



the northern rock foundation

accounts of the trustees
for the year ended
31 December 2006

Trustees

Leo Finn (Chair)

resigned 27 January 2006

Alastair Balls CB (Chair)

appointed 27 January 2006

Sir David Chapman Bt DL

Barbara Dennis OBE

resigned 9 March 2007

David Faulkner OBE

Dr Anthony Henfrey

Lord Howick of Glendale

Christopher Jobe

Lorna Moran MBE

Frank Nicholson

Dorothy, Lady Russell

retired 31 December 2006

Julie Shipley

Sally Thomas

appointed 1 January 2007

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

Foundation Director	Fiona Ellis
Foundation Deputy Director	Anne Burleigh
Director of Finance and Resources	Alison Graham
Director of Policy and Communications	Rob Williamson
Secretary	Alison Graham

Committee Members

Investment Committee

Sir David Chapman Bt DL (Chair)

Lord Howick of Glendale

Dr Anthony Henfrey

Julie Shipley

Keith Currie (Adviser)

Steve Johnson (Adviser)

Alison Graham (Secretary)

Finance, Audit and Risk Committee

Christopher Jobe (Chair)

David Faulkner OBE

Frank Nicholson

Alison Graham (Secretary)

Remuneration Committee

Lorna Moran MBE (Chair)

Sir David Chapman Bt DL

Premises Committee

David Faulkner OBE (Chair)

Lord Howick of Glendale

Christopher Jobe

Alastair Balls (ex officio)

Alistair Leslie (Adviser)

Alison Graham (Secretary)

accounts of the trustees 2006

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Trustees' report for the year ended 31 December 2006

The Trustees present their report and the audited accounts for the year ended 31 December 2006. 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 generally once each year. There are committees dealing with investments, finance, audit and risk issues, premises 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 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 the Programme Managers from a budget set by the Trustees for that purpose. They form part of the organisation's attempt to improve the knowledge and capacity of the sector. These decisions are ratified by the full Board at subsequent meetings. Day-to-day management of 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. During 2006, new Trustees were given induction training and several Trustees attended a number of relevant events and conferences.

The Trustees of the Foundation at 31 December 2006, 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.



So far as each Trustee is aware, there is no relevant audit information of which the charity's auditors are unaware, and each Trustee has taken all the steps that he/she ought to have taken as a Trustee in order to make himself/herself aware of any relevant audit information and to establish that the charity's auditors are aware of that information.

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 Foundation pursues this primary objective 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 primary objective.

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. These policies, practices and other activities are described in detail on the website: www.nr-foundation.org.uk and in printed guidelines obtainable from the Foundation's offices. A full account of how the Foundation pursued these policies is available in its Annual Review, also available on the website or in print at no charge.

Achievements and performance

The Foundation's primary objective is very wide. It is impossible to make sensible claims about what has been achieved in its pursuit in any one year particularly since the majority of Foundation resources are invested in the work of others. The overarching 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 encourage future partnerships. 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 its operating area, Trustees are reluctant to claim credit for resolutions to complex problems.

The Foundation's activities and the successful disbursement of its grant budget are matters of record, 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 the grants which have ambitions to address chronic problems. Foundation staff monitor grants intended to achieve straightforward objectives – building refurbishment, the purchase of equipment, the provision of a regular service – and the Trustees are satisfied that they are generally successful. Where they are not staff 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. The Foundation's Annual Review contains a detailed account of all grants made, training provided and loans issued. Distribution details of grants across the geographic and topical areas of interest are provided in the Annual Review (available as before). Beginning in 2007, the Foundation intends to publish a series of papers which will offer further insights into its work and the work it funds. This will begin with a reflective evaluation of part of the Money and Jobs programme.

Grants approved during the year

Grants approved in 2006 under the programmes of Prevention, Basics, Money and Jobs, Aspiration, Exploration, Better Sector, Exceptional and the Capital Fund came to a total of £27,107,000. A full listing of the 2006 approved grants can be found on the Foundation's website and in the 2003–2006 Review.

Eligibility

In 2006, the Foundation received 828 grant applications from the charitable sector. Of these, 25% were ineligible. Of the eligible grants, 352 were successful (that is 59% of eligible applications) and 152 were pending at the end of the year.

Geographical distribution

During 2006, £27.1 million was awarded under the Foundation's main grant programmes. As the table below identifies, 24% of the amount awarded was to projects within Tyne and Wear and 43% 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 the Foundation's area of interest.

2006 approved grants

Programme	Amount awarded £'000	% of amount awarded	Success rate of eligible applications %
Prevention	5,615	20	58
Basics	3,888	14	50
Money and Jobs	3,917	14	51
Aspiration	3,149	11	59
Exploration	973	3	70
Better Sector	2,709	10	63
Capital	2,398	9	92
Exceptional	4,458	15	100
Main Grant Giving Total	27,107	96	59
Other	1,148	4	N/A
Grand Total	28,255	100	59

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	53	63	3,662	14
Durham	40	53	1,938	7
North East and Cumbria	64	65	7,906	29
Northumberland	43	67	3,330	12
Tees Valley	57	60	3,789	14
Tyne and Wear	95	52	6,482	24
Grand Total	352	59	27,107	100



Range of grant awards

Of the 352 grants awarded in 2006 under the main grant-giving programmes, 50% 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	11	558	302	6,143
£100,000–£249,999	71	139	130	9,840
£60,000–£99,999	95	79	80	7,461
£30,000–£59,999	52	44	45	2,298
£10,000–£29,999	72	16	15	1,183
£1–£9,999	51	4	3	182
Grand Total	352	77	70	27,107

Social investment and loans to the voluntary sector

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

The Foundation made eight loans during the year, totalling £1,130,000.

Plans for the future

Following its review of all its grant programmes and grant-related activities in 2005-6, the Foundation has launched its new and revised programmes for 2007, which are described in detail on its website. Trustees have agreed that these new grant programmes will remain in place, with only minor modifications where necessary, for at least five years. The Foundation has always had a view about continuity and about trying to make sure a job is done before it moves on; readers will note the continuation of various longstanding interests and themes in the new programmes.

While 90% or more of its annual spend will still be available through responsive grants programmes, the Foundation will also undertake some activities directly in pursuit of its primary objective. These include the provision of training and development help to VCS organisations, the commissioning of research, and policy development work on behalf of the sector. The Foundation is also now engaging in more collaborative work with other foundations to try to influence the national policy environment as it affects the work of the sector. The Foundation's focus remains resolutely on the North East and Cumbria but in order to achieve more for people there it accepts the need to work with others outside the region.

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 62% for the active and 38% for the passive portfolios. This is based upon market values of the two portfolios as at 31 December 2006.

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 and 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 Barclay Wealth 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 table below.

Investment type	Benchmark %	Actual %
Fixed Interest	20	12
Index Linked	12	9
Equities	68	71
Commodities	0	2
Cash	0	6
Total	100	100

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 three months of continued grant-making, one year's administrative costs, the year end accrued covenant and sufficient funds to honour existing commitments.

Reserves are currently above required levels. Trustees have agreed to use surplus reserves over the next three to four years on special initiatives and core programmes.

Closing reserves as at 31 December 2006 were £36,168,000 (2005: £31,302,000).

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 receives 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 2006, this amounted to £31,337,000. The covenant relating to the last six months of 2006 will be paid to the Foundation in May 2007. This receivable payment of £16,643,000 is listed under Debtors on the balance sheet.

During the year, the Trustees allocated £27,107,000 to beneficiaries for capital and/or revenue grants which were for a term of between one and five years. Approximately 46% of the grants awarded in 2006 were for core funding; the remaining 54% were made up of capital, project funding, research and training and capacity building.

The Trustees incurred expenditure of £1,254,000, being £82,000 in governance costs and £1,172,000 in costs relating to grant awards. The cost/income ratio for 2006 was 4.0%.

Due to the rise in the world's stock markets in 2006, net investments under fund management rose by £1.3 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
13 March 2007
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 2006 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 whether the Trustees' Report is consistent with the financial statements. We also report to you if, in our opinion, 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 Trustees' 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 2006 and of its net incoming resources, including its income and expenditure, and cash flows for the year then ended;
- and the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Trustees' Report is consistent with the financial statements.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Newcastle upon Tyne
13 March 2007



Statement of Financial Activities

(incorporating an Income and Expenditure Account) for the year ended 31 December 2006

	Note	Total funds 2006 £'000	Total funds 2005 £'000
Incoming Resources			
Covenant from Northern Rock plc	2	31,337	24,706
<i>Incoming resources from generated funds:</i>			
Investment Income	3	1,395	1,231
<i>Other incoming resources:</i>			
Other Income	4	52	45
Total Incoming Resources		32,784	25,982
Resources Expended			
<i>Cost of generating funds:</i>			
Investment management costs	5	61	55
<i>Charitable activities</i>			
	6	28,785	21,401
<i>Governance costs</i>			
	7	82	68
Total Resources Expended	8	28,928	21,524
Net Income/(Expenditure)		3,856	4,458
Other Recognised Gains and Losses			
Realised gain on Investments	12	63	149
Unrealised gain on Investments	12	947	1,674
		1,010	1,823
Net Movement in Funds		4,866	6,281
Balances brought forward 1 January		31,302	25,021
Balances carried forward 31 December		36,168	31,302

All of the above results are derived from continuing activities.

There were no gains or losses recognised in the current year that were not reflected in the increase in fund balances carried forward, therefore no separate statement of total recognised gains 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 £3,762,000 (2005: £4,607,000).

The realised gain of £63,000 (note 12) would be reported as a gain of £291,000 at historical cost making the historical cost surplus for the year £4,053,000 (2005: £4,359,000).

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

Balance Sheet

at 31 December 2006

	Note	2006 £'000	2005 £'000
Fixed Assets			
Investment in Northern Rock plc	11	–	–
Tangible Fixed Assets	11	1,054	1,032
Investments under fund management	12	19,145	17,835
Programme-related investments	13	3,940	3,460
		24,139	22,327
Current Assets			
Debtors	14	16,762	10,085
Short-term deposits	15	24,913	25,983
Investments	16	6	5
Cash at bank and in hand		139	117
		41,820	36,190
Creditors: amounts falling due within one year	17	(20,560)	(22,444)
Net Current Assets		21,260	13,746
Total Assets less Current Liabilities		45,399	36,073
Creditors: amounts falling due after more than one year			
Grants authorised and not yet paid	18	(9,231)	(4,771)
Net Assets		36,168	31,302
Unrestricted Funds			
General Reserve		33,537	30,125
Revaluation Reserve		2,631	1,177
Income Funds	19	36,168	31,302

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 13 March 2007 and signed on its behalf by



Alastair Balls CB



Christopher Jobe



Cash Flow Statement

for the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
Net cash (outflow)/inflow from operating activities	20	(1,608)	5,177
Returns on investment and servicing of finance			
Dividends on investment income		84	305
Interest on cash and short-term deposits		1,298	929
Interest on loans		20	6
		<hr/> 1,402	<hr/> 1,240
Capital expenditure and financial investments			
Purchase of tangible fixed assets		(65)	(4)
Sales of tangible fixed assets		2	-
Purchase of fixed asset investments		500	(1,500)
(Increase)/Decrease in Loans		(980)	864
Purchase of Investments		(2,054)	(2,953)
Sale of Investments		1,755	2,698
		<hr/> (842)	<hr/> (895)
Net cash outflow from capital expenditure and financial investment			
Management of liquid resources			
Decrease/(Increase) in short-term deposits		1,070	(5,584)
Increase/(Decrease) in cash		<hr/> 22	<hr/> (62)

Notes to the Financial Statements

for the year ended 31 December 2006

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.

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 2006 was ten 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 receivable. 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 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

Contributions to the pension schemes are based on applicable pension costs across the participating organisations taken as a whole. The pension charge recorded in these accounts is the amount of contributions payable in the accounting year.

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

2006 £'000	2005 £'000
31,337	24,706

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 2006 is £16,643,000 (2005: £10,004,000), and will be paid to the Foundation in May 2007.

3. Investment income

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

2006 £'000	2005 £'000
306	527
744	393
20	6
325	305
1,395	1,231

4. Other income

	2006 £'000	2005 £'000
Futurebuilders service agreement	35	35
Bank interest receivable	8	9
Other income	9	1
	52	45

5. Investment management costs

	2006 £'000	2005 £'000
Active portfolio fees	61	55
Passive portfolio fees	-	-
	61	55

Barclays Wealth (previously known as Gerrard Ltd) 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.

6. Charitable activities

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

	2006 £'000	2005 £'000
a) Grants payable	27,613	20,226
b) Support costs	1,172	1,175
Total Charitable Expenditure	28,785	21,401

a) Grants payable

	2006 £'000	2005 £'000
Grants authorised	27,107	20,697
Commissions authorised	5	-
Grants withdrawn or returned in current year	(258)	(180)
	26,854	20,517
Prior year grants returned	(389)	(819)
	26,465	19,698
Staff Matched Giving Scheme	946	328
Additional grants	202	200
	27,613	20,226

Details of grants payable across the different grant programmes is analysed on page 6 and a full listing of all grants awarded in 2006 can be seen in both the 2003-2006 Review and on the Foundation's website.

Additional Grants:

Under Northern Rock plc's Discretionary Fund the Trustees awarded 140 donations totalling £202,000.



b) Support costs

	2006	2005
	£'000	£'000
Direct costs	260	423
Allocated costs:		
– Salaries	770	619
– Other allocated costs	142	133
	1,172	1,175

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

	2006	2005
	£'000	£'000
Legal and professional	9	5
Auditors' remuneration		
– Audit services	10	8
– Non-audit services	–	–
Costs of Trustees' meetings	6	4
Allocated costs:		
– Salaries	51	46
– Other allocated costs	6	5
	82	68

As at 31 December 2006, the Foundation had annual commitments under non-cancellable operating leases expiring within one year, of £Nil (2005: £Nil expiring within one year).

8. Total resources expended

	Grants payable £'000	Direct costs £'000	Salary allocation £'000	Overhead allocation £'000	Total 2006 £'000	Total 2005 £'000
Investment management fees	-	61	-	-	61	55
Grants payable	27,770	-	-	-	27,770	20,226
Support costs	-	260	770	142	1,172	1,175
Governance costs	-	25	51	6	82	68
Total resources expended	27,770	346	821	148	29,085	21,524

Staff costs

	2006 £'000	2005 £'000
Wages and salaries	688	552
Social security costs	65	52
Pension costs	68	61
	821	665

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

	2006 Number	2005 Number
£60,000-£70,000	1	-
£80,000-£90,000	-	1
£90,000-£100,000	1	-

The employees earning more than £60,000 both participated in the defined benefit pension scheme. Pension contributions totalled £23,000 (2005: £12,000) for those employees.

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

	2006 Number	2005 Number
Support staff	19	18
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 £3,000 (2005: £1,000) were reimbursed to five 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 2006, the Foundation paid employer's contributions of 15.9% of basic pensionable earnings throughout the year (2005: 15.9%) 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% (2005: 5%). During 2006, the Foundation paid employer's contributions in respect of the contracted-in defined contribution

section of the Scheme at an average rate of 6% (2005: 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% (2005: 4.3%).

The total pensions charge to the Foundation's Statement of Financial Activities for 2006 in respect of employer's contributions was £68,000 (2005: £61,000).

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
Cost:				
At 1 January 2006	1,004	74	53	1,131
Additions	–	10	55	65
Disposals	–	–	2	2
At 31 December 2006	1,004	84	106	1,194
Accumulated Depreciation				
At 1 January 2006	60	20	19	99
Charge for the year	20	8	13	41
At 31 December 2006	80	28	32	140
Net book value at 31 December 2006	924	56	74	1,054
Net book value at 31 December 2005	944	54	34	1,032

Fixed assets – investment in Northern Rock plc

At the 31 December 2006, 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 2006 no shares were bought back (2005: £Nil).



12. Fixed assets – investments under fund management

Barclays Wealth 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.

	2006	2005
	£'000	£'000
Market value at 1 January	17,836	15,758
Cost of investments purchased	1,476	2,864
Proceeds of investments sold	(1,755)	(2,698)
Surplus on disposal during the year	63	149
Net movement in market values	947	1,674
(Decrease)/Increase in cash held	578	89
Market value at 31 December	19,145	17,836
Historical cost of investments at 31 December	16,513	16,658

Geographical analysis of investments under fund management:

	Active	Passive	2006	2005
	portfolio	portfolio	total	total
	£'000	£'000	£'000	£'000
Sterling Fixed Interest	1,371	7,207	8,578	8,429
Index Linked Gilts	1,105	–	1,105	1,106
UK Equities	6,220	–	6,220	5,819
Overseas Equities:				
USA	665	–	665	724
Japanese	483	–	483	283
European	626	–	626	613
Pacific Basin	269	–	269	228
Other overseas	218	–	218	273
UK Commodities	245	–	245	202
Cash	736	–	736	158
Total	11,938	7,207	19,145	17,835

The unrealised gain in the year of £947,000 (2005: £1,674,000), is made up of £946,000 (2005: £1,673,000) being the movement in net market value of invested funds, plus £1,000 (2005: £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.

13. Programme-related investments

	2006 Total £'000	2005 Total £'000
Newcastle Employment Bond	–	500
North East Enterprise Bond	1,000	1,000
The International Centre for Life	810	910
Charity Bank	1,000	1,000
Loans to the voluntary sector (net)	1,130	50
	3,940	3,460

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. The Trustees agreed to accept a zero interest rate. This loan was repaid 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 two repayments were made as scheduled in 2005 and 2006.

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 has entered into an agreement with Charity Bank whereby it will administer a loan book for the Foundation. This is reviewed each year.

During 2006, eight loans for £1,130,000 were approved (2005 one loan for £365,000), no loans were repaid in full (2005: £200,000), and one loan written down by £50,000 (2005: £209,000) to reflect the expected amount recoverable.

14. Debtors

	2006 £'000	2005 £'000
Covenanted Payment from Northern Rock plc	16,643	10,004
Trade Debtors	10	9
Other Debtors	56	26
Prepayments and accrued interest	53	46
	16,762	10,085



15. Investments held at Northern Rock plc

At 31 December 2006 £24,913,000 (2005: £25,983,000) 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 2006 was £6,000 (2005: £5,000).

17. Creditors: amounts falling due within one year

	2006 £'000	2005 £'000
Accruals	344	204
Loans pledged	1,100	–
Trade creditors	–	8
Grants authorised and not yet paid	19,116	22,232
	20,560	22,444

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

	2006 £'000	2005 £'000
Grants authorised and payable within 1–2 years	6,448	4,041
Grants authorised and payable within 3 years	2,063	560
Grants authorised and payable within 4 years	720	93
Grants authorised and payable within 5 years	–	77
	9,231	4,771

19. Summary of movements on income funds

	General reserve £'000	Revaluation reserve £'000	Total income funds £'000
Income funds at 1 January 2006	30,125	1,177	31,302
Incoming resources	32,279	505	32,784
Resources expended	(28,867)	(61)	(28,928)
Net investment gains	–	1,010	1,010
Income funds at 31 December 2006	33,537	2,631	36,168

Of the income funds of £36,168,000, £2,631,000 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

	2006 £'000	2005 £'000
Net incoming/(outgoing) resources	3,699	4,458
(Increase)/Decrease in debtors	(6,677)	1,612
(Decrease)/Increase in creditors	(1,727)	4,477
(Increase)/Decrease in long-term creditors	4,460	(4,168)
Interest on cash and short-term deposits	(1,041)	(929)
Dividends	(342)	(305)
Interest received on loans	(20)	(6)
Depreciation	40	38
Net cash (outflow)/inflow from operating activities	(1,608)	5,177

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

	2006 £'000	2005 £'000
Increase/(Decrease) in cash in the period	22	(62)
(Decrease)/Increase in short-term deposits	(1,070)	5,584
Change in net funds	(1,048)	5,522
Net funds at beginning of period	26,100	20,578
Net funds as at 31 December	25,052	26,100

c) Analysis of net funds

	1 January £'000	Cash flow £'000	31 December £'000
Cash at bank and in hand	117	22	139
Short-term deposits	25,983	(1,070)	24,913
	26,100	(1,048)	25,052

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 £8,000 (2005: £6,000).



Registered Office:

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Newcastle upon Tyne NE3 4PL

Registered Charity:

Charity Commissioners'
Reference Number 1063906

Company Limited by Guarantee:

Registered Number 03416658

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