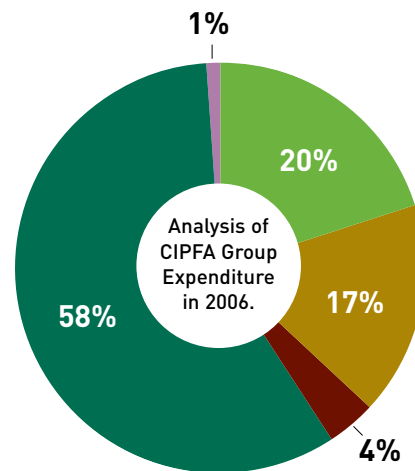
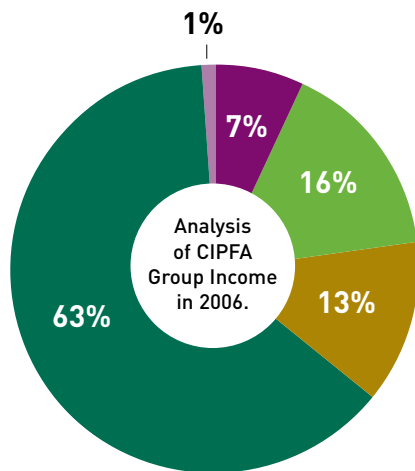


FINANCIAL REVIEW AND RELATED POLICIES



The Statement of Financial Activity (SOFA) shows a loss of £69,000 (£232,000 surplus in 2005) **after all adjustments**, the main one being the FRS17 adjustment. FRS17 requires the element of pension fund valuation deficit that relates to the current year to be allocated across the charitable expenditure headings in the SOFA. Excluding this adjustment (£463,000 cost in 2006, £408,000 cost in 2005), which we do for the purpose of comparison with years prior to this adjustment being calculated and applied, gives a result of £394,000 surplus in 2006 (£640,000 surplus in 2005). In 2006, CIPFA received a legacy of £116,000 from the estate of the widow of eminent former member John Marriott. Charity accounting rules require that the legacy income is fully recognised in the year in which it is received. CIPFA's budget target of £250,000 surplus (2005 and 2006) did not include the impact of valuations (eg property and pensions) nor did it include the legacy. Discounting these, as we have done for the purpose of showing the trend of surpluses against targets in the section of the annual report, CIPFA's performance (page 13) gives a surplus of £278,000 in 2006, marginally ahead of the target (£640,000 surplus in 2005).

Total Balance Sheet funds **including pension liability** remain in deficit (£1,282,000 at the end of 2006). However, this a substantial improvement on the Balance Sheet position at the end of 2005 which was a deficit of £7,381,000. The reasons for the improvement are favourable property revaluations of £1,290,000 (£1,112,000 increase in 2005) and a significant reduction in the FRS17 valuation of the pension fund deficit of £4,415,000 (from £17.935m at the end of 2005 to £13.520m at the end of 2006). Excluding the pension fund deficit calculation, CIPFA had reserves of £12,238,000 at the end of 2006 (£10,554,000 at the end of 2005).

Turnover for the CIPFA Group was £38,498,000 (2005: £37,507,000). The before-tax profits of our trading subsidiaries IPF and FSF were £1,871,000 (2005: £1,868,000) and £73,000 (2005: £256,000) respectively. The after-tax profits of both trading subsidiaries are transferred to CIPFA by a combination of covenant and gift aid.

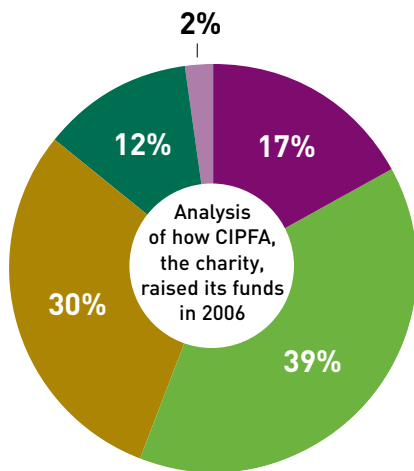
There is little change in the pattern of Group income and expenditure between 2005 and 2006. We continue to rely heavily on income generated by our trading subsidiary companies. The reduction in governance costs in 2006 reflects the one-off costs of the integration proposals in 2005 and the increase in regulation costs necessary to provide a robust disciplinary scheme.

THE JOHN MARRIOTT LEGACY

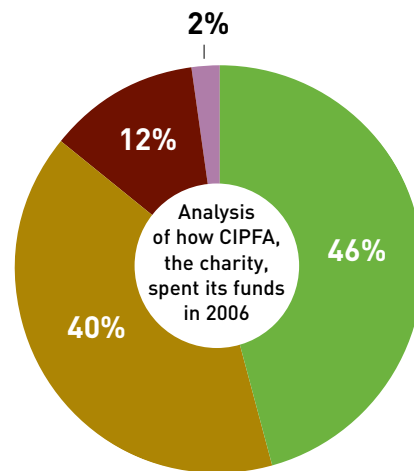
The nature and scale of the John Marriott legacy is unique for CIPFA and we are determined that it is put to an important and worthwhile use. Although the legacy comes to CIPFA without restrictions we are keen to use the funds for projects that John Marriott would have had a special interest in. A small working party comprising Past Presidents Mike Barnes and Ian Wood, Mike Owen (current Council representative for the North Wales and North West Region, John Marriott's region) and Chris Harris, Council member, charity and legacy expert is selecting the project(s) to which the funds will be applied. None of the legacy was spent or committed in 2006 and work is ongoing to select the beneficiary project(s).

PENSIONS DEFICIT

CIPFA operates a funded defined benefit pension scheme. The last triennial valuation, as at 31 March 2004, calculated the scheme deficit to be £7.083m. However, FRS17 rules



- Membership subscriptions
- Educating and training student members
- Trading subsidiaries
- Advancing public finance and promoting best practice
- Regulation and supporting members
- Other



- Advancing public finance and promoting best practice
- Educating and training student members
- Trading subsidiaries
- Regulation and supporting members
- Governance

require inclusion of the year end valuation calculated on the basis defined in that standard. The deficit, using this method of calculation, is significantly higher than the actuarial valuation and at the end of 2006 was £13.520m (2005: £17.935m). Note 7 to the financial statements gives further details. Although the fund deficit is a serious issue for CIPFA, the Council recognises that FRS17 does not, of itself, affect cash flows. CIPFA makes employer contributions to the pension fund on the basis of advice from actuaries. The contribution rate recommended, currently 18.8%, is designed to fund the deficit over a defined period of time, in CIPFA's case, 14 years. In April 2006, CIPFA voluntarily increased its employer contribution to 22%. CIPFA has also introduced a Personal Pension Plan scheme which will be offered to all new members of staff from 1 January 2007.

RESERVES POLICY

Following its annual review, the Management Committee, on behalf of Council, has re-confirmed the reserves policy. The Committee considers that CIPFA is vulnerable to economic downturns given its heavy dependence on commercial income and also to pressures, such as the Comprehensive Spending Review, which affect its core local government market place. It also recognises that despite the recent measures taken, the pension scheme fund deficit continues to place a burden on resources.

It considers that CIPFA needs to hold reserves to protect core activities (which means being able to fund obligations, including employer pension contributions, but not at the cost of charitable activities) in the event of income shortfall and to promote balanced long-term strategic planning. Recognising that some reserves could only be realised by the sale of assets essential for the continuation of charitable activities, it

defines reserves for this purpose as income which is available to CIPFA and which is to be expended at the Council's discretion in furtherance of any of CIPFA's objects, but which has not yet been spent, committed or designated. Put simply, this is what is described in the Balance Sheet as other charitable funds.

It concludes that a level of other charitable funds equivalent to two months CIPFA Group expenditure is appropriate. It has decided to exclude the pension fund deficit from the calculations because the strategy for the recovery of the deficit is clearly defined and the annual cost is fully provided for in business plans. At the end of 2006, the level of other charitable funds fell short of target by 20% (2005: 23% short). Business plans for the medium term incorporate increased pension fund costs and target modest surpluses. Therefore, progress towards the reserves target will continue to be made.

INVESTMENT POLICY

Byelaw 59 details the extensive investment powers that are bestowed upon the Council. Given the annual cycle of fluctuation in cash balances held, the current investment policy is limited to depositing surplus funds with a range of approved institutions in tranches with a range of maturity dates. The policy focuses on low risk and readily realisable investment forms. Within these confines, we seek to obtain the best interest rates possible.

Approved by the Council on 5 April 2007 and signed on its behalf by the President.

Caroline Gardner
Caroline Gardner, President