Student Loans Company Limited

Directors' report and financial statements

Registered number 2401034

31 March 2001

Contents

Chairman's statement

The Directors' Report and Company Financial Statements below cover the activities of the Company for the year ended 31 March 2001.

My previous Chairman's Statements have documented a period of considerable change for the Company, associated with the advent of the Government's Income Contingent Repayment Loan Scheme for students in higher education, and with the high service levels to which we aspire in our contacts with borrowers, award authorities, higher education institutions, debt purchasers and the Education Departments.

The past year has seen less radical change in the student support system itself. However, the Company's loan portfolio has continued to increase with the growth in the number of full-time students applying for loans and with the Government's decision to make loans available for the first time to part-time students following courses in higher education.

At the same time, the composition of the Company's loan portfolio is still changing. The number of students entitled to apply for loans under the old mortgage style loan arrangements is rapidly diminishing, and mortgage style loan applications dwindled to a little over 90,000 last year. However, as the mortgage loan scheme matures, the number of borrowers entering deferment or repayment remains high. Repayments were deferred under the regulations last year in respect of over half a million mortgage style customers and another 226,000 customers moved into repayment. As a result, the aggregate number of accounts in repayment has risen from 1.4 million last year to 1.8 million this year. By March this year, borrowers had repaid some £1,149 million, 25% of the total amounts advanced under the mortgage style loans scheme.

Last year the Company was set the challenging target of recovering, by March 2001, 88% of all loan repayments due since the inception of the scheme. Although the bulk of repayments come in smoothly, the Company, like other lenders, has actively to pursue the small minority of borrowers who fall into arrears on their repayments. This can be costly and staff intensive work. Although the sums collected over the life of the scheme remain somewhat below target, it is notable that at the end of the year, accounts in default were at their lowest level for 3 years despite the large increase that has taken place in the total number of accounts administered.

As the old scheme comes to an end, so loans under the new scheme increase correspondingly. In the second full year of operation, some 648,000 students had received loans for the academic year 2000/2001 up to 31 March 2001, and 98.2% of students who had applied on time received their loan cheques by the first day of term. For those who applied later, all but a tiny number received their loan cheque within the 17 day period set by Ministers. In each case, this represented a commendable improvement on the already high levels of performance achieved in the first year of the new scheme, and the Company will be striving in the coming academic year to do even better still for its student borrowers. Some 625,000 second instalments were paid by BACS transfer at the start of the second term.

Hardship loans for students in financial difficulty are a vital part of the support system and by end March the Company had met some 52,000 valid requests for payment.

Payment to Higher Education Institutions of the publicly funded element of student tuition fees in respect of 2000/2001 also went well. Some £275 million in fee payments were made in early February to over 500 Colleges and Universities that had applied by the due date. An increased level of cash at bank at the year-end reflects the fact that, although the company anticipated making payment of all tuition fees on the due date, a few Institutions have yet to make a full claim. The Company has also worked with Higher Education Institutions to ensure a swift response when fees are reassessed by a Local Education Authority or one of the other award making bodies.

In addition to the publicly owned student loan portfolio, the Company continues to manage the two private sector loan portfolios acquired in 1998 by Finance for Higher Education Limited and in 1999 by Honours Trustee Limited respectively. As at 31 March 2001, the Company was responsible for administering 4 million accounts on behalf of the public sector and the private sector owners, with a total value of some £7,920 million, an increase of 25% in account numbers and 33% in value compared with a year earlier. Managing this very large portfolio efficiently and effectively calls for continuous improvement throughout the Company and a commitment by the staff to the highest quality of customer service. The Company's successful accreditation last year as an Investor in People, along with its recent commitment to a programme of Business Excellence, and the hard work of the staff, testify to the vigour with which those requirements are being pursued.

Looking to the future, the Company has joined with the Education Departments and other interested parties in planning developments under the Modernising Government initiative to produce more modern, cohesive and accessible arrangements for the delivery of student support, using appropriate and convenient forms of electronic access.

The Board met eleven times last year, and there was also a full programme of meetings of the Audit and Remuneration Committees. Sir Eric Ash, whose period as a non-Executive Director came to an end during the year, gave many years of valuable service to the Company, including a period when he acted as Chief Executive. Sir Eric has not yet been replaced on the Board but the remaining three non-Executive Directors continue to contribute valuable time and experience to the affairs of the Company.

The Board also lost the services of Mr JB Morrison as Finance Director who left the Company and resigned as a Board member on 31st March 2001. Mr Morrison had served as Finance Director of the Company since its inception. Recruitment of a replacement is actively underway.

In my final report as Chairman of the Student Loans Company, I wish to record my appreciation to Education Ministers and officials for their encouragement over the past 3 years; to my fellow Directors for their constant help and support; and, above all, to the management and staff whose enthusiasm, commitment and hard work enable the Company to face with confidence whatever challenges lie ahead.

Anthony Battishill
Chairman

27 June 2001

Directors' report

The directors have pleasure in submitting their annual report and the financial statements of the company for the year ended 31 March 2001. The financial statements have been prepared in accordance with the Companies Act 1985 as augmented, where appropriate, in respect of additional information as directed by the Secretary of State for Education and Employment. This has been done with the consent of the Treasury, as set out in the Accounts Direction reproduced in the appendix on pages 25 to 27.

Also, the statements have been prepared on the basis that, in respect of England and Wales, the Secretary of State for Education and Employment was responsible for the Company throughout the financial year of the report. On 8th June 2001 this responsibility became that of the Secretary of State for Education and Skills and, where appropriate, this is reflected in the annual report and financial statements.

Statutory background and history

The student loans scheme was introduced by the Education (Student Loans) Act 1990 and the Education (Student Loans) (Northern Ireland) Order 1990. The company was established to administer this scheme within the policy context and legislative framework laid down by the government. It was incorporated as a private limited company in 1989 and commenced trading in September 1990. The company is subject to the provisions of the Companies Act 1985, and in addition is required to operate within the limits of a financial memorandum between the company and the funding bodies. The company was officially designated a Non Departmental Public Body ('NDPB') from 1 April 1996, thus clarifying its status as a government-owned body.

Review of business and future developments

The company continued to administer both sold portfolios of student loans under contract to the private sector owners.

The new loans system which was reported in the last two years as ' bedding in', is now fully incorporated into the operations of the company. Volumes continued to increase significantly. This presented a number of technical difficulties, which were handled with a minimum disruption to students' arrangements. Continuing improvements are being made through the development of our technology and handling processes. Repayment of income contingent loans through the PAYE system has begun but, as yet, the volumes involved are low and the required interfaces between organisations are being refined.

As the number of accounts entering repayment under the old loan scheme has increased substantially, new systems have been developed to improve the efficiency of collections activity and continuous improvement programmes apply in this area.

The last year saw the successful introduction of new loans for part time students. The company continues to play a part in the project groups looking at the options for delivering services over the internet. The company has also been working with colleagues in the Scottish Executive to develop the arrangements for the collection of the new Graduate Endowment. These developments are taking place alongside the company's continuing efforts to work with all bodies involved in student support arrangements to see steady improvement in the efficiency of the scheme.

The ongoing changes that the company has faced have demanded a great deal of commitment from employees and the directors are pleased to acknowledge this and congratulate employees on a successful year.

Directors' report *(continued)*

Economic and Monetary Union

While the way forward for the United Kingdom in relation to joining the common European Currency is not clear, the company, in conjunction with the Department for Education and Employment, has put in place a project Board to keep abreast of material developments in this matter. This group has met internally and has met with and established links with Department officials in order to be prepared to provide the necessary contributions to the overall planning process in due course.

Dividends

The company has no accumulated reserves and accordingly the directors do not recommend the payment of a dividend (2000: £Nil).

Directors and their interests

The directors of the company serving during the year were as follows:

Sir Anthony Battishall GCB	Chairman	Executive (part-time)	
Sir Eric Ash CBE		Non-Executive *^	(resigned with effect from 31 August 2000)
BG Booth		Non-Executive *^	
PH Grace		Non-Executive *^	
MD Paterson		Non-Executive *^	
C Ward		Chief Executive	
JB Morrison		Finance Director (resigned with effect from 31 March 2001)	

* Member of the audit committee throughout the year, or in the case of Sir Eric Ash until August 2000 and in the case of MD Paterson since September 2000.

^ Member of the remuneration committee throughout the year or, in the case of Sir Eric Ash until August 2000 and in the case of PH Grace since September 2000.

All non-executive directors are considered to be independent.

None of the directors had any interest in the shares of the company at 31 March 2000 and 31 March 2001. Prior to devolution, the company was wholly owned by the Secretary of State for Education and Employment and the Secretary of State for Scotland in equal share, but this is under review following the transfer of responsibility for student support in Scotland to Scottish Ministers. The chief executive is also the accounting officer for the company.

The Secretary of State for Education and Employment was a shadow director of the company under Section 741 of the Companies Act 1985 throughout the year.

Directors' report *(continued)*

Fixed assets

Full details of the movement in fixed assets are given in note 8 to the financial statements.

Employees

It is the company's aim to keep employees informed about its affairs and in particular about those matters that affect them directly. To this end, newsletters and information memoranda are issued regularly to employees and, in addition, briefings are given to meetings of the Joint Staff Consultative Committee.

It is the company's policy to give sympathetic consideration, in both recruitment and training, to the problems of the disabled.

Charitable donations

During the year the company made no charitable donations *(2000: £ Nil)*.

Creditor payment policy

The company aims to pay suppliers within 30 days of receipt of invoice or in accordance with agreed terms and conditions.

The number of days billing from suppliers outstanding at 31 March 2001 was 4 *(2000: 22)*. This was an exceptional improvement and the number of days is likely to revert to more normal operational levels next year.

Corporate Governance

The company has followed Treasury guidance on corporate governance and has taken steps to allow reporting on internal controls as required by that guidance.

In addition, the company has, since 1995, adopted published corporate governance guidelines in the annual directors' reports. This is despite the fact that the company is not a listed company of the type to which these requirements were directed. However, with the publication of the Combined Code in 1998 there are a number of matters with which, due to its status as a NDPB, the company cannot comply. In accordance with guidance issued in the document 'Internal Control: Guidance for Directors on the Combined Code', which was issued in September 1999 (the Turnbull Guidance), the Board is adopting a staged approach to adoption of the principles of the combined code. The Board has put in place a process that allows it to report on internal financial controls at the present time and will allow full adoption, where possible, of the principles of the Combined Code from April 2001. Measures to allow reporting on these principles have been approved by the Board and implemented.

In that context the following exceptions from the provisions of the Combined Code should be noted:

Directors' report *(continued)*

Corporate Governance *(continued)*

- All appointments at Board level are made by the shareholders; consequently there is no nominations committee;
- For the same reason, there is no provision for re-election of executive directors;
- There is no nominated senior independent non-executive director;
- Remuneration of main board directors is determined by the shareholders including arrangements relating to loss of office. With effect from 30 June 1999, the remuneration committee has been charged by the Board with monitoring the pattern of main board directors' remuneration as a basis for advice to Ministers as appropriate;
- Remuneration packages of directors, aside from the chief executive, do not include a significant performance related element;
- Remuneration of non-executive directors is set by the shareholders.

Remuneration Committee

The members of the remuneration committee consist of at least three non-executive directors who are independent of management and free of any business or other relationships (including cross-directorships or day-to-day involvement in the management of the business) which could interfere with the exercise of their independent judgement.

The duties of the remuneration committee which were carried out throughout the year are:

- to make recommendations to the Board on a suitable framework for performance-related pay;
- to make recommendations each year to the Board on the appropriate pay award for staff to be submitted for ministerial consideration;
- to monitor the company's pay policy in relation to the market and make recommendations to the Board for any amendments;
- to monitor the application of market premia for specific roles within the company;
- to consider annually the general level of directors' remuneration having regard to the circumstances of the company and to report their findings to the chairman of the Board as a basis for advising Ministers as and when required;
- to develop an annual report to the Board summarising the committee's activities during the year and the related significant results and findings.

In addition, during the year a severance policy was approved and implemented.

Internal control

In accordance with guidance, and consistent with permission given by the London Stock Exchange to the Boards of listed companies, the company has complied with code provision D. 2.1 on internal control by reporting only on internal financial control in accordance with guidance for directors on internal control and financial reporting that was issued in December 1994.

The Board is responsible for the company's system of internal financial control. The company has an established framework of internal financial control, which is monitored and supported by an internal audit function. The system is designed to provide reasonable but not absolute assurance against material mis-statement or loss. The key elements of the system of internal financial control are as follows:

- regular meetings of the Board of directors which has a schedule of matters which are specifically reserved for its approval and which are the subject of regular standard reports as required;
- arrangements under a constitution for an audit committee of the Board to meet regularly and receive from management and internal and external auditors, inter alia, reports on the system of internal financial control, to provide reasonable assurance that control procedures are in place and are being followed;
- arrangements under a constitution for a remuneration committee of the Board;
- an organisational structure within the company with clear lines of responsibility;
- an accounting policies and practices manual, key changes to which are approved by the Board of directors;
- an internal audit function working to Government Internal Audit Manual standards, with an annual internal audit plan and producing an annual internal audit report;
- a four-year Corporate (Financial) Plan supporting strategic and operating plans, with a detailed annual budget, regularly revised forecasts, a comparison of actual with budget and with forecast on a monthly and quarterly basis, operating cash flow and variance statements, and key performance indicators, all of which are reviewed by the Board.
- a comprehensive corporate diary designed to ensure that all key dates and deadlines are achieved with a monthly high level report, looking forward 3 months, being submitted to the Board.

The audit committee of the Board has met regularly in accordance with an approved schedule throughout the year.

The remuneration committee of the Board has met regularly in accordance with an approved schedule throughout the year.

The company has operated for the full year with revised financial management procedures implemented following a full review last year that suggested a range of amendments to previous practices. A second phase of implementation is planned to take place in 2001-02 with a view to further improving the accessibility, flexibility and reporting capability of information available to directors and management.

The directors have reviewed the effectiveness of the system of internal financial control in existence in the company for the year ended 31 March 2001.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Directors' report *(continued)*

Auditors

A resolution regarding the appointment of auditors to the company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

Colin Ward
Director and Accounting Officer

21 St. Thomas Street
Bristol
BS1 6JS

27 June 2001

Statement of chief executive's and directors' responsibilities

Company law and the accounts direction given to the company by the Secretary of State, with the approval of the Treasury, in accordance with the company's financial memorandum, require the chief executive and directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the chief executive and directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The chief executive and directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. The chief executive and directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

In addition, in appointing the chief executive as accounting officer for the company, the accounting officers in 1995 for the Department for Education and Employment, the Student Awards Agency for Scotland and the Department of Education for Northern Ireland, placed on the chief executive the responsibility for ensuring the regularity and propriety of the public finances, a requirement which is now set out in the management statement accompanying the company's financial memorandum.

KPMG

24 Blythswood Square
Glasgow
G2 4QS
United Kingdom

Auditors' report to the members of Student Loans Company Limited

We have audited the financial statements on pages 11 to 24.

Respective responsibilities of the chief executive, directors and auditors

The company's chief executive and directors are responsible for preparing the annual report set out on pages 1 to 27 including, as described on page 9, the financial statements. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We also report our opinion to you on the regularity of the financial transactions included in the financial statements.

We review whether the statements on pages 5 to 7 reflect the company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, had the company been subject to the listing rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the chief executive and directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions are in conformity with the authorities which govern them. In forming our opinions we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2001 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985;
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

KPMG

KPMG
Chartered Accountants
Registered Auditors

27 June 2001

Profit and loss account
for the year ended 31 March 2001

	Note	**2001**	2000
		£000	£000
Turnover	*3*	**36,139**	36,684
Administrative expenses		**(35,371)**	(36,099)
Operating surplus		**768**	585
Interest receivable	*4*	**143**	103
Result of ordinary activities before taxation	*5*	**911**	688
Tax on result of ordinary activities	*7*	**(911)**	(688)
Result for the financial year		**-**	-

In both years, the company made no acquisitions and had no discontinued operations.

Statement of total recognised gains and losses

The company had no recognised gains or losses in either year other than the result for the year.

Balance sheet
at 31 March 2001

	Note	2001 £000	2001 £000	2000 £000	2000 £000
Fixed assets					
Tangible assets	8		7,642		7,064
Current assets					
Debtors	9	1,687		3,389	
Cash at bank and in hand	10	59,777		40,233	
Prepayments and accrued income		1,475		1,327	
		62,939		44,949	
Creditors: amounts falling due within one year	11	(62,939)		(44,949)	
Net current assets			-		-
Total assets less current liabilities			7,642		7,064
Accruals and deferred income					
Deferred capital receipts	12		(7,642)		(7,064)
			-		-
Capital and reserves					
Called up share capital	13		-		-
Profit and loss account			-		-
Total shareholders' funds - equity			-		-

These financial statements were approved by the Board of directors on 27 June 2001 and were signed on its behalf by:

Colin Ward
Director and Accounting Officer

Cash flow statement
for the year ended 31 March 2001

	Note	2001		2000	
		£000	**£000**	£000	£000
Net cash inflow from operating activities	*15*		**20,571**		28,290
Returns on investments and servicing of finance					
Bank and other interest received			**143**		103
Taxation					
Corporation tax paid			**(1,170)**		(452)
Capital expenditure					
Payments to acquire tangible fixed assets		**(2,035)**		(4,944)	
Receipts from sales of tangible fixed assets		**10**		12	
Net cash outflow from capital expenditure			**(2,025)**		(4,932)
Net cash inflow before financing			**17,519**		23,009
Financing					
Capital funding received from the funding bodies			**2,025**		4,932
Increase in cash in the period			**19,544**		27,941
Net funds at 1 April			**40,233**		12,292
Net funds at 31 March			**59,777**		40,233

Notes

(forming part of the financial statements)

1 Statement of loans administered by the company

Funding for the purpose of making loans to students is received by the company from the Department for Education and Employment, the Student Awards Agency for Scotland and the Department of Higher and Further Education, Training and Employment (Northern Ireland).

As at 31 March 2001, the total balance of the loan portfolio administered by the company on behalf of the funding bodies and the private sector owners was £7,920,510,000 *(2000: £5,946,936,000).*

In respect of unsold loans (ie, those administered by the funding bodies), in accordance with FRS 5 'Reporting the substance of transactions' neither the loans nor the related obligation to repay the funding bodies is included in the financial statements of the company since:

(a) in accordance with the terms of the company's financial memorandum any interest earned on funds made available for making loans to students and on money repaid to the company by borrowers under the scheme shall be returned to the funding bodies; and

(b) under section 32 of the financial memorandum, there is an agreement between the company and the funding bodies that the company is liable to transmit to these bodies only those repayments which are actually made to the company. As a consequence, the company is not liable for repayments due which ultimately may not be recovered.

Similar contractual terms and conditions apply to the private sector portfolios in respect of sold loans.

A report on loans administered by the company will be contained in the 2001 annual report of which these financial statements will form a part.

Notes *(continued)*

2 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Basis of preparation

General

The terms of the financial memorandum between the Secretary of State for Education and Employment, the Scottish Ministers, the Department of Higher and Further Education, Training and Employment (Northern Ireland) and the company required that the company shall conduct its affairs so as to remain solvent within the total resources made available to it by the funding bodies. These financial statements have been prepared on this basis.

Turnover

Turnover represents the revenue element of grant-in-aid funding receivable from the funding bodies for the purpose of administering loan funds and administration fees earned by the company from third party debt purchasers.

Depreciation

Depreciation is provided on all tangible fixed assets calculated so as to write off the cost of each asset, less estimated residual value, evenly over its expected useful life, as follows:

Computer and other electronic equipment	-	over 3 years
In-house computer development	-	over 5 years
Furniture, fixtures and fittings	-	over 8 years
Motor vehicles	-	over 3 years
Leasehold improvements	-	over the unexpired period of the lease

Deferred capital receipts

Funding received from the funding bodies for the purpose of capital expenditure is credited to the deferred capital receipts account and is released to the profit and loss account by amounts equal to the associated depreciation charge.

Operating leases

Rentals payable under operating leases are charged to the profit and loss account in the period to which they relate.

Pensions

The company operates a defined benefit pension scheme, the assets of which are held separately from those of the company, being invested in managed funds. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions on a systematic basis over employees' working lives with the company.

Taxation

The charge to taxation is based upon the profits of the year attributable to third party administration services, together with interest income received during the year.

Notes *(continued)*

3 Turnover

Turnover is analysed as follows:

	2001 £000	2000 £000
Grant-in-aid receivable	27,689	28,934
Administration fees receivable from third party debt purchasers	8,327	7,750
Other income	123	-
	36,139	36,684

The reimbursement debt recovery charges of £1,752,000 incurred by the company on behalf of the third party debt purchasers is credited directly against the relevant expenditure. The comparative figures have been adjusted to reflect the current year presentation.

4 Interest receivable

	2001 £000	2000 £000
Bank interest	143	103

5 Result of ordinary activities before taxation

(a) This is stated after charging or (crediting):

	2001 £000	2000 £000
Depreciation	1,457	1,007
(Gain)/loss on disposal of fixed assets	(10)	89
Amortisation of deferred capital receipts	(1,457)	(1,007)
Directors' remuneration (see below)	397	275
Auditors' remuneration, including expenses:		
Audit services	46	41
Other services	58	46
Operating lease rentals:		
Land and buildings	1,216	1,090
Computer equipment	1,547	1,509

(b) Directors' remuneration:

	2001 £000	2000 £000
Fees	19	24
Executive emoluments (including reimbursed expenses and benefits in kind)	245	234
Application of the severance policy	116	-
Pension contributions	17	17
	397	275

Notes *(continued)*

5 Result of ordinary activities before taxation *(continued)*

The remuneration of each individual director analysed into its constituent elements, along with comparatives is as follows:

	Basic Emolument		Other benefits and expenses*		Total Emoluments		Pension Contributions		Contract terms	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000	Term	Notice period
	£000	£000	**£000**	£000	**£000**	£000	**£000**	£000		
Sir Anthony Battishill	**64**	59	**17**	16	**81**	75	-	-	3 yrs	3 mths
Sir Eric Ash [(1)]	**4**	9	-	-	**4**	9	-	-	2 yrs	-
BG Booth	**5**	5	-	-	**5**	5	-	-	3 yrs	-
PH Grace	**5**	5	-	-	**5**	5	-	-	3 yrs	-
MD Paterson	**5**	5	-	-	**5**	5	-	-	3 yrs	-
C Ward (chief executive)	**88**	84	**8**	7	**96**	91	**10**	9	3.5 yrs	6 mths
JB Morrison	**63**	63	**121**	5	**184**	69	**7**	8	-	6 mths
	234	230	**146**	28	**380**	258	**17**	17		

* Other benefits and expenses principally comprise motor car, medical insurance benefits, or in the case of the chairman, taxable travel and subsistence expenses. In respect of the finance director, other expenses includes an amount of £115,844 relating to application of the severance policy.

[(1)] 2001 figure relates to period 1 April 2000 to 31 August 2000.

The constituent elements of the chief executive's remuneration package are disclosed above. Under the terms of his contract the company is required to make pension contributions on behalf of the chief executive equivalent to 12% of his gross salary. He is not a member of the company scheme and has a personal pension plan to which the contributions are paid. As an ordinary member of the company's group life assurance scheme he is entitled to permanent health insurance and death in service benefits. He is provided with other benefits as noted above. Subject to the company giving him six months prior written notice, his three and a half year contract will terminate on 30 June 2002. Termination of the contract by the company prior to this date, other than in accordance with its terms, will result in compensation being paid to the chief executive for the unexpired period of the contract, subject to his duty to mitigate his loss.

Notes *(continued)*

6 Staff numbers and costs

The average number of full time equivalent employees of the company (including directors) during the year was as follows:

	2001	2000
Number of employees	**557**	525

All staff were employed by the company for the purposes of administration and operation of the student loans scheme.

The aggregate payroll costs of these persons were as follows:

	2001 **£000**	2000 £000
Wages and salaries	**9,460**	8,799
Social security costs	**698**	655
Other pension costs	**480**	392
	10,638	9,846

7 Tax on result of ordinary activities

	2001 **£000**	2000 £000
Based on the result for the year at 30% *(2000: 30%)*	**911**	688

Notes *(continued)*

8 Tangible fixed assets

	Short leasehold improvements	Computer & other electronic equipment	Furniture, fixtures & fittings	Motor vehicles	Total
	£000	£000	£000	£000	£000
Cost					
At beginning of year	3,447	7,460	1,428	64	12,399
Additions	12	1,945	55	23	2,035
Disposals	-	-	(15)	(25)	(40)
At end of year	3,459	9,405	1,468	62	14,394
Depreciation					
At beginning of year	390	4,366	532	47	5,335
Charge for year	229	1,092	122	14	1,457
On disposals	-	-	(15)	(25)	(40)
At end of year	619	5,458	639	36	6,752
Net book value					
At 31 March 2001	**2,840**	**3,947**	**829**	**26**	**7,642**
At 31 March 2000	3,057	3,094	896	17	7,064

In the opinion of the directors there is no material difference between the net book values disclosed above and their depreciated current cost.

9 Debtors

	2001	2000
	£000	£000
Management fees receivable	**399**	2,617
Other debtors	**89**	47
Amounts due from third party debt owners	**1,199**	725
	1,687	3,389

Notes *(continued)*

10 Cash at bank and in hand

	2001 £000	2000 £000
Cash held in:		
Commercial bank accounts	**267**	363
HM Paymaster General Office accounts	**59,509**	39,869
Cash in hand	**1**	1
	59,777	40,233

11 Creditors: amounts falling due within one year

	2001 £000	2000 £000
Funding received from the funding bodies not yet issued as student loans or tuition fees	**59,633**	39,885
Trade creditors	**99**	1,731
Corporation tax	**429**	688
Other taxation and social security	**1,622**	1,378
Accruals and deferred income	**1,156**	1,267
	62,939	44,949

The company's claim for funding was based on an outstanding amount due of some £40m and, as there was no way of accurately knowing how much would be paid in the month after submission of claims by HEIs, the full claim was made. Some £38.9m was still in place at the year-end.

12 Deferred capital receipts

	2001 £000	2000 £000
At 1 April	**7,064**	3,228
Receivable for the year	**2,035**	4,843
Credited to profit and loss account	**(1,457)**	(1,007)
At 31 March	**7,642**	7,064

Notes *(continued)*

13 Called up equity share capital

	2001	2000
	£	£
Authorised		
100 ordinary shares of £1 each	**100**	100
Allotted, called up and fully paid		
10 ordinary shares of £1 each	**10**	10

14 Movement in shareholders' funds

As the opening and closing reserves are £Nil and there have been no share issues during the year there has been no movement in shareholders' funds during the year *(2000: no movements).*

15 Cash flows

Reconciliation of result on ordinary activities before taxation and interest receivable to net cash inflow from operating activities:

	2001	2000
	£000	£000
Operating surplus	**768**	585
Depreciation	**1,457**	1,007
Amortisation of deferred capital receipts	**(1,457)**	(1,007)
	768	585
Decrease/(increase) in debtors, excluding interest receivable	**1,550**	(1,129)
(Decrease)/increase in creditors	**(1,498)**	1,072
Net cash inflow from administration activities	**820**	528
Funding provided to students and HEIs less repayments in the year	**(2,322,531)**	(1,608,277)
Funding received from the funding bodies less repayments in the year	**2,342,282**	1,636,039
Net cash inflow from operating activities	**20,571**	28,290

Notes *(continued)*

16 Financial commitments

The company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings		Other	
	2001	2000	**2001**	2000
	£000	£000	**£000**	£000
Operating leases which expire:				
Within one year	**-**	-	**782**	251
In the second to fifth years inclusive	**164**	164	**467**	1,307
In over five years	**1,055**	1,023	**-**	-
	1,219	1,187	**1,249**	1,558

The operating lease in respect of the land and buildings is guaranteed by the Secretary of State for Education and Employment.

At 31 March 2001 the company had contracts for the supply of computer and facilities management services in respect of its loan administration system. Under the terms of the contracts the company has commitments of *£954,000 (2000: £709,000),* all of which is in respect of the year to 31 March 2001.

In addition, the company had other contracts in place for operational commitments totalling £500,000 *(2000: £396,000).*

At 31 March 2001 the company had placed contracts for the purchase of fixed assets totalling £55,000 *(2000: £168,000).*

17 Contingent liability

A writ was issued against the company on 18 October 1996 by a former chief executive, who has since died, who was claiming loss and damages in respect of the termination of his contract amounting to an estimated £300,000.

Appropriate legal advice has been taken which leads the directors to believe that no loss will arise to the company. Accordingly, no provision has been made for this contingency in the financial statements.

Notes *(continued)*

18 Pensions

The company has operated a pension scheme since 6 November 1990. The scheme will provide funded defined benefits based on final pensionable salary. The assets of the scheme are held separately from those of the company and are invested in managed funds.

Contribution rates are determined by a qualified actuary on the basis of triennial valuations.

The most recent triennial actuarial valuation was carried out as at 5 November 1999. The method used to value the liabilities was the Projected Unit method with an assumed rate of return on assets of 6.5% up to retiral date and 5.75% after retiral date, and salary growth of 4.5% per annum. Standard mortality and withdrawal tables were used.

Assets were taken at market value. The cost of future service benefits is 18.3% of the pensionable roll (inclusive of employees' contributions).

The actuarial valuation at 5 November 1999 showed that the market value of the scheme's assets was £3,946,000 and that the actuarial value of those assets represented 100% of the benefits that had accrued to members, after allowing for assumed future increases in earnings.

During the year under review, the pensions charge in the profit and loss account of £480,000 *(2000: £358,000)* was equivalent to the contributions due to the scheme between 1 April 2000 and 31 March 2001. In addition the company made pension contributions of £17,000 *(2000: £17,000)* to the personal pension plans of executive directors of the company.

19 Controlling parties

Prior to devolution, as the controlling parties of the company, the Secretary of State for Education and Employment owned 50% of the share capital of the company and the Secretary of State for Scotland owned 50% of the share capital. Part of the share capital will transfer to Scottish Ministers.

20 Related party transactions

Student Loans Company Limited is a Non Departmental Public Body ('NDPB') which is funded by the bodies detailed in Note 1. Those funding bodies are therefore regarded as related parties.

During the year, Student Loans Company Limited has had various material transactions with the above departments.

Dependants of directors, executive management and staff, who are students, are eligible to participate in the student loans scheme on exactly the same terms and conditions as are available to other students.

21 Notional cost of capital

In accordance with the 'Executive NDPBs: Annual Reports and Accounts Guidance' the company is required to disclose the notional cost of capital. In the year ended 31 March 2001 the cost of such capital (calculated at 8%) was £588,000 *(2000: £412,000)*.

Appendix: Accounts direction

Given by the Secretary of State, with the approval of the Treasury, in accordance with the Financial Memorandum of 21 September 1994

1 The Student Loans Company Limited shall prepare accounts for the financial year ended 31 March 1998 and subsequent financial years comprising:

a. a directors' report including NDPB foreword requirements;

b. an income and expenditure account;

c. a balance sheet;

d. a cash flow statement;

e. a statement of total recognised gains and losses.

including such notes as may be necessary for the purposes referred to in the following paragraphs.

2 The accounts shall give a true and fair view of the income and expenditure and cash flows for the financial year, and the state of affairs as at the end of the financial year.

3 Subject to this requirement, the accounts shall be prepared in accordance with:

a. generally accepted accounting practice in the United Kingdom;

b. the disclosure and accounting requirements contained in 'The Fees and Charges Guide' issued by HM Treasury (in particular those relating to the need for appropriate segmental information for services or forms of service provided) and in other guidance which the Treasury may issue from time to time in respect of accounts which are required to give a true and fair view;

c. the accounting and disclosure requirements given in 'Government Accounting' and in 'Executive NDPBs: Annual Reports and Accounts Guidance', as amended or augmented from time to time;

insofar as these are appropriate to the Student Loans Company Limited and are in force for the financial year for which the statement of accounts is to be prepared.

4 Clarification of the application of the accounting and disclosure requirements of the Companies Act and Accounting Standards is given in schedule 1 attached. Additional disclosure requirements are set out in schedule 2 attached.

5 The income and expenditure account and balance sheet shall be prepared under the historical cost convention modified by the inclusion of:

a. fixed assets at their value to the business by reference to current costs;

b. stocks at the lower of net current replacement cost (or historical cost if this is not materially different) and net realisable value. Where stocks are of low value, in line with UK GAAP, they need not be revalued.

6 This direction shall be reproduced as an appendix to the accounts.

7 The Student Loans Company Limited must obtain approval from the Secretary of State, who may also refer the matter to the Treasury, for any departure from the provisions of this accounts direction, including those relevant provisions in the other documents to which it refers.

Schedule 1

Application of the accounting and disclosure requirements of the Companies Act and Accounting Standards

Companies Act

1 The disclosure exemptions permitted by the Companies Act shall not apply to the Student Loans Company Limited unless specifically approved by the Treasury.

2 When preparing its **income and expenditure account**, the Student Loans Company Limited shall have regard to the profit and loss account format prescribed in schedule 4 to the Companies Act.

3 When preparing its **balance sheet**, the Student Loans Company Limited shall have regard to the balance sheet format 1 prescribed in schedule 4 to the Companies Act.

4 The Student Loans Company Limited is not required to provide the additional information required by paragraph 33 (3) of schedule 4 to the Companies Act.

5 The directors' report and balance sheet shall be signed by the accounting officer and dated.

Schedule 2

Additional disclosure requirements

1 The **directors' report** shall, inter alia:

a. *state that the accounts have been prepared in a form directed by the Secretary of State, with the* consent of the Treasury;

b. include a brief history of the Student Loans Company Limited;

c. state that the Chief Executive is also the accounting officer.

2 The **notes to the accounts** shall include a statement of loans, grants and fees administered by the Student Loans Company Limited in a form and with such additional information as may be required by the *Secretary of State from time to time.*

3 The audit report shall be in accordance with practice note 10, Audit of Central Government, Financial Statements in the United Kingdom, and include a statement on the regularity of expenditure.