

Registered Charity No. 1063906  
Company No. 03416658



the northern rock foundation  
trustees' annual report and accounts  
for the year ended 31 December 2009

## Trustees

Alastair Balls CB (Chair)  
Sir David Chapman Bt DL  
David Faulkner OBE  
Jackie Fisher CBE  
Dr Anthony Henfrey  
Frank Nicholson  
Lorna Moran MBE  
Christopher Jobe  
Dr Barbara O'Toole  
Julie Shipley  
Sally Thomas *resigned 1 February 2009*

The Trustees have the powers and obligations of Directors as set out in the Companies Act 2006.

**Foundation Director** Fiona Ellis  
*until 31 March 2009*

**Chief Executive** Penelope Wilkinson  
*from 8 June 2009*

Assistant Foundation Directors:

**Director of Finance  
and Resources** Alison Graham  
*until 8 February 2009*  
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  
*until 31 March 2009*  
Alison Graham  
*until 12 May 2009*  
Ian Rutter  
*from 12 May 2009*

## Committee Members

### Finance, Audit, Investment and Risk Committee

Dr Anthony Henfrey (Chair)  
Christopher Jobe  
David Faulkner OBE  
Frank Nicholson  
Dr Barbara O'Toole  
Ian Rutter (Secretary)

### Staff Matters Committee

Lorna Moran MBE (Chair)  
Sir David Chapman Bt DL  
Frank Nicholson  
Jackie Fisher CBE  
Dr Barbara O'Toole

### Chief Executive Recruitment Committee

Alastair Balls CB (Chair)  
Lorna Moran MBE  
Dr Anthony Henfrey  
Jackie Fisher CBE

# accounts of the trustees 2009

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## Trustees' report for the year ended 31 December 2009

The Trustees present their report and the audited accounts for the year ended 31 December 2009. 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. There are two committees dealing with finance, audit, investment and risk, and staff matters; a temporary committee dealt with the recruitment of the new Chief Executive.

Responsibility for making grants up to and including £20,000 each is delegated to the Foundation's Chief Executive and any one Trustee. All such grant decisions are reported to the Board at the meeting following the decision. The Foundation's Chief Executive and/or 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 Chief Executive 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, risk register, 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 2009.

The Trustees of the Foundation at 31 December 2009, 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

The Trustees are responsible for preparing the Trustees' report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Company law requires the Trustees to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the charity and of the incoming resources and application of resources, including the net income or expenditure, of the charity for the year. In preparing those financial statements the Trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities SORP;
- make judgments and estimates that are reasonable and prudent;
- 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 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 2006. 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 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.

## 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 provide public benefit by tackling disadvantage and improving the 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 Trustees confirm that they have complied with the duty in Section 4 of the Charities Act 2006 and have taken due regard of the Charity Commission's general guidance on public benefit.

## 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. The Trustees reviewed their grant-making programmes in 2008 and further refined them in 2009 when the Culture and Heritage programme was closed. New programmes titled Managing Money and Having a Home were developed for introduction in 2010, alongside the continuation of the remaining three programmes, Independence and Choice, Safety and Justice and Building Positive Lives. Provision for training and development as well as for research and commissions continued. The programmes are described on the Foundation's website:

**[www.nr-foundation.org.uk](http://www.nr-foundation.org.uk)**

The Foundation works with grant-holders and others to evaluate its grants and projects; it collects data and qualitative assessments 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 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 *Think* and *Insight* series. Several new publications reflecting on the learning from grants or sharing new perceptions uncovered by commissioned work were published in 2009; they are available on request and free of charge. Details of grants made in 2009 are also available on the website and a summary of how the Foundation pursued its policies during 2009 will be available in its *Annual Review*, which is also available on the website or in print at no charge.

## Achievements and performance

The Foundation's primary objective is very wide. The overarching goals are to address deeply entrenched social and economic problems that will not be 'solved' easily or quickly. The Foundation is also one amongst many other funders – 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. In some cases, it is too early to tell the effectiveness of individual grants and their collective worth. 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 2009
<b>Building Positive Lives</b>	<ul style="list-style-type: none"> <li>■ All priority groups within the programme received support.</li> <li>■ All grant recipients had adopted or were developing means to monitor the progress of individual beneficiaries in accordance with programme criteria.</li> <li>■ Research was commissioned and undertaken into developing a tool to help youth organisations to better measure the progress of the young people they were working with.</li> </ul>
<b>Independence and Choice</b>	<ul style="list-style-type: none"> <li>■ All priority groups within the programme received support.</li> <li>■ Grants were made to support organisations working across the Foundation's area of benefit.</li> <li>■ Funding was given to projects addressing identified gaps in provision e.g. young people with autism who are not accessing education, or work.</li> <li>■ Relationships with national charities active in the programme's priority areas were developed and maintained.</li> </ul>
<b>Safety and Justice</b>	<ul style="list-style-type: none"> <li>■ Grants were made to support victims in all the programme's priority areas and across all parts of the region.</li> <li>■ Grants were made to address identified gaps in service provision e.g. sexual violence victims in Northumberland.</li> <li>■ Lessons were shared through conferences and seminars e.g. on the relationship between domestic abuse and substance misuse.</li> <li>■ New research was supported on the prevalence of sexual exploitation in County Durham and Darlington.</li> </ul>
<b>Culture and Heritage</b>	<ul style="list-style-type: none"> <li>■ Grants were made to support a wide range of high-quality work done by organisations with good audience development and outreach programmes.</li> <li>■ Grants were made for cultural activities across the Foundation's area of benefit and to support research into ways of identifying alternative financing for cultural organisations.</li> <li>■ The partnership with Culture 10 continued.</li> </ul>
<b>Policy and Research</b>	<ul style="list-style-type: none"> <li>■ Lessons from research and good practice were published in reports under the <i>Think</i> and <i>Insight</i> banners.</li> <li>■ The first report from the <i>Third Sector Trends</i> research programme was published.</li> <li>■ Research part-funded by the Foundation on unmet need and older people's wellbeing was published.</li> </ul>
<b>Training and Development</b>	<ul style="list-style-type: none"> <li>■ Training programmes were run on priority management and governance issues as identified by Trustees in consultation with stakeholders.</li> <li>■ Grant recipients and applicants received additional help to overcome difficulties or update plans through the Foundation's Learning and Support awards.</li> </ul>

## Plans for the future

The Foundation received £15 million this year under the covenant which runs until the end of 2010. The Trustees are in discussion with Northern Rock on the longer-term future. Northern Rock's previous generosity over 11 years coupled with a prudent reserve policy allows the Trustees to plan for a number of years beyond the known income stream.

The Trustees plan to make grants under five programmes in 2010: Managing Money; Having a Home; Changing Lives; Safety and Justice for Victims of Abuse; Enabling 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 research and consultation.

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.

## Grants approved during the year

The main grant programmes for 2009 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 2009 approved grants can be found on the Foundation's website.

### 2009 approved grants

Programme	Amount awarded £'000	% of amount awarded	Success rate of eligible applications %
Independence and Choice	3,445	30	60
Building Positive Lives	3,459	30	56
Safety and Justice	1,982	18	90
Culture and Heritage	2,010	18	48
<b>Grants awarded under main programmes</b>	<b>10,896</b>	<b>96</b>	<b>59</b>
Exceptional	100	1	N/A
Training and Development grants	81	1	N/A
Policy grants	2	-	N/A
<b>Total awarded by Trustees</b>	<b>11,079</b>	<b>98</b>	<b>59</b>
Other awards	260	2	N/A
<b>Grand Total</b>	<b>11,339</b>	<b>100</b>	<b>59</b>





## Eligibility

In 2009, the Foundation received 395 new requests for grants and there were 100 pending applications at the end of 2008. Of these 495 requests, 157 were ineligible for funding or were withdrawn by applicants. Of the eligible requests, 185 were successful, 115 were rejected by Trustees and 38 were pending at the end of the year.

## Geographical distribution

During 2009, £11 million was awarded under the Foundation's main grant programmes. As the table below identifies, 41% of the amount awarded was to projects within Tyne and Wear and 12% 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	19	54	1,247	12
Durham	18	53	1,343	12
National	0	0	0	0
North East and Cumbria	27	51	1,263	12
Northumberland	12	60	741	7
Tees Valley	27	66	1,795	16
Tyne and Wear	62	63	4,507	41
<b>Total</b>	<b>165</b>	<b>59</b>	<b>10,896</b>	<b>100</b>

## Range of grant awards

Of the 165 grants awarded in 2009 under the main grant-giving programmes, 17% were for amounts below £60,000 and 41% 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	35	126	120	4,418
£60,000–£99,999	58	81	83	4,673
£30,000–£59,999	26	44	42	1,136
£10,000–£29,999	38	16	16	625
£1–£9,999	8	5	5	44
<b>Total</b>	<b>165</b>	<b>66</b>	<b>65</b>	<b>10,896</b>

## Work commissioned by the Foundation

In 2009, 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. Secondly, 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 2009 is £333k which represents 3% of the amount authorised by Trustees overall. Further details of the work commissioned in 2009 can be found on the Foundation's website and in the *Annual Review* for 2009.

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

Fund	No. of commissions	Total	% of
		commissions	amount awarded
		£'000	£'000
Building Positive Lives	1	20	6
Independence and Choice	1	5	2
Policy and Influence	2	25	7
Safety and Justice	1	44	13
Training and Development Initiatives	4	239	72
<b>Total</b>	<b>9</b>	<b>333</b>	<b>100</b>

## 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 2009.

## 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. Following events at Northern Rock in 2007 and 2008, Trustees created an additional reserve designed to smooth out any fluctuations in income, whilst 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.

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.

Trustees review the risk management strategy at least annually; during 2009, the Trustees monitored the strategy at regular intervals and updated it as necessary.



## Investment policy and returns

The Foundation's Investment Committee (now Finance, Audit, Investment and Risk 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 a real rate of return of 3.5% per annum (measured against the Retail Prices Index) over a rolling five-year period.

Performance in 2009 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	59
Global Equities (ex UK)	10	0-20	12
UK Fixed Interest and Index Linked	30	15-45	19
Cash	0	0-10	10
<b>Total</b>	<b>100</b>		<b>100</b>

## Reserves policy

In 2009, 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. This provides sufficient time for Trustees to take appropriate action to reflect any significant change in the level of funding resulting from the covenant by Northern Rock. 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 four years, taking into account only known income and reserves.

Closing reserves as at 31 December 2009 were £37,410,000 (2008: £30,111,000).

## 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 through Deed of Covenant. Under the Covenant the Foundation received £15,000,000 in 2008 and 2009; this will continue in 2010.

During the year, the Trustees allocated £11,029,000 to beneficiaries of their grant programmes for capital and/or revenue grants which were for a term of between one and three years. Approximately 53% of the grants awarded in 2009 were for core funding; the remaining 47% were made up of capital, project funding, research and training and capacity building.

The Trustees incurred expenditure of £1,101,000, being £199,000 (2008: £165,000) in governance costs and £902,000 (2008: £735,000) in costs relating to grant awards.

## On behalf of the board of Trustees

Alastair Balls CB  
Chairman – Board of Trustees  
11 May 2010

# 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 2009 which comprise 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 Chapter 3 of Part 16 of the Companies Act 2006. 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 Trustees' annual report and the financial statements in accordance with applicable law and United Kingdom accounting standards ('United Kingdom Generally Accepted Accounting Practice') and for being satisfied that the financial statements give a true and fair view 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, have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and have been prepared in accordance with the Companies Act 2006. We also report to you whether in our opinion the information given in the Trustees' report is consistent with those financial statements. In addition, we report to you if, in our opinion, the charity has not kept adequate accounting records, if the charity's financial statements are not in agreement with those accounting records, if we have not received all the information and explanations we require for our audit or if certain disclosures of Trustees' remuneration specified by law are not made.

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 of the state of the charity's affairs as at 31 December 2009 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 United Kingdom Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the Companies Act 2006; and
- the information given in the Trustees' report is consistent with the financial statements.

Charles Cox  
Senior statutory auditor  
For and on behalf of PKF (UK) LLP, Statutory auditors  
London  
14 June 2010

# Statement of Financial Activities

(incorporating an Income and Expenditure Account) for the year ended 31 December 2009

	Note	Total funds 2009 £'000	Total funds 2008 £'000
<b>Incoming Resources</b>			
Covenant from Northern Rock	2	15,000	15,000
<i>Incoming resources from generated funds:</i>			
Investment Income	3	335	1,441
<i>Other incoming resources:</i>			
Other Income	4	5	228
<b>Total Incoming Resources</b>		<b>15,340</b>	<b>16,669</b>
<b>Resources Expended</b>			
<i>Cost of generating funds:</i>			
Investment management costs	5	68	71
<i>Charitable activities</i>	6	12,459	10,505
<i>Governance costs</i>	7	199	165
<b>Total Resources Expended</b>	8	<b>12,726</b>	<b>10,741</b>
<b>Net Income/(Expenditure)</b>		<b>2,614</b>	<b>5,928</b>
<b>Other Recognised Gains and Losses</b>			
Net realised/unrealised gain on Investments	12	4,685	(5,151)
<b>Net Movement in Funds</b>		<b>7,299</b>	<b>777</b>
Balances brought forward 1 January		30,111	29,334
<b>Balances carried forward 31 December</b>		<b>37,410</b>	<b>30,111</b>

All of the above results are derived from continuing activities.

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

The surplus for the year for Companies Act purposes comprises the net incoming resources for the year plus realised gains on investments and was £2,763,000 (2008: £5,963,000 surplus).

The realised gain of £149,000 (note 12) would be reported as a gain of £130,000 at historical cost making the historical cost surplus for the year £2,744,000 (2008: £6,178,000 gain).

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



# Balance Sheet

at 31 December 2009

	Note	2009 £'000	2008 £'000
<b>Fixed Assets</b>			
Tangible Fixed Assets	11	944	987
Investments under fund management	12	25,479	20,841
Programme-related investments	13	3,508	3,941
		<b>29,931</b>	<b>25,769</b>
<b>Current Assets</b>			
Debtors	14	49	275
Short-term deposits	15	22,999	22,050
Cash at bank and in hand		259	342
		<b>23,307</b>	<b>22,667</b>
<b>Creditors:</b> amounts falling due within one year	17	(10,464)	(11,940)
<b>Net Current Assets</b>		<b>12,843</b>	<b>10,727</b>
<b>Total Assets less Current Liabilities</b>		<b>42,774</b>	<b>36,496</b>
<b>Creditors:</b> amounts falling due after more than one year			
Grants authorised and not yet paid	18	(5,364)	(6,385)
<b>Net Assets</b>		<b>37,410</b>	<b>30,111</b>
<b>Unrestricted Funds</b>			
General Reserve		37,503	34,590
Revaluation Reserve		(93)	(4,479)
<b>Income Funds</b>	19	<b>37,410</b>	<b>30,111</b>

The notes on pages 17 to 27 form part of these financial statements.

The financial statements on pages 14 to 27 were approved and authorised for issue by the Board of Trustees on 11 May 2010 and signed on its behalf by

Alastair Balls CB

Anthony Henfrey

# Cash Flow Statement

for the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
<b>Net cash (outflow)/inflow from operating activities</b>	20	59	(3,074)
<b>Returns on investment and servicing of finance</b>			
Dividends on investment income		23	122
Interest on cash and short-term deposits		292	1,308
Interest on loans		20	20
		<hr/>	<hr/>
		335	1,450
<b>Capital expenditure and financial investments</b>			
Purchase of tangible fixed assets		(8)	(26)
Sales of tangible fixed assets		-	-
Purchase of fixed asset investments		-	-
(Increase)/Decrease in loans		433	(187)
Purchase of investments		(2,028)	(6,263)
Sale of investments		1,034	9,295
		<hr/>	<hr/>
<b>Net cash inflow/(outflow) from capital expenditure and financial investment</b>		<b>(569)</b>	<b>2,819</b>
<b>Management of liquid resources</b>			
Decrease/(Increase) in short-term deposits		(949)	2,147
Decrease/(Increase) in managed cash funds		1,041	(3,334)
		<hr/>	<hr/>
<b>Increase/(Decrease) in cash</b>		<b>(83)</b>	<b>8</b>





# Notes to the Financial Statements

for the year ended 31 December 2009

## 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 2006 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 2009 was 10 and they are named on page 2.

### c) Fund accounting

All funds are unrestricted and are available for use at the discretion of the Trustees in furtherance of the general objectives of the charity.

### 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 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**

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
<b>Covenant receivable</b>	<b>15,000</b>	<b>15,000</b>

Under the arrangements agreed in February 2008, the Foundation received instalments of £7,500,000 each in May and October of 2008, 2009 and will continue to do so in 2010.

**3. Investment income**

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Interest receivable on call accounts	22	298
Interest receivable on fixed-term deposits	270	803
Loan interest	20	20
Dividends receivable	23	320
	<b>335</b>	<b>1,441</b>



#### 4. Other income

	2009 £'000	2008 £'000
Futurebuilders service agreement	–	9
Bank interest receivable	–	9
Other income	5	210
	<b>5</b>	<b>228</b>

#### 5. Investment management fees

	2009 £'000	2008 £'000
Investment management fees	<b>68</b>	<b>71</b>

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.

	2009 £'000	2008 £'000
a) Grants payable	11,557	9,770
b) Support costs	902	735
<b>Total Charitable Expenditure</b>	<b>12,459</b>	<b>10,505</b>

##### a) Grants payable

	2009 £'000	2008 £'000
Grants authorised	11,029	9,995
Commissions authorised	333	322
Grants withdrawn or returned in current year	(1)	(20)
	<b>11,361</b>	<b>10,297</b>
Prior year grants returned	(372)	(702)
	10,989	9,595
Staff Matched Giving Scheme	258	167
Additional grants	310	8
	<b>11,557</b>	<b>9,770</b>

Details of grants payable across the different grant programmes is analysed on page 7 and a full listing of all grants awarded in 2009 can be seen in both the *Annual Review* and on the Foundation's website.

##### Additional Grants:

The Trustees awarded a one-off grant of £100,000 to Cumbria Community Foundation to assist those communities affected by the flooding. During 2008, the Foundation received a donation of £210,000 which was distributed in 2009 in equal amounts to three recipients.

**b) Support costs**

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Direct costs	129	101
Allocated costs:		
– Salaries	509	890
– Other allocated costs	264	162
Re-instatement of Weardale Loan	–	(418)
	<b>902</b>	<b>735</b>

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

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. The first repayment was received from Weardale Railway during December 2009. This arrangement is reflected in Note 13 to these accounts.

**7. Governance**

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Legal and professional	81	52
Auditors' remuneration		
– Audit services	16	19
– Non-audit services	3	3
Costs of Trustees' meetings	4	4
Allocated costs:		
– Salaries	71	74
– Other allocated costs	24	13
	<b>199</b>	<b>165</b>



## 8. Total resources expended

	Grants payable £'000	Direct costs £'000	Salary allocation £'000	Overhead allocation £'000	Total 2009 £'000	Total 2008 £'000
Investment management fees	-	68	-	-	68	71
Grants payable	11,557	-	-	-	11,557	9,770
Support costs	-	129	509	264	902	735
Governance costs	-	104	71	24	199	165
<b>Total resources expended</b>	<b>11,557</b>	<b>301</b>	<b>580</b>	<b>288</b>	<b>12,726</b>	<b>10,741</b>

### Staff costs

	2009 £'000	2008 £'000
Wages and salaries	479	617
Social security costs	48	65
Pension costs	53	62
Redundancy costs	-	220
	<b>580</b>	<b>964</b>

During the year, no employee's emoluments, as defined for taxation purposes, amounted to over £60,000. During 2008, one employee was in the range £100,000-£110,000, this also attracted a £22,000 employer contribution to the defined benefit pension scheme.

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

	2009 Number	2008 Number
Support staff	11	11
Governance	1	1

10 of the 12 staff were employed by Northern Rock and seconded to the Northern Rock Foundation, the remaining two staff were employed directly by the Foundation.

## 9. Trustees' remuneration

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

Out-of-pocket travel, meals and accommodation expenses totalling £1,618 (2008: £2,000) 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.

During 2009, the Foundation paid employer's contributions of 22.1% of basic pensionable earnings up to 5 April 2009 and 31.3% from 6 April 2009 onwards (2008: 22.1%) 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% (2008: 5%). During 2009, the Foundation paid employer's contributions in respect of the contracted-in defined contribution section of the Scheme at an average rate of 6.7% (2008: 6.3%).

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 4.6% (2008: 4.5%). During 2009, the Foundation also paid employer's contributions in respect of personal pensions, for non seconded staff, at a rate of 10%.

The total pensions charge to the Foundation's Statement of Financial Activities for 2009 in respect of employer's contributions was £52,736 (2008: £62,000).

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.



## 11. Fixed assets

	Freehold land and buildings £'000	Fixtures and fittings £'000	Computers and other equipment £'000	Total £'000
<b>Cost:</b>				
At 1 January 2009	1,004	74	138	1,216
Additions	–	–	8	8
Disposals	–	–	–	–
<b>At 31 December 2009</b>	<b>1,004</b>	<b>74</b>	<b>146</b>	<b>1,224</b>
<b>Accumulated Depreciation</b>				
At 1 January 2009	120	38	71	229
Charge for the year	21	7	24	52
Depreciation on disposals in the year	–	–	–	–
<b>At 31 December 2009</b>	<b>141</b>	<b>45</b>	<b>95</b>	<b>281</b>
<b>Net book value at 31 December 2009</b>	<b>863</b>	<b>29</b>	<b>51</b>	<b>944</b>
Net book value at 31 December 2008	884	36	67	987

### 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. In 2008, the government appointed a valuer to decide upon a level of compensation for shares appropriated from Northern Rock shareholders, during which the Trustees took appropriate guidance on the matter and contributed to the valuation process. In a letter dated 29 March 2010, the valuer confirmed that no value can be assigned to the shares and that no compensation would be paid to former shareholders.

**12. Fixed assets – investments under fund management**

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Market value at 1 January	17,358	25,541
Cost of investments purchased	2,028	6,263
Proceeds of investments sold	(1,034)	(9,295)
Net realised/unrealised gain/(loss)	4,685	(5,151)
	<hr/>	<hr/>
Cash	23,037	17,358
	2,442	3,483
	<hr/>	<hr/>
<b>Market value at 31 December</b>	<b>25,479</b>	<b>20,841</b>
Historical cost of investments at 31 December	25,572	25,408

**Geographical analysis of investments under fund management:**

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Sterling Fixed Interest	<b>4,880</b>	2,489
UK Equities	<b>15,034</b>	11,564
Overseas Equities	<b>3,123</b>	3,305
UK Commodities	–	–
Cash	<b>2,442</b>	3,483
	<hr/>	<hr/>
<b>Total</b>	<b>25,479</b>	20,841

The unrealised profit in the year of £4,552,000 (2008: loss of £5,186,000) is made up of £4,552,000 (2008: £5,186,000) being the movement in net market value of invested funds.





### 13. Programme-related investments

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
North East Enterprise Bond	1,000	1,000
The International Centre for Life	380	530
Charity Bank	1,000	1,000
Loans to the voluntary sector (net)	1,128	1,411
	<b>3,508</b>	<b>3,941</b>

#### a) North East Enterprise Bond

During 2005, the Trustees agreed to invest up to £1 million by way of an interest-free loan, which is repayable in October 2011. Repayment is guaranteed by Northern Rock. 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 five repayments were made as scheduled in 2005, 2006, 2007, 2008 and 2009. The Trustees have agreed that the final instalments of the loan may commute into a grant subject to certain conditions being met, this principle was noted at the time the loan was made in 2001.

#### 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 2009, no new loans were approved (2008: nil), no loans were repaid in full (2008: £nil). During 2009, no loans have been identified by the Charity Bank that were causing concern regarding recoverability so there have been no provisions made to reflect a reduction in the expected amount recoverable (2008: £nil). One loan to Street North East has had £120,000 repaid, £50,000 written back and £80,000 written off.

### 14. Debtors

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Trade debtors	–	–
Other debtors	8	233
Prepayments and accrued interest	41	42
	<b>49</b>	<b>275</b>

## 15. Investments held at Northern Rock plc

At 31 December 2009, £22,998,906 (2008: £22,050,000) was invested on behalf of the Foundation by Northern Rock'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 2009 was £nil (2008: £nil).

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

	2009 £'000	2008 £'000
Accruals	51	110
PAYE	4	–
Trade creditors	109	74
Grants authorised and not yet paid	10,300	11,756
	<b>10,464</b>	<b>11,940</b>

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

	2009 £'000	2008 £'000
Grants authorised and payable within 1–2 years	4,821	4,628
Grants authorised and payable within 3 years	543	1,694
Grants authorised and payable within 4 years	–	63
Grants authorised and payable within 5 years	–	–
	<b>5,364</b>	<b>6,385</b>

## 19. Summary of movements on income funds

	General reserve £'000	Revaluation reserve £'000	Total income funds £'000
<b>Income funds at 1 January 2009</b>	<b>34,590</b>	<b>(4,479)</b>	<b>30,111</b>
Incoming resources	15,571	(231)	15,340
Resources expended	(12,658)	(68)	(12,726)
Net investment gains	–	4,685	4,685
<b>Income funds at 31 December 2009</b>	<b>37,503</b>	<b>(93)</b>	<b>37,410</b>

Of the income funds of £37,397,000, £85,000 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

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Net incoming/(outgoing) resources	2,614	5,928
(Increase)/Decrease in debtors	225	(200)
(Decrease) in creditors	(1,476)	(5,934)
(Decrease) in long-term creditors	(1,021)	(1,464)
Interest on cash and short-term deposits	(292)	(1,308)
Dividends	(23)	(122)
Interest received on loans	(20)	(20)
Depreciation	52	46
<b>Net cash (outflow)/inflow from operating activities</b>	<b>59</b>	<b>(3,074)</b>

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

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Increase/(Decrease) in cash in the period	(83)	8
Increase/(Decrease) in managed cash	(1,041)	3,334
Increase/(Decrease) in short-term deposits	949	(2,147)
<b>Change in net funds</b>	<b>(175)</b>	<b>1,195</b>
Net funds at beginning of period	25,876	24,681
<b>Net funds as at 31 December</b>	<b>25,701</b>	<b>25,876</b>

### c) Analysis of net funds

	<b>1 January</b>	<b>Cash flow</b>	<b>31 December</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cash at bank and in hand	343	(83)	260
Short-term deposits	22,050	949	22,999
Managed cash	3,483	(1,041)	2,442
	<b>25,876</b>	<b>(175)</b>	<b>25,701</b>

## 21. Related party transactions

Certain grants have been made to other charities and organisations that have common Trustees with the Northern Rock Foundation. All such grants awarded have been made using the same guidelines applied to all applications and the Trustees neither take part in the decision making process nor benefit from the giving of such grants.



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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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