



northern rock foundation

accounts of the trustees
for the year ended
31 December 2003

Trustees

Richard Harbottle (Chair)
retired 31 December 2003

Sir David Chapman Bt

David Faulkner

Leo P Finn
appointed Chair from 1 January 2004

Anthony Henfrey
appointed 1 December 2003

Lord Howick of Glendale

Christopher Jobe

Frank Nicholson

Lady Russell

Julie Shipley

John S Ward

The Trustees have the powers and obligations of Directors as set out in the Companies Act 1985.

Director Fiona Ellis

Secretary Alison Graham

Committee Members

Investment and Finance Committee

Leo P Finn (Chair)
resigned 15 March 2004

Sir David Chapman Bt
appointed (Chair) 15 March 2004

Lord Howick of Glendale

Julie Shipley

John S Ward

Richard Harbottle (ex officio)
retired 31 December 2003

Keith Currie (Adviser)

Alison Graham (Secretary)

Risk and Audit Committee

Frank Nicholson

Christopher Jobe
appointed (Chair) 15 March 2004

Sir David Chapman Bt
resigned 15 March 2004

David Faulkner

Richard Harbottle
retired 31 December 2003

Alison Graham (Secretary)



accounts of the trustees 2003

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Trustees' report for the year ended 31 December 2003

The Trustees present their report and the audited accounts for the year ended 31 December 2003.

The Trustees have adopted the provisions of the Statement of Recommended Practice (SORP) "Accounting and Reporting by Charities" issued in October 2000 in preparing the Annual Review and financial statements of the charity.

Objectives and future developments

The Foundation is a charitable company limited by guarantee and was set up on 4 August 1997. It is governed by a memorandum and articles of association. The principal objective of the Foundation is to promote the improvement of the conditions of those who are disadvantaged in society mainly, but not exclusively, in the North East of England.

Developments during the year are discussed in detail in the Annual Review which is available to view on the Foundation's website, or by contacting our office.

The Trustees intend to run the Foundation's current grant programmes for the foreseeable future, so there will be no changes to our application guidelines in 2004. Thanks, however, to the continued strength of our donor, Northern Rock plc, we are able to increase our grant budgets in 2004. We will also run another capital programme for high-profile cultural projects, and we hope to offer more loans following the successful introduction of our scheme in 2003. The Foundation has also joined the consortium chosen to deliver the Government's Futurebuilders programme.

The Trustees of the Foundation at 31 December 2003, all of whom have been Trustees for the whole of the year ended on that date unless otherwise stated, are listed on page 2 of this report.

Statement of Trustees' responsibilities

Company and charity law requires the Trustees to prepare financial statements for each financial year which give a true and fair view of the charitable company's financial activities during the year and of its financial position at the end of the year. In preparing financial statements giving a true and fair view, the Trustees should follow best practice and:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going-concern basis unless it is inappropriate to presume that the charity will continue in operation.

The Trustees are responsible for keeping accounting records which disclose with reasonable accuracy the financial position of the charitable company and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the charitable company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Governance

Trustees are appointed by Northern Rock plc. The Trustees meet approximately bi-monthly to review the grant officers' recommendations and make the grant awards. A reflective meeting is also held once a year, where the Trustees review all of the policies of the Foundation. There are sub-committees dealing with investments and finance, and risk and audit issues. Small grants, for awards of £15,000 and under, are made by the Director and any one Trustee. These are ratified by the full Trustee Board at subsequent meetings.

Risk statement

The Trustees have considered and identified the major risks to which the Foundation is subject and have set in place measures to mitigate them.

Internal controls have been established to ensure effective management and monitoring of the charity's operation. Trustees are informed about the risks inherent in their grant-making for the purposes of assessing and managing risk.

The Trustees review their risk management strategy at least annually or when specific circumstances require it.



Investment policy and returns

As permitted by the Foundation's memorandum and articles of association, the Trustees have given the investment managers discretion to manage the portfolio within an agreed risk profile, which aims for long-term growth with a medium risk profile.

The investment portfolio is divided between active and passive investments, the current split being 54% for the active and 46% for the passive portfolios. (This is based upon market values of the two portfolios as at 31 December 2003.)

Holdings in any individual company may not be greater than 5% of the market value of the active portfolio at any particular time. It is the Foundation's policy to exclude specifically investments in the tobacco industry or in Northern Rock plc apart from 500 shares issued at the time of conversion. The performance of portfolios is reported at each Trustees' Meeting and is subject to close scrutiny by the Foundation's Investment Committee.

With the closure of the Newcastle office of Merrill Lynch, who were our fund managers, the Foundation took the opportunity to review its investment policy and its fund managers. In January 2003, the Trustees appointed Gerrard Ltd as their new fund managers.

The Trustees monitored the performance of all funds under management with Gerrard Ltd and were satisfied that the decisions made and returns received were in line with the guidelines and benchmarks laid down by the Trustees.

Reserves policy

The Trustees continue to operate a prudent reserves policy. The level of reserves is set so as to absorb any shock to the financial strength of the Foundation and to ensure the continuity of its operations providing sufficient time for Trustees to take appropriate action to reflect any significant change in the level of funding resulting from the covenant of profits by Northern Rock plc. Control systems exist to ensure the level of reserves is monitored at least monthly.

Liquidity policy

Liquidity management within the Foundation involves the day-to-day monitoring of current and future cash flows to ensure that all cash flow demands can be met.

Important factors in assuring liquidity are accurate record keeping and timing of liability demands, competitive market rates and highly marketable assets that can be liquidated quickly to gain access to the Foundation's funds if required. Control systems exist to ensure that a set level of liquidity is maintained and these are monitored at least monthly.

Social investment and loans to the voluntary sector

The Trustees have, in previous years, made two social investment loans. The intention behind these transactions is to achieve a combination of social objectives and financial returns to the Foundation as an investor. The capital is secure and returnable and the investment is an important contributor to the regeneration of the area to which it relates. Interest-free or low interest loans are a valuable way of helping enterprises which need time to settle and which can, ultimately, be expected largely to support themselves.

During 2003 the Trustees set up a more structured loan scheme to run in tandem with our grant programmes. The loan programme is being administered jointly by the Foundation's staff and Charity Bank. The scheme was established to assist beneficiaries whose projects fell within our overall guidelines but where the discipline of having to create surplus for loan repayments could be seen as an achievable goal, which would ultimately lead the organisation towards greater self-sufficiency.

Grants approved during the year

Grants approved in 2003 under the programmes of Prevention, Basics, Regeneration, Aspiration, Exploration, Better Sector, Exceptional and the Buildings to Inspire and Delight Fund came to a total of £18,754,000. The 55 largest approved grants in the year are listed on pages 23 to 25. A full listing of the 2003 approved grants can be found on the Foundation's website and in the Annual Review for 2003.

Eligibility

In 2003 the Foundation received 1,146 grant applications from the charitable sector. Of these, 32% were ineligible. Of the eligible grants that were put to the Trustees in 2003, 343 were successful (that is 58% of eligible applications) and 218 were pending at the end of the year.

Geographical distribution

During 2003 £18.8 million was awarded under the Foundation's main grant programmes. As the table opposite identifies, 32% of the amount awarded was to projects within Tyne and Wear and 23% to projects benefiting the whole North East and Cumbria.

'North East and Cumbria' refers to grants which benefit more than one county in our area.

Range of grant awards

Of the 343 grants awarded in 2003, 71% were for amounts below £60,000 and 23% were for amounts of £250,000 or more.

2003 Approved Grants

Programme	Amount Awarded £'000	% of Grants Awarded	Success Rate of Eligible Applications (%)
Prevention	3,866	20	63
Basics	3,324	17	58
Regeneration	2,364	13	55
Aspiration	2,568	13	45
Exploration	546	3	78
Better Sector	3,564	19	87
Buildings to Inspire and Delight	2,318	12	23
Exceptional	204	1	80
Other	415	2	N/A
Grand Total	19,169	100	58

Geographical distribution of grants awarded under grant giving programmes

Geographical Area	Number of Grants	Success Rate of Eligible Applications (%)	Amount Approved £'000	% of Amount Approved (%)
Cumbria	62	63	2,512	13
Durham	42	48	2,099	11
North East and Cumbria	35	59	4,373	23
Northumberland	40	59	2,339	13
Teesside	41	67	1,505	8
Tyne and Wear	123	58	5,926	32
Grand Total	343	58	18,754	100

Range of Grant Awards	No. of Awards	Average Grant £'000	Median Grant £'000	Total Grants £'000
£250,000 – £2,000,000	9	539	390	4,853
£100,000 – £249,999	15	162	150	2,427
£60,000 – £99,999	74	76	75	5,646
£30,000 – £59,999	89	45	45	4,031
£10,000 – £29,999	96	15	15	1,489
£1 – £9,999	60	5	5	308
Grand Total	343	55	35	18,754



Financial Report

The Foundation received its income from its benefactor Northern Rock plc through Deed of Covenant. Under the Covenant the Foundation receives 5% of the pre-tax profits of Northern Rock plc for each financial year. In 2003 this amounted to £19,340,000. The covenant relating to the last six months of 2003 will be paid to the Foundation in May 2004. This receivable payment of £10,029,000 is included in Debtors on the balance sheet.

During the year, the Trustees allocated £18,754,000 to beneficiaries for capital and/or revenue grants which were for a term of between one and seven years. Approximately 43% of the grants awarded in 2003 were for core funding; the remaining 57% were made up of capital, project funding and research.

During the year, the Trustees allocated a further £100,000 to BALTIC, the centre for contemporary art in Gateshead. These unrestricted funds have been identified as designated in the financial statements.

Three grant awards, totalling £100,000, made by the Princess Diana Memorial Fund (PDMF) have been paid by the Foundation. The grant-holders

(whose area of benefit is the North of England and who would be eligible under the Foundation's current grant programmes) were at financial risk because of the legal action in which the PDMF is involved.

The Trustees incurred expenditure on support costs of £291,000 in the year. Support costs include the salaries and office costs incurred on activities in furtherance of the charity's objects (i.e. grant assessment costs). Expenditure of £730,000 was incurred on the management and administration of the charity, and includes a one-off transaction of £230,000 for a fee relating to a tax reclaim from the Inland Revenue of £2.3 million. The cost/income ratio for 2003 was 3.9% after excluding the income and cost of the tax reclaim, which was well within the 5% target set by the Trustees.

Due to the rise in the world's stock markets in 2003 and the restructuring of the Foundation's investments, net investments under fund management rose by £1.0 million.

The Trustees are confident that the Deed of Covenant will provide the Foundation with a secure income stream which they expect, at least, to keep pace with inflation.

Independent Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and the resolution concerning their reappointment will be proposed at the annual general meeting.

On behalf of the board of Trustees

Leo Finn
15 March 2004
Chairman – Board of Trustees

Independent Auditors' report to the members of the Northern Rock Foundation

We have audited the financial statements which comprise the statement of financial activities, the balance sheet, the cash flow statement and the related notes which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The Trustees are also directors of the Northern Rock Foundation for the purpose of Company Law. Their responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Trustees' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume any responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the charitable company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Review and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Trustees' report.

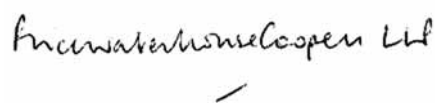
Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the charitable company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the charitable company at 31 December 2003 and of the net incoming resources, including the income and expenditure, and cash flows of the company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
15 March 2004
Newcastle upon Tyne



Statement of Financial Activities

(incorporating an Income and Expenditure Account) for the year ended 31 December 2003

	Note	Income Funds 2003 £'000	Designated Funds 2003 £'000	Total Funds 2003 £'000	Total Funds 2002 £'000
Incoming Resources					
Covenant from Northern Rock plc	2	19,340	–	19,340	16,312
Investment Income	3	747	–	747	565
Other Income	4	2,303	–	2,303	6
Grant Received	5	4	–	4	2
Total Incoming Resources		22,394	–	22,394	16,885
Resources Expended					
<i>Cost of generating funds:</i>					
Investment management fees	6	134	–	134	51
<i>Charitable expenditure:</i>					
Grants payable	7	18,876	100	18,976	12,996
Support costs	8	291	–	291	269
Management and administration	9	730	–	730	414
		19,897	100	19,997	13,679
Total Resources Expended	10	20,031	100	20,131	13,730
Net Incoming Resources		2,363	(100)	2,263	3,155
Other Recognised Gains and Losses					
Realised gain on Investments	14	312	–	312	50
Unrealised gain/(loss) on Investments	14	659	–	659	(2,190)
		971	–	971	(2,140)
Net Movement in Funds		3,334	(100)	3,234	1,015
Balances brought forward 1 January		24,202	100	24,302	23,287
Transfer between Funds		(100)	100	–	–
Balances carried forward 31 December	21	27,436	100	27,536	24,302

All of the above results are derived from continuing activities.

There were no gains or losses recognised in the current year that were not reflected in the increase in fund balances carried forward, therefore no separate statement of total recognised gains or losses has been prepared.

The surplus for the year for Companies Act purposes comprises the net income for the year plus realised gains on investments and was £2,575,000 (2002: £3,205,000).

The Trustees consider that all of the Foundation's funds are unrestricted.

Balance Sheet

at 31 December 2003

	Note	2003 £'000	2002 £'000
Fixed Assets			
Investment in Northern Rock plc	13	–	–
Tangible Fixed Assets	13	1,055	1,049
Investments under fund management	14	13,884	12,789
Other Investments	15	2,030	1,500
		<hr/>	<hr/>
		16,969	15,338
Current Assets			
Debtors	16	10,178	8,789
Short-term deposits	17	18,148	12,333
Investments	18	4	3
Cash at bank and in hand		221	20
		<hr/>	<hr/>
		28,551	21,145
Creditors: amounts falling due within one year	19	(11,979)	(9,251)
		<hr/>	<hr/>
Net Current Assets		16,572	11,894
		<hr/>	<hr/>
Total Assets less Current Liabilities		33,541	27,232
Creditors: amounts falling due after more than one year			
Grants authorised and not yet paid	20	(6,005)	(2,930)
		<hr/>	<hr/>
Net Assets		27,536	24,302
		<hr/>	<hr/>
Unrestricted Funds			
Income	21	27,436	24,202
Designated	21	100	100
		<hr/>	<hr/>
		27,536	24,302

The notes on pages 12 to 25 form part of these financial statements.

The financial statements on pages 9 to 25 were approved by the Trustees on 15 March 2004 and signed on its behalf by



Leo Finn



David Faulkner



Cash Flow Statement

for the year ended 31 December 2003

	Note	2003 £'000	2002 £'000
Net cash inflow from operating activities	22	3,656	3,496
Returns on investment and servicing of finance			
Dividends on investment income		198	178
Tax reclaim		2,298	-
Interest on cash and short-term deposits		554	393
		3,050	571
Capital expenditure and financial investments			
Purchase of tangible fixed assets		(35)	(623)
Purchase of fixed asset investments		(500)	-
Loans		(30)	
Purchase of investments		(3,792)	(1,102)
Sale of investments		3,667	650
Net cash outflow from capital expenditure and financial investment		(690)	(1,075)
Management of liquid resources			
Increase in short-term deposits		(5,815)	(3,024)
Increase/(Decrease) in cash		201	(32)

Notes to the Financial Statements

for the year ended 31 December 2003

1. Accounting Policies

a) Basis of preparation

The financial statements have been prepared under the historical cost convention, with the exception of investments which are included at market value. The financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP), "Accounting and Reporting by Charities" published in October 2000, the Companies Act 1985 and applicable Accounting Standards.

b) Company status

The Northern Rock Foundation (the Foundation) was established on 4 August 1997 as a company limited by guarantee. The liability of the members is limited by the Memorandum of Association to £1 each. The number of Trustees (including the Chairman) who were also members at 31 December 2003 was 10 and they are named on page 2.

c) Fund accounting

All funds are unrestricted and are available for use at the discretion of the Trustees in furtherance of the general objectives of the charity. Designated funds are monies set aside by the Trustees for specific projects.

d) Incoming resources

All incoming resources are included in the Statement of Financial Activities (SOFA) when the charity is legally entitled to the income and the amount can be quantified accurately.

The Foundation's main source of revenue is Northern Rock plc (Northern Rock) which has entered into a Deed of Covenant with the Foundation.

e) Investment income and interest receivable

Dividends are included when received. Interest receivable on fixed interest securities and bank deposits is included on an accruals basis. Associated tax credits are accrued as income tax recoverable.

f) Resources expended

All expenditure is accounted for on an accruals basis and has been classified under headings that aggregate all costs related to the category. Costs are included gross of irrecoverable VAT. Where costs cannot be directly attributed to particular headings they have been allocated to activities on a basis consistent with use of the resources.

Support costs are grant assessment costs and include grant officers' salaries, office, communication and other costs identifiable as an integral part of the cost of carrying out the Foundation's charitable activities.

Management and administration costs are those incurred in connection with administration of the charity and compliance with constitutional and statutory requirements.

g) Grants

Grants authorised by the Trustees are provided for in the year of authorisation, irrespective of when paid.

h) Investments

- i) Investments under fund management are stated at market value at the balance sheet date. The SOFA includes the net gains and losses arising on revaluations and disposals throughout the year.
- ii) Other investments include social investments in the nature of interest-free loans and other similar amounts to charitable organisations, and are recorded at cost less any provisions to reflect the non-recoverability of such amounts. The interest foregone on interest-free loans and other similar amounts is not treated as a donation to the recipient due to inherent difficulties in determining a valuation of the donation.

i) Taxation

As a registered charity the Foundation is not liable to UK Income Tax, Corporation Tax and Capital Gains Tax as long as the income it receives is applied for charitable purposes. There is therefore no tax charge in the accounts. The Foundation is unable to recover input value added tax on goods and services.



j) Pension costs

The cost of providing pension and related benefits is charged to the SOFA over the employees' service lives on the basis of a constant percentage of earnings which is an estimate of the regular cost. Variations from regular cost, arising from periodic actuarial valuations are allocated over the expected remaining service lives of current employees on the basis of a constant percentage of current and estimated future earnings.

k) Operating leases

Rentals applicable to operating leases are charged to the SOFA over the period in which the cost is incurred.

l) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the SOFA.

m) Tangible Fixed Assets

The cost of fixed assets is their purchase price, together with any incidental costs of acquisition. Depreciation is charged so as to write off the cost over the estimated life of the asset on a straight line basis and the principal rates are as follows:

Land and buildings	50 years
Computers and equipment	3 to 5 years
Fixtures and fittings	10 years

2. Deed of Covenant

	2003 £'000	2002 £'000
Covenant Receivable	19,340	16,312

Two payments are made to the Foundation each year under the Covenant. The first payment is made on the basis of 5% of the pre-tax profits of Northern Rock based on its interim accounts and is paid within three months of their publication. The second payment is made on the basis of 5% of the pre-tax profits of Northern Rock based on its annual accounts less any payment following

the publication of the interim results. This payment is made within three months of the date of the notice of the Annual General Meeting of Northern Rock plc.

The covenant relating to the last six months of 2003 is £10,029,000 (2002: £8,682,000), and will be paid to the Foundation in May 2004.

3. Investment Income

	2003 £'000	2002 £'000
Interest receivable on call accounts	540	387
Interest receivable on fixed-term deposits	9	–
Dividends receivable	198	178
	747	565

4. Other Income

	2003 £'000	2002 £'000
Inland Revenue Reclaim	2,298	–
Bank interest receivable	5	6
	2,303	6

5. Grant Received

	2003 £'000	2002 £'000
Grants Received	4	2

6. Investment management fees

	2003 £'000	2002 £'000
Active portfolio fees	61	17
Passive portfolio fees	73	32
CAPS monitoring fees	–	2
	134	51

Merrill Lynch International Bank Limited were the appointed fund managers of the Foundation managing an active and a passive portfolio until 22 January 2003 when the fund management responsibilities were taken over by Gerrard Limited. Fees in both portfolios are incurred when the

transaction is made. Fees on the passive portfolio are charged over the life of the instruments purchased with a typical investment life of between five and seven years. Additional costs were incurred during the year, all being related to the transfer of assets to our new fund manager.

7. Grants payable analysed

	2003 £'000	2002 £'000
Grants authorised	18,754	13,157
Grants withdrawn or returned in current year	–	(89)
	18,754	13,068
Prior year grants returned	(193)	(367)
	18,561	12,701
Staff Matched Giving Scheme	312	193
Additional grants	103	102
	18,976	12,996

Details of the 55 largest grants awarded in the current year are set out on pages 23 to 25.



Additional Grants:

The Trustees have set up a Northern Rock plc Discretionary Fund recognising the historical ties with the company. The budget for 2004 is £100,000. In 2003, under this Discretionary Fund, the Trustees awarded 82 donations totalling £100,000.

The Trustees also awarded £3,000 to various charitable organisations under their Visit and Learn Scheme. This Scheme pays towards the travel expenses incurred by charitable organisations who wish to visit projects – generally those that the Foundation has previously funded – from which they can learn.

8. Support costs

	2003 £'000	2002 £'000
Staff costs	211	194
Office costs	80	75
	291	269

Support costs comprise costs incurred directly in support of expenditure on the objects of the charity and include all costs relating to grant assessments.

9. Management and administration

	2003 £'000	2002 £'000
Staff costs	339	282
Office costs	39	30
Publications	30	30
Recruitment	18	–
Consultancy	2	25
Depreciation	29	–
Writer's Award Administration	28	14
Operating leases	5	14
Legal and professional fees	232	4
External assessors	–	3
Auditors' remuneration		
– Audit services	4	4
– Non-audit services	1	–
Costs of Trustees' meetings	3	8
	730	414

As at 31 December 2003 the Foundation had annual commitments under non-cancellable operating leases expiring within one year of £5,000 (2002: £14,000 expiring within two years).

10. Total resources expended

	Staff Costs	Other Direct Costs	Other Allocated Costs	Grants Authorised	Total 2003	Total 2002
	£'000	£'000	£'000	£'000	£'000	£'000
Investment management fees	–	134	–	–	134	51
Grants payable	–	–	–	18,976	18,976	12,996
Support costs	211	–	80	–	291	269
Management and administration	339	236	155	–	730	414
Total resources expended	550	370	235	18,976	20,131	13,730

Staff costs

	2003 £'000	2002 £'000
Wages and salaries	466	406
Social security costs	38	30
Pension costs	46	40
	550	476

The number of employees whose emoluments as defined for taxation purposes amounted to over £50,000 in the year was as follows:

	2003 Number	2002 Number
£70,000 – £80,000	1	1

All employees earning more than £50,000 participated in the pension scheme.

The average number of employees, calculated on a full-time equivalent basis, analysed by function was:

	2003 Number	2002 Number
Support costs	5	5
Management and administration	10	8

All staff were employed by Northern Rock plc and seconded to the Northern Rock Foundation.

11. Trustees' remuneration

The Trustees, who are also the directors of the Foundation, are not entitled to receive any remuneration from the Foundation.

Out of pocket travel, meals and accommodation expenses of £2,000 (2002: £5,000) were reimbursed to three of the Trustees during the year.

12. Pension costs

Employees of the Foundation participate in the Northern Rock Pension Scheme (the 'Scheme') to provide retirement benefits for staff. Staff who joined the Scheme before 1 July 1999 participate in the funded, contracted-out, defined benefit section of the Scheme unless they opt out. Other staff, including those employed at 1 July 1999 but not members of the defined benefit section of the Scheme at that date, together with staff employed from 1 July 1999, participate in the contracted-in defined contribution section of the Scheme unless they opt out. The assets of both sections of the Scheme are held in a trustee-administered fund separate from the assets of Northern Rock plc.

During 2003, the Foundation paid employer's contributions of 14.8% of basic pensionable earnings until 5 April 2003 and 15.9% of basic pensionable pay thereafter (2002: 13.8% until 5 April 2002 and 14.8% thereafter) in respect of the contracted-out defined benefit section of the Scheme. In addition, members of the defined benefit section of the Scheme made employee contributions of 5% (2002: 5%). During 2003, the Foundation paid employer's contributions in respect of the

contracted-in defined contribution section of the Scheme at an average rate of 6% (2002: 6%). Additional National Insurance costs were incurred as a result of the defined contribution section of the Scheme being contracted-in to SERPS. In addition, members of the defined contribution section of the Scheme made contributions at an average rate of 4.3% (2002: 4.3%).

The total pensions charge to the Foundation's Statement of Financial Activities for 2003 in respect of employer's contributions was £46,000 (2002: £40,000).

The defined benefit scheme has been accounted for in the financial statements as if it were a defined contribution scheme, as the Foundation is unable to identify its share of the underlying assets and liabilities of the scheme. This treatment satisfies the requirements of Financial Reporting Standard 17 'Retirement Benefits'.

Further details of the Scheme can be found in the financial statements of Northern Rock plc.

13. Fixed Assets

	Freehold Land and Buildings £'000	Fixtures and Fittings £'000	Computers and Other Equipment £'000	Total £'000
1 January 2003	1,030	5	14	1,049
Transfers	(46)	46	–	–
Additions	21	11	3	35
31 December 2003	1,005	62	17	1,084
Depreciation charge for year	20	6	3	29
Net book value 1 January 2003	984	51	14	1,049
Net book value 31 December 2003	985	56	14	1,055

The Foundation purchased and renovated offices in 2002 for its own use. Depreciation began in January 2003.

Fixed Assets – Investment in Northern Rock plc

At 31 December 2003, the Northern Rock Foundation holds 74,333,500 Northern Rock plc Foundation shares of 25p each. These shares carry no rights to dividends but rank pari passu with the ordinary shares in respect of other distributions and in the event of a winding up. These shares do not confer any rights in relation to attendance or voting at any general meeting of Northern Rock plc. These shares have no market value, as they may not be traded on the open market. The shares may be converted into ordinary shares of Northern Rock plc under certain circumstances, which are detailed in the articles of association of Northern Rock plc.

Contingent Share Purchase Contract

The Foundation has agreed with Northern Rock plc to a contingent share purchase contract whenever Northern Rock plc proposes to buy back shares from its shareholders. The effect of this contract is to allow Northern Rock plc to purchase an equivalent proportion of Foundation shares as are purchased on the open market from ordinary members of the public at the same price as the ordinary shares purchased, enabling the proportion of Foundation shares to Ordinary shares to remain at 15%. In 2003 no shares were bought back (2002: £Nil).



14. Fixed Assets – Investments under Fund Management

Gerrard Limited were appointed as the new fund managers on 22 January 2003, replacing Merrill Lynch International Bank Limited. Their brief is to assist the Trustees in the investment of surplus funds. Investments are held in an active and a passive portfolio. The Passive Portfolio consists

of 5–7-year instruments with guaranteed maturity values. Investments in the Active Portfolio are made at the discretion of the fund managers. The Trustees' overall objective is for long-term growth with a medium-risk profile. Investments are recorded at their market value.

	2003	2002
	£'000	£'000
Market value 1 January	12,789	14,477
Cost of investments purchased	3,573	1,227
Proceeds of investments sold	(3,667)	(650)
Surplus on disposal during the year	312	50
Net movement in market values	659	(2,190)
Increase/(Decrease) in cash held	218	(125)
Market value 31 December	13,884	12,789
Historical cost of investments 31 December	15,530	18,833

Geographical analysis of investments under fund management:

	Active Portfolio	Passive Portfolio	2003 Total	2002 Total
	£'000	£'000	£'000	£'000
Sterling Fixed Interest	1,360	6,326	7,686	–
Overseas Fixed Interest	86	–	86	–
Index Linked Gilts	711	–	711	–
UK Equities	4,722	–	4,722	5,319
Overseas Equities:				
USA	–	–	–	766
Japanese	–	–	–	709
European	229	–	229	1,255
Pacific Basin	85	–	85	58
Other Overseas	74	–	74	4,609
Cash	291	–	291	73
Total	7,558	6,326	13,884	12,789

The unrealised gain in the year of £659,000 (2002: £2,190,000 loss), is made up of £658,000 (2002: £2,190,000 loss) being the movement in net market value of invested funds, plus £1,000 (2002: £Nil) being the market value movement in the year on the 500 free shares received from Northern Rock plc on its conversion to a bank.

15. Other Investments

a) Newcastle Employment Bond

During 2000 a £500,000 bond was acquired from the Newcastle Employment Bond to assist a variety of schemes to generate jobs in some of Newcastle's more neglected areas. Full repayment (guaranteed by Northern Rock plc) will be effected in five years. The Trustees agreed to accept a zero interest rate.

b) The International Centre for Life

The Foundation entered into a loan agreement with the International Centre for Life Sciences. According to the terms of the loan, the principal, £1 million, will be repaid over seven years commencing in 2004. The Trustees agreed to apply a zero interest rate to this loan.

c) Charity Bank

During the year, the Foundation purchased £500,000 of tier 1 capital (zero coupon non-voting preference shares) in Charity Bank. The shares are not quoted on any exchange. Shares will be repaid by Charity Bank at the original price paid unless the auditors of the Bank certify that there is an

insufficiency of assets to meet liabilities. In such an event, loan loss and other capital reserves will take the first loss, followed by the ordinary shares up to the full amount of shares in issue. Only if these are exhausted will the preference shares be called upon.

Preference shares will rank ahead of ordinary shares in entitlement to dividends. All surpluses remaining after payment of expenses of the Bank will be used for charitable purposes.

This is a social investment and should not be regarded as an investment for gain or profit.

d) Loans to the voluntary sector

The Foundation entered into an agreement with Charity Bank whereby it will administer a loan book for the Foundation. The Foundation wished to establish a programme for providing new loans to beneficiaries in furtherance of its charitable objects. During the year two loans were given under this agreement, totalling £30,000.

16. Debtors

	2003	2002
	£'000	£'000
Covenanted Payment from Northern Rock plc	10,029	8,682
Grant Returns	-	18
Grants Paid on Behalf of the Diana, Princess of Wales Memorial Fund	100	-
Prepayments and accrued interest	49	89
	10,178	8,789

17. Investments held at Northern Rock plc

At 31 December 2003 £18,148,000 (2002: £12,333,000) was invested on behalf of the Foundation by Northern Rock plc's Treasury Function.

18. Free Shares

The Foundation received 500 25p free ordinary shares in Northern Rock plc on its conversion to a bank on 1 October 1997. Their market value at 31 December 2003 was £4,000 (2002: £3,000).



19. Creditors: amounts falling due within one year

	2003 £'000	2002 £'000
Accruals	221	325
Loan to Northern Rock plc	–	20
Northern Rock plc	5	–
Grants authorised and not yet paid	11,753	8,906
	11,979	9,251

20. Creditors: amounts falling due after more than one year

	2003 £'000	2002 £'000
Grants authorised and payable within 2 years	5,629	2,798
Grants authorised and payable within 3 years	186	132
Grants authorised and payable within 4 years	140	–
Grants authorised and payable within 5 years	32	–
Grants authorised and payable within 6 years	18	–
	6,005	2,930

21. Summary of movements on income funds

	Income Funds £'000	Designated Funds £'000	Total Funds £'000
Income funds at 1 January 2003	24,202	100	24,302
Transfer to designated income	(100)	100	–
Total income funds after transfers	24,102	200	24,302
Incoming resources	22,394	–	22,394
Resources expended	(20,031)	(100)	(20,131)
Net investment gains	971	–	971
Income funds at 31 December 2003	27,436	100	27,536

During the year the Trustees' designated £100,000 to a fund for BALTIC, the centre for contemporary art in Gateshead. The Trustees have put aside £100,000 in the event that BALTIC should successfully apply for funding to the Foundation. One grant award of £100,000 was made to BALTIC in 2003.

22. Cash flow

a) Reconciliation of net incoming resources to net cash inflow from operating activities

	2003 £'000	2002 £'000
Net incoming resources	2,263	3,155
Increase in debtors	(1,389)	(887)
Increase in creditors	2,728	1,587
Increase in long-term creditors	3,075	212
Interest on cash and short-term deposits	(752)	(571)
Tax reclaim	(2,298)	-
Depreciation	29	-
Net cash inflow from operating activities	3,656	3,496

b) Reconciliation of net cash inflow to movement in net funds

	2003 £'000	2002 £'000
Increase/(Decrease) in cash in the period	201	(32)
Increase in short-term deposits	5,815	3,024
Change in net funds	6,016	2,992
Net funds at beginning of period	12,353	9,361
Net funds as at 31 December	18,369	12,353

c) Analysis of net funds

	1 January £'000	Cashflow £'000	31 December £'000
Cash at bank and in hand	20	201	221
Short-term deposits	12,333	5,815	18,148
	12,353	6,016	18,369

23. Related party transactions

Certain grants have been made to other charities and organisations that have common Trustees with the Northern Rock Foundation. All such grants awarded have been made using the same guidelines applied to all applications and the Trustees do not benefit from the giving of such grants.

Northern Rock plc has provided management and administration support to the Foundation. All services received from Northern Rock plc are paid for at cost under a Service Agreement and include using the Treasury function at Northern Rock plc.



2003 Approved Grants – the 55 largest grant awards

ORGANISATION	DESCRIPTION	YEARS	GRANT	PROGRAMME
Project North East	To provide a programme of infrastructure support, building upon the skills of the voluntary and community sector throughout the North East.	3	£1,837,500	Better Sector
Amber Associates	Towards developing a five-year programme of film and video production and distribution, working with communities in the North East.	5	£500,000	Aspiration
The Bowes Museum	Towards major repair work to the museum in County Durham.	1	£500,000	Capital
The Theatre Royal Trust	Towards extending and improving the Theatre Royal, Newcastle.	1	£400,000	Capital
Wansbeck District Council	To redevelop the ancient monuments of Woodhorn Colliery Museum in Northumberland.	1	£390,000	Capital
Directory of Social Change	Towards intensive training for workers and management committee members managing voluntary organisations and community groups in the North East.	1	£360,000	Better Sector
Northern Centre for Cancer Treatment	To establish a permanent arts project as part of the Centre's treatment programme.	7	£315,500	Aspiration
Northern Stage	Towards the costs of redeveloping Newcastle Playhouse.	1	£300,000	Capital
The Alnwick Garden Trust	Towards building the world's biggest wooden treehouse in the garden in Northumberland.	1	£250,000	Capital
HMS Trincomalee Trust	Towards capital cost of a visitors' centre for this historic ship in Hartlepool.	1	£242,150	Capital
Chester-le-Street Youth Development Trust	Towards building an indoor cricket centre at the riverside site in County Durham.	1	£236,000	Capital
Bede's World	To achieve world heritage status for the project in South Tyneside.	3	£216,000	Aspiration
City of Sunderland	To provide match funding for a Tyne and Wear employment programme.	1	£197,053	Regeneration
MENCAP	To provide support to learning disabled parents in the North East.	3	£185,472	Exploration
Institute for Public Policy Research	To establish IPPR North, a policy and research think tank in the North East.	3	£180,000	Exploration
Mental Health Matters	Towards a region-wide employment programme for people with mental health problems in the North East.	2	£178,000	Regeneration
The Samling Foundation	To core fund music and visual arts projects across the North East.	3	£150,000	Aspiration
Social Enterprise Sunderland	Towards the running costs of a community enterprise development agency in the east end of Sunderland.	3	£150,000	Regeneration

ORGANISATION	DESCRIPTION	YEARS	GRANT	PROGRAMME
English Heritage	To hold the Fashion at Belsay event, incorporating the work of top British designers at Belsay Hall in Northumberland.	1	£130,000	Aspiration
Wearmouth Community Development Trust Ltd	To employ a community enterprise development worker and to contribute towards the director's salary at a project in Sunderland.	3	£129,420	Regeneration
Sunderland AFC Foundation	To provide core funding for the Kickstart project using football to encourage young people's development.	3	£114,036	Prevention
Voluntary Organisations Network North East	Towards building the capacity of the voluntary sector to play a fuller part and be represented in regional matters.	2	£112,514	Better Sector
Voluntary Action Cumbria	To employ additional staff to support and expand a business advice service for rural women in Cumbria.	3	£104,200	Regeneration
Mobex North East	Towards the project director's salary for this organisation working with disadvantaged young people.	3	£102,632	Prevention
BALTIC Centre for Contemporary Art	Towards activities to complement Antony Gormley's <i>Domain Field</i> at the centre for contemporary art in Gateshead.	1	£99,762	Exceptional
Eden Mind	To continue to employ the manager for three years in Cumbria.	3	£98,974	Basics
Northern Oak Credit Union	Towards the revenue costs of a new borough-wide credit union in North Tyneside.	2	£98,500	Regeneration
Wigton Youth Station	Towards extending the opening hours by employing more sessional workers in Barrow-in-Furness, Cumbria.	2	£96,378	Prevention
Renew North East Ltd	Towards the cost of employing a development worker and to contribute towards the running costs of a social enterprise in Gateshead.	2	£95,972	Regeneration
Newcastle Council for Voluntary Services	To employ an additional worker to deal with increasing demands on the information service.	3	£95,306	Better Sector
Wearside First Credit Union	Towards capital and revenue costs for a new credit union in Sunderland.	3	£95,242	Regeneration
Northumberland Wildlife Trust	To employ a community liaison officer in south east Northumberland.	3	£94,398	Aspiration
Durham Initiatives For Support In The Community Ltd	To employ a development worker supporting young carers affected by domestic violence in County Durham.	3	£94,312	Basics
Stockton-on-Tees Voluntary Development Agency	To employ a volunteer development worker.	3	£92,667	Better Sector
Skills for People	To continue to employ a senior training manager based in Newcastle, working on increasing the involvement of learning disabled people in planning services.	3	£90,686	Basics
Middlesbrough Voluntary Development Agency	To provide support, training and advice to voluntary and community organisations.	2	£90,256	Better Sector



ORGANISATION	DESCRIPTION	YEARS	GRANT	PROGRAMME
Soil Association	To promote the development of organic farming in Cumbria.	2	£90,052	Regeneration
Dodgy Clutch Theatre Company	To support a creative team to plan large-scale events in the North East.	3	£90,000	Aspiration
Exhibition and Brandling Parks Community Trust	To employ a development worker for Exhibition Park in Newcastle.	3	£90,000	Aspiration
Opera North	Towards supporting Opera North's programme at the Newcastle Theatre Royal Autumn 2003 – Spring 2004.	3	£90,000	Aspiration
Abilitynet	To establish a North East and Cumbrian IT support service for disabled people.	3	£90,000	Exceptional
Centrepoint County Durham	For the salary of a part-time development worker to work with young people who are at risk of becoming homeless.	3	£89,830	Prevention
Whitehaven Harbour Youth Project	To support personal development services to young people in Cumbria.	3	£89,326	Prevention
Blyth Valley Council for Voluntary Service	To employ a development officer, to extend the range of services in Northumberland.	3	£87,313	Better Sector
Shilbottle Skills Centre	Towards the salary costs of the Skills Centre manager in Shilbottle, Northumberland.	3	£86,439	Prevention
Generator North East	Towards support for musicians in Tyne and Wear through courses for young bands, showcase opportunities and industry seminars.	3	£86,160	Aspiration
The Art Studio	Towards staffing costs for the Art Studio in Sunderland, supporting people with mental health problems through creative activities.	3	£81,900	Basics
balletLORENT	Towards core funding and the development of the dance company in Newcastle.	2	£80,000	Aspiration
Whitehaven Citizens' Advice Bureau	Towards the refurbishment of new premises in Cumbria.	1	£80,000	Basics
Lamplugh with Ennerdale Parochial Church Council	Towards establishing a community centre in Cumbria.	1	£80,000	Prevention
The Shaw Trust	To employ an enterprise development manager in Middlesbrough.	3	£80,000	Regeneration
The Pool c/o The Edward Lloyd Trust	Towards activities and events for people with learning disabilities in Newcastle.	2	£79,991	Basics
Carlisle Council for Voluntary Service	To employ a full-time organisational development officer and part-time administrator to provide support to new and emerging groups.	2	£78,946	Better Sector
Trimdon 2000 Ltd	To employ a manager for a community regeneration project in Trimdon Village, County Durham.	3	£78,934	Regeneration
Employment Opportunities for People with Disabilities	To provide job training courses for unemployed disabled people throughout the North East.	3	£78,481	Regeneration

Registered Office:

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Newcastle upon Tyne NE3 4PL

Registered Charity:

Charity Commissioners'
Reference Number 1063906

Company Limited by Guarantee:

Registered Number 3416658

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Newcastle upon Tyne NE99 1PL

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