



the northern rock foundation

accounts of the trustees  
for the year ended  
31 December 2005

## Trustees

Leo Finn (Chair)

*resigned 27 January 2006*

Alastair Balls CB (Chair)

*appointed 27 January 2006*

Sir David Chapman Bt DL

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

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

<b>Director</b>	Fiona Ellis
<b>Deputy Director</b>	Anne Burleigh
<b>Assistant Director – Resources</b>	Alison Graham
<b>Assistant Director – Policy and Communications</b>	Rob Williamson
<b>Secretary</b>	Alison Graham

## Committee Members

### Investment Committee

Sir David Chapman Bt DL (Chair)

Lord Howick of Glendale

Anthony Henfrey

*appointed 9 May 2005*

Julie Shipley

Keith Currie (Adviser)

Alison Graham (Secretary)

### Finance, Risk and Audit Committee

Christopher Jobe (Chair)

David Faulkner

Frank Nicholson

Alison Graham (Secretary)

### Remuneration Committee

Lorna Moran (Chair)

Sir David Chapman Bt DL

# accounts of the trustees 2005

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## Trustees' report for the year ended 31 December 2005

The Trustees present their report and the audited accounts for the year ended 31 December 2005. The Trustees have adopted the provisions of the Statement of Recommended Practice (SORP) "Accounting and Reporting by Charities" issued in March 2005 in preparing the Annual Report and financial statements of the charity.

### Governance and management

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 Trustees of the Foundation are appointed by the founder and sole donor, Northern Rock plc, which also determines the length of their service. While the Board of Trustees does not influence the selection of its own members and therefore undertakes no formal assessment of skills, the Trustees believe that they have available to them all the necessary skills to manage the Foundation's affairs.

The Trustees meet to discuss the Foundation's business and to make main grants (those over £15,000) five times each year. They also have a Reflective Meeting to consider general issues of policy and to discuss possible developments to policy and practice at least once each year. There are committees dealing with investments, finance, audit and risk issues and remuneration.

Responsibility for making grants for under £15,000 each is delegated to the Foundation's Director and any one Trustee. All such grant decisions are reported to the Trustee Board at the meeting following the decision. The Foundation's Director and/or Deputy Director have delegated authority to reject ineligible applications subject to reporting all such decisions to the subsequent Board Meeting. 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. Day-to-day management and administration of grants and the processing and assessment of applications prior to Trustees' consideration is delegated to the Foundation's Director and staff team.

Induction of new Trustees takes the form of: 1, issue of an information pack; 2, a meeting with senior Foundation staff; and 3, an invitation to accompany members of the grants team on visits either before or after a grant has been made. The information pack contains recent Trustees' papers for Board meetings, annual reviews, accounts (the last two items for at least the previous year; others are available if desired) and current grant-making guidelines. Relevant policy papers or discussion papers relating to current or proposed grant-giving programmes are supplied as needed, as are relevant Charity Commission publications describing the duties and responsibilities of Trustees. Trustees are routinely asked if they have any training or information needs. While no Trustee was given formal training during 2005, other than the induction training given to new Trustees, several Trustees attended a number of relevant events and conferences.

The Trustees of the Foundation at 31 December 2005, 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.

## Objectives and activities

The Foundation's Objective, according to its foundation document, is "to pay or apply the income or (if and when the trustees, as hereinafter defined, shall see fit) the whole or any part of the capital of the Foundation to any charitable institutions, bodies or funds or for any charitable purposes (according to the laws of England and Wales from time to time) principally in, but not limited to, the United Kingdom".

Normally, and with only a single exception, the Foundation's Trustees have elected to confine their activities to the north of the UK and more specifically the North East of England and Cumbria. For operational purposes the primary objective of the Northern Rock Foundation is to tackle disadvantage and improve quality of life in Cumbria, Northumberland, Tyne and Wear, County Durham and the Tees Valley.

The exception to the Foundation's normal operation occurred in January 2005 when the Trustees elected to donate £500,000 in three separate grants towards assisting those affected by the Asian Tsunami. The Trustees do not intend to repeat exceptional donations of this nature.

The Foundation pursues its objectives primarily through investing in non-profit-distributing organisations. It also directly provides or commissions services, conducts research by commissioning others and provides loans on a variety of terms. The Foundation's senior and grant-making staff and one of the Trustees serve on various external bodies where this advances the achievement of the Foundation's objectives.

## Grant-making policy

As a large and engaged grant-maker with a wide range of interests, the Foundation has numerous grant-making programmes and special initiatives, a set of policies for delivering them and detailed guidance for applicants. They are too extensive to reproduce here. Our policies, practices and other ways of pursuing

our objectives are described in detail on our website: [www.nr-foundation.org.uk](http://www.nr-foundation.org.uk) and in printed guidelines obtainable from the Foundation's offices. A full account of how we pursued these policies is available in our Annual Review, also available on the website or in print at no charge.

## Achievements and performance

The Foundation's operational objective is very wide. It is impossible to make sensible claims about what we have achieved in its pursuit in any one year particularly since we work largely by investing in the work of others. Our goals are to address deeply entrenched social and economic problems that will not be 'solved' easily or quickly and which do not lend themselves to simple measurements of cause and effect. Moreover the Foundation is but one player among many – public, private and voluntary sector – pursuing similar goals. Specious claims to achievements, which ignore the activities of partners and colleagues, do nothing to help our future work with them. By any benchmark the North East and Cumbria continue to be areas of profound social and economic difficulty. While the Foundation is confident that it has, through its grants and related activities, positively affected the lives of individuals and communities in our operating area, we are reluctant to claim credit for resolutions to complex problems.

We can report the activities we undertook and the successful disbursement of our grant budget, but as to the effectiveness of individual grants and the collective worth of those grants it is much too early to tell, particularly for the majority of our grants which have ambitions to problem solving. We monitor grants intended to achieve straightforward objectives – building refurbishment, the purchase of equipment, the provision of a regular service – and we are satisfied that they are generally successful. Where they are not we take proportionate and sensible action. The Foundation customarily reports on successful grants and on the success or otherwise of its special initiatives on its website, in its regular newsletter *Rock Reports* and in occasional publications. All such reports are widely available usually at no cost to the reader. Our Annual Review contains a detailed account of all grants made, training provided and loans issued. Distribution details of grants across our geographic and topical areas of interest are provided in the Annual Review (available as before).

## Grants approved during the year

Grants approved in 2005 under the programmes of Prevention, Basics, Money and Jobs, Aspiration, Exploration, Better Sector, Exceptional and the Capital Fund came to a total of £20,197,014. The Trustees made an exceptional amount of £500,000 available through three grants (Basic Needs, the British Community Committee and the Grameen Foundation USA) in response to the Asian Tsunami. A full listing of the 2005 approved grants can be found on the Foundation's website and in the Annual Review for 2005.

## Eligibility

In 2005, the Foundation received 902 grant applications from the charitable sector. Of these, 23% were ineligible. Of the eligible grants that were put to the Trustees in 2005, 313 were successful (that is 56% of eligible applications) and 183 were pending at the end of the year. In addition, there were the three awards made in response to the Asian Tsunami.

## Geographical distribution

During 2005, £20.2 million was awarded under the Foundation's main grant programmes. As the table opposite identifies, 38% of the amount awarded was to projects within Tyne and Wear and 24% to projects benefiting the whole of the North East and Cumbria.

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

## 2005 approved grants

Programme	Amount awarded £'000	% of amount awarded	Success rate of eligible applications (%)
Prevention	4,987	24	45
Basics	3,237	15	52
Money and Jobs	2,791	13	57
Aspiration	2,984	14	53
Exploration	720	3	67
Better Sector	2,153	10	74
Capital	2,775	13	91
Exceptional	550	3	100
<b>Main Grant Giving Total</b>	<b>20,197</b>	<b>95</b>	<b>56</b>
Special Initiatives	500	2	N/A
Other	528	3	N/A
<b>Grand Total</b>	<b>21,225</b>	<b>100</b>	<b>56</b>

## 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	48	61	1,998	10
Durham	27	40	1,403	7
North East and Cumbria	68	67	4,906	24
Northumberland	30	58	1,690	8
Tees Valley	39	49	2,526	13
Tyne and Wear	101	55	7,674	38
<b>Grand Total</b>	<b>313</b>	<b>56</b>	<b>20,197</b>	<b>100</b>



## Range of grant awards

Of the 313 grants awarded in 2005 under the main grant-giving programmes, 57% were for amounts below £60,000 and 3% were for amounts of £250,000 or more.

Range of grant awards	No. of awards	Average grant £'000	Median grant £'000	Total grants £'000
Over £250,000	10	437	400	4,370
£100,000–£249,999	52	129	120	6,692
£60,000–£99,999	73	76	75	5,564
£30,000–£59,999	51	41	42	2,115
£10,000–£29,999	79	16	15	1,254
£1–£9,999	48	4	4	202
<b>Grand Total</b>	<b>313</b>	<b>65</b>	<b>45</b>	<b>20,197</b>

## Social investment and loans to the voluntary sector

The Trustees have established a loan scheme that runs in tandem with our grant programmes. The intention is to achieve a combination of social objectives and financial returns to the Foundation as an investor. The majority of our 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. The scheme was established to assist beneficiaries whose projects fell within our overall operating objective, 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.

The loan scheme is administered jointly by the Foundation's staff and Charity Bank. 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.

There is still reluctance in the sector to request loans, which may explain the lack of new investments of this type in 2005. Extra efforts will be made in 2006.

## Plans for the future

In May 2005, the Foundation began an extensive consideration of its current grant programmes and research into how best it might use its resources in future. This review, which includes meetings with over 1,000 interested parties and correspondence with others, will be concluded in May 2006. The Foundation staff will condense the information, opinion and data for consideration by the Trustees at special meetings in June and July. The Foundation will announce new or revised grant programmes, special initiatives and any other means of achieving our objectives in late 2006 for implementation in 2007. At this stage it is not possible to say what these will be but all will be announced and promoted in keeping with our policy of transparency and approachability. In the meantime, we will continue to operate our current grant programmes as detailed elsewhere. We do not intend to launch any special initiatives in 2006.

## 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 61% for the active and 39% for the passive portfolios. This is based upon market values of the two portfolios as at 31 December 2005.

Holdings in any individual company may not be greater than 7.5% 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 Ltd and were satisfied overall that the decisions made and returns received were in line with the guidelines and benchmarks laid down by the Trustees. These benchmarks are noted in the following table.

Investment type	Benchmark (%)	Actual (%)
Fixed Interest	20	13
Index Linked	12	10
Equities	68	73
Commodities	-	2
Cash	-	2
<b>Total</b>	<b>100</b>	<b>100</b>

## 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.

Reserves are currently above required levels. Trustees are currently reviewing their reserve policy.

## 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.





## 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 2005, this amounted to £24,706,549. The covenant relating to the last six months of 2005 will be paid to the Foundation in May 2006. This receivable payment of £10,004,282 is listed under Debtors on the balance sheet.

During the year, the Trustees allocated £20,697,014 to beneficiaries for capital and/or revenue grants which were for a term of between one and five years. Of this £20,697,014, £500,000 was awarded as a special initiative in response to the Asian Tsunami. Approximately 47% of the grants awarded in 2005 were for core funding; the remaining 53% were made up of capital, project funding, research and training and capacity building. The gross grant expenditure for 2004 was greater than that for 2005 because of two special initiatives accounted for in that year.

The Trustees incurred expenditure of £1,242,661 being £68,052 in governance costs and £1,174,609 in costs relating to grant awards. The cost/income ratio for 2005 was 5.0%, in line with the 5.0% target set by the Trustees.

Due to the rise in the world's stock markets in 2005 and the restructuring of the Foundation's investments, net investments under fund management rose by £1.7 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

Alastair Balls CB  
14 March 2006  
Chairman – Board of Trustees

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

We have audited the financial statements of The Northern Rock Foundation for the year ended 31 December 2005, which comprise the statement of financial activities, the balance sheet, the cash flow statement and the related notes. These financial statements have been prepared under the accounting policies therein.

## Respective responsibilities of directors and auditors

The Trustees are also directors of The Northern Rock Foundation for the purpose of Company Law. As described in the Statement of Trustees' responsibilities, the Trustees are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) 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.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the charitable company's affairs at 31 December 2005 and of its net incoming resources, including its income and expenditure, and cash flows for the year then ended;
- and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
Newcastle upon Tyne  
14 March 2006



# Statement of Financial Activities

(incorporating an Income and Expenditure Account) for the year ended 31 December 2005

	Note	Total funds 2005 £'000	Total funds as restated 2004 £'000
<b>Incoming Resources</b>			
Covenant from Northern Rock plc	2	24,706	21,559
<i>Incoming resources from generated funds:</i>			
Investment income	3	1,231	1,070
<i>Other incoming resources:</i>			
Other income	4	45	39
<b>Total Incoming Resources</b>		<b>25,982</b>	<b>22,668</b>
<b>Resources Expended</b>			
<i>Cost of generating funds:</i>			
Investment management costs	5	55	47
<i>Charitable activities</i>	6	21,401	26,209
<i>Governance costs</i>	7	68	60
<b>Total Resources Expended</b>	8	<b>21,524</b>	<b>26,316</b>
<b>Net Income/(Expenditure)</b>		<b>4,458</b>	<b>(3,648)</b>
<b>Other Recognised Gains and Losses</b>			
Realised gain on investments	12	149	97
Unrealised gain on investments	12	1,674	1,036
		<b>1,823</b>	<b>1,133</b>
<b>Net Movement in Funds</b>		<b>6,281</b>	<b>(2,515)</b>
Balances brought forward 1 January		25,021	27,536
<b>Balances carried forward 31 December</b>		<b>31,302</b>	<b>25,021</b>

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 and losses has been prepared.

The surplus for the year for Companies Act purposes comprises the net incoming resources for the year plus realised gains on investments and was £4,607,000 (2004: deficit £3,551,000).

The realised gain of £149,000 would be reported as a loss of £99,000 at historical cost making the historical cost surplus for the year £4,359,000 (2004: deficit £3,919,000).

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

# Balance Sheet

at 31 December 2005

	Note	2005 £'000	2004 £'000
<b>Fixed Assets</b>			
Investment in Northern Rock plc	11	–	–
Tangible fixed assets	11	1,032	1,066
Investments under fund management	12	17,835	15,758
Programme-related investments	13	3,460	2,824
		<b>22,327</b>	<b>19,648</b>
<b>Current Assets</b>			
Debtors	14	10,085	11,697
Short-term deposits	15	25,983	20,399
Investments	16	5	4
Cash at bank and in hand		117	179
		<b>36,190</b>	<b>32,279</b>
<b>Creditors:</b> amounts falling due within one year	17	(22,444)	(17,967)
<b>Net Current Assets</b>		<b>13,746</b>	<b>14,312</b>
<b>Total Assets less Current Liabilities</b>		<b>36,073</b>	<b>33,960</b>
<b>Creditors:</b> amounts falling due after more than one year			
Grants authorised and not yet paid	18	(4,771)	(8,939)
<b>Net Assets</b>		<b>31,302</b>	<b>25,021</b>
<b>Unrestricted Funds</b>			
General reserve		30,125	25,021
Revaluation reserve		1,177	–
<b>Income Funds</b>	19	<b>31,302</b>	<b>25,021</b>

The notes on pages 14 to 24 form part of these financial statements.

The financial statements on pages 11 to 24 were approved by the Board of Trustees on 14 March 2006 and signed on its behalf by



Alastair Balls CB



Christopher Jobe



# Cash Flow Statement

for the year ended 31 December 2005

	Note	2005 £'000	2004 £'000
<b>Net cash inflow from operating activities</b>	20	<b>5,177</b>	<b>2,712</b>
<b>Returns on investment and servicing of finance</b>			
Dividends on investment income		305	273
Interest on cash and short-term deposits		929	784
Interest on loans		6	18
		<b>1,240</b>	<b>1,075</b>
<b>Capital expenditure and financial investments</b>			
Purchase of tangible fixed assets		(4)	(44)
Sales of tangible fixed assets		-	1
Purchase of fixed asset investments		(1,500)	-
Decrease/(Increase) in loans		864	(794)
Purchase of investments		(2,953)	(1,861)
Sale of investments		2,698	1,120
		<b>(895)</b>	<b>(1,578)</b>
<b>Net cash outflow from capital expenditure and financial investment</b>			
<b>Management of liquid resources</b>			
Increase in short-term deposits		(5,584)	(2,251)
<b>Decrease in cash</b>		<b>(62)</b>	<b>(42)</b>

# Notes to the Financial Statements

for the year ended 31 December 2005

## 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 March 2005, the Companies Act 1985 and applicable Accounting Standards.

As a result of adopting the revised SORP, some comparative figures have been re-stated.

### 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 2005 was 11 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.

### 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.

### g) Grants

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

### h) Overhead and support costs

Overhead and support costs include all costs incurred in the pursuance of the Foundation's charitable activities, with the exception of those allocated to the governance of the charity.

### i) Governance costs

Governance costs comprise all costs involving the public accountability of the charity and its compliance with regulation and good practice. They include costs related to statutory audit and legal fees together with an apportionment of overhead costs, allocated on a time basis.

### j) 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.



### k) 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.

### l) 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.

### m) Operating leases

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

### n) Tangible fixed assets

The cost of fixed assets is their purchase price, together with any incidental costs of acquisition. The minimum value for capitalisation is £500. 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

Tangible fixed assets are reviewed for impairment at the end of each reporting period.

## 2. Deed of Covenant

### Covenant receivable

2005 £'000	2004 £'000
24,706	21,559

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 2005 is £10,004,282 (2004: £11,546,000), and will be paid to the Foundation in May 2006.

## 3. Investment income

Interest receivable on call accounts  
Interest receivable on fixed-term deposits  
Loan interest  
Dividends receivable

2005 £'000	2004 £'000
527	499
393	280
6	18
305	273
<b>1,231</b>	<b>1,070</b>

#### 4. Other income

	2005 £'000	2004 £'000
Futurebuilders service agreement	35	32
Bank interest receivable	9	5
Other income	1	2
	<b>45</b>	<b>39</b>

#### 5. Investment management costs

	2005 £'000	2004 £'000
Active portfolio fees	55	47
Passive portfolio fees	-	-
	<b>55</b>	<b>47</b>

Gerrard Ltd are the appointed fund managers of the Foundation managing an active and a passive portfolio. Fees on 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.

#### 6. Charitable activities

Expenditure on charitable activities consists of grants payable together with the support costs incurred in making those awards.

	2005 £'000	2004 £'000 As restated
a) Grants payable	20,226	25,210
b) Support costs	1,175	999
<b>Total Charitable Expenditure</b>	<b>21,401</b>	<b>26,209</b>

##### a) Grants payable

	2005 £'000	2004 £'000
Grants authorised	20,697	25,477
Grants withdrawn or returned in current year	(180)	(203)
	<b>20,517</b>	<b>25,274</b>
Prior year grants returned	(819)	(449)
	<b>19,698</b>	<b>24,825</b>
Staff Matched Giving Scheme	328	264
Additional grants	200	121
	<b>20,226</b>	<b>25,210</b>

Details of grants payable across the different grant programmes is analysed on page 6 and a full listing of all grants awarded in 2005 can be seen in both the Annual Review and on our website.

##### Additional grants:

Under the Northern Rock plc's Discretionary Fund the Trustees awarded 142 donations totalling £200,000.





## b) Support costs

	2005 £'000	2004 £'000 As restated
Direct costs	423	323
Allocated costs:		
– Salaries	619	564
– Other allocated costs	133	112
	<b>1,175</b>	<b>999</b>

Support costs comprise costs incurred directly in support of expenditure on the objects of the charity and include all costs relating to grant assessments, post grant costs such as monitoring of grants and management and administration costs. A portion of support costs has been allocated to governance on the basis of staff time spent on governance issues.

## 7. Governance costs

	2005 £'000	2004 £'000 As restated
Legal and professional	5	2
Auditors' remuneration		
– Audit services	8	6
– Non-audit services	–	–
Costs of Trustees' meetings	4	3
Allocated costs:		
– Salaries	46	44
– Other allocated costs	5	5
	<b>68</b>	<b>60</b>

As at 31 December 2005, the Foundation had annual commitments under non-cancellable operating leases expiring within one year, of £Nil (2004: £1,000 expiring within one year).

## 8. Total resources expended

	Grants payable £'000	Direct costs £'000	Salary allocation £'000	Overhead allocation £'000	Total 2005 £'000	Total 2004 £'000
Investment management fees	-	55	-	-	55	47
Grants payable	20,226	-	-	-	20,226	25,210
Support costs	-	423	619	133	1,175	999
Governance costs	-	17	46	5	68	60
<b>Total resources expended</b>	<b>20,226</b>	<b>495</b>	<b>665</b>	<b>138</b>	<b>21,524</b>	<b>26,316</b>

### Staff costs

	2005 £'000	2004 £'000
Wages and salaries	552	507
Social security costs	52	45
Pension costs	61	55
	<b>665</b>	<b>607</b>

The number of employees whose emoluments as defined for taxation purposes amounted to over £60,000 in the year was as follows:

	2005 Number	2004 Number
£80,000–£90,000	1	1

The employee earning more than £60,000 participated in the defined benefit pension scheme.

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

	2005 Number	2004 Number
Support staff	18	16
Governance	1	1

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



## 9. 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 £1,000 (2004: £2,000) were reimbursed to three of the Trustees during the year.

## 10. Pension costs

Seconded employees 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 2005, the Foundation paid employer's contributions of 15.9% of basic pensionable earnings throughout the year (2004: 14.8% until 5 April 2004 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% (2004: 5%). During 2005, the Foundation paid employer's contributions

in respect of the contracted-in defined contribution section of the Scheme at an average rate of 6% (2004: 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% (2004: 4.3%).

The total pensions charge to the Foundation's Statement of Financial Activities for 2005 in respect of employer's contributions was £61,000 (2004: £55,000).

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.

## 11. Fixed assets

	Freehold land and buildings £'000	Fixtures and fittings £'000	Computers and other equipment £'000	Total £'000
<b>Cost:</b>				
At 1 January 2005	1,004	70	53	1,127
Additions	–	4	–	4
<b>At 31 December 2005</b>	<b>1,004</b>	<b>74</b>	<b>53</b>	<b>1,131</b>
<b>Accumulated Depreciation</b>				
At 1 January 2005	40	13	8	61
Charge for the year	20	7	11	38
<b>At 31 December 2005</b>	<b>60</b>	<b>20</b>	<b>19</b>	<b>99</b>
<b>Net book value at 31 December 2005</b>	<b>944</b>	<b>54</b>	<b>34</b>	<b>1,032</b>
Net book value at 31 December 2004	964	57	45	1,066

**Fixed assets – investment in Northern Rock plc**

At 31 December 2005, 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 2005 no shares were bought back (2004: £Nil).



## 12. 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.

	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
Market value at 1 January	15,758	13,884
Cost of investments purchased	2,864	2,082
Proceeds of investments sold	(2,698)	(1,120)
Surplus on disposal during the year	149	97
Net movement in market values	1,673	1,036
(Decrease)/Increase in cash held	89	(221)
<b>Market value at 31 December</b>	<b>17,835</b>	<b>15,758</b>
Historical cost of investments at 31 December	16,658	16,492

### Geographical analysis of investments under fund management:

	<b>Active portfolio</b>	<b>Passive portfolio</b>	<b>2005 Total</b>	<b>2004 Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Sterling Fixed Interest	1,442	6,987	<b>8,429</b>	8,037
Index Linked Gilts	1,106	–	<b>1,106</b>	763
UK Equities	5,819	–	<b>5,819</b>	6,060
Overseas Equities:				
USA	724	–	<b>724</b>	205
Japanese	283	–	<b>283</b>	72
European	613	–	<b>613</b>	293
Pacific Basin	228	–	<b>228</b>	174
Other overseas	273	–	<b>273</b>	84
UK Commodities	202	–	<b>202</b>	–
Cash	158	–	<b>158</b>	70
<b>Total</b>	<b>10,848</b>	<b>6,987</b>	<b>17,835</b>	15,758

The unrealised gain in the year of £1,674,000 (2004: £1,036,000) is made up of £1,673,000 (2004: £1,036,000) being the movement in net market value of invested funds, plus £1,000 (2004: £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.

### 13. Programme-related investments

	2005 Total £'000	2004 Total £'000
Newcastle Employment Bond	500	500
North East Enterprise Bond	1,000	–
The International Centre for Life	910	1,000
Charity Bank	1,000	500
Loans to the voluntary sector (net)	50	824
	<b>3,460</b>	<b>2,824</b>

#### 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. This loan is repayable in 2006.

#### b) North East Enterprise Bond

During 2005, the Trustees agreed to invest up to £1,000,000 by way of an interest-free loan, repayable in five years. Repayment is guaranteed by Northern Rock plc. The investment is aimed at addressing the North East's enterprise deficit.

#### c) 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. The first repayment was made as scheduled in 2005.

#### d) Charity Bank

During 2004, the Foundation purchased £500,000 of tier 1 capital (zero coupon non-voting preference shares) in Charity Bank. A further investment of £500,000 has been made in 2005 in a tier 2 capital issue of £1,000,000 fixed rate subordinated unsecured notes due for repayment in 2015. These notes are non-transferable and attract interest at a rate of 4% per annum.

#### e) 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 however there is an apparent reluctance in the sector to consider loans as a source of finance and no new loans have been made during the year.

During 2005, three loans with a total value of £200,000 were repaid in full (2004: £15,000), one loan for £365,000, approved in 2004, was written back and one loan written down by £209,000 to reflect the expected amount recoverable.

### 14. Debtors

	2005 £'000	2004 £'000
Covenanted payment from Northern Rock plc	10,004	11,546
Trade Debtors	9	–
Other Debtors	25	–
Grants paid on behalf of the Diana, Princess of Wales Memorial Fund	–	100
Prepayments and accrued interest	47	51
	<b>10,085</b>	<b>11,697</b>



## 15. Investments held at Northern Rock plc

At 31 December 2005 £25,983,000 (2004: £20,399,000) was invested on behalf of the Foundation by Northern Rock plc's Treasury Function.

## 16. 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 2005 was £5,000 (2004: £4,000).

## 17. Creditors: amounts falling due within one year

	2005 £'000	2004 £'000
Accruals	204	207
Loans pledged	–	540
Northern Rock plc	–	4
Trade Creditors	8	–
Grants authorised and not yet paid	22,232	17,216
	<b>22,444</b>	<b>17,967</b>

## 18. Creditors: amounts falling due after more than one year

	2005 £'000	2004 £'000
Grants authorised and payable within 1–2 years	4,041	7,421
Grants authorised and payable within 3 years	560	791
Grants authorised and payable within 4 years	93	557
Grants authorised and payable within 5 years	77	93
Grants authorised and payable over 5 years	–	77
	<b>4,771</b>	<b>8,939</b>

## 19. Summary of movements on income funds

	Income funds £'000
<b>Income funds at 1 January 2005</b>	<b>25,021</b>
Incoming resources	25,982
Resources expended	(21,524)
Net investment gains	1,823
<b>Income funds at 31 December 2005</b>	<b>31,302</b>

Of the income funds of £31,302,000, £1,177,000 relates to the revaluation reserve, as a result of carrying assets on the balance sheet at a valuation above their original cost.

## 20. Cash flow

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

	2005 £'000	2004 £'000
Net incoming/(outgoing) resources	4,458	(3,648)
Decrease/(Increase) in debtors	1,612	(1,519)
Increase in creditors	4,477	5,988
(Decrease)/Increase in long-term creditors	(4,168)	2,934
Interest on cash and short-term deposits	(929)	(784)
Dividends	(305)	(273)
Interest received on loans	(6)	(18)
Depreciation	38	32
<b>Net cash inflow from operating activities</b>	<b>5,177</b>	<b>2,712</b>

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

	2005 £'000	2004 £'000
Decrease in cash in the period	(62)	(42)
Increase in short-term deposits	5,584	2,251
<b>Change in net funds</b>	<b>5,522</b>	<b>2,209</b>
Net funds at beginning of period	20,578	18,369
<b>Net funds as at 31 December</b>	<b>26,100</b>	<b>20,578</b>

### c) Analysis of net funds

	1 January £'000	Cash flow £'000	31 December £'000
Cash at bank and in hand	179	(62)	117
Short-term deposits	20,399	5,584	25,983
	<b>20,578</b>	<b>5,522</b>	<b>26,100</b>

## 21. 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 (2004: £6,000).





**Registered Office:**

Northern Rock House, Gosforth  
Newcastle upon Tyne NE3 4PL

**Registered Charity:**

Charity Commissioners'  
Reference Number 1063906

**Company Limited by Guarantee:**

Registered Number 03416658

**Independent Auditors:**

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Newcastle upon Tyne NE99 1PL

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