

Registered Charity No. 1063906
Company No. 03416658



the northern rock foundation
trustees' annual report and accounts
for the year ended 31 December 2008

Trustees

Alastair Balls CB (Chair)

Sir David Chapman Bt DL

resigned temporarily 5 October 2007 to 12 May 2008

David Faulkner OBE

Jackie Fisher CBE

Dr Anthony Henfrey

Frank Nicholson

Lorna Moran MBE

Christopher Jobe

resigned temporarily 22 September 2007 to 10 March 2008

Dr Barbara O'Toole

Julie Shipley

resigned temporarily 22 September 2007 to 10 March 2008

Sally Thomas

resigned 1 February 2009

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

Foundation Director Fiona Ellis
until 31 March 2009

Foundation Deputy Director Anne Burleigh
until 28 February 2008

Assistant Foundation Directors:

Director of Finance and Resources Alison Graham
covered by Anji Sowerby from 1 May 2007 to 4 February 2008, and by Ian Rutter from 8 February 2009

Director of Policy and Communications Rob Williamson
until 30 June 2009, Acting Chief Executive from 1 April 2009 to 30 June 2009

Secretaries (joint) Fiona Ellis, Alison Graham

Committee Members

Finance, Audit, Investment and Risk Committee

Dr Anthony Henfrey (Chair)

Christopher Jobe

David Faulkner OBE

Frank Nicholson

Dr Barbara O'Toole

Alison Graham/Anji Sowerby (Secretary)

Staff Matters Committee

Lorna Moran MBE (Chair)

Sir David Chapman Bt DL

Frank Nicholson

Jackie Fisher CBE

Chief Executive Recruitment Committee

Alastair Balls (Chair)

Lorna Moran MBE

Dr Anthony Henfrey

Jackie Fisher CBE

accounts of the trustees 2008

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Trustees' report for the year ended 31 December 2008

The Trustees present their report and the audited accounts for the year ended 31 December 2008. 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 revised and adopted at the Foundation's AGM on 12 May 2008. Prior to 22 February 2008, the Trustees of the Foundation were appointed by the founder and sole donor, Northern Rock plc, which also determined the length of their service. On the taking of Northern Rock plc into temporary public ownership, the governance, terms of appointment and appointments themselves of the Foundation became solely the responsibility of the Trustees. While the Board of Trustees had not previously influenced the selection of its own members and therefore had undertaken no formal assessment of skills, the Chairman has now established an appraisal system for Trustees. As a consequence, 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 £20,000) 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 finance, audit, investment, risk and staff matters, and a temporary committee dealing with recruitment of a new Chief Executive.

Responsibility for making grants up to and including £20,000 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 Assistant Directors 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. No new Trustees were appointed in 2008.

The Trustees of the Foundation at 31 December 2008, 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. Events relating to the business of the Foundation's sole funder, Northern Rock plc, led three Trustees to stand down temporarily during the final quarter of 2007. These Trustees informed the Chairman that, while they did not believe they were yet subject to Conflicts of Interest between the bank and the Foundation, the circumstances at the plc and their own connections with it might lead them to be conflicted or to give the appearance of conflict. In the interests of the Foundation's reputation and for the sake of full transparency they therefore stood down temporarily. These Trustees resumed their duties in March 2008 and in July 2008.



Statement of Trustees' responsibilities

The Trustees are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Trustees to prepare financial statements for each financial year. Under that law the Trustees are required to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required to give a true and fair view of the state of affairs of the charity and of the incoming resources and application of resources of the charity, including its income and expenditure, for that period. In preparing these financial statements the Trustees are required to:

- 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.

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

The Trustees are responsible for the maintenance and integrity of the corporate and financial information included on the charity's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

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 governing 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 rare exceptions, 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 had numerous grant-making programmes and special initiatives, a set of policies for delivering them and detailed guidance for applicants. Following the widely reported problems of Northern Rock plc and the subsequent taking into public ownership of the bank, the Trustees reviewed their grant-making programmes. They chose to continue four main programmes (Building Positive

Lives, Independence and Choice, Safety and Justice, and Culture and Heritage) and their provision for training and development as well as for research and commissions, albeit with reduced budgets for each. The programmes are described on the Foundation's website: www.nr-foundation.org.uk and in printed guidelines obtainable from the Foundation's offices.

The Foundation works with grant-holders and others to evaluate its grants and projects; it collects data and anecdotal accounts of achievements attributable to its grants or to other forms of assistance; and it publishes where possible discussion papers or advocacy documents based on its experience. Because of this collation of information, 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.

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 holds to the notion that there is no failure except the failure to learn. Consequently, where an approach does not work staff try to ensure that it is not repeated, that others are advised against it and that the staff team works with grant-holders to seek alternatives.

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 such as its new *Think* and *Insight* series. Several new publications reflecting on the learning from grants or sharing new perceptions uncovered by commissioned work were published in 2008; they are available on request and free of charge.

A full account of how the Foundation pursued its policies during 2008 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. Trustees and staff are reluctant to make 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.

Each of the Foundation's programmes and areas of activity has specific objectives and criteria which are publicly available. The Foundation's 2008 *Annual Review* contains a detailed account of all awards made, research undertaken and training provided, as well as descriptions of how each programme has developed. In some cases, it is too early to tell the effectiveness of individual grants and their collective worth, especially given that the current programmes were launched in 2007 and have suffered through the uncertainties of 2007 and 2008. The majority of the grants have ambitions to address chronic problems so it may take years before their achievements can be reasonably measured. However, a summary of some areas of progress and achievements within each programme area is outlined below.



Programme/activity	Summary of progress/achievements in 2008
Building Positive Lives	<ul style="list-style-type: none"> ■ All priority groups within the programme received support. ■ All grant recipients had adopted or were developing means to monitor the progress of individual beneficiaries in accordance with programme criteria. ■ Work began on developing a tool to help smaller youth organisations improve their reporting.
Independence and Choice	<ul style="list-style-type: none"> ■ All priority groups within the programme received support. ■ New grants were made under the special priority of welfare benefits take up for older people. ■ Funding was given to projects addressing identified gaps in provision e.g. for learning disabled people who do not communicate verbally. ■ Relationships with national charities active in the programme's priority areas were developed and maintained.
Safety and Justice	<ul style="list-style-type: none"> ■ Grants were made to support victims in all the programme's priority areas. ■ Grants were made to address identified gaps in service provision e.g. for sexual violence victims in Sunderland. ■ Lessons were shared through conferences and seminars e.g. <i>Does Gender Matter?</i> ■ New research was supported on trafficking and on the relationship between domestic violence and substance misuse.
Culture and Heritage	<ul style="list-style-type: none"> ■ Grants were made to support a wide range of high-quality work done by organisations with good audience development and outreach programmes. ■ Grants were made for cultural activities across the Foundation's area of benefit. ■ Dedicated training for emerging cultural managers was commissioned. ■ The partnership with Culture 10 continued.
Policy and Research	<ul style="list-style-type: none"> ■ Lessons from research and good practice were published in reports under the <i>Think</i> and <i>Insight</i> banners. ■ The new Third Sector Trends research programme got underway. ■ New research was commissioned and funded on programmes for perpetrators of domestic violence and on older people's wellbeing.
Training and Development	<ul style="list-style-type: none"> ■ Training programmes were run on priority management and governance issues as identified by Trustees in consultation with stakeholders. ■ Grant recipients and applicants received additional help to overcome difficulties or update plans through the Foundation's Learning and Support awards.

Plans for the future

Since the events mentioned above, the Foundation no longer receives an annual donation of 5% of the Northern Rock plc's profits. Instead, the Chancellor of the Exchequer, in the taking of Northern Rock plc into temporary public ownership, made provision for the Foundation. Under this arrangement the Foundation will receive a minimum of £15m per year for each of 2008, 2009 and 2010. The new Board of Northern Rock plc was also given the task of securing a viable long-term future for the Foundation. The company has accordingly entered into a covenant with the Foundation for 2008–10. The Trustees expect to discuss the longer-term future with the bank towards the latter half of 2009.

The bank's previous generosity over 10 years coupled with a prudent reserve policy allows the Trustees to plan for a number of years beyond the known income stream.

The Trustees are aware that, as stewards of the charity's funds, they must maximise the use of its resources. They have therefore reviewed staff requirements in line with the reduction of the grants budgets. Over the first months of 2008, they reduced the number of staff to 12.5 full-time equivalents. In November 2008, the Trustees announced that the serving Foundation Director would leave in March 2009. As at the date of this report recruitment for a new Chief Executive is in process.

The Trustees plan to make grants under four programmes in 2009: Building Positive Lives; Culture and Heritage; Safety and Justice; and Independence and Choice. Each of these serves the needs of people in the North East and Cumbria in different ways. The programmes are the result of extensive research and consultation and have proved their worth over the past two years and more. In addition, the Trustees intend to continue offering training and development support with the aim of ensuring that grants are as effective as possible. Through research and policy development, the Foundation will also produce and publish valuable learning drawn from commissioned work and its grant-making experience.

During the course of the year, the Trustees will review their priorities with the new Chief Executive. Any changes will be announced through the Foundation's website and published material.

Grants approved during the year

The main grant programmes for 2008 were Building Positive Lives, Culture and Heritage, Independence and Choice, and Safety and Justice. In addition, awards were made from the Training and Development and Policy budgets. A full listing of the 2008 approved grants can be found on the Foundation's website and in the *Annual Review* for 2008.

2008 approved grants

Programme	Amount awarded £'000	% of amount awarded	Success rate of eligible applications %
Independence and Choice	2,765	27	60
Building Positive Lives	3,001	30	47
Safety and Justice	1,791	17	89
Culture and Heritage	1,992	20	53
Grants awarded under main programmes	9,549	94	57
Exceptional	30	–	N/A
Training and Development grants	79	1	N/A
Policy grants	337	3	N/A
Total awarded by Trustees	9,995	98	57
Other awards	175	2	N/A
Grand Total	10,170	100	57



Eligibility

In 2008, the Foundation received 439 new requests for grants and there were 42 pending applications at the end of 2007. Of these 481 requests, 142 were ineligible for funding or were withdrawn by applicants. Of the eligible requests, 148 were successful, 91 were rejected by Trustees and 100 were pending at the end of the year.

Geographical distribution

During 2008 £9.5 million was awarded under the Foundation's main grant programmes. As the table below identifies, 27% of the amount awarded was to projects within Tyne and Wear and 25% 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.

Geographical distribution of grants awarded under main grant-giving programmes

Geographical area	Number of grants	Success rate of eligible applications %	Amount approved £'000	% of amount approved %
Cumbria	23	55	1,865	20
Durham	15	33	757	8
North East and Cumbria	25	57	2,329	24
Northumberland	11	46	732	8
Tees Valley	17	46	1,179	12
Tyne and Wear	32	53	2,687	28
Total	123	55	9,549	100

Range of grant awards

Of the 123 grants awarded in 2008 under the main grant-giving programmes, 37% were for amounts below £60,000 and 33% were for amounts of £100,000 or more.

Range of grant awards	Number of awards	Average grant £'000	Median grant £'000	Total grants £'000
£100,000–£249,999	40	131	120	5,242
£60,000–£99,999	37	77	76	2,852
£30,000–£59,999	24	46	45	1,103
£10,000–£29,999	18	18	19	323
£1–£9,999	4	7	7	29
Total	123	78	74	9,549

Work commissioned by the Foundation

In 2008, the Foundation continued with its work to augment and enhance the effectiveness of its grant-making. It commissioned training, development and support organisations to help improve the management and financial capability of VCS groups in the region. Second, it sought to use the knowledge and experience it has gained through grant-making to try to inform and influence the policy of fellow grant-makers and of statutory bodies. This included commissioning and publishing reports on aspects of social justice which affect the work the Foundation and others do. All the commissions, whether for training or policy work, grow out of the Foundation's grant-making experience or help the Foundation to expand and deepen its work.

The total value of work commissioned in 2008 is £322,000 which represents 3% of the amount authorised by Trustees overall. Further details of the work commissioned in 2008 can be found on the Foundation's website and in the *Annual Review* for 2008.

The number and value of awards is presented in the table below.

Fund	No. of commissions	Total	% of
		commissions	amount awarded
		£'000	£'000
Culture and Heritage	1	29	9
Policy and Influence	1	12	4
Safety and Justice	2	21	6
Training and Development Initiatives	5	260	81
Total	9	322	100

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. No new loans were made during 2008 but a previous borrower which had fallen into difficulties entered into a new agreement with the Foundation with the intention of repaying its loan within five years.



Risk statement

The Foundation's Trustees realised that the greatest risk to the organisation's activities would be a reduction in the annual covenant from its founder and sole funder. However, the likelihood of such difficulties as arose in 2007 was widely regarded as remote. Nonetheless, the Trustees ensured that they had retained sufficient resources to meet continuing commitments and have created an additional reserve designed to smooth out any fluctuations in income. It is this prudence which allowed the Foundation to carry on with its activities while awaiting the outcome of negotiations concerning the company's future and which safeguard the Foundation's own activities while the longer-term future is discussed. In addition, the Trustees have taken appropriate guidance on the matter of the Foundation's outstanding share ownership in preparation for the awarding of any compensation following the taking of Northern Rock into temporary public ownership.

The Trustees have considered and identified other 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

The Foundation's Investment Committee appointed Aberdeen Asset Management Limited to be their fund manager in 2007.

Aberdeen Asset Management Limited invests the Foundation's funds in Common Investment Funds with a mix of equity, fixed interest and cash investments in the portfolio to deliver an appropriate balance of risk and return.

Performance in 2008 has been monitored by the Finance, Audit, Investment and Risk Committee which considers it to have been satisfactory, under the prevailing circumstances.

Asset class	Benchmark %	Range %	Actual %
UK Equities	60	40-75	55
Global Equities (ex UK)	10	0-20	16
UK Fixed Interest and Index Linked	30	15-45	12
Cash	0	0-10	17
Total	100		100

Reserves policy

In 2008, the Trustees continued to operate a prudent reserves policy. The level of reserves has always been 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. The current intention is to preserve sufficient funds so that the Trustees may, with confidence, continue grant-making for at least a further five years, taking into account only known income and reserves.

Closing reserves as at 31 December 2008 were £30,111,000 (2007: £29,334,000).

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 £15,000,000 each year for 2008, 2009 and 2010.

During the year, the Trustees allocated £9,995,000 to beneficiaries of their grant programmes for capital and/or revenue grants which were for a term of between one and three years. Approximately 65% of the grants awarded in 2008 were for core funding; the remaining 35% were made up of capital, project funding, research and training and capacity building.

The Trustees incurred expenditure of £1,318,000, being £165,000 (2007: £207,000) in governance costs and £1,153,000 in costs relating to grant awards.

On behalf of the board of Trustees



Alastair Balls CB
Chairman – Board of Trustees
12 May 2009



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 2008 which comprise the statement of financial activities, the statement of financial activities, the balance sheet, the cash flow statement and the related notes. The financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the charity's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the charity's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charity and the charity's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of trustees and auditors

The responsibilities of the trustees (who are also the directors of the company for the purposes of company law) for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom accounting standards ('United Kingdom Generally Accepted Accounting Practice') are set out in the statement of trustees' responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the trustees' report is consistent with the financial statements.

In addition, we report to you if, in our opinion, the charity 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 trustees' remuneration and other 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 judgments made by the trustees in the preparation of the financial statements, and of whether the accounting policies are appropriate to the charity's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations 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 charity's affairs as at 31 December 2008 and of its incoming resources and application of resources, including its income and expenditure, for the year then ended;
- 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.

PKF (UK) LLP
Registered Auditors, London, UK
12 May 2009

Statement of Financial Activities

(incorporating an Income and Expenditure Account) for the year ended 31 December 2008

	Note	Total funds 2008 £'000	Total funds 2007 £'000
Incoming Resources			
Covenant from Northern Rock plc	2	15,000	14,803
<i>Incoming resources from generated funds:</i>			
Investment Income	3	1,441	1,634
<i>Other incoming resources:</i>			
Other Income	4	228	60
Total Incoming Resources		16,669	16,497
Resources Expended			
<i>Cost of generating funds:</i>			
Investment management costs	5	71	69
<i>Charitable activities</i>			
	6	10,505	23,937
<i>Governance costs</i>			
	7	165	207
Total Resources Expended	8	10,741	24,213
Net Income/(Expenditure)		5,928	(7,716)
Other Recognised Gains and Losses			
Realised gain on Investments	12	35	115
Unrealised gain on Investments	12	(5,186)	767
		(5,151)	882
Net Movement in Funds		777	(6,834)
Balances brought forward 1 January		29,334	36,168
Balances carried forward 31 December		30,111	29,334

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 £5,963,000 (2007: £7,601,000 deficit).

The realised gain of £35,000 (note 12) would be reported as a gain of £250,000 at historical cost making the historical cost surplus for the year £6,178,000 (2007: £5,373,000 loss).

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



Balance Sheet

at 31 December 2008

	Note	2008 £'000	2007 £'000
Fixed Assets			
Investment in Northern Rock plc	11	-	-
Tangible Fixed Assets	11	987	1,006
Investments under fund management	12	20,841	25,690
Programme-related investments	13	3,941	3,754
		25,769	30,450
Current Assets			
Debtors	14	275	75
Short-term deposits	15	22,050	24,197
Investments	16	-	-
Cash at bank and in hand		342	335
		22,667	24,607
Creditors: amounts falling due within one year	17	(11,940)	(17,874)
Net Current Assets		10,727	6,733
Total Assets less Current Liabilities		36,496	37,183
Creditors: amounts falling due after more than one year			
Grants authorised and not yet paid	18	(6,385)	(7,849)
Net Assets		30,111	29,334
Unrestricted Funds			
General Reserve		34,590	28,135
Revaluation Reserve		(4,479)	1,199
Income Funds	19	30,111	29,334

The notes on pages 17 to 28 form part of these financial statements.

The financial statements on pages 14 to 28 were approved by the Board of Trustees on 12 May 2009 and signed on its behalf by

Alastair Balls CB

Anthony Henfrey

Cash Flow Statement

for the year ended 31 December 2008

	Note	2008 £'000	2007 £'000
Net cash (outflow)/inflow from operating activities	20	(3,074)	3,005
Returns on investment and servicing of finance			
Dividends on investment income		122	116
Interest on cash and short-term deposits		1,308	1,513
Interest on loans		20	20
		<hr/>	<hr/>
		1,450	1,649
Capital expenditure and financial investments			
Purchase of tangible fixed assets		(26)	(2)
Sales of tangible fixed assets		-	-
Purchase of fixed asset investments		-	-
(Increase)/Decrease in loans		(187)	186
Purchase of investments		(6,263)	(21,460)
Sale of investments		9,295	15,953
		<hr/>	<hr/>
Net cash inflow/(outflow) from capital expenditure and financial investment		2,819	(5,323)
Management of liquid resources			
Decrease/(Increase) in short-term deposits		2,147	716
Decrease/(Increase) in managed cash funds		(3,334)	149
		<hr/>	<hr/>
Increase/(Decrease) in cash		8	196



Notes to the Financial Statements

for the year ended 31 December 2008

1. Accounting policies

a) Basis of preparation

The financial statements have been prepared under the historical cost convention, with the exception of quoted 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 2008 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 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

	2008	2007
	£'000	£'000
Covenant Receivable	15,000	14,803

Previously, two payments were made to the Foundation each year under the Covenant. The first payment was made on the basis of 5% of the pre-tax profits of Northern Rock plc based on its interim accounts and was paid within three months of their publication. The second payment was 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 was made within three months of the date of the notice of the Annual General Meeting of Northern Rock plc. There was no covenant for the second half year of 2007. Under the new arrangements referred to above, the Foundation will receive instalments of £7,500,000 each in May and October of 2008, 2009 and 2010.

3. Investment income

	2008	2007
	£'000	£'000
Interest receivable on call accounts	298	702
Interest receivable on fixed-term deposits	803	609
Loan interest	20	20
Dividends receivable	320	303
	1,441	1,634



4. Other income

	2008 £'000	2007 £'000
Futurebuilders service agreement	9	35
Bank interest receivable	9	12
Other grants receivable	–	11
Other income	210	2
	228	60

5. Investment management fees

	2008 £'000	2007 £'000
Investment management fees	71	69

Aberdeen Asset Management Limited is the appointed fund manager for the Foundation. Fees are calculated quarterly in arrears based on the market value of the Portfolio on the last business day of the quarter, the rebate between the charge intrinsic within the common investment funds and that payable by the Foundation is automatically reinvested into the Portfolio in line with the investment guidelines.

6. Charitable activities

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

	2008 £'000	2007 £'000
a) Grants payable	9,770	22,705
b) Support costs	735	1,232
Total Charitable Expenditure	10,505	23,937

a) Grants payable

	2008 £'000	2007 £'000
Grants authorised	9,995	19,997
Commissions authorised	322	1,233
Grants withdrawn or returned in current year	(20)	(141)
	10,297	21,089
Prior year grants returned	(702)	(484)
	9,595	20,605
Staff Matched Giving Scheme	167	1,866
Additional grants	8	234
	9,770	22,705

Details of grants payable across the different grant programmes is analysed on page 9 and a full listing of all grants awarded in 2008 can be seen in both the *Annual Review* and on the Foundation's website.

Additional Grants:

Under Northern Rock plc's Discretionary Fund the Trustees awarded six donations totalling £8,000. This fund has now been discontinued.

b) Support costs

	2008	2007
	£'000	£'000
Direct costs	101	197
Allocated costs:		
– Salaries	890	854
– Other allocated costs	162	181
Re-instatement of Weardale Loan	(418)	–
	735	1,232

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.

Between 2004 and 2006, the Trustees judged that a loan to Weardale Railway might not be repaid. For the sake of prudence they wrote the loan off in three instalments. However, in December 2008 new management at Weardale Railway entered into a new loan agreement with the intention of repaying the capital within five years. This arrangement is reflected in Note 13 to these accounts.

7. Governance costs

	2008	2007
	£'000	£'000
Legal and professional	52	103
Auditors' remuneration		
– Audit services	19	16
– Non-audit services	3	–
Costs of Trustees' meetings	4	3
Allocated costs:		
– Salaries	74	76
– Other allocated costs	13	9
	165	207

As at 31 December 2008, the Foundation had annual commitments under non-cancellable operating leases expiring within one year, of £nil (2007: £nil expiring within one year).



8. Total resources expended

	Grants payable £'000	Direct costs £'000	Salary allocation £'000	Overhead allocation £'000	Write back of loan £'000	Total 2008 £'000	Total 2007 £'000
Investment management fees	-	71	-	-	-	71	69
Grants payable	9,770	-	-	-	-	9,770	22,705
Support costs	-	101	890	162	(418)	735	1,232
Governance costs	-	78	74	13	-	165	207
Total resources expended	9,770	250	964	175	(418)	10,741	24,213

Staff costs

	2008 £'000	2007 £'000
Wages and salaries	617	779
Social security costs	65	79
Pension costs	62	72
Redundancy costs	220	-
	964	930

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

	2008 Number	2007 Number
£60,000-£70,000	-	1
£80,000-£90,000	-	-
£90,000-£100,000	-	1
£100,000-£110,000	1	-

The employee earning more than £60,000 participated in the defined benefit pension scheme. Pension contributions totalled £22,000 (2007: £25,000) for this employee.

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

	2008 Number	2007 Number
Support staff	11	24
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 £2,000 (2007: £1,000) were reimbursed to seven 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 2008, the Foundation paid employer's contributions of 15.9% of basic pensionable earnings up to 5 April 2008 and 22.1% from 6 April 2008 onwards (2007: 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 paid employee contributions of 5% (2007: 5%). During 2008, the Foundation paid employer's contributions in respect of the

contracted-in defined contribution section of the Scheme at an average rate of 6.3% (2007: 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 paid contributions at an average rate of 4.5% (2007: 4.3%).

The total pensions charge to the Foundation's Statement of Financial Activities for 2008 in respect of employer's contributions was £62,000 (2007: £72,000).

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 2008	1,004	85	107	1,196
Additions	–	1	31	32
Disposals	–	(12)	–	(12)
At 31 December 2008	1,004	74	138	1,216
Accumulated Depreciation				
At 1 January 2008	100	37	53	190
Charge for the year	20	7	18	45
Depreciation on disposals in the year	–	(6)	–	(6)
At 31 December 2008	120	38	71	229
Net book value at 31 December 2008	884	36	67	987
Net book value at 31 December 2007	904	48	54	1,006

Fixed assets – investment in Northern Rock plc

Prior to the taking of Northern Rock plc into temporary Public Ownership, the Northern Rock Foundation held 74,333,500 Northern Rock plc Foundation shares of 25p each. These shares carried no rights to dividends but ranked pari passu with the ordinary shares in respect of other distributions and in the event of a winding up. These shares did not confer any rights in relation to attendance or

voting at any general meeting of Northern Rock plc. These shares had no market value, as they could not be traded on the open market. The government has appointed a valuer to decide upon a level of compensation for shares appropriated from Northern Rock shareholders. At the time of the preparation of these accounts no value can be assigned to the shares.

12. Fixed assets – investments under fund management

	2008	2007
	£'000	£'000
Market value at 1 January	25,690	19,145
Cost of investments purchased	6,263	22,197
Proceeds of investments sold	(9,295)	(15,953)
Surplus on disposal during the year	35	115
Net movement in market values	(5,186)	773
(Decrease)/Increase in cash held	3,334	(587)
Market value at 31 December	20,841	25,690
Historical cost of investments at 31 December	25,408	24,491

Geographical analysis of investments under fund management:

	2008	2007
	total	total
	£'000	£'000
Sterling Fixed Interest	1,779	8,817
Index Linked Gilts	710	1,165
UK Equities	11,564	11,691
Overseas Equities	3,305	3,868
UK Commodities	–	–
Cash	3,483	149
Total	20,841	25,690

The unrealised loss in the year of £(5,186,000) (2007: £767,000), is made up of £(5,186,000) (2007: £773,000) being the movement in net market value of invested funds, less £nil (2007: £6,000) 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

	2008	2007
	total	total
	£'000	£'000
North East Enterprise Bond	1,000	1,000
The International Centre for Life	530	680
Charity Bank	1,000	1,000
Loans to the voluntary sector (net)	1,411	1,074
	3,941	3,754

a) North East Enterprise Bond

During 2005, the Trustees agreed to invest up to £1 million 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.

b) The International Centre for Life

The Foundation entered into a loan agreement with the International Centre for Life. According to the terms of the loan, the principal, £1 million, will be repaid over seven years commencing in 2005. The Trustees agreed to apply a zero interest rate to this loan. The first four repayments were made as scheduled in 2005, 2006, 2007 and 2008.

c) 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 was made in 2005 in a tier 2 capital issue of £1 million 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.

d) 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 2008, no new loans were approved (2007: one loan for £300,000), no loans were repaid in full (2007: £nil). During 2008, no loans have been identified by the Charity Bank were causing concern regarding recoverability so there have been no provisions made to reflect a reduction in the expected amount recoverable (2007: £nil). One loan for £75,000 was written back as the recipient did not take up the loan offer.

14. Debtors

	2008	2007
	£'000	£'000
Trade debtors	-	-
Other debtors	233	1
Prepayments and accrued interest	42	74
	275	75

15. Investments held at Northern Rock plc

At 31 December 2008, £22,050,000 (2007: £24,197,000) 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 following the demutualisation of the Northern Rock Building Society on 1 October 1997. Their market value at 31 December 2008 was £nil (2007: £420).

17. Creditors: amounts falling due within one year

	2008 £'000	2007 £'000
Accruals	110	828
Loans pledged	–	–
Trade creditors	74	8
Grants authorised and not yet paid	11,756	17,038
	11,940	17,874

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

	2008 £'000	2007 £'000
Grants authorised and payable within 1–2 years	4,628	6,375
Grants authorised and payable within 3 years	1,694	1,474
Grants authorised and payable within 4 years	63	–
Grants authorised and payable within 5 years	–	–
	6,385	7,849

19. Summary of movements on income funds

	General reserve £'000	Revaluation reserve £'000	Total income funds £'000
Income funds at 1 January 2008	28,135	1,199	29,334
Incoming resources	17,543	(456)	17,087
Resources expended	(11,088)	(71)	(11,159)
Net investment gains	–	(5,151)	(5,151)
Income funds at 31 December 2008	34,590	(4,479)	30,111

Of the income funds of £30,111,000, £(4,479,000) relates to the revaluation reserve, as a result of carrying assets on the balance sheet at a valuation less than their original cost.



20. Cash flow

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

	2008 £'000	2007 £'000
Net incoming/(outgoing) resources	5,928	(7,716)
(Increase)/Decrease in debtors	(200)	16,686
(Decrease) in creditors	(5,934)	(2,686)
(Decrease) in long-term creditors	(1,464)	(1,382)
Interest on cash and short-term deposits	(1,308)	(1,624)
Dividends	(122)	(303)
Interest received on loans	(20)	(20)
Depreciation	46	50
Net cash (outflow)/inflow from operating activities	(3,074)	3,005

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

	2008 £'000	2007 £'000
Increase/(Decrease) in cash in the period	8	196
Increase/(Decrease) in managed cash	3,334	149
Increase/(Decrease) in short-term deposits	(2,147)	(716)
Change in net funds	1,195	(371)
Net funds at beginning of period	24,681	25,052
Net funds as at 31 December	25,876	24,681

c) Analysis of net funds

	1 January £'000	Cash flow £'000	31 December £'000
Cash at bank and in hand	335	8	343
Short-term deposits	24,197	(2,147)	22,050
Managed cash	149	3,334	3,483
	24,681	1,195	25,876

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 £10,000 (2007: £8,000).



**Registered Office and
Correspondence Address:**

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Newcastle upon Tyne NE3 1DD

Registered Charity:

Charity Commissioners'
Reference Number 1063906

Company Limited by Guarantee:

Registered Number 03416658

Independent Auditors:

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Bankers:

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