at this funding model by a number of stakeholders, suggesting that money does not get to where it is needed within the PFEW, i.e. the JCC. When surveyed, only 5% of stakeholders agreed or strongly agreed that the Federation funding model should stay as it is, with 93% of stakeholders either disagreeing or strongly disagreeing.

EXECUTIVE SUMMARY

Funding model adopted by other staff associations and trade unions

The PFEW is fairly unique in its funding structure, with many similar staff associations and trade unions having adopted a funding model over the last 20 years in which subscriptions are collected centrally and then distributed out to any sub bodies. Such a model gives rise to a number of benefits for an organisation.

At the time of our review for the CCC in 2009, the opinions expressed by stakeholders interviewed suggested that PFEW members, in particular Constables, would be highly unlikely to accept a model where the JCC received funds prior to the rank central committees. Our understanding was that this was due to the PFEW operating on a principle of equal voting rights for each rank, rather than 'one member, one vote'. As this represented a major cultural barrier to implementation of a funding model of this type, an alternative recommendation was identified for the PFEW in our report to the CCC.

During the stakeholder workshops held as part of this review, a marked change in stakeholder attitudes was identified, with many stakeholders of all ranks suggesting that they would have minimal concerns over the JCC receiving funding prior to the rank central committees.

The larger cultural barrier was in relation to stakeholders concerns about funds being collected centrally rather than at branch level and whether this would have a detrimental impact upon branches.

When this model was suggested as an option to stakeholders, with funding for rank central committees and branch boards being based on budgeted needs, only 22% of stakeholders surveyed either agreed or strongly agreed with the proposal. As such, this is unlikely to be a suitable model for the PFEW in the short term.

Alternative funding model outlined within BDO's report to the CCC

Within BDO's report to the CCC, an alternative funding model was considered in which funds would be collected centrally by the rank central committees and then amounts paid out to the JCC and branch boards. This model was designed to benefit from some of the advantages of the best practice funding model whilst still allowing rank central committees to receive funding before the JCC.

The feedback received from stakeholders during the workshops as part of this review highlighted that there was little support for this model. As was found to be the case with the best practice funding model, stakeholders' concerns were more focused around funds being collected centrally and not locally, rather than concerns over rank central committees getting funding prior to the JCC.

JCC directly funded by branch boards, prior to rank central committees

Recommendation 15 of the FWG outlined a funding model in which branch boards would collect subscriptions and 70% of these would be paid directly to the JCC. The rank central committees would then receive funds from the JCC, based on budgeted needs.

A slight variation on this model would be where the rank central committees received funding based on a set percentage of income, rather than budgets.

FWG recommendation 15 was rejected by BDO's report to the CCC due to the major concerns expressed by stakeholders at that time. As outlined previously, however, stakeholder views seem to have changed since that review and stakeholders now seem to support this model.

When this option was presented to stakeholders, with funding for rank central committees being based on budgeted needs, over 78% of respondents agreed or strongly agreed with the proposal.

EXECUTIVE SUMMARY

Integrated financial structure

Many successful nationwide businesses operate a financial structure in which all finances are accounted for centrally and on a national basis. Local and regional operations are financed out of centralised accounts, with ring fenced funds being allocated to each in line with agreed budgets.

This is a highly efficient financial structure and allows disparate parts of the organisation to be drawn together as one cohesive business unit, rather than them operating as many separate business units. Such a model provides many benefits to the organisation, particularly in relation to levels of service, cost and risk.

In the context of the PFEW, an integrated financial structure would see one central fund financing the operations of the entire Federation, although we understand that small, specific, rank legal funds might also be required to fund certain legal cases.

The central fund would be responsible for ensuring that all branches had access to sufficient resources and suitable accommodation, creating parity for members across the country.

Culturally this would be a fundamental change for the Federation and it is unlikely to be something that members would favour at this time. It may be accepted by members, however, if phased in over a number of years and in small steps, so that confidence can be built up over time in relation to the centralised stewardship of funds.



CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

The JCC's stated scope for this engagement was for BDO to undertake an independent review of subscription income and distribution throughout the PFEW.

Our review was focused on three areas, Rules, Income and Distribution. With this in mind, our conclusions are set out in response to the following three questions:

- Are the PFEW's funding rules fit for purpose and able to support a sustainable future for the Federation?
- Do current subscription income levels enable the PFEW to deliver against its objectives?
- Is the distribution of subscription funds throughout the PFEW reasonable?

Are the PFEW's funding rules fit for purpose and able to support a sustainable future for the Federation?

Having reviewed the relevant rules & regulations contained within the documents supplied by the JCC, it is clear what the intention of each rule is. There are in some rules, however, a lack of clarity around how these should be applied, leaving them open to interpretation. It is our understanding from discussions with stakeholders that policies and procedures are set at branch level and that there is the potential for variation of policies and procedures across the Federation. It has not been possible, or within the scope of this review, to evaluate all 43 branch boards and three central committees' individual policies and procedures to establish the variance in interpretation.

Although, as suggested, the policies and procedures do seem to be open to interpretation, we do believe they are, on the whole fit, for purpose. We would, however, recommend that the PFEW develops a Federation wide standardised application of the fund rules and regulations, to ensure consistency across the Federation. In relation to changes to current rules, depending on the outcome of recommendation 4 around income and distribution, the PFEW may need to consider amending the fund rules, in particular 'Part 1, Rule 4.2'.

In our experience, however, a change of rules or applying standard policies and procedures nationally in isolation may not make a great deal of difference, any change will need to be combined with a change in culture.

Do current subscription income levels enable the PFEW to deliver against its objectives?

The JCC made a deficit of £1.8 million in 2008 and it is expected that a deficit will also have been made in 2009. Furthermore, the JCC is forecasting a deficit of approximately £6 million in 2010. Our understanding is that the income of the rank central committees is insufficient to cover this forecast deficit.

Whilst some branches make subscription income surpluses every year, many other branches report deficits which they can only cover through the operation of Member Services schemes. Feedback from stakeholders has suggested a reluctance for any increased proportion of current subscription income to be paid to the central committees.

Whilst there are opposing views from stakeholders over whether subscription increases are required, the financial situation facing the PFEW is a significant concern. Given the deficits of some branch boards and central committees, it is likely that subscription income levels are currently insufficient for the PFEW to deliver against its objectives. As such, the PFEW should consider increasing subscription rates.

Whilst an increase in subscriptions may help to alleviate the financial pressures faced by the PFEW, this should not be a standalone measure. The PFEW should ensure that it is acting in a financially responsible manner through the implementation of cost reduction initiatives, national standardisation of expenses, e.g. mileage rates, and through the agreement of nationwide policies on honoraria. These initiatives would ensure that the PFEW is accountable to its members and that any increase in subscriptions is seen to give value for money.

CONCLUSIONS AND RECOMMENDATIONS

Is the distribution of subscription funds throughout the PFEW reasonable?

Some stakeholders have expressed concerns over the appropriateness of the 30% / 70% split of funding between branch boards and the JCC / rank central committees. There does not seem to be a consensus viewpoint, however, on whether this needs to change and, if it does, whether the percentage retained by branches should increase, decrease, or be based on sliding scale according to member numbers.

Many stakeholders have, however, expressed significant concerns about the PFEW's current funding model and the inability of the JCC to get the funds that it needs. In fact, only 5% of stakeholders agreed or strongly agreed that the Federation funding model should stay as it is. Therefore, it is difficult to conclude that the distribution of funds throughout the PFEW is reasonable.

A number of alternative funding models have been discussed with stakeholders, including the model adopted by other similar organisations and the model adopted by a number of major businesses. Whilst these models would both bring a number of significant advantages to the PFEW, they face cultural resistance and are only likely to be successful opportunities for the PFEW to adopt in the longer term. In the short term, PFEW members seem most likely to support a model in which branch boards receive funds and then pay the JCC, which then funds the separate rank central committees.

CONCLUSIONS AND RECOMMENDATIONS

Recommendations

Based on our analysis and conclusions, the nine key recommendations listed below should be considered. These recommendations are not mutually exclusive and should not be considered in isolation of each other.

Rules

1. Consider amending the PFEW's fund rules, for example 'Part 1, Rule 4.1' to recommend that the effective date for subscription increases be amended to a month after ratification to realise the benefits of any increase as soon as possible and 'Part 1, Rule 4.2', to allow an amendment to the distribution of income within the PFEW (page 17)
2. Develop a standardised interpretation of the Federation fund rules and regulations to ensure consistency across the Federation (page 17)

Income

3. Set an increased members' subscription rate, sufficient to meet the Federation's financial requirements over the next 12 - 24 months, ensuring that any subscription increase is sold to members, based on value for money in comparison to similar organisations. For example, given the current percentage of subscription income received by the JCC, an increase in the subscription rate by £1.30 per week should generate approximately £6 million in additional income for the JCC (excluding any reductions due to decreasing member numbers) (page 30)

Distribution

4. In the short term, have branch boards pay subscriptions directly to the JCC, which then funds the separate rank central committees (page 37)
5. Agree to a phased transition over the next few years to an integrated financial structure, in which all subscriptions are collected by and all activities are financed by one joint PFEW fund (maintaining small specific rank legal funds if required for specific legal cases) (page 38).

In addition to the key recommendations in relation to the PFEW's Rules, Income and Distribution, there are a number of foundation activities which the Federation should adopt to support the previous initiatives.

Core foundation activities

6. Set, as a minimum, breakeven budgets for all central committees and branch boards to ensure a sustainable future for the Federation. Manage activity carefully to ensure that these budgets are adhered to (page 42)
7. Implement appropriate cost reduction initiatives across the PFEW to ensure that the Federation is a lean and efficient organisation. This programme should include a focus on key expenditures, e.g. legal services, and may also include the evaluation of current investments, e.g. properties, held by the PFEW (page 43)

Additional foundation activities

6. Standardise expenses across the PFEW so that the Federation is accountable to its members (page 44)
7. Agree Federation wide policies on honoraria, ensuring that these payments are seen to be equitable and reasonable (page 45)
8. Consider the implementation of performance measures and indicators to ensure that recommendations are achieved successfully and that the PFEW does not find itself in a similar financial position in the near future (page 46)
9. Evaluate some of the key financial and other positions within the PFEW and consider the appointment of qualified and experienced experts to support the Federation members heading up these areas, as has been done with the appointment of in-house counsel for legal matters (page 47).

Implementation of the recommendations outlined on this page should be properly planned and prioritised, with allocation of tasks and ownership to ensure success. Key focuses for cost reduction should be those that are likely to generate the greatest savings for the least effort, without significant implications on the level of service provided by the PFEW, e.g. formalised procurement of legal services.



PFEW FUNDING RULES AND REGULATIONS

PFEW FUNDING RULES AND REGULATIONS

Overview

Although rules and regulations were one of three key discussion topics during our stakeholder workshops, they were not considered by many to be the direct cause of the current financial issues. In addition, when asked directly whether the rules and regulations needed to be amended or changed, many stakeholders believed them to be sufficient and that it would not be necessary to change them.

There were a number of key issues identified, however, that although at first glance may not seem to be directly attributable to the rules and regulations, actually do seem to have been caused by a lack of clarity and guidance. This suggests that some rules may require additional clarity, guidance or minor amendment.

A number of rules in relation to funding and distribution lack sufficient guidance around expenditure, contributions and reward. Indeed, it has been noted that, for a number of years, the process set out in rule 4.1 relating to subscription increases has not been correctly followed.

The fact that a number of key rules are open to interpretation and prescribed processes are not followed is likely to contribute eventually to a culture of mistrust and a lack of transparency across the Federation.

Key opportunities around fund rules and regulations

1. Consider amending the PFEW's fund rules, for example 'Part 1, Rule 4.1' to recommend that the effective date for subscription increases be amended to a month after ratification to realise the benefits of any increase as soon as possible and 'Part 1, Rule 4.2', to allow an amendment to the distribution of income within the PFEW
2. Develop a standardised interpretation of the Federation fund rules and regulations to ensure consistency across the Federation.

Basis of our analysis

Our evaluation in relation to Federation rules are based on two documents supplied by the JCC:

- Part III Financial arrangements - Statutory Instrument 1990 NO.1575 - Regulations 15A - 20
- Police Federation Fund rules - The Police Federation (amendment) regulations, 1990 & 2004

Having reviewed the above documents, it is relatively clear what the intention of each rule is, however, there is, in some cases, a lack of clarity around how a number of rules are applied, leaving them open to interpretation.

It is our understanding that policies and procedures are set at branch level and therefore, there is a potential issue in relation to variation of policies and procedures across the Federation.

It has not been possible during this review or evaluate all 43 branch boards and four central committees' policies and procedures to establish variances in interpretation.

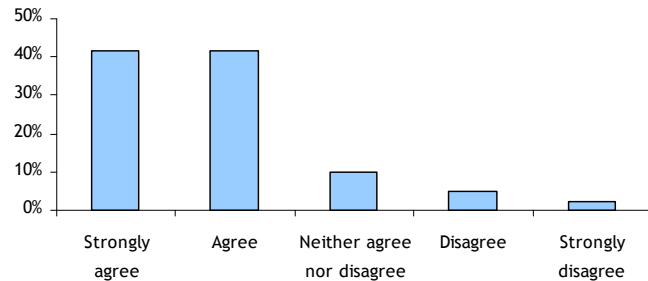
Details outlining our understanding of the PFEW's current rules can be found on the following pages and in appendix 1.

PFEW FUNDING RULES AND REGULATIONS

Ownership of subscription income

The expression ‘awash with money’ but not in the right places, was used to describe the PFEW’s current financial position with 83% of stakeholders surveyed believing this to be the case. There seems to be a commonly held belief that there are sufficient funds within the Federation but that there is a need to ensure that the Federation money ends up in the ‘right’ place i.e. the place where it is needed and the place where the finance will be spent to give the most benefit to the Federation and its members. (Ref 6 Page 53)

Questionnaire response 1 - The Federation is perceived to be "awash" with money, but it is not in the right places



Many stakeholders held the view that Federation subscription income is not rank or board specific and does not belong to a particular branch board or rank committee. The build up of funds within branch boards and central committees seems to have contributed to stakeholders’ concerns around funds not getting to where they are needed.

Branch board representatives expressed their beliefs that funds going to the centre should not be rank specific and, therefore, funds should go to the JCC prior to rank central committees. We would recommend amending rule 4.2 (Ref 5 Page 52) to ensure that the flow of funding throughout the Federation can be managed to achieve these goals.

Financial reporting

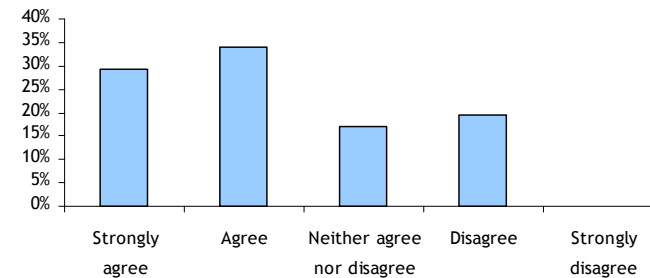
In relation to accounts and transparency, we understand that there is no legal requirement at present for branch boards to declare all non-subscription income on their F45 submissions. This is causing significant frustration for many members, who feel that there should be openness and transparency in the Federation’s reporting. In addition there is no requirement to formally publish accounts at branch level (Ref 7 page 54).

Full financial reporting should contribute to a clearer understanding of the financial position and stability of all branch boards and the Federation as a whole. The lack of information around some boards’ policies on a variety of expenses and discretionary spend will not promote the desire by other boards to increase the proportion of funds that they contribute to the centre. This is because some boards believe that they will be supporting and promoting the wasteful financial behaviour of other boards.

Communication of subscription increases

Of the stakeholders surveyed 88% either agree or strongly agree that an increase in subscriptions may not deliver value for money (page 31). In addition, 63% of stakeholders surveyed agree or strongly agree that decreasing member numbers and insufficient subscriptions / subscription levels at branch level are a major concern.

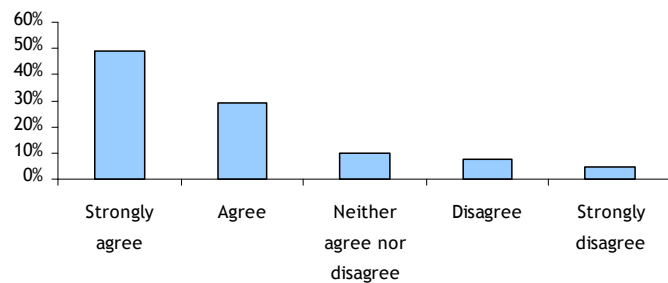
Questionnaire response 2 - Decreasing member numbers and insufficient subscriptions/subscription levels at branch level are a major concern



PFEW FUNDING RULES AND REGULATIONS

78% of stakeholders surveyed agree or strongly agree that the rules around subscription increases and ratification require review and amendment. From our review of the rules around subscription increases they appear to be sufficient (Ref 4 Page 52). We do however, recommend that the effective date within rule 4.1 be amended to a month after ratification to bring forward the benefit of any increases in subscription rates.

Questionnaire response 3 - The rules around subscription increases and ratification require review and amendment

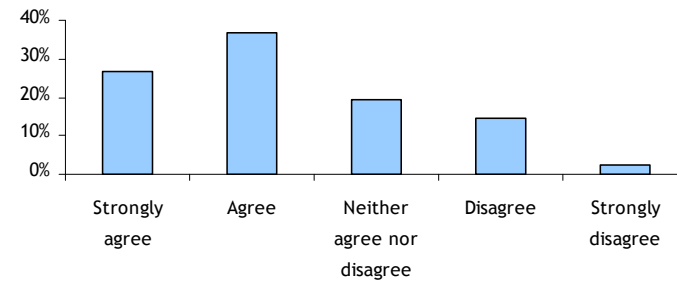


Stakeholders expressed concerns over the limited amount of communication in relation to subscription increases and suggested all stakeholders fully understand the details of any subscription increases and the reasons why any subscription increase is necessary. The marketing and communication of any subscriptions increase, therefore, would require a consistent approach to ensure that members get a 'one organisation' view of why subscriptions are increasing.

Fund rules are open to interpretation

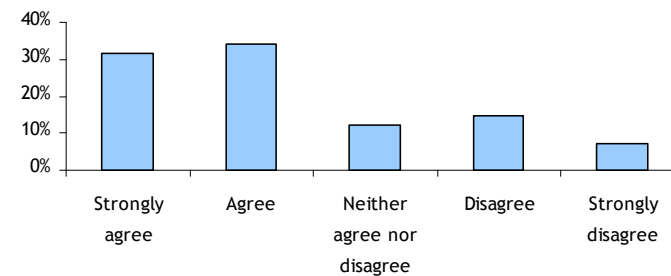
During our workshops there were major concerns expressed over the Federation still operating as 47 separate businesses, with 47 different interpretations of Federation rules and regulations. This suggests that some rules governing the Federation are inefficient and, in fact, over 60% of stakeholders agreed or strongly agreed that current funding rules are not 'fit for purpose' and are generally regarded as antiquated.

Questionnaire response 4 - Current funding rules are not perceived to be 'fit for purpose' and are generally regarded as antiquated



Although adequate on the whole, the fund rules are considered to be open to interpretation, so much so that each individual branch board or central committee seems to have implemented its own variation of the rules. This is supported with 66% of stakeholders surveyed believing that there is a general lack of understanding of the PFEW's current funding rules, suggesting that there is sufficient support to establish a common set of standard policies across the Federation. Particular examples of rules interpretation can be found on (Ref 1, 2,3 Page 50-51).

Questionnaire response 5 - There is a general lack of understanding of the PFEW's current funding rules





SUBSCRIPTION INCOME AND DISTRIBUTION

Overview of subscription income and distribution throughout the PFEW

PFEW SUBSCRIPTION INCOME AND DISTRIBUTION

Overview of subscription income and distribution throughout the PFEW

This section of our report outlines our understanding of the collection and distribution of subscription income throughout the PFEW. This understanding has been developed through discussions with PFEW stakeholders and through reviews of branch F45 submissions and audited financial statements of the CCC, SCC, ICC and JCC.

Outline of subscription income and distribution throughout the PFEW

Police Officers can subscribe to become members of the PFEW when they join the Police Service or at any point during their career. If they subscribe within six months of joining the service they benefit from the services of the PFEW immediately. If they do not join within six months, they can join subsequently but may not have access to the benefits for a further 12 months.

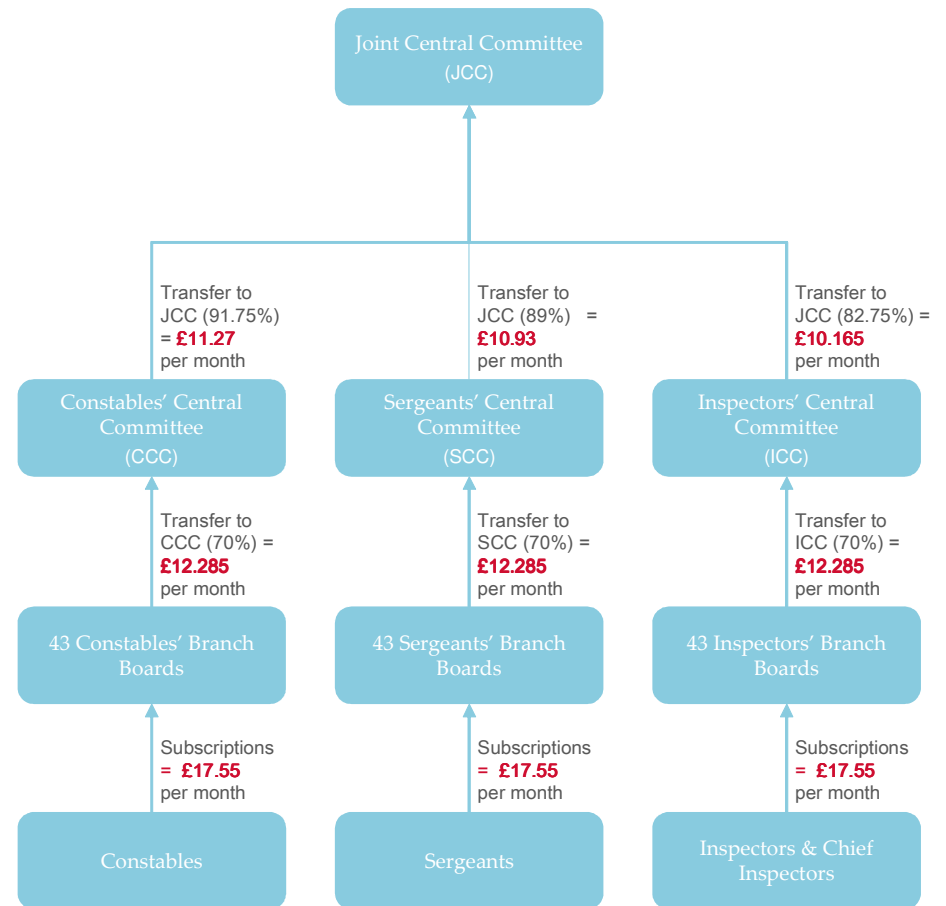
During 2009, Constables, Sergeants and Inspectors paid a monthly or weekly subscription of £17.55 per calendar month or £4.05 per week (depending on the way in which their salary was received). This amount had been determined by the JCC and subsequently agreed by the JBB National Conference. The rate is increased on an annual basis by inflation, usually by between 9p and 12p per week. Figure 1 opposite highlights how Police Officers' subscriptions are received and distributed throughout the PFEW.

Branch board income

PFEW members pay their subscriptions directly to their own branch board, of which there are 43 in total. The branch boards each represent a particular police force and have their own separate accounting and costs system.

Each branch has a Constables' Branch Board, a Sergeants' Branch Board and an Inspectors' Branch Board, which combine to form a Joint Branch Board. Although figure 1 shows the subscription income being paid to separate rank branch boards, only the largest branches, e.g. Metropolitan, West Midlands and GMP, actually maintain separate funds for each rank branch board. For every other branch, only one set of accounts is maintained, at a JBB level, and subscription income for all members of that branch will be paid directly into the JBB fund.

Figure 1 - Overview of PFEW subscription income and distribution



PFEW SUBSCRIPTION INCOME AND DISTRIBUTION

Overview of subscription income and distribution throughout the PFEW

30% of subscription income received by each branch is retained to meet the running costs of that branch board. In addition, most branch boards also generate other income through commercial operations known as Member Services, e.g. the sale of insurance to members. Branch boards are able to retain 100% of this income. Only subscription income is included within the scope of this review, so we are unable to provide commentary on or analysis of branch board income by source.

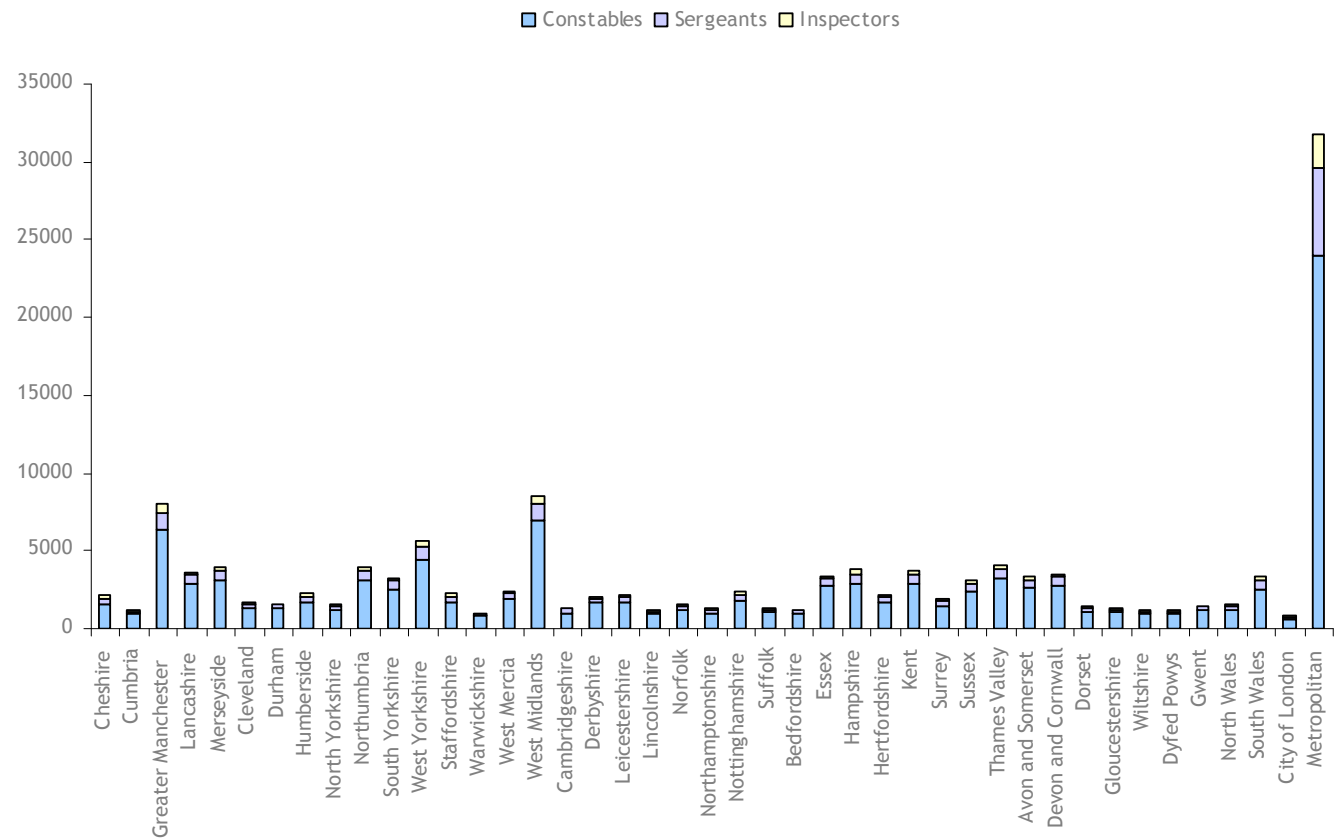
As figure 2 opposite highlights, some branches have many members, e.g. Metropolitan, whereas other branches have far fewer, e.g. City of London. As a result of this imbalance, the retained subscription income of the larger branches is much higher than the retained subscription income of smaller branches.

Although branches with higher member numbers are likely to incur higher expenses than smaller branches, there are certain elements of branch expenditure which do not rise in direct proportion to member numbers, e.g. the provision of an office for the branch board.

As a result, we understand that smaller branch boards spend a far greater proportion of their income on costs relating to the running of the branch board and often report a deficit each year. They are often only able to finance ongoing activities through the use of Member Services income.

In 2008, 31 of 43 branch boards reported a deficit on their F45s in relation to subscription income and expenditure, i.e. excluding Member Services. We understand that some larger branch boards rarely face these financial pressures and regularly generate surpluses each year.

Figure 2 - PFEW member numbers by branch and by rank



PFEW SUBSCRIPTION INCOME AND DISTRIBUTION

Overview of subscription income and distribution throughout the PFEW

Rank central committee income

Once subscription income is received by the branch boards, the 70% that is not retained to meet running costs is passed on to the three rank central committees. The amount paid by a branch board is usually the same each month, based upon an estimation of that branch's income at the start of the year.

At each year end, a reconciliation is performed whereby each branch board has to submit an F45 form confirming actual subscription incomes. In February each year, the auditors of the rank central committees review the F45 forms for the preceding year end and determine the balance of amounts due from each branch board.

The rank central committees retain a proportion of the income received from branch boards to meet their own running costs and independent initiatives. The percentage retained for these purposes varies by committee, with the CCC retaining 8.25%, the SCC retaining 11% and the ICC retaining 17.25%.

Each rank central committee also generates a small amount of additional income through donations and income / interest from securities and deposits. As figures 3, 4 and 5 highlight, a significant majority of the income of each rank central committee was generated through subscriptions in 2008. Less than 3% of CCC income, 2% of SCC income and 1% of ICC income was generated through other means.

Flow of income to rank central committees

BDO has reviewed F45 submissions for each branch and, where possible, confirmed that the 70% of subscription income payable to rank central committees has been reported correctly (Note - for branches with separate rank funds, insufficient information was available on the F45 submissions to confirm this).

In all cases where the reviewed F45 submissions detailed subscription income and amounts to be distributed, the 70% payable to rank central committees had been calculated within £200 of the correct amount.

Figure 3 - CCC 2008 income by source (£15.8 million)

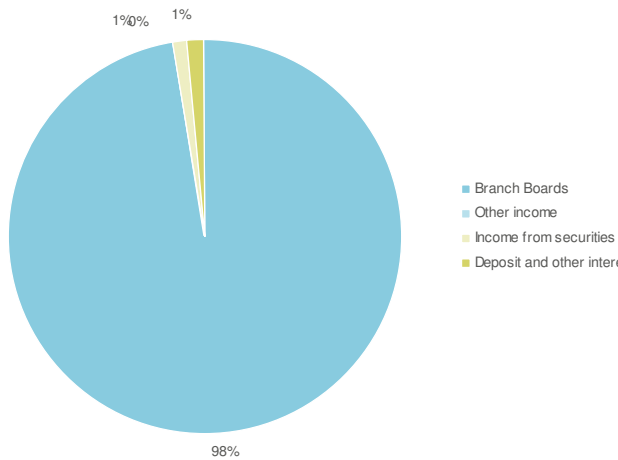


Figure 4 - SCC 2008 income by source (£3.2 million)

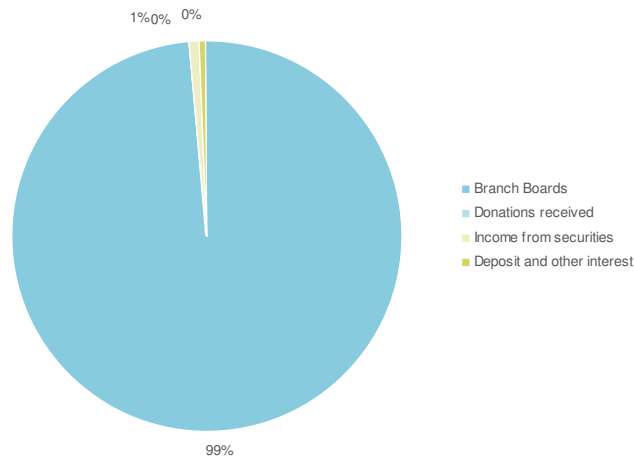
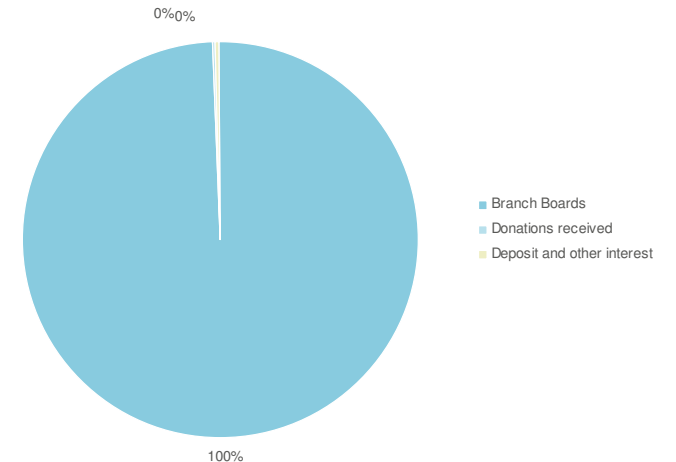


Figure 5 - ICC 2008 income by source (£1.3 million)



PFEW SUBSCRIPTION INCOME AND DISTRIBUTION

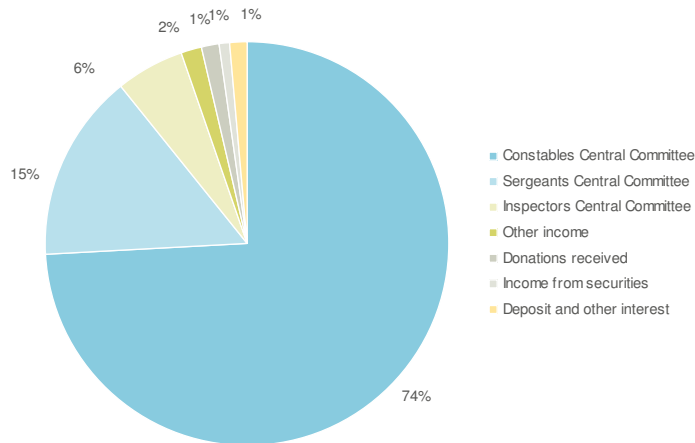
Overview of subscription income and distribution throughout the PFEW

JCC income

The subscription income of each rank central committee that is not retained to meet individual running costs is passed on to the JCC. As with branch board payments to the rank central committees, the amount paid by a rank central committee to the JCC is usually the same each month, based upon an estimation of that committee's income at the start of the year. Once the reconciliation of the branch boards' F45s has been completed, the balancing amount due to / owed from the JCC by each rank central committee is calculated and settled.

The JCC also generates a small amount of additional income through donations and income / interest from securities and deposits. Figure 6 below outlines the JCC's income in 2008 by source and highlights that over 90% of the JCC's income in 2008 was generated directly through subscriptions.

Figure 6 - JCC income by source: 2008 actual (total £19.1 million)



Flow of income to JCC

BDO has reviewed the 2007 and 2008 accounts for the CCC, SCC and ICC and confirmed that the percentage of subscription income payable to rank central committees has been reported correctly.

In all cases the reviewed accounts detailed subscription income received and amounts to be distributed to the JCC. For the CCC, 91.75% is payable to the JCC, for the SCC, 89% is payable and, for the ICC, 82.75% is payable. In all cases, the percentage payable to the JCC had been calculated at the correct amount.

PFEW SUBSCRIPTION INCOME AND DISTRIBUTION

Overview of subscription income and distribution throughout the PFEW

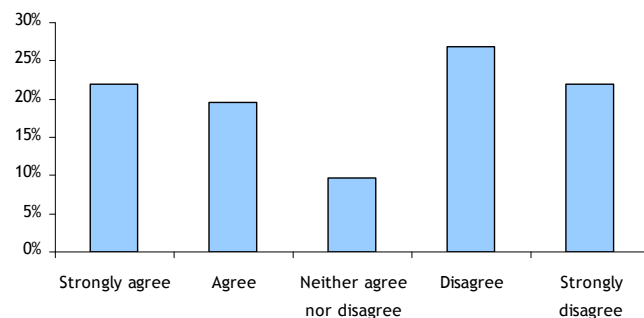
Percentages of income retained by the JCC / rank central committees

As outlined in Figure 1 on page 21, branch boards retain 30% of any subscription income received and pay the remaining 70% to the rank central committees. The CCC, SCC and ICC all retain a percentage of the amount that they receive from branch boards and pay the remainder to the JCC. Given the percentages that are retained by branch boards and the rank central committees, for each £1 subscribed by a member of a rank, the JCC receives:

- Constables - 64.2p
- Sergeants - 62.3p
- Inspectors and Chief Inspectors - 57.9p

During stakeholder workshops, we enquired whether this income was enough, given the level of expenditure incurred by the JCC on behalf of members across the country. Stakeholders had varying opinions on this matter, which was further supported by their responses when surveyed on the percentage allocations of funding. Only 41% of stakeholders agreed or strongly agreed that income allocations needed to change and, of these, a number stated that the centre should actually receive a reduced share of subscription income.

Questionnaire response 6 - It is necessary to change / review the percentage allocations of funding as the current situation is unfair

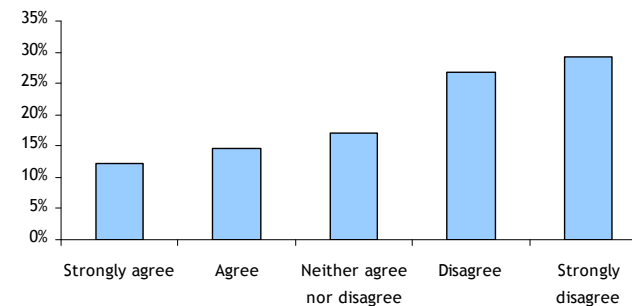


Percentages of income retained by branches

Some stakeholders suggested that, as larger branch boards are in a far better financial position than smaller boards, due to the fact that their fixed costs of operation represent a much smaller proportion of their income, they require a smaller proportion of their subscription income to operate.

When questioned whether larger branch boards should pay a greater share of their subscription income to the centre and smaller boards should pay a reduced share, only 27% of stakeholders agreed or strongly agreed with the proposition.

Questionnaire response 7 - There should be a sliding scale of subscriptions paid to the centre, depending on the size of force



From discussions with stakeholders, the major resistance to this proposition centred around concerns over inequitable approaches to matters such as expenses and honoraria in different boards across the country.

Whilst some of the larger boards suggested that it would be fairer for them to pay a larger share of subscription income to the centre, so that smaller boards could pay less, they did not want to subsidise smaller boards to the extent that they could continue to pay themselves 'excessive levels' of expenses and / or honoraria. This suggests that such a proposition would only be likely to be acceptable if Federation wide policies on expenses and honoraria were applied.

PFEW SUBSCRIPTION INCOME AND DISTRIBUTION

Overview of subscription income and distribution throughout the PFEW

Branch board finances

Further examination of the F45s submitted by branch boards has identified a total of £11.8 million in cash being held by branch boards around the country at the 2008 year end. As some branch boards include Member Services within their F45 submissions but others do not, it is unclear how much of this money is related to subscriptions.

In addition, when total net current assets (including cash) and fixed asset investments of the branch boards are examined together, over £14 million worth were reported on the branch boards' 2008 F45 submissions. We understand from JCC finance that this amount had increased to £15.9 million by the 2009 year end but we have not confirmed this to audited 2009 F45 submissions as these were not available at the time of our financial review.

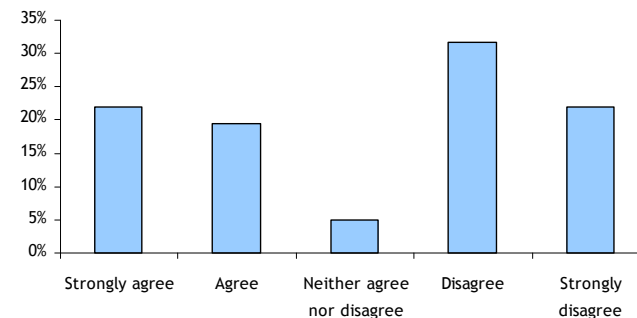
It is possible that this money could be used to fund some of the deficit forecast for the JCC in 2010 but, it should be noted that this is not a sustainable course of action as reserves around the country are finite.

There is a suggestion by some stakeholders that the retention of such amounts at branch level is contrary to the best interests of members and, therefore, the Federation as a whole. This is due to subscription rates needing to be higher as a result of insufficient funds being held where they are needed within the Federation, e.g. the JCC. Rather than existing funds being reallocated to where they are needed, members are instead asked to pay more each month.

The counter argument that has been presented by a number of branch boards is that any attempt to redistribute funds in this way would remove the incentive for branches to be financially prudent, as they would no longer benefit from any surpluses achieved. In addition, a number of branch boards that currently receive office accommodation from their local Force are concerned that this will change in the next few years due to Police spending cuts. As a result, many are saving money so that they have the ability to acquire their own Federation premises should this be required.

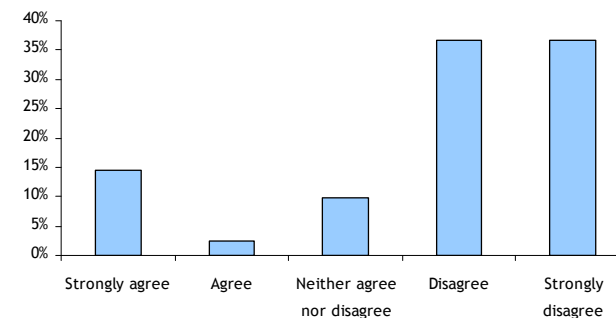
Opinion really does seem to be divided on this matter across the Federation, with 41% either agreeing or strongly agreeing that cash reserves are an issue and should be distributed, and 54% either disagreeing or strongly disagreeing with that opinion.

Questionnaire response 8 - Some branch boards have excessive amounts of money and it would be in members' best interests for this to be redistributed



When it was questioned whether it was reasonable for branch boards to only maintain one years worth of reserves, with any excess being passed to the centre, only 17% of stakeholders either agreed or strongly agreed. This was the same percentage, regardless of whether the reserves to be held were purely subscription income or whether they also included Member Services.

Questionnaire response 9 - JBBs should only maintain one years' reserves (excluding member services). Any excess should be passed to the centre



PFEW SUBSCRIPTION INCOME AND DISTRIBUTION

Overview of subscription income and distribution throughout the PFEW

Rank central committee finances

We have not undertaken detailed analysis of the audited financial statements of the rank central committees as part of this review and have not reviewed any 2010 budgets for these committees. At a high level, however, we have noted that in 2008, the rank central committees generated the following surpluses / (deficits):

- CCC - £924k
- SCC - (£86k)
- ICC - (£145k)

This shows that the financial performance of the separate rank central committees was not sufficient to cover the JCC's deficit in 2008 and we have seen no evidence to suggest that this situation is any different for the budgeted deficit in 2010 (see opposite).

This analysis provides contrast to the perception expressed by many stakeholders during the regional workshops that the 70% of current subscription income received by the JCC and rank central committees is more than enough to cover their required expenditures. Without cost reduction initiatives or increases in subscriptions, this is simply not the case.

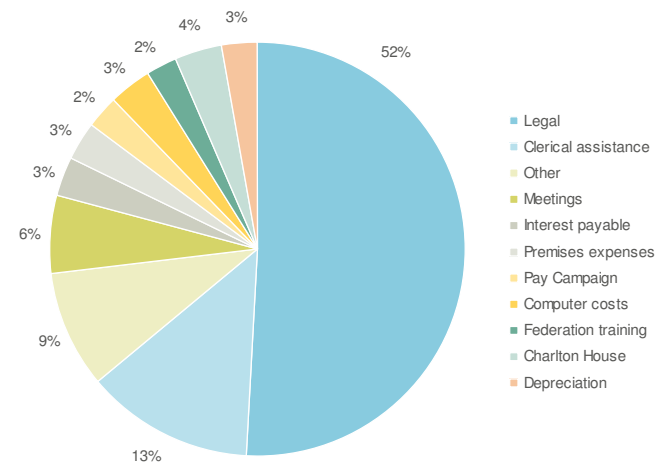
JCC finances

2008 and 2009 financial performance

Figure 6 on page 21 highlights that the JCC generated income of £19.1 million in 2008. The JCC's expenditure in 2008, however, was £20.9 million, resulting in a deficit for the year of £1.8 million. The nature of the JCC's expenditure in 2008 is outlined in figure 7 opposite.

The JCC's 2009 financial results have not been used for this analysis as they have not yet been audited. We understand, however, that it is likely that the JCC will also have recorded a deficit in 2009 and, without sizeable donations from the rank central committees, the JCC would have been unable to meet its liabilities.

Figure 7 - JCC expenditure: 2008 actual (total £20.9 million)



2010 budgets

We have been provided with budgets for the 2010 financial year by the JCC. Within these budgets, incomes are forecast to be £18.9 million and expenditures are forecast to be £24.9 million, resulting in a forecast deficit of just over £6 million for the financial year. Of the forecast expenditure, £15.9 million relates to legal fees, including a provision of approximately £3 million in relation to cover for the cessation of Legal Aid.

Clearly an annual deficit of this magnitude is unsustainable and, if unresolved, would be likely to lead to financial failure within the PFEW during the next few years. This situation has been the primary driver for both this independent review of subscription incomes and distribution, and the JCC's proposed increase in subscriptions.

PFEW SUBSCRIPTION INCOME AND DISTRIBUTION

Overview of subscription income and distribution throughout the PFEW

Delays in payment of subscription amounts

Amounts payable to rank central committees

Although BDO's review of F45 submissions confirmed that amounts payable to rank central committees had been calculated reasonably by the branches which reported both subscription income and amounts to be distributed on their F45 submissions, this does not mean that branches have been paying the rank central committees on a timely basis.

According to the rank central committees' audited financial statements for 2008, at the year end, each had the following subscription income amounts due from branch boards:

- CCC - £2.2 million
- SCC - £732k
- ICC - £171k

When calculated as the number of months' worth of subscription income, these amounts equate to the following:

- CCC - 1.7 months
- SCC - 2.8 months
- ICC - 1.6 months

As this information is taken at a snapshot in time, it might be reasonable to expect that up to one month's subscription income would be due from branch boards, i.e. boards have collected subscriptions from their members and are to pay it shortly after the snapshot date. The information above, however, suggests that a number of branch boards are retaining funds for a longer period of time than should be the case.

Amounts payable to the JCC

According to the rank central committees' audited financial statements for 2008, at the year end, the JCC had an amount of £4.7 million outstanding from rank central committees, comprising the following amounts:

- CCC - £3.8 million
- SCC - £808k
- ICC - £64k

This amount represents 3.1 months' worth of subscription income for the JCC.

When this proportion is applied to the JCC's budgeted income of £18.7 million in 2010, the forecast amount that the JCC would be due from rank central committees is over £4.8 million.

Whilst having no direct impact on the JCC's forecast deficit of over £6 million in 2010, if the amount outstanding reduced to a maximum of one month's subscriptions, this would provide the JCC with a significant improvement in its cash flow position. It should be noted, however, that there would be different implications for those committees or boards no longer holding onto these amounts.



SUBSCRIPTION INCOME AND DISTRIBUTION

Opportunities in relation to PFEW subscription
income and distribution

PFEW SUBSCRIPTION INCOME AND DISTRIBUTION

Opportunities in relation to PFEW subscription income and distribution

Income: Increase subscription rates

The forecast deficit of £6 million for the JCC in 2010 presents a significant concern over the future of the PFEW as a whole and, as such, needs to be addressed. One way of reducing the forecast deficit would be for the PFEW to increase the rate of subscriptions that it charges its members.

To increase the income of the JCC by £6 million would require a significant increase in subscriptions, not least because only 60% - 65% of any subscription income increase would actually be received by the JCC. Table 1 below highlights that, without other changes to the PFEW's funding structure, an increase in the JCC's income of £6 million would require a weekly increase in subscriptions of £1.30 (this excludes the impact of any reduction in member numbers).

Table 1 - Subscription increase required to increase JCC income by £6 million

	Constables	Sergeants	Inspectors & Chief Inspectors
Approx. members	109,208	22,276	9,120
% of subscriptions reaching the JCC	64.2%	62.3%	57.9%
Weekly subscriptions increase (£)	1.30	1.30	1.30
Increase in JCC income by rank (£)	4,739,540	938,149	356,960
Total increase in JCC income (£)			6,034,650

This means that the PFEW's weekly subscription rate would need to increase from £4.05 per week to £5.35 per week, equating to £23.18 per month.

Tables 2 - 4 below outline the subscription rates of other staff associations / trade unions.

Table 2 - NUT subscription rates

Annual pay	Monthly subscription
Qualified	£12.42

Table 3 - ASLEF subscription rates

Annual pay	Monthly subscription
Less than £16,000	£9.32
£16,000 - £25,999	£14.95
£26,000 - £31,199	£21.45
Over £31,200	£24.39

Table 4 - Unison subscription rates

Annual pay	Monthly subscription
£20,001 - £25,000	£14.00
£25,001 - £30,000	£17.25
£30,001 - £35,000	£20.30
over £35,000	£22.50

PFEW SUBSCRIPTION INCOME AND DISTRIBUTION

Opportunities in relation to PFEW subscription income and distribution

When compared to the ASLEF and Unison, a subscription rate of £23.18 per month does not necessarily seem unreasonable. In addition, a number of stakeholders have highlighted that due to the nature of work undertaken by Police Officers, members of the PFEW are more likely to require access to legal support than members of other professions. As such, it has been suggested that the rates currently charged by the Federation actually represent too much value for money for members.

Barriers

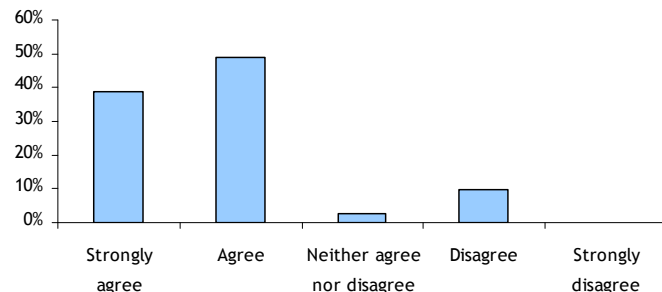
Culture

An increase of £1.30 per week, whilst not excessive in monetary terms, does represent an increase of 32% on current subscription rates. Culturally this is likely to face significant resistance in some parts of the Federation.

Although all branch boards would benefit from an increase in subscription income that they can retain, some of the branch boards already generate surpluses and do not need this. The perspective expressed by a number of stakeholders from boards currently generating surpluses are that subscription increases are not required and that the PFEW needs to 'get its house in order' before subscriptions should be increased.

Another major concern of stakeholders is that subscription increases may not deliver value for money, with 88% of those surveyed agreeing or strongly agreeing that this was an issue.

Questionnaire response 10 - An increase in subscriptions may not deliver value for money



There are also concerns that significant increases in subscription rates might lead to a dramatic fall in member numbers. Stakeholder views on this point were divided, with some stakeholders suggesting that this is unlikely to be such an issue.

Operations

The PFEW has increased subscriptions rates for many years, so the only operational barrier of note facing the PFEW in this regard is that, under current rules, any increase ratified by the PFEW conference will not come into effect until 1 January 2011. This will be too late to increase the income of the JCC to help reduce its forecast deficit for 2010.

Enablers

Any increase in subscriptions would need to be sold to members, focusing on the amount of increase and not necessarily the percentage rise. The PFEW should ensure that the value for money and the high standard of service provided by the Federation are clearly outlined to all members so that they are aware of what they receive for their money.

If increases in subscriptions are to be introduced, Federation representatives need to ensure that they are fully accountable to members. As such, the introduction of standardised, Federation wide policies on expenses and honoraria should be considered, as outlined on pages 44 - 45.

As outlined on page 17, the PFEW may also wish to consider amending its fund rules as part of any changes implemented. Such amendments might include allowing subscription increases ratified by conference to be made effective from the month following conference, or considering tiered subscription rates based on salary.

Conclusions

The forecast deficit of the JCC means that the PFEW is unlikely to be able to wait until it has 'got its house in order' before increasing subscriptions, as suggested by some stakeholders. An immediate increase in subscriptions is likely to be of benefit to the Federation but this needs to be sold to members based on value. Other initiatives, e.g. standardised expense rates, should be implemented at the same time to ensure that representatives maintain the confidence of members.

PFEW SUBSCRIPTION INCOME AND DISTRIBUTION

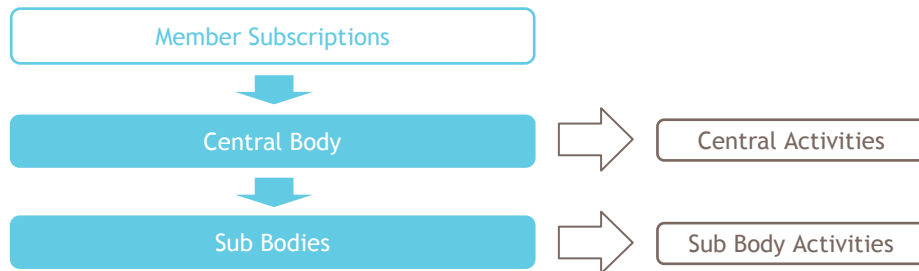
Opportunities in relation to PFEW subscription income and distribution

Distribution: Reconsider the way in which funding flows throughout the PFEW

The flow of income through the PFEW, as outlined on page 21, is unconventional when compared to similar not for profit organisations, such as staff associations and many trade unions.

Over the past 20 years, many such organisations have moved away from funding models where subscriptions are paid from members to sub bodies which are then subsequently paid onto a central body as this is seen to be very inefficient. Instead, in these organisations, membership income is received directly by the central body (the equivalent of the JCC) and then allocated out to sub bodies (e.g. the equivalent of the rank central committees and branch boards), as outlined in Figure 8 below. Examples of organisations that have altered their funding model to this structure include BDA, Unite and other major trade unions.

Figure 8 - Funding model adopted by other staff associations and trade unions

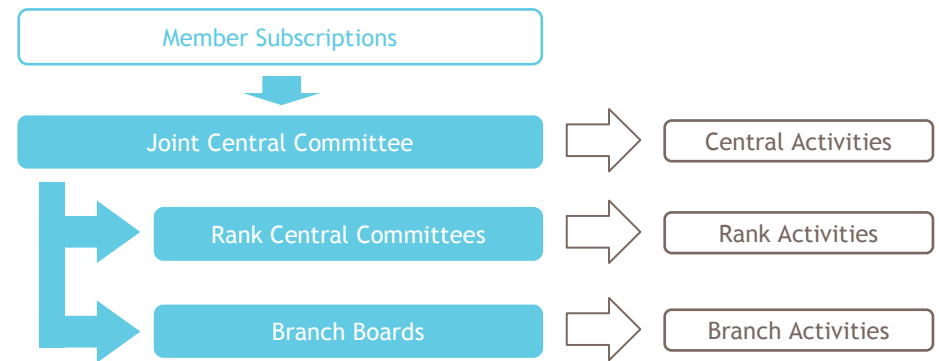


This funding model can be considered to be best practice, as it enables:

- The central body to have overall control of the organisation’s funding and its distribution to sub bodies
- Full clarity over income received from member subscriptions and a simplified reconciliation process for ensuring that all parts of the organisation receive the cash that they are due
- The central body to benefit from an improved cash flow position.

Figure 9 below outlines what this funding model might look like when applied to the boards and committees within the PFEW.

Figure 9 - Figure 8 funding model applied to the PFEW’s organisational structure



When undertaking a review for the CCC in 2008, it was found that the general perception of key stakeholders interviewed at that time was that a best practice model, as outlined in figure 9 above, was unlikely to be the most appropriate model for the PFEW.

The rationale explained for this perception was that, although the PFEW is similar to other staff associations in many ways, its voting policy is based upon equal voting rights for the three rank central committees, whereas most staff associations have voting rights based on a ‘one member, one vote’ principle. It was considered by stakeholders at that time that the best practice model would only be appropriate if the voting rights of the PFEW were to change.

As such, an alternative funding structure, outlined on page 36, was identified and our report recommended that the PFEW should consider changing its funding model. This subsequent review has now enabled a deeper understanding of the opinions of PFEW stakeholders from across the country and, as such, the key opportunities the PFEW’s funding structure are discussed on the following pages.

PFEW SUBSCRIPTION INCOME AND DISTRIBUTION

Opportunities in relation to PFEW subscription income and distribution

Continue with current funding model

Whilst not giving rise to any additional benefits for the PFEW, one option in relation to the Federation's funding structure is to keep it as it currently is. At a high level, subscription income will continue to flow through the Federation as outlined by figure 10 below.

Figure 10 - Current funding model



The advantages of retaining this model include:

- No administrative burden of changing the way in which subscription income is collected and distributed
- Branches understand the current funding structure.

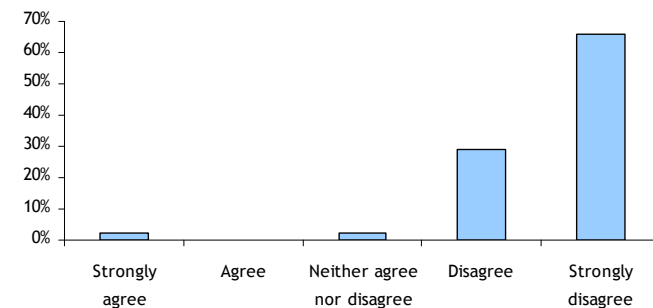
Barriers

Culture

Many stakeholders expressed concerns about the current funding model during stakeholder workshops. Their primary concern focused on rank central committees receiving funds before the JCC, a perspective that was significantly different to that encountered at the time of our review for the CCC.

This new perspective suggests that there is now a sound understanding of the financial pressures faced by the PFEW and an acceptance that significant change is required. As a result, it is highly unlikely that stakeholders would support the maintenance of the Federation's current funding structure. In fact, only 2% of stakeholders surveyed agreed or strongly agreed that the current model should be retained, with 95% of stakeholders either disagreeing or strongly disagreeing.

Questionnaire response 11 - The current model for subscription income and distribution should be maintained



Operations

Retaining the current model would not require any administrative changes, so operational barriers are limited. The biggest operational consideration, however, is that the current system is deemed by many to be one of the reasons why funds do not reach the places in the Federation where they are needed the most.

Enablers

The current funding structure adopted by the Federation is only likely to be retained if stakeholders can not agree on an improved model for the future.

Conclusions

The PFEW should seek to agree an improved model for collecting and distributing subscription income throughout the Federation.

PFEW SUBSCRIPTION INCOME AND DISTRIBUTION

Opportunities in relation to PFEW subscription income and distribution

Subscriptions paid directly to the JCC and then allocated to rank central committees and branch boards

This model is based on the model adopted by many other staff associations and trade unions, as outlined in figure 8 on page 32. The funding could be allocated to central committees or branch boards either based on percentages of subscription income, as is currently the case, or based on need via the agreement of appropriate budgets. Such a model would bring a number of key benefits to the PFEW, including but not necessarily limited to:

- A greater level of control over the PFEW's funding and distribution of subscription income
- Full clarity over income received from member subscriptions and a simplified reconciliation process for ensuring that all parts of the PFEW receive the cash that they are due
- An improved cash flow position for the JCC.

Barriers

Culture

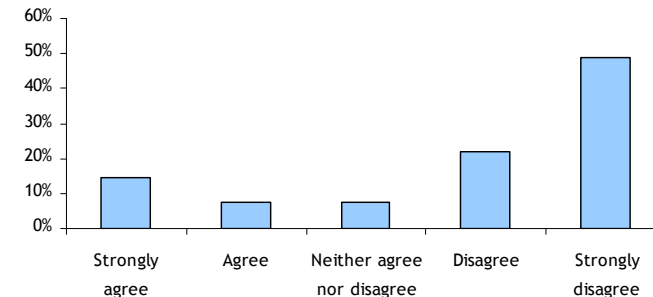
During BDO's review for the CCC in 2008, it was suggested that a model in which funds were received by the JCC prior to the rank central committees would be unlikely to be accepted by Constables across the country, due to a 'one member, one vote' principle not being applied within the PFEW.

Feedback from stakeholder workshops during this review, however, suggests that there has been a marked shift in stakeholder opinions on this matter since our review for the CCC. Many stakeholders have now suggested that they would welcome a change in which the JCC receives funding prior to the rank central committees. This change in opinion may be due to a greater understanding across the country of the financial issues facing both the JCC and the PFEW and an acceptance that change is required to resolve the situation.

Culturally, however, the funding model adopted by other staff associations and trade unions still doesn't seem to be favoured across the country. When this model was suggested as an option to stakeholders, with funding for rank central committees and branch boards based on budgeted needs, over 70% of respondents surveyed either disagreed or strongly disagreed with the proposed model.

Specific feedback around this level of disagreement was that there remains a level of concern around the country about subscriptions being collected centrally rather than at branch level, particularly in relation to the impact that this might have upon branch boards.

Questionnaire response 12 - Subscriptions should be collected centrally and then each rank central committee and branch board should submit a business case for annual funding requirements (based on need)



Operations

Although a change to this funding model would require some administrative changes, i.e. amendments to the accounts into which subscription incomes are paid, the overall administrative burden for the PFEW would be minor. Some concerns were expressed by stakeholders, however, that the PFEW may not have the right infrastructure in place centrally to ensure that member numbers are monitored and members are charged appropriately, e.g. staff on maternity leave.

PFEW SUBSCRIPTION INCOME AND DISTRIBUTION

Opportunities in relation to PFEW subscription income and distribution

Enablers

Key to enabling the successful implementation of a best practice funding model is ensuring that stakeholders from across the country are confident about the stewardship of finances at a central level. Although such confidence does not seem to be high enough at present, the successful implementation of cost reduction initiatives within the JCC and across the rank central committees may help stakeholders to appreciate a willingness to change and professionalise at the centre.

Furthermore, the introduction of appropriate technology to monitor and report on member numbers should help to alleviate any concerns over infrastructure.

Conclusions

Although this model is unlikely to be culturally acceptable within the PFEW at the current time, it is likely to be a favourable opportunity for the Federation in the future if stakeholder confidence can be built across the country.

PFEW SUBSCRIPTION INCOME AND DISTRIBUTION

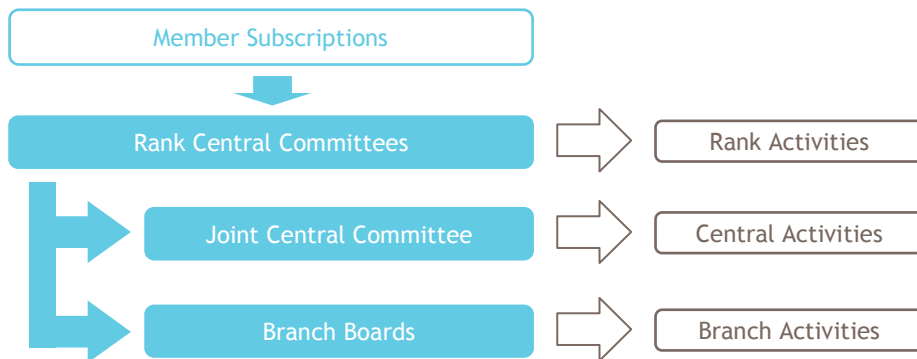
Opportunities in relation to PFEW subscription income and distribution

Subscriptions collected by rank central committees and distributed out to the JCC and branch boards

As outlined on page 32, it was suggested during BDO’s review for the CCC that a model in which funds were received by the JCC prior to the rank central committees would be unlikely to be accepted by Constables across the country, due to a ‘one member, one vote’ principle not being applied within the PFEW.

As a result, a possible funding structure was outlined that would enable the PFEW to benefit from some of the advantages of the funding model adopted by other staff associations and trade unions, without the JCC receiving funds prior to the rank central committees.

Figure 11 - Subscriptions collected by rank central committees and subsequently distributed to the JCC and branch boards



The advantages of adopting this model were deemed to include:

- Greater clarity over income received from member subscriptions and a simplified reconciliation process for ensuring that all parts of the PFEW receive the cash that they are due
- The likely acceptance of the model by stakeholders, particularly Constables.

Barriers

Culture

The perspectives of stakeholders in relation to Federation funding seem to have changed significantly since our report for the CCC in 2008. During stakeholder workshops held as part of this review, two key messages were identified:

- Stakeholders no longer seem to be concerned about the JCC receiving funds prior to the rank central committees. In fact, many stakeholders now welcome this as a proposition
- Branch boards are resistant to any funding model in which subscriptions are collected centrally, rather than at branch level.

As a result, there is very little stakeholder support for this alternative funding model that was outlined in our report for the CCC.

Operations

As with the model outlined on page 34, although a change to this funding model would require some administrative changes, the overall administrative burden for the PFEW would be minor. The same concerns exist, however, that the PFEW may not have the right infrastructure in place centrally to ensure that member numbers are monitored and members are charged appropriately, e.g. staff on maternity leave.

Enablers

A significant cultural change would be required within the PFEW for this funding model to be favoured by stakeholders across the country.

Conclusions

This funding model is unlikely to be acceptable to members if recommended for implementation.

PFEW SUBSCRIPTION INCOME AND DISTRIBUTION

Opportunities in relation to PFEW subscription income and distribution

Subscriptions collected by branch boards and paid to the JCC, which then funds the rank central committees

Figure 12 below outlines a possible funding model for the PFEW in which branch boards continue to collect subscriptions from members and then pay the central share of these directly to the JCC. The rank central committees are then subsequently funded by the JCC. This model is essentially that outlined by recommendation 15 of the PFEW’s FWG in 2008.

Figure 12 - Funds paid by branch boards to the JCC prior to rank central committees



The advantages of this model include:

- An improvement in the financial position of the JCC in comparison to the financial position of the three rank central committees
- Relatively simple implementation.

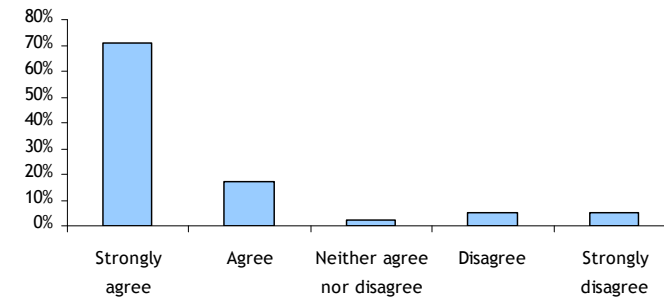
Barriers

Culture

During our review for the CCC in 2008, it was suggested by stakeholders that this model would be unacceptable to many Constables, due to the lack of a ‘one member, one vote’ system within the PFEW.

As outlined on page 36, however, many stakeholders now seem to favour a model in which the JCC receives funds prior to the rank central committees. When this funding model was suggested to stakeholders, with rank central committee funding being based on budgets, 88% of those surveyed either agreed or strongly agreed with the proposition. This was by far the most popular funding structure discussed with stakeholders during the workshops and it is unlikely that the PFEW would face significant cultural barriers to implementation should this be recommended to members.

Questionnaire response 13 - Subscriptions should be collected by Branches and then be forwarded to the JCC. Each rank central committee should then submit a business case for annual funding requirements



Operations

The administrative burden of amending the current structure to this model are unlikely to be significant.

Enablers

Support for this model already seems to be in place within the Federation but the JCC should ensure that the case for changing to such a model is clearly outlined.

Conclusions

Although this model doesn’t give rise to many of the benefits of other funding models, it is the model that is most acceptable to members at present. The PFEW should, therefore, consider adopting this funding model in the short term.

PFEW SUBSCRIPTION INCOME AND DISTRIBUTION

Opportunities in relation to PFEW subscription income and distribution

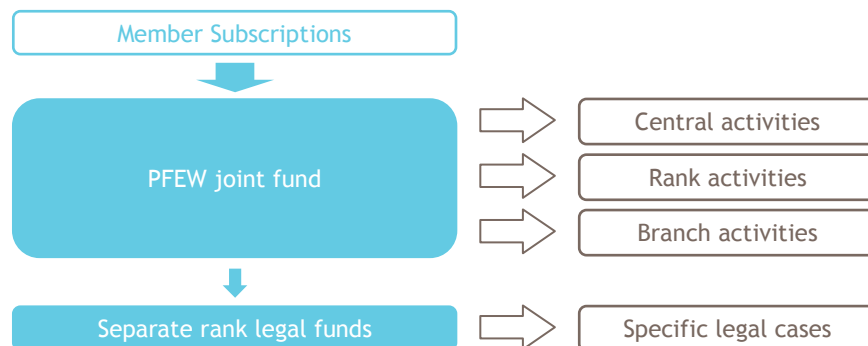
Integrated financial structure

Many successful major businesses operate from a number of locations across the UK but have an integrated financial structure. This means that, rather than each shop, office or production centre running its own finances (e.g. local bank accounts), all finances are accounted for centrally and on a national basis.

At a local level, budgets are agreed and allocated for each shop, office or production centre, although these amounts are ring fenced from a national bank account, rather than accounts held and managed locally. Local management teams are responsible for the delivery of products or services to customers and for monitoring and managing their budget allocation from the national account, rather than maintaining their own financial accounts.

For the PFEW to operate a fully integrated financial structure, a slight amendment is likely to be required to the structure operated by many businesses, as outlined above. As part of their role, the PFEW's separate rank central committees fund legal cases in incidences when a Federation member of one rank is taking legal action against a member of another rank. From our discussions with various PFEW stakeholders, we understand that it is not possible to pay for these cases out of the same fund, so any integrated structure would require a small, separate legal fund for each rank to deal with such instances. A possible integrated financial structure for the PFEW is outlined in figure 13 below.

Figure 13 - An integrated financial structure for the PFEW



An integrated financial structure such as this presents a number of advantages to organisations:

- Enhanced oversight and control of nationwide incomes and expenditures
- Improved ability to eliminate duplicated expenditure, e.g. audit fees
- Greater equality in personnel and resources in different locations
- Reduced risk associated with maintaining multiple bank accounts across the country
- Wider opportunities to benefit from economies of scale
- Greater focus on 'client service' rather than local financial management.

These are all advantages which the PFEW could benefit from should it successfully implement such a funding structure.

Barriers

Culture

Stakeholder workshops have suggested that the implementation of such a funding model would face significant cultural resistance. Major concerns include but are not necessarily limited to:

- Funds being collected centrally and the resulting impact that this might have upon branch boards
- The stewardship of funds by central committees and the inability of stakeholders from across the country to control potentially excessive expenditure
- Inequality between branch boards, both in terms of facilities that they have access to and in relation to the level of expenses, e.g. mileage and honoraria, that they pay themselves.

As such, these concerns present a significant cultural barrier to the successful achievement of an integrated financial structure for the PFEW.

PFEW SUBSCRIPTION INCOME AND DISTRIBUTION

Opportunities in relation to PFEW subscription income and distribution

Operations

If an integrated financial structure were to be adopted, it is likely that the scale of the financial operation currently run by the JCC would be significantly increased. As a result, significant operational barriers may exist including a lack of appropriately experienced personnel to run the Federation's finances. In addition, a number of branch boards may not have experience of setting efficient budgets and managing financial performance to meet these.

Enablers

The successful implementation of an integrated financial structure is unlikely to be something that the PFEW could achieve in the short term, due to the cultural and operational barriers faced within the organisation. It is likely that such a structure would need to be implemented gradually over a number of years, with each stage of transition being used to improve stakeholder confidence and to overcome the barriers faced.

The following outlines how a successful and culturally acceptable implementation of an integrated financial structure could be achieved over a number of stages.

Stage 1

- Branch boards collect subscription incomes from members and pay a proportion of these directly to the JCC
- Rank central committees are allocated funds from the JCC, based on a proportion of the subscription income received from members of their rank
- Activities of the JCC and the rank central committees are examined with appropriate cost reduction opportunities identified and implemented
- Roles and responsibilities of branch boards and central committees clarified to ensure consistent levels of service achieved for members
- Expenses (e.g. mileage rates) standardised across the country Federation wide guidelines set for honoraria.

The achievement of these initiatives should increase confidence that the JCC and rank central committees are managing the funds that they receive appropriately and reduce concerns across the country that some branch boards are paying excessive levels of expenses or honoraria. As such, these initiatives have been included within our recommendations arising from this review, as outlined on pages 44 - 45.

Stage 2

- Subscription incomes collected directly from members by the JCC, rather than local branch boards
- Branch boards allocated funds based on a proportion of the subscription income received from members of their branch. This could remain at 30%, but a sliding scale of contributions based on branch size or 'additional needs' claims from branches requiring additional funding should also be considered.

The achievement of these initiatives should increase confidence that funds can be successfully collected at a central level and distributed to branches, without adversely affecting branches' operations.

Stage 3

- Rank central committees and branch boards allocated funds based on agreed budgets, determined by the cost of running the committees / boards
- Additional allocations of funds provided, where required, with the support of a valid business case
- Appropriate level of local facilities and services required by each branch board (e.g. standalone offices) to be agreed
- Additional opportunities for reduced expenditure through national procurement identified and, where appropriate, implemented.

The achievement of these initiatives should increase confidence that national coordination of expenditure can be achieved and that branch boards will benefit, rather than lose out through the setting of appropriate budgets at rank central committee and branch level.

PFEW SUBSCRIPTION INCOME AND DISTRIBUTION

Opportunities in relation to PFEW subscription income and distribution

Stage 4

- One central fund maintained with rank central committee and branch boards allocations based on an amount ring fenced from the fund, rather than amounts paid out to numerous national funds
- Small separate rank legal funds maintained for the sole purpose of funding specific legal cases where a PFEW member of one rank is taking legal action against a PFEW member of a different rank.

Stages 1, 2 and 3 should help to change the culture within the PFEW to one where there is an understanding and acceptance that the organisation can perform more efficiently through centralisation and standardisation. Stage 4 is the culmination of this programme, resulting in an integrated financial structure giving rise to the benefits outlined on page 38.

Conclusions

An integrated financial structure is likely to provide the PFEW with the most benefits of any of the funding structures identified. At present, however, significant cultural and operational barriers are likely to prevent its successful implementation. The PFEW should look to adopt this funding model in the longer term through a staged transition, such as that outlined above.

The PFEW could approve such a staged transition in the short term, with the acceptance that the full transition is likely to take a number of years.



FOUNDATION ACTIVITIES IDENTIFIED

FOUNDATION ACTIVITIES IDENTIFIED

Core foundation activities

Introduction

During the stakeholder workshops, a number of foundation activities were identified or discussed that did not fall specifically under the categories of PFEW fund rules or subscription income and distribution. Some of these activities were seen to be key to supporting the implementation of recommendations in relation to the fund rules or subscription income and distribution. These foundation activities have been highlighted as either core or additional activities and are outlined on the following pages.

Set breakeven budgets

The PFEW has an opportunity to ensure that all central committees set breakeven budgets and that financial performance is monitored and managed to ensure that these are met. The successful implementation of such an initiative is essential to enable sustainability for the PFEW and to prevent financial predicaments such as the one currently being faced to be experienced again in the future.

It is important that budgeting is conducted thoroughly and realistically to ensure that individuals have a clear idea of the financial position of the Federation and to ensure that the budgets are achievable. Managing performance carefully to ensure that budgets can be adhered to is vital for controlling expenditure and managing the Federation's financial position.

Barriers

Culture

Although stakeholders appreciated the need to set and manage performance to budgets carefully, concerns were expressed over the ability of central committees to budget adequately. Whilst the consensus of opinion suggested that current incumbents were making significant progress in relation to the professionalisation of finance management within the PFEW, stakeholders often made reference to excessive expenditure in the past and the risk that this might happen again.

The key cultural barrier to overcome will arise when issues arise and where difficult decisions need to be made about increasing incomes or reducing expenditures.

Operations

Historically, the setting of reasonable and achievable breakeven budgets has not been something that the PFEW has had to focus on. As a result, this may prove harder for the PFEW to achieve than some stakeholders may consider to be the case.

Enablers

The key enabler for this opportunity is, as outlined previously, stakeholder acceptance of the need to set and manage performance to budgets carefully. With stakeholder buy in to the process, successful implementation is far more likely.

Conclusions

This is a fundamental initiative for the PFEW that needs to be successfully implemented in order to support a sustainable future for the Federation. Efforts should be made to achieve this with immediate effect.

FOUNDATION ACTIVITIES IDENTIFIED

Core foundation activities

Implement appropriate cost reduction initiatives across the Federation

To ensure that the PFEW is managing members' money wisely and that the Federation has sufficient funding to be sustainable in the long term, it should focus on the implementation of appropriate cost reduction initiatives.

Discussions with stakeholders identified specific concerns around legal expenditure, although a number of stakeholders expressed views that there is a significant opportunity to reduce other costs incurred by the Federation.

Although some cost reduction initiatives have already been implemented, additional opportunities should be followed up to ensure that the PFEW is a lean and efficient business. Examples suggested have included matters such as greater information around legal expenditure and further cross-committee working, as exemplified by the appointment of a joint claims adviser by the SCC and ICC.

It is important that any new initiatives focus on key expenditures first so that the PFEW can garner the greatest benefit from the smallest amount of effort.

Barriers

Culture

During our workshops most stakeholders acknowledged the need to change, however, there appeared to be a reluctance for individuals to change themselves. For example, when we conducted stakeholder workshops with branch boards, many branch boards stated that cost reduction initiatives needed implementing at a central level, but there was often no acknowledgement of the need to reduce costs at branch level.

The lack of acknowledgement of the need to reduce costs may restrict the cost savings made across the Federation.

Operations

Implementing appropriate cost reduction initiatives across the PFEW should not be too difficult to implement if each branch board and central committee commits to reviewing and controlling its own expenditure. Professional advice and support should be sought where required.

Enablers

During the workshops held as part of this review, feedback from many of the stakeholders suggested that many cost reduction initiatives have already been implemented over the last six months.

All stakeholders recognised the need to reduce costs at some level to ensure that the Federation is an efficient organisation and to ensure that it is sustainable in the long term. This recognition of the need to change and the desire of stakeholders to reduce costs, should aid the implementation of additional cost reduction initiatives.

Conclusions

This opportunity is likely to be culturally acceptable for all stakeholders, and many stakeholders have commented that steps to reduce costs are already taking place within the organisation. By continuing these initiatives, and focusing on key areas for cost reduction, the Federation should be able to fully appreciate the key costs of the organisation and should be able to adequately reduce these, helping to ensure that the Federation has a sustainable future.

FOUNDATION ACTIVITIES IDENTIFIED

Additional foundation activities

Standardise expenses across the PFEW

As a Federation representing the interests of Police Officers across England and Wales, it is important that Federation representatives are accountable to their members. One area of significant concern identified by some stakeholders during workshops focused on the variable rates of expenses paid by different branch boards.

Given that there has been significant public interest in the expenses claimed by MPs and that the PFEW may need to increase subscription rates in the near future, the matter of expenses within the Federation may come under increased scrutiny. Whilst some stakeholders might consider that expense rates don't need to be standardised, it has proved difficult to justify this whilst ensuring the best interests of members.

As such, a key opportunity available to the PFEW is to standardise expenses, e.g. mileage rates, for all branch boards and central committees. Implementing a standard expenses policy would ensure that all Federation representatives work under the same rules and this may reduce the perceived level of conflict, resentment and frustration arising from the existing system, where different branch boards and central committees pay differing levels of expenses.

Barriers

Culture

Although many stakeholders we met with agreed that a standard rate of expenses should be implemented across the organisation, concerns were expressed that this may be unachievable because of the 'self interest' of some individuals who are reluctant to have their personal financial situations changed.

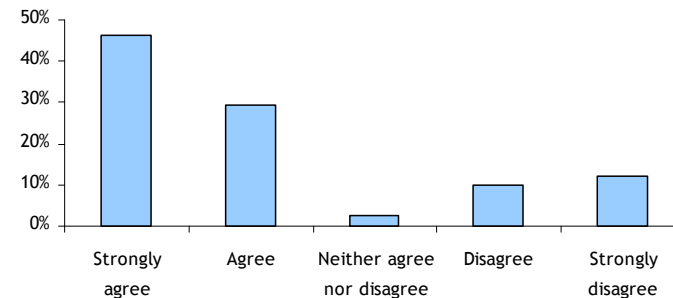
Operations

Standardising expenses across the PFEW should not result in complex administrative changes. Only minor amendments to existing policies would be needed e.g. paying a different mileage rate or a different conference allowance, and this should not present a significant administrative burden.

Enablers

During the workshops held as part of this review, feedback from many of the stakeholders suggested that this opportunity is desirable to ensure equality across the organisation and to ensure that the Federation is accountable to its members. When surveyed, 76% of stakeholders agreed or strongly agreed with standardisation of expenses and honoraria. 73% also agreed or strongly agreed that standardised expense rates should be set in line with HMRC approved limits, thus reducing the associated tax bill for the PFEW.

Questionnaire response 14 - The PFEW should standardise all expenses (i.e. national rules for expenses / honoraria)



This desire to change for the benefit of the Federation as a whole and to ensure accountability to members should assist the PFEW in implementing standardised expenses.

Conclusions

Although this opportunity is unlikely to be favourable for all stakeholders within the PFEW at the current time, it is likely to be in the best interests of the Federation as a whole and will help to ensure that the Federation is accountable to its members. As such, the Federation should seek to implement this with immediate effect.

FOUNDATION ACTIVITIES IDENTIFIED

Additional foundation activities

Agree Federation wide policies on honoraria

At present, varying levels of honoraria payments are made to individuals across the Federation. As with expenses, honoraria payments represent a significant concern for many stakeholders, particularly when considering the need for the Federation to be accountable to its members. As such, an opportunity exists for the Federation to develop Federation wide policies on honoraria, rather than branch by branch and committee by committee.

Implementing Federation wide policies for honoraria would ensure that all payments made to individuals working for the PFEW are seen to be fair and reasonable. In addition, having a Federation wide policy may reduce the level of mistrust and conflict within the organisation.

Barriers

Culture

During the workshops held as part of this review, many stakeholders we met with agreed that a standard rate of expenses should be implemented across the organisation, however, they often stated that it would be too complicated to implement a standard policy on honoraria due to cultural resistance.

Stakeholders commented that individuals receiving high honoraria payments would not support any changes to the policies, as this would significantly affect their individual income. Furthermore, the requirements of roles around the country are different and, stakeholders commented, this makes it difficult for honoraria to be set centrally.

Operations

Agreeing Federation wide policies on honoraria across the PFEW should not result in complex administrative changes. Only minor amendments to existing policies would be needed and this should not present a significant administrative burden.

Enablers

From our meetings with stakeholders as part of this review, some stakeholders stressed the need to standardise honoraria to ensure the Federation can be fully accountable to its members.

As questionnaire response 14 on page 44 highlights, 76% of stakeholders agreed or strongly agreed with standardisation of expenses and honoraria. Having said that, a number of stakeholders commented that they were more in agreement of expense standardisation rather than honoraria standardisation. Stakeholders were more likely to agree on specific guidelines and policies for honoraria being set, with which branch boards and central committees must comply, rather than specific levels of honoraria being set by the centre for individuals.

Ensuring accountability to its members is likely to be a strong driver for implementing a standard Federation wide policy on honoraria.

Conclusions

This model is unlikely to be favourable for all stakeholders within the PFEW as, for many, this could mean a significant reduction in payments received. Implementing Federation wide policies on honoraria would, however, be a favourable opportunity for the PFEW as a whole and would help to ensure that payments are transparent, fair, equitable and reasonable. This in turn will ensure that the Federation is appropriately accountable to its members.

FOUNDATION ACTIVITIES IDENTIFIED

Additional foundation activities

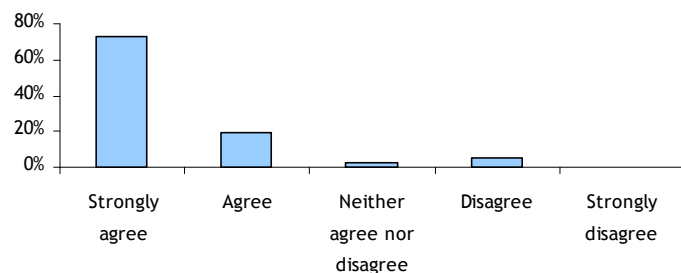
Implement performance measures and indicators

We understand that, at present, there are no specific measures or indicators in place to assess the performance of the PFEW. During our workshops, stakeholders expressed particular concerns that any new recommendations agreed upon would not be implemented appropriately. For example, many stakeholders commented that they did not want a repeat of ‘the Leatherhead build’, where it appeared that there were limited controls and performance measures in place throughout the duration of the project.

The implementation of performance measures and indicators would help to ensure that any new recommendations accepted are implemented and achieved successfully. In addition, sufficient checks and balances will be key to ensuring that the Federation does not find itself in this financial position again in the future.

93% of stakeholders surveyed agreed or strongly agreed that a lack of transparency and understanding of Federation finances contributes to confusion and a general level of mistrust. This level of mistrust is resulting in many branch boards being unprepared to make donations to the centre, when additional finance has been required.

Questionnaire response 15 - A lack of transparency and understanding of Federation finances contributes to confusion and a general level of mistrust



Implementing appropriate measures and controls may also help to increase stakeholder confidence in the Federation and, in particular, the central committees.

Barriers

Culture

The building up of reserves by rank central committees seems to have contributed to, what appears to be, a significant divide between branch boards and central committees. The perceived barrier of rank is considered to be a non-issue at branch level, as decision making and financial arrangements are largely conducted at a JBB level. The general consensus of opinion is, however, that the issue of rank at central level is a major barrier to any initiative. Many stakeholders expressed concerns over conflicts between separate rank central committees, stating that this is the cause of considerable competitive rivalry. Concerns were also expressed by a number of stakeholders that many of the recommendations previously put forward through the FWG have not yet been implemented. There is therefore a scepticism that any new recommendations will be implemented.

Operations

Appropriate performance measures and indicators for the PFEW will take some time to design to ensure that the right information is being captured and assessed. Once these measures are designed, however, they should be fairly simple to implement, providing that each branch board and central committee commits to reviewing performance against these measures and sharing this information. Professional advice and support should be sought where required, particularly for the design of performance measures.

Enablers

The establishment of commitment through united, rank central committees. This may be achieved by agreeing on set performance measures for the central committees as a whole, rather than at rank central committee level.

Conclusions

Although it has been suggested that the separate central rank committees need to operate with autonomy there are a number of improvement and that can be implemented without loss of autonomy. By working together to establish reasonable measures, the rank committees can present a united front to the Federation and, in turn, begin the process of improving confidence in their ability to work together.

FOUNDATION ACTIVITIES IDENTIFIED

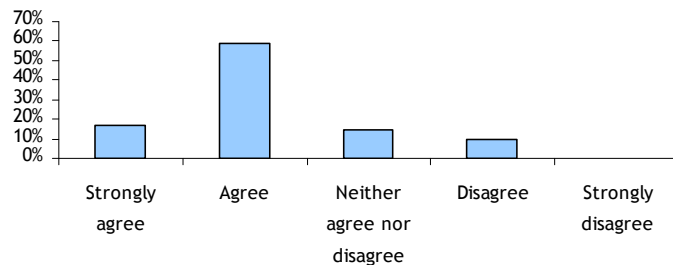
Additional foundation activities

Consider the appointment of qualified and experienced experts to support Federation members

At present, our understanding is that the Federation does not conduct any long term planning. Stakeholders commented on the cyclical nature of the positions held at the JCC and the fact that individuals are elected for a three year terms and so only plan for three years. To ensure that the Federation is making suitable business decisions and to ensure that the Federation is sustainable for the long term, there is a need for some long term business and financial planning.

During our workshops with stakeholders, individuals expressed concerns over the Federation’s approach to financial planning with 76% of stakeholders surveyed agreeing or strongly agreeing that there is a level of inertia surrounding current funding arrangements.

Questionnaire response 16 - There is a level of inertia surrounding current funding arrangements



The availability of individuals with the right experience and skill set was also a concern for stakeholders, with the suggestion that ‘police officers are running a multimillion pound business’. The PFEW is a very complex organisation with a large income and it is important that the representatives running the Federation have the support of experts with appropriate skills and experience.

With this in mind, the PFEW should evaluate some of the key financial and other positions within the PFEW and consider the appointment of qualified and experienced experts to support the Federation members heading up these areas. An example of where this has already been achieved is the appointment of in-house counsel for legal matters.

Barriers

Culture

There is a perception within the Federation that Police Officers will ‘have a go at anything’ and that it is not a natural reaction to look outside for advice or assistance. A major cultural barrier will be for the PFEW to allow outsiders with specific experience and knowledge to take on positions of responsibility within the Federation.

Operations

The major operational barriers facing the PFEW in relation to this initiative are around finding the right individuals, with the right skills and experience, to support key functions of the Federation.

Enablers

The JCC already has a number of specialists supporting it but, perhaps it could consider recruiting a specialist finance/business individual to assist in running the Federation and to help provide information, justification and support for strategic decisions.

Conclusions

By recruiting unelected experts into key positions, the PFEW can ensure that continuity is maintained and that forward planning is implemented and managed beyond a minimum three year tenure. This is likely to contribute to improved performance within key functions of the PFEW.



APPENDICES

APPENDICES

I	- Funding rules and regulations - comparison table	50
II	- Stakeholder views on PFEW funding rules	55
III	- Stakeholder views on PFEW funding - branch level	56
IV	- Stakeholder views on PFEW funding - central level	57
V	- Stakeholder views on improvement opportunities	58

APPENDIX I

Funding rules and regulations - comparison table

Examples of PFEW rules and regulations that are ambiguous or open to interpretation

By way of demonstrating that some Federation fund rules are ambiguous or open to interpretation, as outlined on page 17, table 5 below outlines a number of extracts from both the regulations document and amendments to the regulations in 1990 & 2004 (detailed page 17).

Table 5 - Extracts and analysis of PFEW fund rules

Ref	Rule or Regulation	Intention	Interpretation
1	<p>Part II Authorisation of Expenditure</p> <p>5.1A(q) - To authorise the purchase of a gift, not exceeding a cost of £500, for and person, whether or not a member of the Federation where, in the option of the committee, the individual has made a valid or recognisable contribution to the Federation or its members</p> <p>5.1B (p) To authorise the payment of sum of money to, or the purchase of a gift, for any person, whether or not a member of the Federation where, in the option of the committee, the individual has made a valid or recognisable contribution to the Federation or its members.</p> <p>Part III Branch boards</p> <p>6 (k) - To authorise the payment of a sum of money to, or the purchase of a gift, for any person, whether or not a member of the Federation where, in the option of the committee, the individual has made a valid or recognisable contribution to the Federation or its members.</p>	<p>The example on the left is design to reward and recognise individuals outstanding efforts for the Federation. However, the rules do not at this level define what a valid or recognisable contribution is.</p> <p>In addition, there is a cap of £500 at JCC level and no cap at rank central committee or branch board level.</p>	<p>These rewards are at the discretion of the appropriate board, however, the definition of what is a valid or recognisable contribution will be open to interpretation.</p> <p>Although the intention would be to promote individual effort above what would be considered normal duties, it has the potential to be divisive and create disharmony. Therefore, although we have seen no evidence to suggest this particular rule has been interpreted differently within boards, anecdotal evidence suggests that there is disparity across the Federation in relation to some benefiting more than others based on each individual board's policy.</p>

APPENDIX I

Funding rules and regulations - comparison table

Ref	Rule or Regulation	Intention	Interpretation
2	<p>Part II Authorisation of Expenditure</p> <p>Joint Central Committee Fund</p> <p>5.1.A(f) to grant honoraria to members of the Joint Central Committee</p> <p>Constables', Sergeants', Inspectors' Central Committee Fund</p> <p>5.1.B (e) to grant honoraria to members of the Central Committee</p> <p>Part III Branch boards</p> <p>6. (e) on granting honoraria to Branch Board members</p>	<p>To provide guidance around authorisation and ensure reasonable expenditure across the Federation. However, by not determining standard guidance for expenditure it is open to interpretation nationally.</p> <p>These rules are open to a great deal of interpretation, as demonstrated by the examples on the left, with all boards and committees applying their own policy in relation to honoraria, including not granting it.</p>	<p>Although the intention is to ensure adequate compensation for colleagues working excessive hours above what would be considered normal duties, the rules are open to interpretation. We have not seen evidence to suggest this particular rule has been interpreted differently across the regions, however, anecdotal evidence suggests there is disparity across the Federation with some individuals benefiting considerably more than others. This disparity can also be divisive and create disharmony, with the potential to create issues at branch level.</p>
3	<p>Part II Authorisation of Expenditure</p> <p>Joint Central Committee Fund</p> <p>5.1.A(i) on the arrangement and operation of insurance, medical and superannuation and similar schemes and any other service fro the benefit of it's members their partners and families and committee staff; and where agreed ...</p> <p>Constables', Sergeants', Inspectors' Central Committee Fund</p> <p>5.1.B (g) on the arrangement and operation of insurance, medical and superannuation and similar schemes and any other service fro the benefit of it's members their partners and families and committee staff; and where agreed ...</p> <p>Part III Branch boards</p> <p>6.(g) on the arrangement and operation of insurance, medical and superannuation and similar schemes and any other service fro the benefit of it's members their partners and families and committee staff; and where agreed ...</p>	<p>To ensure reimbursement of any expense incurred in procuring and maintaining the best possible level of service for members and stakeholders.</p>	<p>It is our understanding that there might be inconsistencies in the application and allocation of the costs incurred, and due to the lack of specific guidance this is another example of a rule open to interpretation.</p> <p>Ultimately, various interpretations of this rule may never have a detrimental impact on the quality of services, it does however, suggest that there are 47 separate businesses operating inside a national Federation.</p>

APPENDIX I

Funding rules and regulations - comparison table

Ref	Rule or Regulation	Intention	Interpretation
4	4.1 the weekly subscription, being such sum as has been determined by the Joint Central Committee, with the approval of the Joint Central Conference, shall be increased on the 1st January each year, to such a sum as shall be determined by the Joint Central Committee, subject to the approval of the Joint Central Conference. The sum determined shall be rounded off to the nearest number of pence divisible by three.	To ensure that any subscription increase is a fair and democratic process and reflects the majority of opinion.	<p>It is our understanding that, for a number of years, the process for increasing subscriptions has not been followed correctly and these have been determined and implemented by the JCC in advance of approval by Joint Central Conference.</p> <p>This suggests that there has historically been a lack of understanding of the specific requirements of the PFEW fund rules.</p>
5	4.2 As from 1 st July 1995, out of the contributions made by each rank of each force (with the exception of cadets) 30% overall shall be allocated to the appropriate Branch Board Fund and 70% to the appropriate Central Committee Fund: out of said 70% each Central Committee shall allocate, by agreement, part to the Joint Central Fund	To ensure that all funds are allocated by rank to the centre.	This is currently happening within the PFEW, however, this is a major area and cause for concern with boards believing that funds and contributions should go to the JCC fund prior to rank central committee funds. They believe that this would help to ease the PFEW's funding issues at a central level.

APPENDIX I

Funding rules and regulations - comparison table

Ref	Rule or Regulation	Intention	Interpretation
6	<p>Amendment to the Police Federation Regulations 1969</p> <p>2.-(1) The Police Federation Regulations 1969(b) are amended as follows.</p> <p>(2) For regulation 16(4) (subscriptions etc) substitute—</p> <p>“(4) If at the end of any year the funds held by a branch board exceed—</p> <p>(a) £1,800 where the number of subscribing members is less than a hundred;</p> <p>(b) £18 for each subscribing member, where the number of such members is a hundred or more but less than five hundred or, in the case of the metropolitan police force, a hundred or more but less than one thousand;</p> <p>(c) £9,000 where the number of subscribing members is five hundred or more or, in the case of the metropolitan police force, £18,000 where the number of such members is one thousand or more,</p> <p>the board may pay such amount of the excess as they think fit to the joint branch board and, after making such payment shall pay the remainder of the excess (if any) to the appropriate Central Committee”.</p>	<p>These Regulations amend the Police Federation Regulations 1969 by substituting a new regulation 16(4). Under the previous regulation 16(4), where a branch board of the Police Federation held funds exceeding specified amounts at the end of any year, the board was required to pay the excess to the appropriate central committee and, after making such payment, it was permitted to pay an amount, as it thought fit, to the JBB.</p> <p>The new regulation 16(4) revises the amounts specified in the previous regulation. It also amends the provision setting out how a branch board is to use funds it holds at the end of any year in excess of the revised specified amounts. The board may pay any amount in excess of this to the JBB and it shall then pay any amount remaining of the excess to the appropriate central committee.</p> <p>These regulations revoke regulation 3 of the Police Federation (Amendment) Regulations 1975 which also substituted an amended regulation 16(4) in the Police Federation Regulations 1969.</p>	<p>Based on workshop discussions there appears to be confusion over this particular rule with many boards unaware of this amendment in 2007 and believing that excess funds are still required to be paid to the appropriate central committee before payment to the JBB.</p> <p>Branch boards are applying the rules and paying the remainder of the excess (if any) to the appropriate Central Committee, in some cases there is very little excess and with little going to the centre.</p> <p>This further supports the commonly held belief that there is a great deal of money within the Federation, however, stakeholders expressed concern over this situation, and stated that there is a need to ensure that the Federation money ends up in the ‘right’ place i.e. the place where it is needed and the place where the finance will be spent to give the most benefit to the Federation and its members.</p>

APPENDIX I

Funding rules and regulations - comparison table

Ref	Rule or Regulation	Intention	Interpretation
7	<p>Regulation 18 accounts</p> <p>4a - in the case of accounts of a branch board or joint branch board be made available to the subscribing members and sent to the chief officer of police and the appropriate central committee, or, as the case may be, the Joint Central Committee which shall, if so requested in a particular case by the Secretary of State, transmit copies to him;</p> <p>4b - in the case of the accounts of a central committee or Joint Central Committee, be made available to the appropriate central conference or, as the case may be, the Joint Central Conference, sent to the Secretary of State and published, in a manner approved by the committee in question, to members of the Federation.</p> <p>Rule - 4.6(a) - In accordance with Regulation 18 of the Police Federation Regulations 1969, Branch Boards and Central Committees shall keep detailed accounts and shall have them audited annually by an authorised and independent auditor. Annual Statements of Accounts shall be made available at Branch Boards to their members and by Central Committees to the appropriate Central Committee. Copies of these Statements shall be sent, in the case of the Central Committees, to the Secretary of State. The accounts of the Central Committee shall be published to the members of the Police Federation.</p> <p>4.6(b) - Each Branch Board shall send a signed copy of the annual financial statement to the Treasurer of the appropriate Central committee and, where the local Fund or Funds include the Joint Branch Board, a signed copy of such financial statement shall be sent to each Treasurer of the three separate Committees.</p>	<p>It is our assumption that the intention of this rule was not to ensure that the Secretary of State is kept up to date on the financial dealings of each board but to ensure that there is sufficient rigour being applied. Both regulation 18 and Rule 4.6 are designed to ensure a reasonable level transparency across the Federation.</p>	<p>It is our understanding that branch boards do not publish their audited accounts and these accounts are only available on request to members of their own board. The central committees present their accounts at conference. Both are in line with the rules and regulations, when applied literally, but the lack of branch board accounts being made available is perhaps not in the spirit with which the rules were created.</p> <p>Having talked to the branch boards during our workshops, it was apparent that there is a desire to establish a better level of transparency around the Federation's financial information, at both branch and central level.</p>

APPENDIX II

Stakeholder views on PFEW funding rules

	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
There is a need for clarification of the roles of branch boards and central committees	37%	34%	15%	15%	0%
A lack of transparency and understanding of Federation finances contributes to confusion and a general level of mistrust	73%	20%	2%	5%	0%
There is a general lack of understanding of the PFEW's current funding rules	32%	34%	12%	15%	7%
Current funding rules are not perceived to be 'fit for purpose' and are generally regarded as antiquated	27%	37%	20%	15%	2%
The Federation is perceived to be "awash" with money, but it is not in the right places	41%	41%	10%	5%	2%
An increase in subscriptions may not deliver value for money	39%	49%	2%	10%	0%
The rules around subscription increases and ratification require review and amendment	49%	29%	10%	7%	5%
Decreasing member numbers and insufficient subscriptions/subscription levels at branch level are a major concern	29%	34%	17%	20%	0%
Member services trusts need to be kept separate from subscriptions	61%	7%	7%	15%	10%
There is a level of inertia surrounding current funding arrangements	17%	59%	15%	10%	0%

APPENDIX III

Stakeholder views on PFEW funding - branch level

	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
There is a lack of transparency over JBB's business investments	15%	32%	10%	27%	17%
Some branch boards have excessive amounts of money and it would be in members' best interests for this to be redistributed	22%	20%	5%	32%	22%
Other income (e.g. member services) must be kept locally to act as an incentive for boards to be prudent	41%	34%	7%	7%	10%
Branch boards are spending an increasing amount on training and legal advice, when this should be paid for out of the 70% passed on to centre	34%	29%	24%	12%	0%
There are concerns over national coordination of spending	51%	41%	5%	2%	0%
It is not necessary to have separate rank funds at branch level	85%	7%	2%	2%	2%

APPENDIX IV

Stakeholder views on PFEW funding - central level

	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
There is perceived to be a lack of action by JCC to address the current economic climate	22%	29%	20%	22%	7%
Communication to branch members from the central committees needs to be improved	51%	39%	5%	5%	0%
It is necessary to change / review the percentage allocations of funding as the current situation is unfair	22%	20%	10%	27%	22%
Appropriate budgets need to be set at all levels	68%	32%	0%	0%	0%
The PFEW should standardise all expenses (i.e. national rules for expenses / honoraria)	46%	29%	2%	10%	12%
Expense rates should be set, where applicable, in line with HMRC approved levels	44%	29%	12%	7%	7%
Money belongs to members and must be spent wisely	88%	5%	0%	7%	0%
Federation House in Leatherhead is the primary reason for the PFEW's current financial issues	15%	20%	29%	32%	5%
There is significant duplication of services being delivered at both local and national level	37%	20%	24%	15%	5%
Centralised member services arrangements could result in significant benefits for PFEW members (e.g. lower prices)	15%	24%	22%	24%	15%
Rank central committees need to maintain separate accounts	0%	2%	2%	22%	73%

APPENDIX V

Stakeholder views on improvement opportunities

	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
The current model for subscription income and distribution should be maintained	2%	0%	2%	29%	66%
Subscriptions should be collected centrally and then each rank central committee and branch board should submit a business case for annual funding requirements (based on need)	15%	7%	7%	22%	49%
Subscriptions should be collected by Branches and then be forwarded to the JCC. Each rank central committee should then submit a business case for annual funding requirements (based on need)	71%	17%	2%	5%	5%
There is a need to establish a "sustainable future" and to ensure changes are "in best interests of members"	83%	17%	0%	0%	0%
More localised training is needed to meet local requirements	39%	32%	17%	12%	0%
More expenses should be incurred at branch level with reduced central activity	5%	5%	20%	59%	12%
There is a need to ensure rule development is fair, equitable and transparent (e.g. no conflicts of interest)	49%	46%	5%	0%	0%
Legal expenditure should be managed better and fee rates reduced	80%	15%	2%	2%	0%
A review of staffing and fixed costs would help to better understand the costs of Leatherhead	56%	32%	12%	0%	0%
Any changes should not have a disproportionate impact on smaller boards	73%	22%	5%	0%	0%
A working party should agree an appropriate level of resources for the JCC	22%	22%	34%	20%	2%

APPENDIX V

Stakeholder views on improvement opportunities

	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
There should be a sliding scale of subscriptions paid to the centre, depending on the size of force	12%	15%	17%	27%	29%
A league table of expenditure by branch board would enable branches to have a better understanding of 'reasonable expenditure'	17%	37%	20%	22%	5%
In-house legal counsel should be appointed	54%	32%	7%	7%	0%
JBBs should only maintain one years' reserves (excluding member services). Any excess should be passed to the centre	15%	2%	10%	37%	37%
JBBs should only maintain one years' reserves (including member services). Any excess should be passed to the centre	17%	0%	10%	20%	54%



BDO LLP, a UK limited liability partnership registered in England and Wales under number OC305127, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. A list of members' names is open to inspection at our registered office, 55 Baker Street, London W1U 7EU. BDO LLP is authorised and regulated by the Financial Services Authority to conduct investment business.

BDO is the brand name of the BDO network and for each of the BDO Member Firms.

In Northern Ireland, BDO is represented by BDO Northern Ireland, a separate and independent member of the BDO International network.

Copyright ©2010 BDO LLP. All rights reserved.

www.bdo.co.uk