

John Ellerman Foundation

**Annual Report and Financial Accounts
1 April 2013 – 31 March 2014**

Registered Charity Number 263207

www.ellerman.org.uk

Chairman's Introduction

The theme of change runs through this year's report. Over the last twelve months Trustees and staff have worked hard to implement new ways of working on a number of fronts. These are the culmination of almost two years' examination of our overall strategy, and the financial and administrative models which underpin it, to ensure that we are operating to the best of our ability on behalf of the charities we fund.

In June 2013 we went public with the launch of our brand-new website, which aims to give us a clearer, friendlier and more useable platform from which to communicate with applicants, grantholders and the wider world. The website also announced our new approach to grantmaking. An in-depth review by sub-groups of staff and Trustees reshaped our five historic categories of grantmaking into three: Arts, Environment and Welfare. Within these categories we now focus on those aspects of charitable activities which we feel make most effective use of our funds.

During the year the Finance & Investment Committee concluded its review of how best to manage the Foundation's investments. With the support of outside advisers, Trustees agreed a new policy, whereby five new managers, each with a balanced mandate and a target of 4% real return per annum, were chosen to replace the previous nine investment fund managers. The main purpose of the change was to reduce the fiduciary responsibility of the Committee and lessen the operational risk, while at least maintaining performance.

It had already been agreed that the Director should pursue another strand of work and consider the overall cost-effectiveness of the Foundation. This scrutiny of all elements of our costs led in January 2014 to a reconfiguring of the executive staffing to better support the new way of working, and a saving in overall staff pay.

This analysis included an in-depth discussion of the remuneration of Trustees, in light of the model of a highly engaged Board. Results from external consultation and the independent report by nfpSynergy showed that charities appreciate the personal and responsive approach which we aim to offer, and welcomed the (unusual) opportunity to meet Trustees. We therefore felt able to reaffirm the value of our Trustees' contribution, for example, by sifting and assessing applications and visiting individual charities, which is over and above what is normally expected. Given the additional time commitment, it was determined to continue to remunerate them for their contribution to the effective working of the Foundation, provided it goes beyond the fulfilment of their ordinary Trustee duties.

In March we welcomed a new Trustee to the Board. Peter Kyle has had a distinguished career in the arts and cultural sector, spanning dance, arts management and education. He was awarded the OBE in 2011 after serving as Chief Executive of Shakespeare's Globe for twelve years; among other roles, he is currently Chairman of the University of Westminster. We look forward to benefitting from his wide experience in the field of arts and culture.

On this theme, great thanks are due this year to Caroline Collier and Virginia Tandy, who advised us on our new Regional Museums and Galleries Fund. They both gave extraordinarily generously of their time and expertise, in helping us construct the framework for this fund and assess the applications.

On the staff side we are delighted that Katherine Reichel has joined us as a new Administrative Assistant. We said goodbye to two members of staff. As Office Manager for seven years Jo Davies had been a highly efficient organiser of events - and we shall particularly miss her superior culinary skills. Richard King had been with us for two years providing valuable support for both grantmaking and finance during the Head of Finance & Resource's absence.

We wish both Jo and Richard the very best in their future careers.

The amount spent on grants, at £3.4m, dipped slightly compared with previous years, as a consequence of being closed to applications for six months while we completed the strategic review. This meant we were able to respond to the number and quality of applications to the Regional Museums and Galleries Fund, by making more grants than originally anticipated.

With change goes continuity. On grantmaking, our core values remain the same, as does our commitment to a personalised way of working. Our investment portfolio reached its highest ever value, £124m at 31 March 2014, for the second consecutive year. My fellow Trustees and I are looking forward to a period of consolidation and learning from our ways of doing business in the coming year.

A handwritten signature in black ink that reads "Sarah Riddell". The script is cursive and fluid, with the first letter 'S' being particularly large and stylized.

Sarah Riddell
Chairman

Trustees' Report

Our history

The John Ellerman Foundation was created from a combination of the wealth and generosity of a father and son. The former, the first John Ellerman (1862-1933), had built up from scratch an empire of shipping and other businesses in the early part of the 20th century. His son, also called John, inherited his father's baronetcy and considerable fortune at the age of 23. Although in charge of the family firm, his real interests lay elsewhere. Like his father a publicity-shy man, the second Sir John was a distinguished zoologist and became a world expert in the study of rodents. In 1971, two years before his death, he donated the funds from the Ellerman Lines business that formed the original Foundation.

The current Foundation is governed by a Scheme, approved by the Charity Commissioners for England and Wales in March 2002. This brought together the funds originally donated in 1971 with a smaller trust fund set up under the first Sir John's will, and the Trustees were granted incorporation under the Charities Act 1993 as the Trustees of the John Ellerman Foundation. The Scheme provides a wide remit of powers for the Trustees to carry out their duties and responsibilities, anywhere except the American continent south of the USA.

Aim and objectives

Our aim is to advance the wellbeing of people, society and the natural world. We intend to achieve this by:

1. funding charities with a national footprint to make a practical difference, in the fields of arts, environment and welfare; and
2. managing our funds in such a way that balances the desire to maintain grantmaking capacity with operating in the longer term.

The Foundation's strategy and policies are reviewed at board meetings and through setting annual objectives for governance, administration, investment and grantmaking. Away Days are held approximately every two years, and provide a forum to reflect in greater depth on experience and the Foundation's future direction. The next one is planned for early 2015.

Achievements and Performance

What we do: a new grants strategy

When we prepared last year's Annual Report we were in the midst of a review of our approach to grantmaking, which included consultations with our applicants, grantees and the wider sector. It culminated in the launch of new application guidelines in June 2013. We reduced our funding categories from five to three – Arts, Environment and Welfare - and introduced greater focus.

This means that there have been some changes to our funding. These include putting our international funding on hold, combining our interests in social welfare and health and disability within a new Welfare category and no longer funding organisations that concentrate on a single medical area, such as an individual disease, organ or condition. Trustees also

reviewed the budget, setting new targets of 50% for the Welfare category, with 25% each for Arts and Environment. This took effect from April 2013.

How we work: processes and learning

Having decided what we wanted to fund, Trustees then looked at the way applications are dealt with and how we learn from the grants we make. Two sub-groups of Trustees and staff were established. One reviewed our systems and processes. It concluded that the key elements of the two-stage application process and Trustees' involvement in visits were valued and should be retained. We also decided to introduce online applications once we identify a cost-effective way of doing so.

The second group looked at how we can learn from the grants we make. Trustees agreed that this has two main benefits – enabling the Foundation to become a better grantmaker, and supporting our grantees to better understand and demonstrate their impact. Following these discussions we introduced some adjustments to our reporting requirements, and will consider funding evaluation costs as part of a grant.

What we cost: a review

Trustees also wanted to ensure that the Foundation is as efficient and effective as possible, in light of the new grants strategy and the restructuring of the investment portfolio. To this end we undertook a full review of the Foundation's administrative base, looking at the cost of our people (Trustees and staff), premises and running expenses. Our consultations had shown that applicants valued a friendly, personal touch and the opportunity to meet Trustees. Having considered all aspects of our work, the Board decided to retain the same overall operating model, including the remuneration of Trustees, and restructured the staff team to better support this, with reduced costs.

Our future plans include looking at cost-effective measures to make better use of our well located premises, and reviewing the overall spending policy.

Communicating what we do

A strong message from our consultations was the importance of being approachable and providing clear and up-to-date information. Our new website was also launched in June 2013, which Trustees see as our key communications tool. In future we will place less emphasis on written documents such as the Annual Report, and concentrate on the website.

New support for regional museums and galleries

In the course of discussing our new approach to funding, many people raised concerns about the funding cuts faced by regional museums and galleries and their impact on curatorial provision. While times are hard for many, it was felt that larger institutions in London, while also under pressure, are faring better.

Trustees decided to set up a special Fund dedicated to developing the organisational and curatorial strength of regional museums and galleries. This is a significantly different way of working for a responsive grantmaker, from which we expect to learn a great deal. With input from two expert advisers, to whom we are very grateful, we devised the Fund's criteria and carried out our usual due diligence. The first tranche of grants was approved in March 2014, with another round planned for next year.

Grants 2013/14

This was an unusual year, as we were closed to new applications for six months to June 2013 during our strategic review. Once we re-opened, our grantmaking only returned to normal levels in November. A two-stage application process means it takes time for second stage proposals to come through, as it is only then that a decision about a grant is made.

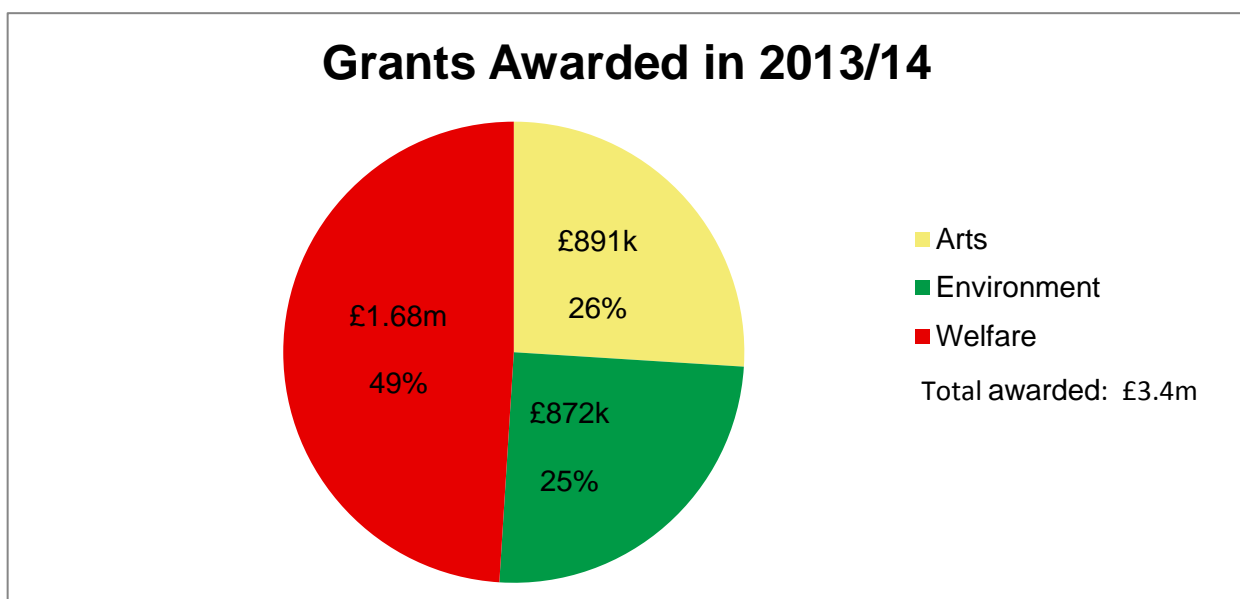
The closure led to uneven expenditure over the year and an overall underspend, but the number and quality of applications under the Museums and Galleries Fund were high. Trustees were able to respond to this by spending more than the Fund's allocated budget on this new area of interest.

Trustees remain conscious of the difficult economic situation and the pressure on charities and their beneficiaries, and agreed a grants budget of £4.5m for 2014/15. This is more than in either of the previous few years.

In the year to 31 March 2014:

- We made 43 grants worth £3.4m
- We changed our budget allocation as we consolidated our grantmaking. The targets for our three new categories are:
 - Arts 25%
 - Environment 25%
 - Welfare 50%
- The average size of a grant was £26,000 pa
- Core funding represented 53% of the grants; this is less than last year, as the Regional Museums and Galleries Fund tends to support projects
- Most grants were for more than one year:
 - 2 were for one year
 - 20 were for two years
 - 21 were for three years
- Of the grants made, seven were for regional museums and galleries. These are included in the total for the Arts category.

We publish details of grants approved on our website after each bi-monthly board meeting. A list is also included later in this report.



Environment funding

The budgets for each category of our grantmaking are flexible, but this year the expenditure has almost exactly matched the targets. We are particularly pleased with the spending in the Environment category. Trustees increased the budget from 10% to 25%, as they thought the Foundation could make a greater impact in an area where there are fewer funders. Given that only 6% of last year's expenditure was on the environment, it is encouraging that this grew to 25% last year.

Applications and success rates

There was a great deal of interest in applying to the Foundation when we re-opened in June. Applications gradually levelled off and by the end of the year averaged 25 per month, of which a significant proportion were in the Welfare category.

The closure meant we received significantly fewer initial applications this year, a total of 445. Of these, only about half (261) matched the guidelines. Most applications declined at this stage were from organisations working locally, not across England or the UK.

The quality of those applications which were eligible seemed to have improved after the launch of the new website and guidelines. This may be because we are now clearer about what we are looking to fund.

Of the 261 eligible initial applications received, 21% were invited to a second stage. Of the 55 second-stage applications, 43 (78%) received a grant.

Compared to last year, the percentage of applications invited to the second stage declined, but the number of second stage proposals receiving a grant increased.

Public benefit

Trustees confirm they have referred to the Charity Commission's guidance on public benefit when reviewing their objectives and aims, making any relevant decisions and reviewing grantmaking policy.

Financial Review

Investments

The Foundation's investment aim is to manage its funds in such a way that balances the Foundation's desire to maintain its grantmaking capacity with operating in the longer term. The objective is to achieve a real return of 4% per annum in the long term. The Trustees have adopted a Total Return approach, which means the Foundation is prepared to spend capital as well as income.

During the year, the Finance & Investment Committee implemented a fundamental change to the way in which the investments are managed. This followed a thorough review of the existing arrangements and consideration of suitable alternative options, with the support of an investment consultant. There were several reasons for this change. First, members of the Committee carried considerable fiduciary responsibility which they were keen to reduce while maintaining or improving performance. Secondly, there was a strong desire to increase the portfolio's yield. There were also concerns that the administrative complexity exposed the Foundation to operational risk, and about the level of fees.

Trustees decided on an approach which delegates more decision-making to managers. Asset-specialist managers were replaced with balanced mandates whose managers determine the asset allocation. The overall yield of the portfolio has increased from around 1.5% to 3% so that over 70% of expenditure will now be funded from income, thereby reducing the amount to be withdrawn from capital. In addition, costs and administrative complexity have been substantially reduced.

The transition to the new investment structure was completed in-house during November. This involved the redemption of the existing nine fund investments in a staged process to maintain a targeted equity exposure throughout the month. The holding in Charities Property Fund was retained, due to its encouraging outlook and attractive yield, and five new managers were appointed: Barings, Investec, Newton, Ruffer and Smith & Williamson. These new managers are working towards the Foundation's overall objective of a 4% real return per annum.

Reserves Policy

Following the portfolio restructuring, Trustees will be reviewing the Foundation's overall spending, working capital requirement and the amount of cash to be held. One outcome of this will be an updated Reserves Policy, which will be included in next year's Annual Report.

Investment Performance

The Finance Committee monitors the performance of each manager against respective benchmarks. At a total portfolio level, the Finance & Investment Committee measures performance against two benchmarks. First, the real return of 4% per annum indicates whether the total portfolio is achieving its longer term objective. Second, the 'simple' benchmark reflects the traditional charity portfolio of 70% UK equities and 30% UK government bonds. This is used to establish the benefit of running the diversified investment structure. Following the implementation of the new investment structure, with just one complete quarter in this financial year, the Committee will be reporting more fully on performance in next year's Annual Report. The performance of the investments has resulted in the Balance Sheet total funds value of £123.8m being the highest value in the Foundation's history. The estimated total portfolio return was 5.3% for the financial year. This fell short of the long term investment objective of 6.5% and was just below the 'simple' benchmark of 5.4%.

Socially responsible investment

To recognise the link between the Foundation's investments and grantmaking activities, Trustees exclude investment in tobacco-related companies wherever practically possible.

Social investment

In 2007, the Foundation made a social investment of £250,000 in Charity Bank, in the form of an unsecured 10-year loan. This combines a social and financial return. Charity Bank lends to charities and the funds are recycled to help yet more charities. The Foundation receives interest annually and the loan is expected to be repaid at the end of its term. Trustees understand that the financial return on the loan could be lower than other investments over the same period.

During the year, Trustees approved a second social investment, of up to £250,000, in a Fund created by Social Finance to expand the number of Shared Lives schemes in England. These provide a home and family life for adults who are unable to manage on their own,

instead of life in an institution. They are a personal, highly-rated form of care about which Trustees are enthusiastic. This investment follows a grant to Shared Lives Plus in 2012, and is intended to help with scaling up a selection of Schemes in a way that a grant could not. It is hoped that the investment will be made in 2014/15 once the Fund is fully invested.

Spending policy

The spending policy recognises the need to balance available funds between current and future beneficiary charities. It seeks to maximise the amount of grants awarded each year at a level which links expenditure to the market value of the investments. The agreed formula is that annual total expenditure will be calculated as a percentage of the market value of the Foundation's net assets, averaged over the quarter end values of the last three calendar years. This percentage is the spending rate which is agreed by the Board of Trustees.

Last year, the spending rate was reduced from 5% to 4.5% in partial response to the reduced investment target, while recognising the increased need of charities for grants. For the year ahead, Trustees have agreed a grants budget of £4.5m for 2014/15 and will be discussing the spending rate for future years in Spring 2015.

Income and expenditure

Total investment income increased from £2m the previous year to £2.3m. Income was previously received in three different ways: cash distribution, shares received in lieu of income and 'notional' income through the sale of shares. Last year's income was inflated by a one-off distribution from GMO. Since the implementation of the new investment structure, income is expected to be around £3.6m per annum and will be received purely as cash, a much simpler process. The new process was fully effective for the final quarter of the year under review.

Total expenditure was £4.3m. This is 12% less than the previous years, largely because of the reduced spend on grants as a result of the Foundation being closed to applications for the earlier part of the year.

Since the change to the investment structure in November 2013, total investment costs have fallen from around 1.1% to 0.7% of total funds. However, it appears that costs have increased on the Statement of Financial Activities (SOFA). Previously, the majority of investment costs were charged against the performance of pooled funds and therefore not shown on the SOFA. Now, over 80% of the Foundation's funds are invested in segregated portfolios and the related investment management fees are paid directly and shown more transparently.

During the final quarter of the year, the staff team was restructured and the members of staff reduced from six to five. There were some associated costs this year but there will be substantial savings next year. The new structure will better meet the future needs of the Foundation.

Trustees and staff are conscious of the need to control running costs in order to maximise the amount which is available to spend on charitable grant. We intend to monitor them closely. In 2013/14, running costs formed a higher proportion of total expenditure than usual at 17% on account of the Foundation being closed to new applications for part of the year. Next year, running costs are budgeted to be less than 12% of total expenditure.

Grants made in the year ended 31 March 2014

Grants are included in the Statement of Financial Activities once they have been approved by the Trustees and grantees informed. This is a list of the new grants awarded in 2013/14.

Arts

Hofesh Shechter Company	£116,280
Towards core costs, specifically the salary of the Associate Artistic Director to support and manage the company's dancers.	over three years
New Diorama Theatre	£30,000
Towards core costs, specifically to support its work with emerging companies.	over two years
Theatre Royal Plymouth	£115,380
Towards the salary of the Executive Producer to create new and original drama.	over three years

Regional Museums & Galleries Fund

Blackpool Council/ Grundy Art Gallery	£135,000
Towards the salary of the Collections Officer to research and manage Blackpool's historic illuminations collection.	over three years
Exeter City Council/Royal Albert Memorial Museum & Art Gallery	£91,930
Towards the costs of a project reuniting HMS Challenger material from across the UK, in the form of a searchable on-line database for researchers and wider audiences.	over two years
Leeds Museums Galleries/ Leeds Museum Discovery Centre	£112,000
Towards the salary of an Assistant Geology Post to manage a project which connects the Museum's geology collection with specialist experts and local geology collections.	over three years
Metropolitan Arts Centre	£82,825
Towards the costs of the Visual Art Programme, specifically to develop and share facilities and the experience and skills of their curatorial team.	over one year
Tyne and Wear Archives Development Trust	£82,264
Towards the costs of a 'Basic Design' research and exhibition project at the Hatton Gallery.	over 15 months
University of Glasgow	£45,000
Towards the costs of The National Inventory Project, which will research and publish online the pre-1900 European old master paintings in the collections of four participating museums.	over two years
York Museums Trust/ York Art Gallery	£80,400
Towards the costs of a Collections Facilitator to work with the British Studio Ceramic collection.	over three years
Total Arts and Museums & Galleries Grants	£891,079

Environment

Aquaculture Stewardship Council Towards core costs, specifically to develop a global standard for the aquaculture industry.	£90,000 over three years
Butterfly Conservation Towards the costs of the Landscape Conservation Manager and Director of Conservation to develop new and larger landscape-scale conservation projects in 6 areas of England.	£60,000 over two years
Fauna & Flora International Towards the costs of supporting community engagement in marine protection in Scotland, and the development of sustainable seafood finance initiative.	£150,000 over three years
Landlife Towards core costs, to support their conservation work and the development of their new strategy.	£75,000 over three years
Marine Life Towards the costs of a Research & Conservation Manager, to manage and develop the ferry survey programme and volunteer network.	£90,000 over three years
New Economics Foundation Towards the costs of the 'Blue New Deal', which aims to balance the need to create employment with improving marine ecosystems.	£90,000 over three years
Royal Botanic Gardens Kew Towards the costs of supporting the conservation and restoration of the Caicos Pine in the Turks and Caicos Islands, a UK Overseas Territory.	£75,000 over two years
Shark Trust Towards core costs, specifically the salary of the Conservation Officer to manage and develop the shark conservation work.	£49,000 over two years
South Georgia Heritage Trust Towards the salary of the Deputy Project Director to restore the seabird population in the UK Overseas Territory of South Georgia.	£73,600 over two years
Wildlife and Countryside Link Towards the costs of the Marine Policy and Campaign Coordinator, providing the secretariat service to Link's Marine Working Group.	£120,000 over three years
Total Environment Grants	£872,600

Welfare

Adfam National Towards core costs to support families affected by drug/alcohol misuse.	£105,000 over three years
Association of Charitable Foundations Towards the core costs of the Association, the representative body for charitable trusts and foundations.	£4,985 over one year
AVA (Against Violence and Abuse) Towards the costs of 'The Dancer', a short film to raise awareness of the impact of and alternatives to forced marriage.	£21,596 over one year
Bail for Immigration Detainees (BID) Towards the cost of the Separated Families Project, supporting families where parents have been separated from their children due to being detained in an immigration centre.	£60,000 over two years
Campaign for Better Transport Towards core costs, specifically to improve access to affordable transport for those at greatest disadvantage.	£40,000 over two years
Carousel Towards the costs of a series of conferences and events to debate and critique the quality of art and performance by people with disabilities.	£60,000 over two years
Citizens UK Towards the cost of a project using volunteers to improve the quality of life of people with dementia.	£90,000 over three years
Clore Social Leadership Programme Towards the costs of three Fellows focusing on Older People - jointly funded with Tudor Trust.	£52,500 over three years
Eaves Housing for Women Towards the cost of the Poppy project, supporting and protecting women who have been trafficked into the UK.	£60,000 over two years
Enrych Towards the core costs of their support for adults with physical disabilities, while developing new services and income streams.	£80,000 over two years
FareShare Towards the salary of the Chief Executive Officer to develop their surplus food redistribution service.	£120,000 over three years
Federation of City Farms & Community Gardens Towards the cost of identifying and developing best practices in community growing initiatives across the UK.	£95,261 over two years
Grandparents Plus Towards the core costs of the Chief Executive and the Director of Policy, Research and Communications, to support kinship carers and their families.	£100,000 over three years

Hearing Link	£60,000
Towards core costs, specifically to recruit and train volunteers to provide support to young people who have acquired hearing loss.	over two years
Home-Start UK	£76,000
Towards the salary costs of the Head of Communications to help support families in local communities across the UK.	over two years
In Control	£75,000
Towards core costs, specifically the salary of the CEO to develop and improve the use of personal budgets to give people greater control over their lives.	over three years
OnSide Youth Zones	£100,260
Towards core costs, specifically to increase the numbers of Youth Zones.	over three years
Prisoners Abroad	£50,000
Towards the costs of the Family Support Services, helping UK-based families of British citizens who are imprisoned overseas.	over two years
Rural Media Company	£40,000
Towards core costs, specifically the salary of a Development Officer to work with young people from gypsy, Roma and traveller communities.	over two years
Sheila McKechnie Foundation	£105,000
Towards core costs to support individuals and groups in taking action to improve their communities, especially those who are marginalised and/or facing disadvantage, and who struggle to have their voices heard.	over three years
Stonewall	£50,000
Towards the salary of a Youth Coordinator to manage the continuation and development of their Youth Programme.	over two years
Streetwise Opera	£75,000
Towards core costs, to support more homeless people into independent living.	over three years
Who Cares? Trust	£60,000
Towards core costs, specifically the salary of the Projects Officer to support young people in care to improve their life outcomes.	over two years
Working Families	£105,000
Towards core costs, specifically the salary of the Chief Executive, for their work supporting working parents and carers to achieve a work-life balance.	over three years
Less: Advocacy Plus grant cancelled	£(25,000)
Due to project for the dementia advocacy network work being curtailed.	
Total Welfare Grants	£1,435,602
TOTAL GRANTS MADE IN THE YEAR ENDING 31 MARCH 2014	£3,424,281

Structure, Governance and Management

Trustees

The Foundation's Trustees are listed at the end of this report. The governing document provides for a maximum of nine and a minimum of three. There are currently eight. Trustees are appointed for five years, followed by the possibility of a further five years. A Trustee who is selected to be Chairman of the Board or the Finance & Investment Committee may serve beyond the 10-year term if this is in the best interests of the Foundation. Since the introduction of the Equalities Act 2010 there is no retirement age.

The first Trustees were personally selected by Sir John and Lady Ellerman and had strong links with the Ellerman companies. Over time this has changed and in 2011 the last Trustee with a personal connection to Ellerman Lines retired.

Today, Trustees are recruited according to the skills, knowledge and experience required. Existing Trustees identify where gaps need to be filled, such as those relating to a grant category or profession. Potential candidates are interviewed by the Chairman, a panel of Trustees and the Director.

Each new Trustee receives a full induction and a detailed information pack, covering the Foundation's governance, history, grant guidelines, investments and objectives. On-going training and skills development takes a variety of forms, depending on the role and interests of the individual Trustees, and includes attendance at seminars, conferences and other events. There is an annual appraisal by the Chairman.

Trustees are closely involved in the evaluation of applications and grants made. They sift initial applications, visit those organisations invited to submit a second stage application and provide written reports to the Board.

Organisational Structure

The Trustee Board meets six times each year. The Board sets strategy and policy for grantmaking and financial matters, and approves new grants.

Several Trustee Committees support the Foundation's work throughout the year, and report regularly to the Trustee Board:

- The *Finance & Investment Committee* is responsible for financial and investment matters. The Committee's role includes developing an appropriate investment strategy, overseeing its implementation and monitoring investment performance. It also reviews and recommends to the Board the annual budget and spend policy, monitors expenditure and ensures that adequate internal controls and procedures are in place. It meets at least four times a year.
- The *Remuneration Committee* is responsible for reviewing all remuneration and benefits for staff and Trustees. It meets at least once a year.
- The *Risk & Audit Committee* is responsible for reviewing systems of internal control of governance, operational and financial risks. It also reviews the draft annual report and accounts and meets the auditors. It meets at least twice a year.

- The *Nominations Committee* is responsible for the recruitment of Trustees as delegated by the Board. It is not a permanent committee but is convened when a new Trustee is to be appointed.

The day-to-day management of the Foundation's affairs is delegated by the Trustees to the Director and staff team. They are responsible for ensuring that the Trustees' decisions are implemented in accordance with existing policy and within budget, and for briefing Trustees on current trends in the charitable sector and advising on how these may affect policy.

Risk Statement

The Trustees are responsible for the management of the risks faced by the Foundation. These fall into four areas:

- Governance and management
- Operational
- Grantmaking
- Finance

The Risk and Audit Committee reviews all these areas and identifies the major risks, their likelihood of occurrence, the significance of the risk, mitigating controls which are in place and recommends any additional actions and resources required to reduce and manage those risks. These are documented in a Risk Register which is also considered by the Trustee Board.

The Foundation's investment activities are its main financial risk. This risk is managed, with the support of investment advisers, by regularly reviewing the investment objective and policy, employing external managers to achieve a well-diversified portfolio and closely monitoring their performance relative to the investment objective.

Applications for grants are assessed carefully to ensure that the Board understands any risks associated with a particular organisation or programme of work, and appropriate conditions are agreed. Once a grant is approved, monitoring and reporting processes are in place to ensure grants are well managed and evaluated.

All relevant procedures are included in the Foundation Handbook; these are checked and updated annually. An Emergency Disaster Plan and Health & Safety Review form part of the annual risk assessment and are detailed in the Handbook. Trustees confirm that they are satisfied with the current systems and internal controls.

Conflicts of Interest

Trustees and staff are expected to conduct the business of the Foundation with integrity at all times. A Conflict of Interest Policy is in place to ensure that there is no personal gain from the Foundation's work.

All staff and Trustees complete an annual register of interests form. At each Board Meeting, each Trustee completes a declaration of interest form listing all applications to be discussed. Staff and Trustees are also expected to alert those present to any interests, and may be asked to withdraw from the room during the relevant decision-making process. Any relevant gift or hospitality received by Trustees and staff is also recorded on the Register of Interests. A note to the financial accounts lists grants made to any organisation during the year with which a Trustee of the Foundation has a close relationship.

Statement of Responsibilities of the Board of Trustees

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).

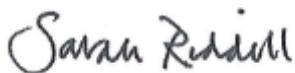
The law applicable to charities in England & Wales requires the Trustees to prepare financial statements for each financial year which give a true and fair view of the state of the affairs of the charity and of the incoming resources and application of resources of the charity for that period. In preparing these 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 judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.

The Trustees are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the charity and enable them to ensure that the financial statements comply with the Charities Act 2011, the Charity (Accounts and Reports) Regulations 2008 and the provisions of the trust deeds. 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 charity and financial information included on the charity's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

During the year, the Office of Auditor was put out to tender. Kingston Smith LLP was appointed and their reappointment is subject to approval at a Trustee meeting.



SARAH RIDDELL
Chairman

17 July 2014



DOMINIC CALDECOTT
Chairman, Finance & Investment
Committee

Independent Auditors' Report to the Trustees of the John Ellerman Foundation Charity

We have audited the financial statements of the John Ellerman Foundation for the year ended 31 March 2014 which comprise the Statement of Financial Activities, the Balance Sheet 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 Trustees, as a body, in accordance with Chapter 3 of Part 8 of the Charities Act 2011. Our audit work has been undertaken so that we might state to the charity's trustees 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 any party other than the charity and charity's trustees as a body, for our audit work, for this report, or for the opinion we have formed.

Respective responsibilities of trustees and auditor

As explained more fully in the Trustees' Responsibilities Statement set out on page 15, the Trustees are responsible for the preparation of financial statements which give a true and fair view. We have been appointed as auditor under section 144 of the Charities Act 2011 and report in accordance with regulations made under section 154 of that Act. Our responsibility is to audit and express an opinion on 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 (APB'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' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 March 2014, and of its incoming resources and application of resources, 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 Charities Act 2011.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Charities Act 2011 requires us to report to you if, in our opinion:

- the information given in the Trustees' Annual Report is inconsistent in any material respect with the financial statements; or
- sufficient accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Kingston Smith LLP is eligible to act as auditor in terms of Section 1212 of the Companies Act 2006.

Kingston Smith LLP

KINGSTON SMITH LLP

Statutory auditor

Devonshire House

60 Goswell Road

London EC1M 7AD

Date: *24 July 2014*

Kingston Smith LLP is eligible to act as auditor in terms of Section 1212 of the Companies Act 2006.

Statement of Financial Activities for the year ended 31 March 2014

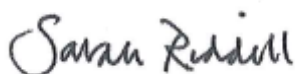
	Notes	Unrestricted Income Funds £'000	Unrestricted Capital Funds £'000	Permanent Endowment £'000	Total Funds 2014 £'000	Total Funds 2013 £'000
Incoming resources						
Incoming resources from generated funds						
Investment income	3	2,312	-	-	2,312	1,951
Total incoming resources		2,312	-	-	2,312	1,951
Resources expended						
Costs of generating funds						
Investment management costs		167	167	4	338	157
Charitable activities						
Grants to charities	4	3,424	-	-	3,424	4,285
Costs in support of grant-making		567	-	-	567	469
Total charitable activities		3,991	-	-	3,991	4,754
Governance costs		56	-	-	56	44
Total resources expended	5	4,214	167	4	4,385	4,955
Net outgoing resources before transfers		(1,902)	(167)	(4)	(2,073)	(3,004)
Gross transfers between funds		1,902	(1,934)	32	-	-
Net outgoing resources before other recognised gains		-	(2,101)	28	(2,073)	(3,004)
Other recognised gains						
Gains on investment assets	9	-	5,475	-	5,475	11,547
Net movement in funds	14	-	3,374	28	3,402	8,543
Reconciliation of funds						
Funds balance bought forward		-	119,142	1,275	120,417	111,874
Total funds at 31 March 2014		-	122,516	1,303	123,819	120,417

All the above figures relate to continuing operations. There are no recognised gains or losses other than those disclosed.

Balance Sheet at 31 March 2014

	Notes	2014	2013
		£'000	£'000
FIXED ASSETS			
Tangible Fixed Assets	8	782	767
Investments	9	122,334	118,945
Social Investment		250	250
Total Fixed Assets		123,366	119,962
CURRENT ASSETS			
Debtors	10	83	50
Cash at bank and in hand		4,081	3,962
Total Current Assets		4,164	4,012
CURRENT LIABILITIES			
Creditors falling due within one year	11	(2,928)	(2,626)
NET CURRENT ASSETS		1,236	1,386
TOTAL ASSETS LESS CURRENT LIABILITIES		124,602	121,348
Creditors falling due after more than one year	12	(783)	(931)
NET ASSETS	15	123,819	120,417
FUNDS			
Unrestricted Capital	14, 15	122,516	119,142
Permanent Endowment	13	1,303	1,275
TOTAL FUNDS		123,819	120,417

The financial statements were approved by the Trustees on 17 July 2014 and were signed on their behalf by:



SARAH RIDDELL
Chairman



DOMINIC CALDECOTT
Chairman, Finance Committee

Notes to the Financial Accounts for the year ended 31 March 2014

1 Charitable status

The John Ellerman Foundation is a charity registered under the Charities Act 1960, No. 263207; all the income has been agreed as being charitable and therefore no UK taxation is payable.

2 Accounting policies

The financial statements are prepared under the historical cost convention, with the exception that investments are valued at market value, and in accordance with applicable Accounting Standards, the Charities Act (2011) and the Statement of Recommended Practice 'Accounting and Reporting by Charities' (SORP), issued March 2005. A summary of the more important accounting policies, which have been applied consistently, is set out below:-

(a) Bank deposit interest has been included on the accruals basis.

Investment income is received in three ways and the appropriate accounting treatment applied for each one. For the segregated accounts, income has been accrued as applicable. For the pooled investment funds which distribute income in cash, this has been included on the date payable. Where shares are issued in lieu of income, the market value of these shares has been included in income. Up to their disposal in 2013/14, some funds accumulated income in the fund which was treated as part of the market value of the investment.

(b) Grants are fully accounted for in the year the grant is approved. Payments falling due in later years are provided for as a liability on the balance sheet.

(c) Expenditure has been accounted for on the accruals basis. Costs of generating funds include investment management, custody, consultancy and a proportion of staff and trustee costs. The costs are split between the Permanent Endowment and Unrestricted Funds in proportion to the opening fund values. The charge to the Unrestricted Funds is then split equally between the Income and Capital Funds. Employee costs and trustee remuneration have been apportioned between costs of generating funds, charitable activities and governance costs on the basis of the proportion of time spent by each employee or trustee in contributing to each category. Governance costs include audit fees, legal fees and a proportion of staff and trustee costs associated with trustee meetings, strategy, away days and compliance with statutory requirements. The remaining expenses of the Foundation have been apportioned on the same basis as staff costs and trustee remuneration. All expenditure is recorded inclusive of irrecoverable VAT.

(d) Pension contributions are made for all employees and recorded as they fall due. These are defined contributions paid to approved private pension schemes for each employee. Details are provided in note 7.

(e) In line with the Scheme, the Foundation's governing document, the Permanent Endowment Fund is increased in line with inflation each year and a transfer is made from the Unrestricted Capital Fund to reflect this. Incoming resources from the Permanent Endowment Fund are unrestricted and expenditure is charged to it when deemed to be attributable.

(f) At 5 April 2000, the Trustees valued the property of the Foundation's offices at Aria House, held on a 999 year lease from 1990, at £760,000, based on external independent professional advice. This value has not been updated and will be held as the carrying value in future years, following the transitional provisions of FRS15 – Tangible fixed assets. The residual value of the leasehold property is considered to be at least equal to the

carrying value and therefore no depreciation has been provided as this would be immaterial. Impairment reviews are carried out in accordance with Financial Reporting Standard 11. All fixed assets are held for the Foundation's charitable use.

- (g) Furniture, fittings and equipment have been depreciated to write off the cost less the estimated residual value, on a straight line basis over the expected useful economic life. The annual rate used for this purpose is 33% for computer and office equipment and 10% for other assets. A capitalisation limit has been set such that purchases of £250 and over are capitalised and items below this level are treated as an expense in the year of purchase.
- (h) Profit or loss on realisations of investments and freehold properties has been taken to the Unrestricted Capital Funds.
- (i) Investments have been stated at market value in accordance with SORP. Net investment gains and losses are disclosed in note 10.

The Social Investment represents £250,000 fixed-rate subordinated unsecured loan notes with Charity Bank, maturing on 30 July 2017. The loan notes are valued at purchase cost which the Trustees believe is reasonable following regular quarterly reviews of the Bank's finances.

- (j) Monetary assets and liabilities denominated in foreign currencies are translated at the year end exchange rate. Transactions denominated in foreign currencies are translated at rates prevailing at the transaction date. Exchange differences are taken into account in arriving at the movement of funds for the year.
- (k) The Foundation has adopted a Spending Policy which the Trustees believe to be sustainable in the long term. The Total Return investment policy means that actual income received each year will be supplemented, if necessary, from distributable capital. It follows that the reserves policy is to retain the capital value of the investment portfolio to be able to continue to support charities in the long term.
- (l) In line with the exemption in FRS1 (Cash flow statements), the Foundation has not prepared a cash flow statement due to its size.

3 Investment income

	2014	2013
	£'000	£'000
Investment income from assets in the UK	1,825	1,146
Investment income from assets outside the UK	458	773
Interest on cash deposits	<u>29</u>	<u>32</u>
Total investment income	<u>2,312</u>	<u>1,951</u>

Investment income received during the year relates to investments which are listed on recognised stock exchanges. Dividend income and interest is treated in accordance with the accounting policy 2(a) above.

4 Grants to Charities

	2014 £'000	2013 £'000
Grants awarded in the year	3,449	4,285
Grant cancelled in the year	(25)	-
Total Grants to Charities	<u>3,424</u>	<u>4,285</u>

A list of grants awarded during the year ended 31 March 2014 is shown in the Annual Report.

Grants awarded in the year:

	2014 £'000	2013 £'000
Grants paid in the year	1,468	1,790
Grants payable within one year	1,247	1,583
Grants payable after more than one year	709	912
Total Grants to Charities	<u>3,424</u>	<u>4,285</u>

Trustees include in the notes to the Financial Accounts, for transparency reasons, any grant made to an organisation with which a Trustee of the Foundation has a conflict of interest. In accordance with JEF policy Trustees withdraw from the room for these decisions.

This financial year 2013/14 there were no conflicts of interest.

5 Analysis of total resources expended

	Costs of Generating Funds £'000	Charitable Activities £'000	Governance Costs £'000	2014 £'000	2013 £'000
Investment fees	<u>255</u>	<u>-</u>	<u>-</u>	<u>255</u>	<u>58</u>
Grants to Charities	<u>-</u>	<u>3,424</u>	<u>-</u>	<u>3,424</u>	<u>4,285</u>
Staff costs (note 7)	55	374	23	452	397
Trustee costs (note 6)	8	65	8	81	87
Audit fees	-	-	12	12	9
Legal fees	-	-	5	5	2
Depreciation	1	9	1	11	4
General expenses	<u>18</u>	<u>120</u>	<u>7</u>	<u>145</u>	<u>113</u>
	83	567	56	706	612
Total resources expended – 2014	338	3,991	56	4,385	4,955
<u>Total resources expended – 2013</u>	<u>157</u>	<u>4,754</u>	<u>44</u>		<u>4,955</u>

6 Trustees' remuneration

Trustees receive remuneration in accordance with the authority in the Scheme. In carrying out their duties, including visits to applicant charities, five Trustees incurred travelling and related expenses totalling £6,446 (2013: £6,677), which have been included under general expenses.

	2014 £'000	2013 £'000
Remuneration paid to Trustees during the year:		
Sarah Riddell, Chairman	13	13
Dominic Caldecott, Chairman of the Finance Committee	14	14
Tim Glass	11	11
Vivien Gould	11	11
Brian Hurwitz	9	9
Peter Kyle from 1 March 2014	1	-
Sue MacGregor to 31 July 2012	-	3
Peter Mimpriss to 31 July 2012	-	4
Hugh Raven	9	9
Diana Whitworth	9	9
Total remuneration	<u>77</u>	83
Social Security costs	4	4
Total remuneration and Social Security costs	<u>81</u>	<u>87</u>

7 Employees

	2014 £'000	2013 £'000
Wages and salaries	350	276
Employer's National Insurance costs	37	33
Pension costs	37	39
Outsourced accountant cost	28	49
Total staff costs	<u>452</u>	<u>397</u>

The average number of employees during the year ended 31 March 2014 was 5.8 (2013: 5.8). The average full-time equivalent number of employees analysed by function was:

	2014	2013
Generating funds	0.2	0.2
Charitable activities	5.5	5.5
Governance	0.1	0.1
Total full-time equivalent staff	<u>5.8</u>	<u>5.8</u>

For each employee, the Foundation makes a contribution to an approved private pension scheme. The total pension cost for the Foundation was £37,000 (2013: £39,000).

The numbers of employees who received emoluments (including taxable benefits in kind) in the following ranges were:

	2014 Number	2013 Number
£60,001 - £70,000	1	-
£70,001 - £80,000	1	-
£80,001 - £90,000	-	1
£90,001 - £100,000	1	-

For these employees, the Foundation made contributions to their approved private pension schemes totalling £24,000 (2013: £11,000) during the year.

8 Tangible fixed assets

	Leasehold property £'000	Furniture, Fittings and Equipment £'000	Total £'000
Cost or valuation			
At 1 April 2013	760	141	901
Purchases during year	-	26	26
Disposals during year	-	(17)	(17)
At 31 March 2014	760	150	910
Depreciation			
At 1 April 2013	-	134	134
Charge for the year	-	11	11
On disposals during year	-	(17)	(17)
At 31 March 2014	-	128	128
Net book value at 31 March 2013	760	7	767
Net book value at 31 March 2014	760	22	782

9 Investments

	31 March 2014	31 March 2013
	£'000	£'000
Investment assets in the UK	68,752	35,664
Investment assets outside the UK	49,352	82,158
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Total investments, excluding cash	118,104	117,822
Investment cash accounts in the UK	4,230	1,123
	<hr/>	<hr/>
Total investments at 31 March 2014	122,334	118,945
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The historical cost of the investments (including cash) held at 31 March 2014 was £121,665,000 (31 March 2013: £86,752,000).

The movement during the year of the total investments, excluding cash, was:

	2014	2013
	£'000	£'000
At 1 April 2013	117,822	109,891
Purchases at cost	161,987	12,531
Disposal proceeds	(167,319)	(16,076)
Net investment gains	5,614	11,476
At 31 March 2014	118,104	117,822
	<hr/>	<hr/>

Investments are listed on recognised stock exchanges and valued at the middle market prices ruling at the period end. During the year, £5m (2013: £6m) was withdrawn from the investment portfolios to fund working capital.

Gains on revaluations and disposals of investments:

	2014	2013
	£'000	£'000
Net investment gains	5,614	11,476
Realised (losses)/gains on foreign currency	(139)	71
	<hr/>	<hr/>
Total gains on revaluations and disposals of investments	5,475	11,547
	<hr/>	<hr/>

10 Debtors

	31 March 2014 £'000	31 March 2013 £'000
Accrued income and prepayments	81	48
Other debtors	2	2
	<u>83</u>	<u>50</u>

11 Creditors: amounts falling due within one year

	31 March 2014 £'000	31 March 2013 £'000
Accrued expenditure	198	31
Other creditors	1	-
Grants payable	2,720	2,585
Other taxation and social security	9	10
	<u>2,928</u>	<u>2,626</u>

12 Creditors: amounts falling due after more than one year

	31 March 2014 £'000	31 March 2013 £'000
Grants payable between 1 to 2 years	783	931
	<u>783</u>	<u>931</u>

13 Permanent Endowment

The Permanent Endowment relates to a merger in 2002 with the Ellerman Will Trust: General Charitable Fund. The original funds transferred were £925,000.

All income generated from the Unrestricted Capital and Permanent Endowment funds are included in the Unrestricted Income Fund for distribution.

As required by the Foundation's Scheme:

- The Permanent Endowment is increased in line with the March Retail Price Index each year. The adjustment to the Permanent Endowment for the year ending 31 March 2014 is an increase of £32,000 (2013: £41,000) and a transfer from the Unrestricted Capital Fund has been made to reflect this.
- Investment management costs of £4,000 (2013: £1,000) are deemed to be attributable to and have been charged to the Permanent Endowment Fund.

Following the above two adjustments, the value of the Permanent Endowment at 31 March 2014 was £1,303,000 (2013: £1,275,000).

14 Movement of Funds

	Unrestricted Income £'000	Unrestricted Capital £'000	Permanent Endowment £'000	Total £'000
At 1 April 2013	-	119,142	1,275	120,417
Net movement in funds	-	3,374	28	3,402
At 31 March 2014	-	122,516	1,303	123,819

Distributions to beneficiaries may be made out of either of the unrestricted funds, but of the above Unrestricted Capital, £669,000 represents unrealised gains on investments. The Trustees may also apply appropriate expenditure to the Permanent Endowment.

15 Analysis of Net Assets between Funds

	Unrestricted Income £'000	Unrestricted Capital £'000	Permanent Endowment £'000	Total £'000
Fixed Assets	-	122,063	1,303	123,366
Current Assets	-	4,164	-	4,164
Current Liabilities	-	(2,928)	-	(2,928)
Creditors greater than one year	-	(783)	-	(783)
Total net assets	-	122,516	1,303	123,819

Trustees, Staff and Registered Office of the Foundation

Board of Trustees

Sarah (Lady) Riddell LVO Chairman
Dominic Caldecott
Tim Glass
Vivien Gould
Dr Brian Hurwitz MD
Peter Kyle OBE, CCMI (from 1 March 2014)
Hugh Raven
Diana Whitworth

The following Trustees are members of or served on Committees at 31 March 2014:

Finance & Investment Committee: Dominic Caldecott (Chairman), Vivien Gould, Tim Glass

Remuneration Committee: Sarah Riddell (Chairman), Dominic Caldecott, Diana Whitworth, Brian Hurwitz

Risk and Audit Committee: Hugh Raven (Chairman), Vivien Gould

Nominations Committee: Sarah Riddell (Chairman), Vivien Gould, Brian Hurwitz

Members of Staff at 31 March 2014

Nicola Pollock	Director
Linda Crowhurst	Administrative Assistant – Grantmaking
Katherine Reichel	Administrative Assistant – Office & Facilities
Barbra Mazur	Head of Grants
Patricia Yearley FCA, DChA	Head of Finance & Resources

Registered address of the Foundation

Aria House
23 Craven Street
London WC2N 5NS

Telephone: 020 7930 8566

Fax: 020 7839 3654

Website: www.ellerman.org.uk

Email address: enquiries@ellerman.org.uk

Registered Charity Number

263207

Advisers to the Foundation

Auditors

Kingston Smith LLP, Devonshire House, 60 Goswell Road, London EC1M 7AD

Solicitors

Bates Wells & Braithwaite, 2-6 Cannon Street, London EC4M 6YH

Investment Advisers

Portfolio Review Services, Palings, Warboys Road, Kingston on Thames, Surrey KT2 7LS

Investment Managers at 31 March 2014

Baring Asset Management (London), 155 Bishopsgate, London EC2M 3XY

Charities Property Fund, Cordea Savills, 57 Berkeley Square, London W1J 6ER

Investec Wealth & Investment Limited, 2 Gresham Street, London, EC2V 7QN

Newton Investment Management Limited, 160 Queen Victoria Street, London EC4V 4LA

Ruffer LLP, 80 Victoria Street, London SW1E 5JL

Smith & Williamson Investment Management LLP, 25 Moorgate, London EC2R 6AY

Bankers

Coutts & Co., 440 Strand, London WC2R 0QS

Charity Bank, 194 High Street, Tonbridge, Kent TN9 1BE

COIF Charities Deposit Fund, 80 Cheapside, London EC2V 6DZ

Regional Museums and Galleries Fund Advisers

Caroline Collier, Director Tate National

Virginia Tandy, Consultant