

**Registered Charity No. 1063906  
Company No. 03416658**

**THE NORTHERN ROCK FOUNDATION  
TRUSTEES' ANNUAL REPORT AND ACCOUNTS  
For the year ended 31 December 2010**

## **Contents**

Trustees and their Committees	2
Trustees' Report	4
Independent Auditors' Report	12
Statement of Financial Activities	14
Balance Sheet	15
Cash Flow Statement	16
Notes to the Financial Statements	17

**Trustees**

Alastair Balls CB (Chair)  
Sir David Chapman Bt DL  
David Faulkner (resigned – 31<sup>st</sup> August 2010)  
Dame Jackie Fisher CBE  
Dr Anthony Henfrey  
Frank Nicholson  
Lorna Moran MBE  
Christopher Jobe  
Dr Barbara O’Toole  
Julie Shipley

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

**Foundation Directors**

<b>Chief Executive</b>	Penelope Wilkinson
<b>Director of Finance and Resources</b>	Ian Rutter
<b>Director of Strategic Operations</b>	Carol Candler
<b>Secretary</b>	Ian Rutter

<b>Registered Office and Correspondence address</b>	The Old Chapel, Woodbine Road, Gosforth, Newcastle upon Tyne NE3 1DD
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<b>Registered Charity</b>	Charity Commissioners’ Reference Number 1063906
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<b>Company Limited By Guarantee</b>	Registered Number 03416658
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<b>Telephone</b>	0191 284 8412
<b>Fax</b>	0191 284 8413
<b>Email</b>	generaloffice@nr-foundation.org.uk
<b>Web site</b>	www.nr-foundation.org.uk

<b>Independent Auditors</b>	PKF (UK) LLP, Farringdon Place, 20 Farringdon Road, London EC1M 3AP
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<b>Bankers</b>	Lloyds Bank plc, Lloyds TSB, City Office, PO Box 72, Bailey Drive, Gillingham Business Park, Kent ME8 0LS Northern Rock plc, Northern Rock House, Gosforth, Newcastle upon Tyne NE3 4PL
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<b>Solicitors</b>	Ward Hadaway Solicitors, Sandgate House, 102 Quayside, Newcastle upon Tyne NE1 3DX
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Farrer & Co LLP, 66 Lincoln's Inn Fields, London, WC2A 3LH

<b>Investment Managers</b>	Aberdeen Asset Managers Limited, Donaldson House, 97 Haymarket Terrace, Edinburgh EH12 5HD
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## **Committee Members**

### **Finance, Audit, Investment and Risk Committee**

Dr Anthony Henfrey (Chair)

Christopher Jobe

David Faulkner OBE (resigned – 31<sup>st</sup> August 2010)

Frank Nicholson

Dr Barbara O’Toole

Ian Rutter (Secretary)

### **Staff Matters Committee**

Lorna Moran MBE (Chair)

Dame Jackie Fisher CBE

Dr Barbara O’Toole

## **Northern Rock Foundation Trustees' report for the year ended 31 December 2010**

The Trustees present their report and the audited accounts for the year ended 31 December 2010. 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. The governance, terms of appointment and appointment to the Trustee Board of the Foundation are the responsibility of the Trustees. The Chairman has 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.

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 £2,500 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. The Trustees of the Foundation at 31 December 2010, 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. New programmes titled Managing Money and Having a Home were introduced in 2010, alongside three original programmes, Enabling Independence and Choice, Safety and Justice for Victims of Abuse and Changing Lives (previously 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. 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 reported on successful grants and on the success or otherwise of its special initiatives on its website, in its newsletter Rock Reports and in occasional publications. A series of reports resulting from the Third Sector Trends Study were also published. Details of grants made in 2010 are also available on the website and a summary of how the Foundation pursued its policies during 2010 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:

<b>Programme/activity</b>	<b>Summary of progress/achievements in 2010</b>
<b>Changing Lives</b>	<ul style="list-style-type: none"> <li>• All priority groups within the programme received support.</li> <li>• Grants were made to address the needs of key marginalised groups e.g. refugees and asylum seekers.</li> <li>• Commissioned work on monitoring and evaluating work with young people was published and widely promoted.</li> </ul>
<b>Enabling 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 address identified gaps in provision e.g. support for elderly victims of abuse.</li> <li>• Joint working between arts organisations working with people with mental health problems and people with learning disabilities was promoted.</li> </ul>
<b>Safety and Justice for Victims of Abuse</b>	<ul style="list-style-type: none"> <li>• All priority groups within the programme received support.</li> <li>• The final report on the Domestic Abuse Initiative was published.</li> <li>• Research on sexual exploitation in Cumbria was commissioned.</li> <li>• Grants were made to address identified gaps in provision e.g. support for children affected by domestic violence.</li> </ul>
<b>Managing Money</b>	<ul style="list-style-type: none"> <li>• A major project to extend and improve debt advice provision began, in partnership with Citizens Advice.</li> <li>• Grants were made to address programme priorities e.g. credit unions and financial inclusion projects.</li> <li>• Research was commissioned to investigate the difficulties faced by vulnerable and homeless people in accessing banking.</li> </ul>

<b>Having a Home</b>	<ul style="list-style-type: none"> <li>Grants were made to address programme priorities e.g. prevention of homelessness, support for accommodation and training and employment projects.</li> <li>A key focus was to support the needs of homeless young people.</li> <li>Work to train frontline staff working with homeless people was funded.</li> </ul>
<b>Policy and Research</b>	<ul style="list-style-type: none"> <li>Five reports from the Third Sector Trends Study were published.</li> <li>A Knowledge Transfer Partnership project with the University of Bristol began to research the value and impact of the Safety &amp; Justice programme's approach.</li> </ul>
<b>Training and Development</b>	<ul style="list-style-type: none"> <li>Training programmes were delivered in Leadership, Chair and Chief Executive effectiveness</li> <li>Learning and support grants were made to improve the capacity and quality of VCS work.</li> </ul>

### Plans for the future

The Foundation received £15 million this year under the three year agreement which expired at the end of 2010. Following discussions, Northern Rock plc has agreed to donate 1% of pre-tax profits to the Foundation under a two year agreement beginning in January 2011, to be reviewed annually. In the light of this change to the Foundation's income Trustees carried out a review of the Foundation's priorities and grant programmes. A new five year strategy was agreed at the beginning of 2011 and will be reassessed at the end of 2011 in the context of the Foundation's funding position at that point.

The Trustees plan to make grants under five programmes in 2011: 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 learning drawn from commissioned work and its grant-making experience.

### Grants approved during the year

The main grant programmes for 2010 were Managing Money; Having a Home; Changing Lives; Safety and Justice for Victims of Abuse; Enabling Independence and Choice. In addition, awards were made from the Training and Development budgets. A full listing of the 2010 approved grants can be found on the Foundation's website.

### 2010 Approved Grants:

Programme	Amount awarded (£000)	% of amount awarded	Success rate of eligible applications (%)
Enabling Independence and Choice	2,909	24	68
Changing Lives	2,363	20	40
Safety and Justice for Victims of Abuse	2,235	19	96
Having a Home	1,905	16	80
Managing Money	2,066	17	62
<b>Grants awarded under main programmes</b>	<b>11,478</b>	<b>96</b>	-
Exceptional	380	3	n/a

Training and Development grants	91	1	n/a
Policy grants	-	-	n/a
<b>Total awarded by Trustees</b>	<b>11,949</b>	<b>100</b>	-
Other awards	-	-	n/a
<b>Grand Total</b>	<b>11,949</b>	<b>100</b>	-

### Eligibility

In 2010, the Foundation received 367 new requests for grants and there were 38 pending applications at the end of 2009. Of these 405 requests, 118 were ineligible for funding or were withdrawn by applicants. Of the eligible requests, 147 were successful, 76 were rejected by Trustees and 64 were pending at the end of the year.

### Geographical distribution

During 2010, £11.9 million was awarded under the Foundation's grant programmes. As the table below identifies, 24% of the amount awarded was to projects within Tyne and Wear and 17% to projects benefiting the whole of the North East and Cumbria.

### Geographical distribution of grants awarded

Geographical area	Number of grants	Success rate of eligible applications (%)	Amount approved ( £000 )	% of amount approved (%)
Cumbria	26	67	1,708	14
Durham	11	73	750	6
North East	24	67	1,712	14
North East & Cumbria	9	100	2,054	17
Northumberland	12	57	905	8
Tees Valley	22	63	1,916	16
Tyne and Wear	43	59	2,904	24
<b>Total</b>	<b>147</b>		<b>11,949</b>	

### Range of grant awards

Of the 147 grants awarded in 2010, 12% were for amounts below £60,000 and 60% 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 -	40	178	123	7,122
£60,000 - £99,999	44	78	76	3,448
£30,000 - £59,999	20	48	50	960
£10,000 - £29,999	19	18	19	345
£1 - £9,999	24	3	2	74
<b>Total</b>	<b>147</b>			<b>11,949</b>

### Work commissioned by the Foundation

In 2010, the Foundation continued with its work to augment and enhance the effectiveness of its grant-making. Work was commissioned both to investigate and evaluate the effectiveness of the Foundation's

grants and to identify future needs to inform grant programme priorities. A second phase of the Foundation's Third Sector Trends Study was also confirmed.

The total value of work commissioned in 2010 is £285k, which represents 2.3% of the amount authorised by Trustees overall. Further details of the work commissioned in 2010 can be found on the Foundation's website and in the Annual Review for 2010.

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

<b>Fund</b>	<b>No. of commissions</b>	<b>Total commissions £'000</b>	<b>% of amount awarded</b>
Having a Home	1	15	16
Enabling Independence and Choice	2	45	5
Managing Money	1	19	7
Policy and Influence	2	158	55
Safety and Justice for Victims of Abuse	1	48	17
Training and Development Initiatives	-	-	-
<b>Total</b>	<b>7</b>	<b>285</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.

### **Risk statement**

The Foundation's trustees identify the greatest risk to the Foundation's activities as a reduction in the funding received from its corporate donor. Trustees therefore maintained a level of reserves in 2010 designed to smooth out any fluctuations in income resulting from the decisions on future funding for the Foundation following the termination of the funding agreement put in place for 2008 – 2010. Northern Rock plc made a commitment from January 2011 to provide 1% of pre-tax profits to the Foundation under a two year rolling agreement to be renewed annually. The longer-term funding for the Foundation remains unclear and this risk to the Foundation remains under active review.

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 2010, 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 2010 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	45-75	55
Global Equities ( ex UK)	10	0-20	16
UK Fixed Interest and Index Linked	30	15-45	24
Cash	-	0-10	5
<b>Total</b>	<b>100</b>		<b>100</b>

## Reserves policy

In 2010 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. Control systems exist to ensure the level of reserves is monitored at least monthly. The current intention is to manage funds so that the Trustees may, with confidence, continue grant-making for at least a further four to five years, taking into account only known income and reserves.

Closing reserves as at 31 December 2010 were £43,455,000 (2009: £37,410,000).

## 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 received £15 million per year in 2008 and 2009 from Northern Rock.

In January 2010, the Northern Rock business was separated into two companies:

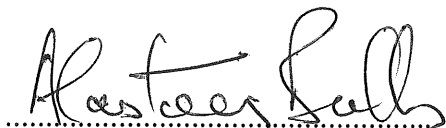
- Northern Rock plc - a new mortgage and savings bank
- Northern Rock (Asset Management) plc. (The former Northern Rock business renamed)

The Foundation received £15,000,000 in 2010 from Northern Rock (Asset Management) plc.

During the year, the Trustees allocated £11,949,000 to beneficiaries of their grant programmes for capital and/or revenue grants which were for a term of between one and three years.

The Trustees incurred expenditure of £959,000, being £103,000 (2009: £199,000) in governance costs and £856,000 (2009: £902,000) in costs relating to grant awards.

**On behalf of the board of Trustees**

A handwritten signature in black ink, appearing to read 'Alastair Balls', written over a dotted horizontal line.

Alastair Balls CB  
Chairman – Board of Trustees

Date: 17/5/2011

## **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 2010 which comprise the statement of financial activities, the balance sheet, the cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 auditor's 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 trustees as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of Trustees and auditors**

As explained more fully in the statement of trustees' responsibilities, the trustees (who are also directors of the company for the purposes of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. We have been appointed as auditor under the Companies Act 2006 and report in accordance with regulations made under that Act. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the charity's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the trustees' annual report and accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the charity's affairs as at 31 December 2010 and of its incoming resources and application of resources, including its income and expenditure, for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the trustees' annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept in respect of the charity; or
- the financial statements do not accord with the accounting records; or
- certain disclosures of trustee's remuneration specified by law are not made; or
- any information or explanation to which we are entitled has not been afforded to us.

PKF (UK) LLP.

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

..... 20 May ..... 2011

**Northern Rock Foundation**  
**Statement of Financial Activities (incorporating an Income and Expenditure Account)**  
**for the year ended 31 December 2010**

	<b>Note</b>	<b>Total funds 2010 £'000</b>	<b>Total funds 2009 £'000</b>
<b>Incoming Resources</b>			
Covenant from Northern Rock	2	15,000	15,000
<i>Incoming resources from generated funds:</i>			
Investment Income	3	173	335
<i>Other incoming resources:</i>			
Other Income		-	5
<b>Total Incoming Resources</b>		<b>15,173</b>	<b>15,340</b>
 <b>Resources Expended</b>			
<i>Cost of generating funds:</i>			
Investment management costs	4	89	68
 <i>Charitable activities</i>	5	13,251	12,459
 <i>Governance costs</i>	6	103	199
<b>Total Resources Expended</b>		<b>13,443</b>	<b>12,726</b>
<b>Net Income/(Expenditure)</b>		<b>1,730</b>	<b>2,614</b>
 <b>Other Recognised Gains and Losses</b>			
Net realised/unrealised gain on Investments	11	4,315	4,685
<b>Net Movement in Funds</b>		<b>6,045</b>	<b>7,299</b>
Balances brought forward 1 January		37,410	30,111
<b>Balances carried forward 31 December</b>		<b>43,455</b>	<b>37,410</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 £1,798,000 (2009: £2,763,000 surplus).

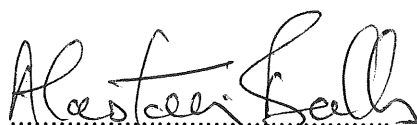
The Trustees consider that all of the Foundation's funds are unrestricted.

**Northern Rock Foundation**  
**Balance Sheet at 31 December 2010**  
**Company Number - 03416658**

		2010 £'000	2009 £'000
	<b>Note</b>		
<b>Fixed Assets</b>			
Tangible Fixed Assets	10	892	944
Investments under fund management	11	32,734	25,479
Programme-related investments	12	2,524	3,508
		<b>36,150</b>	<b>29,931</b>
<b>Current Assets</b>			
Debtors	13	17	49
Short-term deposits	14	22,291	22,999
Cash at bank and in hand		239	259
		<b>22,547</b>	<b>23,307</b>
<b>Creditors: amounts falling due within one year</b>	15	(10,441)	(10,464)
		<b>12,106</b>	<b>12,843</b>
<b>Net Current Assets</b>			
		<b>48,256</b>	<b>42,774</b>
<b>Total Assets less Current Liabilities</b>			
		<b>48,256</b>	<b>42,774</b>
<b>Creditors: amounts falling due after more than one year</b>			
Grants authorised and not yet paid	16	(4,801)	(5,364)
		<b>43,455</b>	<b>37,410</b>
<b>Net Assets</b>			
		<b>43,455</b>	<b>37,410</b>
<b>Unrestricted Funds</b>			
General Reserve		39,521	37,503
Revaluation Reserve		3,934	(93)
<b>Income Funds</b>	17	<b>43,455</b>	<b>37,410</b>

The notes on pages 17 to 25 form part of these financial statements.

The financial statements on pages 14 to 25 were approved and authorised for issue by the Board of Trustees on 17<sup>th</sup> May 2011 and signed on its behalf by:



Alastair Balls CB



Dr Barbara O'Toole

**Northern Rock Foundation**  
**Cash Flow Statement for the year ended 31 December 2010**

	Note	2010 £'000	2009 £'000
<b>Net cash (outflow)/inflow from operating activities</b>	18	1,058	59
<b>Returns on investment and servicing of finance</b>			
Dividends on investment income		21	23
Interest on cash and short-term deposits		106	292
Interest on loans		46	20
		173	335
<b>Capital expenditure and financial investments</b>			
Purchase of tangible fixed assets		(1)	(8)
Sales of tangible fixed assets		-	-
Purchase of fixed asset investments		-	-
(Increase)/Decrease in loans		983	433
Purchase of investments		(4,500)	(2,028)
Sale of investments		630	1,034
		(2,888)	(569)
<b>Net cash inflow/(outflow) from capital expenditure and financial investment</b>			
<b>Management of liquid resources</b>			
Decrease/(Increase) in short-term deposits		707	(949)
Decrease/(Increase) in managed cash funds		930	1,041
<b>Increase/(Decrease) in cash</b>		(20)	(83)

**Northern Rock Foundation**  
**Notes to the Financial Statements for the year ended 31 December 2010**

**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 2010 was 9 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>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
Covenant receivable	<u>15,000</u>	<u>15,000</u>

Under the arrangements agreed in February 2008 the Foundation received instalments of £7,500,000 each in May and October of 2008, 2009 & 2010.

### 3. Investment Income

	2010 £'000	2009 £'000
Interest receivable on call accounts	32	22
Interest receivable on fixed-term deposits	74	270
Loan interest	46	20
Dividends receivable	21	23
	<u>173</u>	<u>335</u>

### 4. Investment management fees

	2010 £'000	2009 £000
Investment management fees	<u>89</u>	<u>68</u>

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.

### 5. Charitable activities

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

	2010 £'000	2009 £'000
a) Grants payable	12,394	11,557
b) Support costs	857	902
<b>Total Charitable Expenditure</b>	<u><b>13,251</b></u>	<u><b>12,459</b></u>

#### a) Grants payable

	2010 £'000	2009 £'000
Grants authorised	11,949	11,029
Commissions authorised	285	333
Grants withdrawn or returned in current year	-	(1)
	<u><b>12,234</b></u>	<u><b>11,361</b></u>
Prior year grants returned	(176)	(372)
	<u><b>12,058</b></u>	<u><b>10,989</b></u>
Staff Matched Giving Scheme	336	258
Additional grants	-	310
	<u><b>12,394</b></u>	<u><b>11,557</b></u>

Details of grants payable across the different grant programmes is analysed on page 8 and a full listing of all grants awarded in 2010 can be seen in both the Annual Review and on the Foundation's website.

The staff matched giving scheme relates to employees of Northern Rock plc.

b) Support costs

	2010 £'000	2009 £'000
Direct costs	159	129
Allocated costs:		
- Salaries	553	509
- Other allocated costs	144	264
	<b>856</b>	<b>902</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.

6. Governance

	2010 £'000	2009 £'000
Legal and professional Auditors' remuneration	25	81
- Audit services	16	16
- Non-audit services	-	3
Costs of Trustees' meetings	3	4
Allocated costs:		
- Salaries	47	71
- Other allocated costs	12	24
	<b>103</b>	<b>199</b>

7. Total resources expended

	Grants payable £'000s	Direct costs £'000s	Salary allocation £'000s	Overhead allocation £'000s	Total 2010 £'000s	Total 2009 £'000s
Investment management fees	-	89	-	-	89	68
Grants payable	12,395	-	-	-	12,395	11,557
Support costs	-	159	553	144	856	902
Governance costs	-	44	47	12	103	199
<b>Total resources expended</b>	<b>12,395</b>	<b>292</b>	<b>600</b>	<b>156</b>	<b>13,443</b>	<b>12,726</b>

Staff costs

	2010 £'000	2009 £'000
Wages and salaries	488	479
Social security costs	51	48
Pension costs	61	53
	<b>600</b>	<b>580</b>

During the year one employee earned emoluments, as defined for taxation purposes, of between £70,000 and £80,000. This also attracted a £7,500 employer contribution to the employee's personal pension scheme. (2009: no employee earned over £60,000)

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

	<b>2010 Number</b>	<b>2009 Number</b>
Support staff	12	11
Governance	1	1

10 of the 15 staff were employed by Northern Rock plc and seconded to the Foundation; the remaining five staff were employed directly by the Foundation.

## **8. 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 £1,846 (2009: £1,618) were reimbursed to four (2009: seven) of the Trustees during the year.

## **9. Pension costs**

Seconded employees participate in the Northern Rock plc 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 2010, the Foundation paid employer's contributions of 31.3% of basic pensionable earnings during the period from January to March and 42.3% during the period from April to December (2009: 31.3%) in respect of the contracted-out defined benefit section of the Northern Rock (2010) Pension Scheme. In addition, members of the defined benefit section of the Scheme paid employee contributions of 5% throughout the year (2009: 5%). During 2010, the Foundation paid employer's contributions in respect of the contracted-in defined contribution section of the Scheme at an average rate of 6.5% (2009: 6.4%). 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 4.7% (2009: 4.6%). During 2010, 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 2010, in respect of employer's contributions was £61,200 (2009: £52,736).

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.

## 10. Fixed Assets

	Freehold land and buildings £'000	Fixtures and fittings £'000	Computers and other equipment £'000	Total £'000
<b>Cost:</b>				
At 1 January 2010	1,005	74	146	1,225
Additions	-	-	1	1
Disposals	-	-	-	-
At 31 December 2010	1,005	74	147	1,226
<b>Accumulated Depreciation</b>				
At 1 January 2010	141	45	95	281
Charge for the year	20	7	26	53
Depreciation on disposals in the year	-	-	-	-
At 31 December 2010	161	52	121	334
<b>Net book value 31 December 2010</b>	<b>844</b>	<b>22</b>	<b>26</b>	<b>892</b>
<b>Net book value 31 December 2009</b>	<b>864</b>	<b>29</b>	<b>51</b>	<b>944</b>

## 11. Fixed assets – Investments under fund management

	2010 £'000	2009 £'000
Market value at 1 January	23,037	17,358
Cost of investments purchased	4,500	2,028
Cost of investments sold	(630)	(1,034)
Net realised/unrealised gain/(loss)	4,315	4,685
	31,222	23,037
Cash	1,512	2,442
<b>Market value at 31 December</b>	<b>32,734</b>	<b>25,479</b>
Historical cost of investments at 31 December	28,701	25,572

### Geographical analysis of investments under fund management:

	2010 £'000	2009 £'000
Sterling Fixed Interest	7,909	4,880
UK Equities	18,105	15,034
Overseas Equities:	5,233	3,123
UK Commodities	-	-
Cash	1,512	2,442
<b>Total</b>	<b>32,759</b>	<b>25,479</b>

## 12. Programme-related investments

	2010 £'000	2009 £'000
North East Enterprise Bond	1,000	1,000
The International Centre for Life	-	380
Charity Bank	1,000	1,000
Loans to the voluntary sector (net)	524	1,128
	2,524	3,508

**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. 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, would 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. During the year the Trustees agreed that the final two instalments (£380,000) of the loan commute into a grant subject to certain conditions being met. This principle was noted at the time the loan was made in 2001.

**d) Charity Bank**

During 2004, the Foundation purchased £500,000 of tier 1 capital (zero coupon non-voting preference shares) in Charity Bank. A further investment of £500,000 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. During 2010 the Trustees agreed to a one year extension of the subordinated loan.

**e) Loans to the voluntary sector**

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

During 2010, no new loans were approved (2009: nil), no loans were repaid in full (2009: nil). During 2010, no loans have been identified by the Charity Bank or the Foundation that were causing concern regarding recoverability so there have been no provisions made to reflect a reduction in the expected amount recoverable (2009: nil).

**13. Debtors**

	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
Trade debtors	-	-
Other debtors	9	8
Prepayments and accrued interest	8	41
	<hr/> <b>17</b>	<hr/> <b>49</b>

**14. Deposits at Northern Rock plc**

At 31 December 2010, £12,007,032 (2009: £22,998,906) was on held in fixed term deposits at Northern Rock plc.

15. Creditors: amounts falling due within one year

	2010 £'000	2009 £'000
Accruals	232	51
PAYE	8	4
Pension	11	
Trade creditors	136	109
Grants authorised and not yet paid	10,054	10,300
	<b>10,441</b>	<b>10,464</b>

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

	2010 £'000	2009 £'000
Grants authorised and payable after 1 year	4,801	5,364

17. Summary of movements on income funds

	General reserve £'000	Revaluation reserve £'000	Total income funds £'000
<b>Income funds at 1 January 2010</b>	<b>37,503</b>	<b>(93)</b>	<b>37,410</b>
Incoming resources	15,372	(199)	15,173
Resources expended	(13,354)	(89)	(13,443)
Net investment gains		4,315	4,315
<b>Income funds at 31 December 2010</b>	<b>39,521</b>	<b>3,934</b>	<b>43,455</b>

Of the total income funds of £43,456,000, £4,040,000 relates to the revaluation reserve, as a result of carrying assets on the balance sheet at a valuation more than their original cost.

18. Cash flow

	2010 £'000	2009 £'000
Net incoming/(outgoing) resources	1,730	2,614
(Increase)/Decrease in debtors	33	225
(Decrease) in creditors	(22)	(1,476)
(Decrease) in long-term creditors	(563)	(1,021)
Interest on cash and short-term deposits	(106)	(292)
Dividends	(21)	(23)
Interest received on loans	(46)	(20)
Depreciation	53	52
<b>Net cash (outflow)/inflow from operating activities</b>	<b>1,058</b>	<b>59</b>

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

	2010 £'000	2009 £'000
Increase/(Decrease) in cash in the period	(20)	(83)
Increase/(Decrease) in managed cash	(930)	(1,041)
Increase/(Decrease) in short-term deposits	(707)	949
<b>Change in net funds</b>	<b>(1,657)</b>	<b>(175)</b>
Net funds at beginning of period	25,701	25,876
<b>Net funds as at 31 December</b>	<b>24,044</b>	<b>25,701</b>

c) **Analysis of net funds**

	<b>1 January</b>	<b>Cashflow</b>	<b>31 December</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cash at bank and in hand	260	(20)	240
Short-term deposits	22,999	(707)	22,292
Managed cash	2,442	(930)	1,512
	<b>25,701</b>	<b>(1,657)</b>	<b>24,044</b>

19. **Related party transactions**

Certain grants have been made to other charities and organisations that have common Trustees with the 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.