

Student Loans Company Limited

Directors' report and financial statements

31 March 1997

Registered number 2401034



Directors' report and financial statements

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Chairman's statement

The attached directors' report and company financial statements cover the activities of the company for the year ended 31 March 1997.

Business has again grown significantly over the year with loan balances outstanding at the end of the year of £2,691 million compared with £1,859 million last year, an increase of some 45% in value. The increased business was managed with an increase of the expenses of administration of 5% (to £17 million) representing significant savings in unit transaction costs.

The company continues to strive to improve service to customers within reducing operating unit costs: this can only be achieved by a realistic and focused business strategy which recognises the importance of investment in training and in information technology.

The scale of the company's business is now too large for the original mainframe technology on which the company was founded. In order to maintain growth and service, it is now essential to move forward to a modern modular platform of information technology. The initial phase of this initiative will be implemented in the last quarter of 1997.

Changes of great significance to the company were made in September 1996. The then Secretary of State announced her intention of selling some or all of the future and existing debt portfolio to the private sector and her intention to contract out the administration of the loan scheme. There has been a great deal of work done by the DfEE, their advisers and the officers of this company to bring these instructions into effect. At the time of writing neither one of the instructions has been completed and the possible consequences for the company are therefore not yet clear.

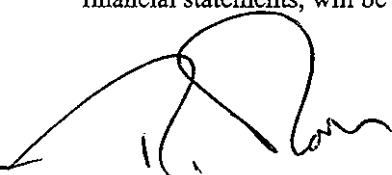
I have been associated with the company for the past ten months and these months have been exceptional because of the growth of the business, the development of improved IT to cater for further growth and at the same time additional workload of dealing with the instructions of the Secretary of State. The staff of the company are to be strongly congratulated for their dedication and commitment in coping with these exceptional pressures. In particular, I wish to thank most warmly the Chief Executive and his team for their sterling service.

I thank my Board colleagues and the departmental assessors for their commitment and support during a period when I have been on a somewhat steep learning curve!

I look forward to reporting in the future on what I am confident will be good quality service by a dedicated staff, in what will undoubtedly be a period of intense yet interesting and necessary change.

I was fortunate to have succeeded to the chairmanship after the four year period in that office of Mr Ken Young. Mr Young left the organisation in an effective mode and I thank him for the foundation he has provided me by his hard work.

A full report on the company's activities during academic year 1996/97, including the attached directors' report and financial statements, will be published before the end of 1997.



Sir Ronald Norman OBE DL
Chairman

2 July 1997

Directors' report

The directors have pleasure in submitting their annual report and the financial statements of the company for the year ended 31 March 1997. 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, with the consent of the Treasury.

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 government. 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 the government's loan scheme during the year under review, with all funding being provided by government in accordance with the financial memorandum which governs the company's operational and financial arrangements, as a result of which the company made neither a profit nor a loss.

The lending and repayment activities continued to grow significantly, and it is expected that this trend will continue given the continuing increase in reliance on maintenance loan funding.

As previously reported, the board is committed to an information systems strategy which will transfer reliance from the current mainframe system onto a modular UNIX-based platform. During the year, ministerial approval of the business cases supporting the strategy was given, and since then a dedicated specialist team has been moving towards the goal of achieving implementation by the end of 1997.

In 1996, following a review to determine the most appropriate route to transfer the student loans activity to the private sector, the government of the day decided that a significant portion of its debt arising from student loans should be sold; work on the implementation of these proposals is on-going. The government also announced its intention to implement the strategic contracting out of the administrative work currently performed by the company, although, to date, no firm proposals as to the manner in which this will be achieved have been made. Those proposals for the transfer of the student loans activities to the private sector are likely to require the continued operation of the company for the administration of all, or a significant part, of the existing and future debt portfolio. It is possible that the new administration will modify these plans. This will immediately involve the company in formation of new plans on how to implement the new policies.

Dividends

The directors do not recommend the payment of a dividend (1996: £Nil).

Directors' report *(continued)*

Directors and their interests

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

Sir Ronald Norman OBE	Chairman	<i>Non-Executive</i>	(appointed 5 August 1996)
KM Young CBE	Chairman	<i>Non-Executive</i>	(resigned 4 August 1996)
RT Kanter		<i>Non-Executive</i>	§
RG Burnett		<i>Non-Executive</i>	†
Sir Eric Ash CBE		<i>Non-Executive</i>	†
Mrs A Bennigsen		<i>Non-Executive</i>	†§
C Ward		<i>Chief executive</i>	
JB Morrison		<i>Finance & administration director</i>	

† Member of the audit committee at 31 March 1997.

§ Member of the remuneration committee at 31 March 1997.

None of the directors had any interest in the shares of the company at 31 March 1997 and 31 March 1996 (or subsequent date of appointment). The company is wholly owned by the Secretary of State for Education and Employment and the Secretary of State for Scotland.

The chief executive is also the accounting officer of the company.

The Secretary of State for Education and Employment and the Secretary of State for Scotland were shadow directors of the company under Section 741 of the Companies Act 1985 throughout the year and continue to be so.

Fixed assets

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

The continued expansion of the customer portfolio being handled has resulted in additional floor space being occupied. The costs of fitting out this additional space are contained within short leasehold improvements.

The company relies heavily on computer technology and during the year work began on migrating the current mainframe system to a modular UNIX based platform. Costs relating to the in-house development of a replacement software system for customer loan servicing amounting to £703,000 have been capitalised as part of computer and other electronic equipment. Development work will continue in the financial year to 31 March 1998 with a target for the new system to be operational by the end of 1997.

Employees

It is the company's aim to keep employees informed about its affairs and in particular about those matters which affect them directly. To this end, newsletters and information memoranda are issued regularly.

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 (1996: £800).

Directors' report *(continued)*

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 billings from suppliers outstanding at 31 March 1997 was 11.

Corporate governance

The board considers that during the year although not a listed company, the company nevertheless complied with the recommendations of the Code of Best Practice established by the Committee on the Financial Aspects of Corporate Governance (the Cadbury Committee) with the exception that the former chairman's term of appointment was not fixed. While there were no meetings of the remuneration committee formally convened during the year, all material matters relating to remuneration policy were fully discussed and decided upon as necessary by the committee members.

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;
- an established audit committee of the board which meets regularly and receives 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;
- an organisational structure within the company with clear lines of responsibility;
- an accounting policies and procedures manual, key changes to which are approved by the board of directors;
- a four year strategic plan 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.

The directors, through the audit committee, have reviewed the effectiveness of the system of internal financial control in existence in the company for the year ended 31 March 1997.

The board includes five non-executive directors who collectively represent a wide range of business experience. The board maintains an audit committee, chaired by Mr RG Burnett, which operates along the lines recommended in the Code. The company also has a remuneration committee, comprising two non-executive directors, which is chaired by Mr RT Kanter.

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

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

A handwritten signature in black ink, appearing to be 'C Ward', with a stylized flourish at the end.

C Ward
Director

21 St Thomas Street
Bristol
BS1 6JS

2 July 1997

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 for the Department for Education and Employment, the Scottish Office Education and Industry Department and the Department of Education for Northern Ireland have placed on the chief executive the responsibility to:

- ensure that funding from the funding bodies is used only for the purposes for which it has been given, the purpose for which it was voted by Parliament and in accordance with the financial memorandum with the funding bodies and any other conditions which the funding bodies may from time to time prescribe;
- ensure that funding is applied in accordance with the Education (Student Loans) Act 1990, the Education (Student Loans) (Northern Ireland) Order 1990, and the Education (Student Loans) Regulations in force for the financial year;
- ensure that there are appropriate financial and management controls in place to safeguard public funds;
- ensure reasonable steps have been taken to secure the economical, efficient and effective management of the company's resources and expenditure.



24 Blythswood Square
Glasgow
G2 4QS
United Kingdom

Report of the auditors to the members of Student Loans Company Limited

We have audited the financial statements on pages 9 to 23.

Respective responsibilities of the chief executive, directors and auditors

As described on page 6 the company's chief executive and directors are responsible for the preparation of financial statements. It is our responsibility to form independent opinions, based on our audit, on those statements and to report our opinions to you.

Basis of opinions

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. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinions

In our opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 31 March 1997 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985;
- funds from the funding bodies have been applied only for the purposes for which they were received;
- income has been applied in accordance with the Education (Student Loans) Act 1990, the Education (Student Loans) (Northern Ireland) Order 1990, the Education (Student Loans) Regulations in force for the financial year, and the financial memorandum with the funding bodies.

KPMG
Chartered Accountants
Registered Auditors

31 July 1997



24 Blythswood Square
Glasgow
G2 4QS
United Kingdom

Review report by KPMG to Student Loans Company Limited on corporate governance matters

In addition to our audit of the financial statements, we have reviewed the directors' statement on page 4 on the company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code which is not disclosed.

Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. This guidance does not require us to perform any additional work necessary to express a separate opinion on the effectiveness of either the company's system of internal financial control or the company's corporate governance procedures or on the ability of the company to continue in operational existence.

Opinion

With respect to the directors' statements on internal financial control and going concern on page 4, in our opinion the directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors), as if those requirements were to apply, and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the company, and examination of relevant documents, in our opinion the directors' statements on page 4 appropriately reflect the company's compliance with the other paragraphs of the Code specified for our review.

A handwritten signature in dark ink, appearing to read 'KPMG', with a horizontal line underneath it.

KPMG
Chartered Accountants
Registered Auditors

31 July 1997

Profit and loss account
for the year ended 31 March 1997

	<i>Note</i>	1997 £000	1996 £000
Turnover	3	17,007	16,243
Administrative expenses		(17,034)	(16,262)
		(27)	(19)
Interest receivable	4	36	26
Result on ordinary activities before taxation	5	9	7
Tax on result on ordinary activities	7	(9)	(7)
Result for the financial year		-	-

In both the current and preceding year, the company made no acquisitions and had no discontinued operations.

Statement of total recognised gains and losses

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

Balance sheet
at 31 March 1997

	<i>Note</i>	1997	1996
		£000	£000
Fixed assets			
Tangible assets	8	3,369	2,986
Current assets			
Debtors	9	1,105	497
Cash at bank and in hand	10	39,384	54,413
		<u>40,489</u>	<u>54,910</u>
Creditors: amounts falling due within one year	11	<u>(40,489)</u>	<u>(54,910)</u>
Net current assets		-	-
Total assets less current liabilities		<u>3,369</u>	<u>2,986</u>
Accruals and deferred income			
Deferred capital receipts	12	<u>(3,369)</u>	<u>(2,986)</u>
		-	-
Capital and reserves			
Called up share capital	13	-	-
Profit and loss account		-	-
Total shareholders' funds - equity		<u>-</u>	<u>-</u>

These financial statements were approved by the board of directors on 2 July 1997 and were signed on its behalf by:


C Ward
Director

Cash flow statement
for the year ended 31 March 1997

	<i>Note</i>	1997	1996
		£000	£000
Net cash (outflow)/inflow from operating activities	15(a)	(15,060)	33,257
Returns on investments and servicing of finance			
Bank and other interest received		36	26
Taxation			
Corporation tax paid		(5)	(6)
Capital expenditure			
Payments to acquire tangible fixed assets		(1,366)	(1,851)
Receipts from sales of tangible fixed assets		2	140
Net cash outflow from capital expenditure		(1,364)	(1,711)
Net cash (outflow)/inflow before financing		(16,393)	31,566
Financing			
Capital funding received from the funding bodies		1,364	1,711
(Decrease)/increase in cash	15(b)	(15,029)	33,277

Notes

(forming part of the financial statements)

Statement of loans administered

Funding for the purpose of making loans to students is received by the company from the Department for Education and Employment, the Scottish Office Education and Industry Department and the Department of Education for Northern Ireland ('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 which the company earns 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) 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 and the balances shown below are stated at their full amount.

While the company is not liable for repayments which ultimately may not be recovered, the Education (Student Loans) Regulations provide deferment for borrowers in repayment whose incomes fall below a pre-determined threshold each year. It is reasonable to assume that a number of borrowers who have been and will be granted such deferment will never reach the threshold, and will not, therefore, be required to repay their loans. The directors are of the view that an estimate should be made of such balances at 31 March 1997 which will not be repaid because of this statutory provision. Experience of deferment is extremely limited, because significant repayments only began in 1992, and future patterns are hard to predict because of the factors which might affect them, for example, changes in national economic conditions. Nonetheless, based on current experience, the directors have estimated that, of the £2.7 billion (1996: £1.9 billion) gross balances held at 31 March 1997, some £314 million (1996: £197 million) will not require to be repaid because of the statutory deferment provision.

Other regulations provide the company with the statutory ability to write off loans of deceased borrowers. Given the short experience of the application of these regulations, it is estimated that a further £8 million (1996: £3 million) might not be repaid under these provisions.

In addition to these regulatory provisions, the company, like any provider of credit, experiences default in repayment of amounts due. Again, the historical information available at this stage to assess possible future default is extremely limited. Nonetheless, the directors have estimated that, of the £2.7 billion (1996: £1.9 billion) of gross balances held at 31 March 1997, the value of balances held at 31 March 1997 which might not be repaid as a result of default is £61 million (1996: £25 million).

These estimates will be reviewed annually with actual experience of the levels of deferment, statutory write off and default.

Notes (continued)

1 Statement of loans administered (continued)

At 31 March 1997 the balance of loans, receivable by instalments from students, amounts to £2,690,927,000 (1996: £1,859,042,000), of which £152,854,000 (1996: £88,551,000) is in respect of interest earned. This balance is due from students and repayable to the funding bodies, after allowing for balances on accounts for which deferment of repayment has been granted at 31 March of the relevant year as follows:

	1997 £000	1996 £000
Within one year	229,559	138,462
Between one and two years	382,673	247,943
Between two and five years	1,470,373	1,011,678
In more than five years	608,322	460,959
	<hr/> 2,690,927 <hr/>	<hr/> 1,859,042 <hr/>

Instalment repayments by year are assessed by reference to the underlying loan agreements and expected date of graduation of each student in the first instance given that repayment is due to commence in the April following graduation. However, the Education (Student Loans) Regulations provide for borrowers in repayment to apply for deferment of repayment on an annual basis depending on their level of income, and the effects of the regulations have been taken into account in the timing of the amounts due to be repaid but only insofar as such deferment has been granted at 31 March of the relevant year. The effect on the timing of repayments of any subsequent deferments which will be granted thereafter under the regulations cannot be determined and no estimate thereof has been made.

Interest is applied to the student loans receivable at 31 March 1997 in accordance with the terms and conditions stated in the loan agreements. The loans made to students bear interest at such rates prescribed by the Secretary of State as being necessary to maintain the value of the loans in real terms. The rate of interest charged on loans from 1 September 1995 to 31 August 1996 was such as to give an annual percentage rate of 3.5%. From 1 September 1996 the rate of interest charged has been such as to give an annual percentage rate of 2.7%. Subject to the provision for deferment in the Education (Student Loans) Regulations, borrowers repay loans in monthly instalments over a fixed period. At present, that fixed period is either five or seven years, depending on the number of academic years over which loans are advanced. Borrowers may repay their loans early if they wish. The company calculates the amount of repayments due under the scheme annually.

Of the loan repayments receivable and interest earned as at 31 March 1997, £923,484,000 (1996: £533,800,000) of individual student loans will be *wholly* repayable to the funding bodies within five years, with the balance of £1,767,443,000 (1996: £1,325,242,000) not being *wholly* repayable within five years.

In the year ended 31 March 1997, an amount of £848,000 (1996: £491,000) representing the balances of 3,769 borrowers (1996: 1,570 borrowers) was written off in accordance with the regulations of the Student Loans Scheme and the company's financial memorandum with the funding bodies.

Notes (continued)

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 Secretary of State for Scotland, the Department of Education for Northern Ireland and the company require that the company shall conduct its affairs so as to remain solvent within the total resources made available to it by the Secretaries of State and the Department of Education for Northern Ireland. These financial statements have been prepared on this basis.

Grant funding

The company receives grant in aid funding from the funding bodies which finances both revenue and capital expenditure. The element which funds revenue expenditure is accounted for as management fees receivable and disclosed as turnover. All net revenue costs are funded by this source. Consequently, the company made neither a profit nor a loss. The grant in aid received in respect of capital expenditure is treated as a deferred capital receipt as detailed below.

Cash flow statement

Changes in the presentation of the cash flow statement have been made consequent upon the adoption of the revised Financial Reporting Standard No. 1 Cash Flow Statements. The changes affect layout only and do not require comparative figures to be restated.

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
Furniture, fixtures and fittings	-	over 8 years
Motor vehicles	-	over 3 years
Leasehold improvements	-	over the unexpired period of the lease

The company is heavily reliant on computer technology and this reliance continues to increase as transaction volumes rise. To manage these increasing volumes efficiently and effectively and in accordance with the unique terms and conditions which apply to the student loans scheme it has been considered necessary to develop replacement software in-house.

Notes (continued)

Accounting policies (continued)

Depreciation (continued)

On account of the level of anticipated operating benefits which will be received over the life of the system and the scale of this individual project it is considered appropriate to capitalise this in-house developed software expenditure. This represents a change from the previous policy which was to charge such expenditure to the profit and loss account when incurred. No adjustment has been made to the comparative results as the effect on both the profit and loss account and balance sheet would not be material.

Costs relating to this new system which have been capitalised will be depreciated from the date of the new system becoming operational.

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.

Turnover

Turnover represents management fees receivable in the form of grant in aid from the funding bodies for the purpose of administering loan funds.

Interest receivable

	1997 £000	1996 £000
Bank interest	36	21
Other interest	-	5
	<hr/>	<hr/>
	36	26
	<hr/>	<hr/>

Notes (continued)

5 Result on ordinary activities before taxation

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

	1997 £000	1996 £000
Depreciation	983	674
Gain on disposal of fixed assets	2	123
Amortisation of deferred capital receipts	(983)	(674)
Directors' remuneration (see below)	203	217
Auditors' remuneration, including expenses:		
Audit services	29	28
Taxation services	10	8
Other services	49	73
Operating lease rentals:		
Land and buildings	922	922
Computer equipment	110	-
	<u> </u>	<u> </u>

(b) Directors' remuneration:

	1997 £000	1996 £000
Fees	55	46
Executive remuneration (including benefits in kind)	134	156
Pension contributions	14	15
	<u> </u>	<u> </u>
	203	217
	<u> </u>	<u> </u>

Emoluments of the:

	1997		1996	
	Including pension contributions £000	Excluding pension contributions £000	Including pension contributions £000	Excluding pension contributions £000
Chairman from 5 August 1996	13	13	-	-
Chairman to 4 August 1996	6	6	18	18
Highest paid director (chief executive)	85	77	75	68
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Notes (continued)

Result on ordinary activities before taxation (continued)

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

	Basic emolument		Bonus payment		Pension contribution		Other benefits**		Total	
	1997 £000	1996 £000	1997 £000	1996 £000	1997 £000	1996 £000	1997 £000	1996 £000	1997 £000	1996 £000
Sir Ronald Norman*	13	-	-	-	-	-	-	-	13	-
KM Young†	6	18	-	-	-	-	-	-	6	18
RT Kanter	9	9	-	-	-	-	-	-	9	9
RG Burnett	9	9	-	-	-	-	-	-	9	9
Sir Eric Ash§	9	36	-	-	-	-	-	-	9	36
A Bennigsen	9	8	-	-	-	-	-	-	9	8
C Ward	72	59	-	4	8	7	5	5	85	75
JB Morrison	51	48	-	-	6	6	6	6	63	60
RJ Harrison	-	-	-	-	-	2	-	-	-	2
	<u>178</u>	<u>187</u>	<u>-</u>	<u>4</u>	<u>14</u>	<u>15</u>	<u>11</u>	<u>11</u>	<u>203</u>	<u>217</u>

§ 1996 comparatives include the period from 1 April 1995 to 31 December 1995 as acting chief executive.

† 1997 figures relate to the period from 1 April 1996 to 4 August 1996.

* 1997 figures relate to the period from 5 August 1996 to 31 March 1997.

** Other benefits principally comprise motor car and medical insurance.

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 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 year contract will terminate on 31 December 1998. 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.

In 1996 a bonus payment was made to the chief executive in recognition of his services in support of the acting chief executive during 1995. On his appointment as chief executive in 1996 his additional responsibilities were reflected in his salary.

Notes (continued)

6 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year was as follows:

	1997	1996
Number of employees	350	335
	==	==

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:

	1997 £000	1996 £000
Wages and salaries	4,666	4,296
Social security costs	356	319
Other pension costs	230	212
	-----	-----
	5,252	4,827
	==	==

Of these payroll costs, £155,000 have been capitalised in relation to the in-house development of a new customer loan servicing system.

The remuneration (excluding pension contributions) of employees, excluding directors, whose annual remuneration exceeded £40,000 fell within the following ranges:

	Number of employees	
	1997	1996
£40,001 - £50,000	1	2
£50,001 - £60,000	1	-
£60,001 - £70,000	1	-
	==	==

7 Tax on result on ordinary activities

	1997 £000	1996 £000
Based on the result for the year	9	7
	==	==

The extent of the company's liability to UK corporation tax is limited to tax chargeable on bank interest received during the year.

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	837	3,742	899	124	5,602
Additions	303	967	96	-	1,366
Disposals	-	(304)	-	-	(304)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	1,140	4,405	995	124	6,664
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation					
At beginning of year	119	1,998	445	54	2,616
Charge for year	47	780	117	39	983
On disposals	-	(304)	-	-	(304)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	166	2,474	562	93	3,295
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value					
At 31 March 1997	974	1,931	433	31	3,369
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 1996	718	1,744	454	70	2,986
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Additions to computer and other electronic equipment include £703,000 (1996: £Nil) relative to the in-house development of a new customer loan servicing system which will be depreciated from the date on which the system becomes operational.

Debtors

	1997 £000	1996 £000
Management fees receivable	310	-
Other debtors	20	21
Prepayments and accrued income	775	476
	<hr/>	<hr/>
	1,105	497
	<hr/>	<hr/>

Included within other debtors above is an amount of £2,000 (1996: £4,000) due after more than one year.

Notes (continued)

10 Cash at bank and in hand

	1997 £000	1996 £000
Cash held in:		
Commercial bank accounts	1,017	832
HM Paymaster General Office accounts	38,366	53,580
Cash in hand	1	1
	<hr/> 39,384 <hr/>	<hr/> 54,413 <hr/>

1 Creditors: amounts falling due within one year

	1997 £000	1996 £000
Loan funding received from the funding bodies not yet issued as student loans	31,119	49,073
Loan repayments received from students repayable to the funding bodies	7,835	4,918
Trade creditors	272	134
Corporation tax	9	5
Taxation and social security	632	562
Accruals and deferred income	622	218
	<hr/> 40,489 <hr/>	<hr/> 54,910 <hr/>

2 Deferred capital receipts

	1997 £000	1996 £000
At 1 April	2,986	1,826
Receivable for the year	1,366	1,834
Credited to profit and loss account	(983)	(674)
	<hr/> 3,369 <hr/>	<hr/> 2,986 <hr/>
At 31 March	3,369	2,986

Notes (continued)

13 Called up equity share capital

	1997 £	1996 £
<i>Authorised</i>		
100 ordinary shares of £1 each	100	100
	=====	=====
<i>Allotted, called up and fully paid</i>		
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 (1996: no movements).

15 Cash flows

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

	1997 £000	1996 £000
Result on ordinary activities before taxation and net interest receivable	(27)	(19)
Depreciation	983	674
Amortisation of deferred capital receipts	(983)	(674)
	-----	-----
	(27)	(19)
(Increase)/decrease in debtors, excluding interest receivable	(608)	700
Increase/(decrease) in creditors	612	(610)
	-----	-----
Net cash (outflow)/inflow from administration activities	(23)	71
Net increase in loans provided to students	(767,582)	(637,321)
Net increase in loan funding received from the funding bodies	749,628	668,260
Movement on loan repayments received from borrowers not yet remitted to the funding bodies	2,917	2,247
	-----	-----
Net cash (outflow)/inflow from operating activities	(15,060)	33,257
	=====	=====

Notes (continued)

15 Cash flows (continued)

(b) Reconciliation of net cash flow to movement in net funds:

	1997 £000	1996 £000
(Decrease)/increase in cash in the period	(15,029)	33,277
Net funds at 1 April	54,413	21,136
	<hr/>	<hr/>
Net funds at 31 March	39,384	54,413
	<hr/> <hr/>	<hr/> <hr/>

(c) Analysis of changes in net funds:

	At 1 April 1996 £000	Cash flows £000	At 31 March 1997 £000
Cash at bank and in hand	54,413	(15,029)	39,384
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

16 Financial commitments

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

	Land and buildings 1997 £000	1996 £000	Other 1997 £000	1996 £000
Operating lease which expires:				
Within one year	-	-	-	-
In the second to fifth years inclusive	-	-	439	-
In over five years	922	922	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	922	922	439	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

At 31 March 1997 the company had contracts for the supply of computing services in respect of its loan administration system. Under the terms of the contracts the company has a commitment of £1,320,000 (1996: £1,094,000) in respect of the year to 31 March 1998.

At 31 March 1997 the company had placed a contract for the purchase of fixed assets at a cost of £85,000 (1996: £176,000).

Notes (continued)

17 Contingent liability

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

Appropriate legal advice has been taken and 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.

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 6 November 1996. The method used to value the liabilities was the Projected Unit Credit method with interest at 9% per annum and salary growth of 7.5% per annum. Standard mortality tables were used with no specific allowance for withdrawals.

Assets were valued by the method of discounted income, allowing for a 4% per annum growth rate in dividends. The funding rate over the year was 14.7% of the pensionable salary roll (inclusive of employees' contributions).

The actuarial valuation at 6 November 1996 showed that the market value of the scheme's assets was £1,690,000 and that the actuarial value of those assets represented 102% 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 £230,282 (1996: £194,000) was equivalent to the contributions due to the scheme between 1 April 1996 and 31 March 1997. In addition the company made pension contributions of £14,000 (1996: £18,000) to the personal pension plans of executive directors of the company.

19 Controlling parties

The controlling parties of the company are the Secretary of State for Education and Employment and the Secretary of State for Scotland who each hold 50% of the share capital of the company.

20 Related party transactions

Student Loans Company Limited is a Non Departmental Public Body ('NDPB') funded by the Department for Education and Employment, the Scottish Office Education and Industry Department and the Department of Education for Northern Ireland who 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.

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 1997 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. (This requirement does not apply to the 1996-97 accounts but will apply from 1997-98 onwards);
 - 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. a statement of loans administered by the Student Loans Company Limited, including estimates of irrecoverable loans, 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.