



northern rock foundation

accounts of the trustees
for the year ended
31 December 2004

Trustees

Leo Finn (Chair)
appointed Chair from 1 January 2004

Sir David Chapman Bt

Barbara Dennis
appointed 1 January 2005

David Faulkner

Anthony Henfrey

Lord Howick of Glendale

Christopher Jobe

Lorna Moran
appointed 1 January 2005

Frank Nicholson

Lady Russell

Julie Shipley

John S Ward
retired 31 December 2004

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 Committee

Leo Finn (Chair)
resigned 15 March 2004

Sir David Chapman Bt
appointed (Chair) 15 March 2004

Lord Howick of Glendale

Julie Shipley

John S Ward
retired 31 December 2004

Keith Currie (Adviser)

Alison Graham (Secretary)

Finance, Risk and Audit Committee

Christopher Jobe
appointed (Chair) 15 March 2004

Sir David Chapman Bt
resigned 15 March 2004

David Faulkner

Frank Nicholson

Alison Graham (Secretary)



accounts of the trustees 2004

Contents

Trustees and their Committees	2
Trustees' report	4
Independent Auditors' report	8
Statement of Financial Activities	9
Balance Sheet	10
Cash Flow Statement	11
Notes to the Financial Statements	12
2004 approved grants	23

Trustees' report for the year ended 31 December 2004

The Trustees present their report and the audited accounts for the year ended 31 December 2004. 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 Report 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 whole of the North East of England and Cumbria.

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, although there may be some modifications to our priorities within particular programmes in 2005 and 2006. The Foundation 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 is also part of the consortium chosen to deliver the Government's Futurebuilders programme.

The Trustees of the Foundation at 31 December 2004, 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 programme managers' 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. Learning and Support grants, for awards of £500 to £2,000, are made by the Director/Deputy Director and any one Trustee. Awards for under £500 are given at the discretion of our programme managers from a budget set by the Trustees for that purpose. They form part of our attempt to improve the knowledge and capacity of the sector. These decisions 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 58% for the active and 42% for the passive portfolios. (This is based upon market values of the two portfolios as at 31 December 2004.)

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.

The Trustees monitored the performance of all funds under management with Gerrard Limited 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. Specifically, the Trustees' reserve is intended to provide six months of continued grant-making, one year's administrative costs and sufficient funds to honour existing commitments.

Liquidity policy

Liquidity management within the Foundation involved the day-to-day monitoring of current and future cash flows to ensure that all cash flow demands could 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.

Loans are made after careful assessment and with the help of Charity Bank which provides financial and business guidance. However, decisions are taken, on advice, by the Trustees.

Grants approved during the year

Grants approved in 2004 under the programmes of Prevention, Basics, Regeneration, Aspiration, Exploration, Better Sector, Exceptional and the Capital Fund came to a total of £17,304,000. A further £8.2 million was invested in two special initiatives: tackling domestic violence and reducing re-offending. The 50 largest approved grants in the year are listed on pages 23 to 25 and include those made under the Special Initiatives Programme. A full listing of the 2004 approved grants can be found on the Foundation's website and in the Annual Review for 2004.

Eligibility

In 2004, the Foundation received 1,009 grant applications from the charitable sector. Of these, 33% were ineligible. Of the eligible grants that were put to the Trustees in 2004, 331 were successful (that is 56% of eligible applications) and 193 were pending at the end of the year. The 331 successful awards includes eight awards that were made under the Special Initiatives Programme.

Geographical distribution

During 2004 £17.3 million was awarded under the Foundation's main grant programmes. As the table opposite identifies, 35% of the amount awarded was to projects within Tyne and Wear and 20% to projects benefiting the whole of the 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 323 grants awarded in 2004 under the main grant giving programmes, 66% were for amounts below £60,000 and 2% were for amounts of £250,000 or more.

2004 approved grants

Programme	Amount awarded £'000	% of amount awarded	Success rate of eligible applications (%)
Prevention	4,014	16	51
Basics	2,960	11	52
Regeneration	3,084	12	55
Aspiration	2,558	10	65
Exploration	458	2	73
Better Sector	1,461	6	67
Capital	2,249	8	N/A
Exceptional	520	2	67
Main Grant Giving Total	17,304	67	56
Special Initiatives	8,173	32	N/A
Other	385	1	N/A
Grand Total	25,862	100	56

Geographical distribution of grants awarded under grant giving programmes

Geographical area	No. of grants	Success rate of eligible applications (%)	Amount approved £'000	% of amount approved
Cumbria	47	54	1,739	10
Durham	41	49	2,845	16
North East and Cumbria	28	60	1,662	10
Northumberland	44	58	2,432	14
Tees Valley	45	54	2,136	12
Tyne and Wear	118	60	6,490	38
Grand Total	323	56	17,304	100

Range of grant awards	No. of awards	Average grant £'000	Median grant £'000	Total grants £'000
Over £250,000	8	398	350	3,185
£100,000 – £249,999	34	122	117	4,153
£60,000 – £99,999	68	73	71	4,997
£30,000 – £59,999	70	46	45	3,186
£10,000 – £29,999	97	16	15	1,527
£1 – £9,999	46	6	5	256
Grand Total	323	54	39	17,304



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 2004, this amounted to £21,559,000. The covenant relating to the last six months of 2004 will be paid to the Foundation in May 2005. This receivable payment of £11,546,000 is listed under Debtors on the balance sheet.

During the year, the Trustees allocated £25,477,000 to beneficiaries for capital and/or revenue grants which were for a term of between one and seven years. Of this £25,477,000, £8,173,000 was awarded to Special Initiatives. The Trustees, having decided that the reserves position did not need to be as high as it was, looked for Special Initiatives in which to invest. This resulted in a planned deficit in the year. Approximately 49% of the grants awarded in 2004 were for core funding; the remaining 51% 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, originally made by the Princess Diana Memorial Fund (PDMF), had been funded by the Foundation. The grant-holders (who would have been eligible under the Foundation's current grant programmes) were at financial risk because of the legal action in which PDMF was involved. These grants were repaid by PDMF to the Foundation in January 2005.

The Trustees incurred expenditure on support costs of £507,000 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 £552,000 was incurred on the management and administration of the charity. The cost/income ratio for 2004 was 4.7%, which was well within the 5% target set by the Trustees.

Due to the rise in the world's stock markets in 2004 and the restructuring of the Foundation's investments, net investments under fund management rose by £1.1 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
8 March 2005
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 trustees' 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.

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 2004 and of the net outgoing 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
8 March 2005
Newcastle upon Tyne





Statement of Financial Activities

(incorporating an Income and Expenditure Account) for the year ended 31 December 2004

	Note	Income Funds 2004 £'000	Designated Funds 2004 £'000	Total Funds 2004 £'000	Total Funds 2003 £'000
Incoming Resources					
Covenant from Northern Rock plc	2	21,559	–	21,559	19,340
Investment Income	3	1,070	–	1,070	747
Other Income	4	39	–	39	2,303
Grant Received	5	–	–	–	4
Total Incoming Resources		22,668	–	22,668	22,394
Resources Expended					
<i>Cost of generating funds:</i>					
Investment management fees	6	47	–	47	134
<i>Charitable expenditure:</i>					
Grants payable	7	25,010	200	25,210	18,976
Support costs	8	507	–	507	291
Management and administration	9	552	–	552	730
		26,069	200	26,269	19,997
Total Resources Expended	10	26,116	200	26,316	20,131
Net (Outgoing)/Incoming Resources		(3,448)	(200)	(3,648)	2,263
Other Recognised Gains and Losses					
Realised gain on Investments	14	97	–	97	312
Unrealised gain on Investments	14	1,036	–	1,036	659
		1,133	–	1,133	971
Net Movement in Funds		(2,315)	(200)	(2,515)	3,234
Balances brought forward 1 January		27,436	100	27,536	24,302
Transfer between Funds		(100)	100	–	–
Balances carried forward 31 December	21	25,021	–	25,021	27,536

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 deficit for the year for Companies Act purposes comprises the net outgoing resources for the year plus realised gains on investments and was £3,351,000 (2003: surplus of £2,575,000).

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

Balance Sheet

at 31 December 2004

	Note	2004 £'000	2003 £'000
Fixed Assets			
Investment in Northern Rock plc	13	–	–
Tangible Fixed Assets	13	1,066	1,055
Investments under fund management	14	15,758	13,884
Other Investments	15	2,824	2,030
		19,648	16,969
Current Assets			
Debtors	16	11,697	10,178
Short-term deposits	17	20,399	18,148
Investments	18	4	4
Cash at bank and in hand		179	221
		32,279	28,551
Creditors: amounts falling due within one year	19	(17,967)	(11,979)
Net Current Assets		14,312	16,572
Total Assets less Current Liabilities		33,960	33,541
Creditors: amounts falling due after more than one year			
Grants authorised and not yet paid	20	(8,939)	(6,005)
Net Assets		25,021	27,536
Unrestricted Funds			
Income	21	25,021	27,436
Designated	21	–	100
		25,021	27,536

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 8 March 2005 and signed on its behalf by



Leo Finn



David Faulkner



Cash Flow Statement

for the year ended 31 December 2004

	Note	2004 £'000	2003 £'000
Net cash inflow from operating activities	22	2,712	3,656
Returns on investment and servicing of finance			
Dividends on investment income		273	198
Tax reclaim		–	2,298
Interest on cash and short-term deposits		784	554
Interest on loans		18	–
		1,075	3,050
Capital expenditure and financial investments			
Purchase of tangible fixed assets		(44)	(35)
Sales of tangible fixed assets		1	–
Purchase of fixed asset investments		–	(500)
Loans		(794)	(30)
Purchase of investments		(1,861)	(3,792)
Sale of investments		1,120	3,667
		(1,578)	(690)
Management of liquid resources			
Increase in short-term deposits		(2,251)	(5,815)
(Decrease)/Increase in cash		(42)	201

Notes to the Financial Statements

for the year ended 31 December 2004

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 2004 was nine 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 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 programme managers' 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. It 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) 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

	2004 £'000	2003 £'000
Covenant Receivable	21,559	19,340

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 plc 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 plc 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 2004 is £11,546,000 (2003: £10,029,000), and will be paid to the Foundation in May 2005.

3. Investment Income

	2004 £'000	2003 £'000
Interest receivable on call accounts	499	540
Interest receivable on fixed-term deposits	280	9
Loan interest	18	-
Dividends receivable	273	198
	1,070	747

4. Other Income

	2004 £'000	2003 £'000
Inland Revenue Reclaim	–	2,298
Futurebuilders service agreement	32	–
Bank interest receivable	5	5
Other Income	2	–
	39	2,303

5. Grant Received

	2004 £'000	2003 £'000
Grants Received	–	4

6. Investment management fees

	2004 £'000	2003 £'000
Active portfolio fees	47	61
Passive portfolio fees	–	73
	47	134

Gerrard Limited are the appointed fund managers of the Foundation managing an active and a passive portfolio. Fees in the passive portfolio are incurred when the transactions are made.

Fees on the active portfolio are charged quarterly and are based on the market valuation of the active portfolio at the quarter end dates.

7. Grants payable

	2004 £'000	2003 £'000
Grants authorised	25,477	18,754
Grants withdrawn or returned in current year	(203)	–
	25,274	18,754
Prior year grants returned	(449)	(193)
	24,825	18,561
Staff Matched Giving Scheme	264	312
Additional grants	121	103
	25,210	18,976

Details of the 50 largest grants awarded in the current year are set out on pages 23 to 25.



Additional Grants:

Under the Northern Rock plc's Discretionary Fund the Trustees awarded 82 donations totalling £100,000.

The Trustees also awarded £21,000 to various charitable organisations under their Learning and

Support 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

	2004	2003
	£'000	£'000
Staff costs	248	211
Office costs	100	80
Other costs	159	–
	507	291

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

	2004	2003
	£'000	£'000
Staff costs	359	339
Office costs	31	39
Publications	38	30
Recruitment	3	18
Consultancy	4	2
Depreciation	32	29
NR Writer's Award Administration	64	28
Operating leases	4	5
Legal and professional fees	2	232
External assessors	6	–
Auditors' remuneration		
– Audit services	6	4
– Non-audit services	–	1
Costs of Trustees' meetings	3	3
	552	730

As at 31 December 2004, the Foundation had annual commitments under non-cancellable operating leases expiring within one year of £1,000 (2003: £4,000 expiring within two years).

10. Total resources expended

	Staff costs	Other direct costs	Other allocated costs	Grants payable	Total 2004	Total 2003
	£'000	£'000	£'000	£'000	£'000	£'000
Investment management fees	–	47	–	–	47	134
Grants payable	–	–	–	25,210	25,210	18,976
Support costs	248	159	100	–	507	291
Management and administration	359	11	182	–	552	730
Total resources expended	607	217	282	25,210	26,316	20,131

Staff costs

	2004	2003
	£'000	£'000
Wages and salaries	507	466
Social security costs	45	38
Pension costs	55	46
	607	550

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

	2004	2003
	Number	Number
£80,000 – £90,000	1	–
£70,000 – £80,000	–	1
£50,000 – £60,000	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:

	2004	2003
	Number	Number
Support costs	6	5
Management and administration	11	10

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 totalling £2,000 (2003: £2,000) 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 2004, the Foundation paid employer's contributions of 15.9% of basic pensionable earnings throughout the year (2003: 14.8% until 5 April 2003 and 15.9% 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% (2003: 5%). During 2004, the Foundation paid employer's contributions in respect of the

contracted-in defined contribution section of the Scheme at an average rate of 6% (2003: 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% (2003: 4.3%).

The total pensions charge to the Foundation's Statement of Financial Activities for 2004 in respect of employer's contributions was £55,000 (2003: £46,000).

The defined benefit section 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 disclosure 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
Cost:				
At 1 January 2004	1,005	62	17	1,084
Additions	–	8	36	44
Disposals	(1)	–	–	(1)
At 31 December 2004	1,004	70	53	1,127
Accumulated Depreciation				
At 1 January 2004	20	6	3	29
Charge for the year	20	7	5	32
At 31 December 2004	40	13	8	61
Net book value at 31 December 2004	964	57	45	1,066
Net book value at 31 December 2003	985	56	14	1,055

Fixed Assets – Investment in Northern Rock plc

At 31 December 2004, 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 2004 no shares were bought back (2003: £Nil).



14. Fixed Assets – Investments under Fund Management

Gerrard Limited are appointed as fund managers. 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 five to seven-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.

	2004	2003
	£'000	£'000
Market value at 1 January	13,884	12,789
Cost of investments purchased	2,082	3,573
Proceeds of investments sold	(1,120)	(3,667)
Surplus on disposal during the year	97	312
Net movement in market values	1,036	659
(Decrease)/Increase in cash held	(221)	218
Market value at 31 December	15,758	13,884
Historical cost of investments at 31 December	16,492	15,530

Geographical analysis of investments under fund management:

	Active Portfolio	Passive Portfolio	2004 Total	2003 Total
	£'000	£'000	£'000	£'000
Sterling Fixed Interest	1,388	6,649	8,037	7,686
Overseas Fixed Interest	–	–	–	86
Index Linked Gilts	763	–	763	711
UK Equities	6,060	–	6,060	4,722
Overseas Equities:				
USA	205	–	205	–
Japanese	72	–	72	–
European	293	–	293	229
Pacific Basin	174	–	174	85
Other Overseas	84	–	84	74
Cash	70	–	70	291
Total	9,109	6,649	15,758	13,884

The unrealised gain in the year of £1,036,000 (2003: £659,000), is made up of £1,036,000 (2003: £658,000) being the movement in net market value of invested funds, plus £Nil (2003: £1,000) 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

	2004 Total	2003 Total
	£'000	£'000
Newcastle Employment Bond	500	500
The International Centre for Life	1,000	1,000
Charity Bank	500	500
Loans to the voluntary sector (net)	824	30
	2,824	2,030

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. According to the terms of the loan, the principal, £1 million, will be repaid over seven years commencing in 2005. 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 four loans were given under this agreement, net total £809,000 (2003: £30,000). One loan for £15,000 was repaid in full (2003: £Nil).

16. Debtors

	2004	2003
	£'000	£'000
Covenanted payment from Northern Rock plc	11,546	10,029
Grants paid on behalf of the Diana, Princess of Wales Memorial Fund	100	100
Prepayments and accrued interest	51	49
	11,697	10,178



17. Investments held at Northern Rock plc

At 31 December 2004, £20,399,000 (2003: £18,148,000) 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 2004 was £4,000 (2003: £4,000).

19. Creditors: amounts falling due within one year

	2004 £'000	2003 £'000
Accruals	207	221
Loans pledged	540	–
Northern Rock plc	4	5
Grants authorised and not yet paid	17,216	11,753
	17,967	11,979

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

	2004 £'000	2003 £'000
Grants authorised and payable within 2 years	7,421	5,629
Grants authorised and payable within 3 years	791	186
Grants authorised and payable within 4 years	557	140
Grants authorised and payable within 5 years	93	32
Grants authorised and payable within 6 years	77	18
	8,939	6,005

21. Summary of movements on income funds

	Income Funds £'000	Designated Funds £'000	Total Funds £'000
Income funds at 1 January 2004	27,436	100	27,536
Transfer to designated funds	(100)	100	–
Total income funds after transfers	27,336	200	27,536
Incoming resources	22,668	–	22,668
Resources expended	(26,116)	(200)	(26,316)
Net investment gains	1,133	–	1,133
Income funds at 31 December 2004	25,021	–	25,021

During the year the Trustees' designated £100,000 to a fund for BALTIC, the centre for contemporary art in Gateshead. The Trustees had put aside a further £100,000 in 2003 to a fund for BALTIC in the event that BALTIC should successfully apply for funding to the Foundation. Two grant awards totalling £200,000 were made to BALTIC in 2004.

22. Cash flow

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

	2004	2003
	£'000	£'000
Net (outgoing)/incoming resources	(3,648)	2,263
Increase in debtors	(1,519)	(1,389)
Increase in creditors	5,988	2,728
Increase in long-term creditors	2,934	3,075
Interest on cash and short-term deposits	(784)	(554)
Dividends	(273)	(198)
Tax reclaim	–	(2,298)
Interest received on loans	(18)	–
Depreciation	32	29
Net cash inflow from operating activities	2,712	3,656

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

	2004	2003
	£'000	£'000
(Decrease)/Increase in cash in the period	(42)	201
Increase in short-term deposits	2,251	5,815
Change in net funds	2,209	6,016
Net funds at beginning of period	18,369	12,353
Net funds as at 31 December	20,578	18,369

c) Analysis of net funds

	1 January	Cash flow	31 December
	£'000	£'000	£'000
Cash at bank and in hand	221	(42)	179
Short-term deposits	18,148	2,251	20,399
	18,369	2,209	20,578

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. Services received under the Service Agreement totalled £6,000 (2003: £6,000).



2004 Approved Grants – the 50 largest grant awards

ORGANISATION	DESCRIPTION	YEARS	GRANT	PROGRAMME
Aquila Housing Association	To establish a domestic abuse rapid response service for Gateshead.	5	£1,867,435	Special Projects
The Depaul Trust	To provide resettlement support to offenders in the North East whilst in prisons, and leading up to and following their release.	3	£1,806,744	Special Projects
Impact Housing Association	To fund a comprehensive intervention around domestic abuse in Eden and rural Carlisle.	5	£1,633,250	Special Projects
NACRO Crime Reduction Charity	To support the resettlement of offenders in the North East whilst in prison and leading up to and following their release.	3	£1,325,931	Special Projects
Acumen Community Enterprise Development Trust Ltd	Towards core funding for a new community enterprise trust that supports people into work and training in Easington, County Durham.	3	£750,000	Regeneration
The No Way Trust North East	Towards activities in North East young offenders institutes designed to challenge offending behaviour.	3	£706,220	Special Projects
University of Newcastle	Towards a new building to house a Magnetic Resonance Imaging Scanner.	1	£500,000	Exceptional
University of Sunderland	To conduct a seven-year evaluation of the Foundation's domestic abuse intervention scheme.	7	£499,420	Special Projects
University of Durham	Towards major restoration of Durham Castle.	1	£450,000	Capital
North East Theatre Trust Ltd	To extend and refurbish Live Theatre's premises in Newcastle.	2	£350,000	Capital
North Sunderland and Seahouses Development Trust	Towards the design, construction and fitting-out of the Northumberland Coast Centre in Seahouses Harbour.	1	£350,000	Capital
King's College London	Towards research into alternative models of funding and delivering services to offenders and ex-offenders within communities in the North East.	3	£311,500	Special Projects
Enterprise Insight	Towards a programme of activity to encourage young people in the North East to become more enterprising.	1	£285,650	Regeneration
Darlington Borough Council	Towards refurbishing Darlington Arts Centre.	1	£250,000	Capital
Gateshead Council	Towards new sports training and educational facilities at Gateshead Stadium.	1	£250,000	Capital
Newcastle Gateshead Initiative	Towards establishing and maintaining the Culture10 unit at Newcastle Gateshead Initiative.	3	£195,000	Aspiration
New Writing North	For the Northern Rock Foundation Writer's Awards.	3	£180,000	Aspiration

ORGANISATION	DESCRIPTION	YEARS	GRANT	PROGRAMME
Newcastle Gateshead Initiative	Towards the cost of the Culture10 programme.	1	£175,500	Aspiration
Brinkburn Music	Towards the costs of Brinkburn Music Festival in Northumberland.	3	£150,000	Aspiration
Northern Print Studio	Towards the fit-out of Northern Print Studio's new premises in North Shields, Tyne and Wear.	1	£150,000	Capital
The Percy Hedley Foundation	Towards a regional sports and fitness academy for disabled young people in North Tyneside.	1	£150,000	Capital
ETEC (Sunderland) Ltd	Towards the running costs of People into Enterprise, a project in Sunderland, which helps disabled people and carers to find employment.	3	£137,517	Regeneration
Care In Durham	Towards core funding for this organisation working with young people in care in County Durham.	3	£135,492	Prevention
Avison Charitable Trust	Towards the core costs of the Avison Ensemble, a North East baroque orchestra promoting the life and work of Charles Avison.	3	£135,000	Aspiration
One Voice Tees Valley	Towards an information and advice officer to meet the needs of voluntary and community organisations working across the Tees Valley.	3	£129,343	Better Sector
Age Concern Northumberland	Towards a co-ordinator for an intergenerational project using arts to improve community safety and prevent crime in Northumberland.	3	£122,750	Prevention
University of Newcastle	To continue to fund the Centre for the Rural Economy's Northern Rural Network.	3	£121,899	Regeneration
Northern Lights Film Festival Ltd	Towards a digital film festival in the North East.	3	£120,000	Aspiration
Tyne and Wear Museums	To extend the current programme so that more people in the North East can easily access national collections.	3	£120,000	Aspiration
Grizedale Arts	Towards a three-year programme of work in Cumbria.	3	£118,000	Aspiration
Carlisle Housing Association	Towards a training and employment programme in construction.	3	£116,923	Regeneration
Mind Active	Towards the core costs of the organisation so it can continue to provide mind-stimulating activities for older people living in care homes in Wansbeck, Northumberland.	3	£116,790	Basics
Young Enterprise North East	Towards a programme to encourage graduates into enterprise.	3	£116,500	Regeneration
Chillingham Wild Cattle Association	Towards purchasing the Chillingham Park, to secure the future of the Chillingham wild cattle in Northumberland.	1	£115,000	Aspiration



ORGANISATION	DESCRIPTION	YEARS	GRANT	PROGRAMME
The Future Regeneration of Grangetown	To employ the project co-ordinator at a community regeneration project in Middlesbrough.	3	£112,551	Regeneration
DFW Adoption	To explore whether a working Foundation can be established between birth and adoptive parents for the benefit of the adopted child.	2	£112,523	Exploration
Development Trusts Association	Towards the regional network in the North East.	3	£112,000	Regeneration
North East Centre for Diversity and Racial Equality	To employ an operations manager to work across Tyne and Wear.	3	£104,818	Prevention
Northumbria Churches Training Consortium	Towards the running costs of a project providing employment opportunities for refugees living in Tyne and Wear.	1	£103,411	Regeneration
Doxford Youth Project	For the continued employment of the project manager at the project in Cramlington, Northumberland.	3	£101,654	Prevention
BALTIC Centre for Contemporary Art	Towards supporting the core work of BALTIC, the centre for contemporary art in Gateshead.	1	£100,000	Aspiration
BALTIC Centre for Contemporary Art	Towards the core costs of BALTIC, the centre for contemporary art in Gateshead.	1	£100,000	Aspiration
Barracudas Ltd	Towards the core costs of a carnival band based in Barrow, Cumbria.	3	£100,000	Aspiration
Gateshead Council	Towards the artistic programme to celebrate the refurbishment of Saltwell Park in Gateshead.	1	£100,000	Aspiration
Kielder Partnership	Towards the construction of two sculptures for Kielder, Northumberland.	2	£100,000	Aspiration
The Comedy Foundation Ltd	Towards the 2004 Newcastle Comedy Festival.	1	£100,000	Aspiration
Dementia Care Partnership	Towards building an independent centre providing social, leisure and learning opportunities for people with dementia and their carers in Newcastle.	1	£100,000	Basics
Northern Stage	Towards the redevelopment of Newcastle Playhouse.	1	£100,000	Capital
Rydal Hall Garden Restoration Committee	Towards restoring a historic garden and providing a visitor/community centre in Rydal, Cumbria.	1	£100,000	Capital
Royal National Lifeboat Institution	Towards restoring and extending the building in Bamburgh, Northumberland which houses the Grace Darling collection.	1	£99,377	Aspiration

Registered Office:

Northern Rock House, Gosforth
Newcastle upon Tyne NE3 4PL

Registered Charity:

Charity Commissioners'
Reference Number 1063906

Company Limited by Guarantee:

Registered Number 3416658

Independent Auditors:

PricewaterhouseCoopers LLP
89 Sandyford Road
Newcastle upon Tyne NE1 8HW

Bankers:

Lloyds Bank plc, Lloyds TSB, City Office
PO Box 72, Bailey Drive
Gillingham Business Park, Kent ME8 0LS

Northern Rock plc, Northern Rock House
Gosforth, Newcastle upon Tyne NE3 4PL

Solicitors:

Legal Department, Northern Rock plc
Northern Rock House, Gosforth
Newcastle upon Tyne NE3 4PL

Ward Hadaway Solicitors

Sandgate House, 102 Quayside
Newcastle upon Tyne, Tyne & Wear NE1 3DX

Investment Advisor:

Group Treasury, Northern Rock plc
Northern Rock House, Gosforth
Newcastle upon Tyne NE3 4PL

Investment Managers:

Gerrard Limited, Cross House, Westgate Road
Newcastle upon Tyne NE1 4XX

Northern Rock Foundation
The Old Chapel
Woodbine Road
Gosforth
Newcastle upon Tyne
NE3 1DD

Telephone: 0191 284 8412

Fax: 0191 284 8413

Minicom: 0191 284 5411

Email: generaloffice@nr-foundation.org.uk

Website: www.nr-foundation.org.uk