

Student Loans Company Limited

Directors' report and financial statements

31 March 1998

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 1998.

As I reported last year, the previous government announced in 1996 its intention to sell to the private sector some or all of the existing and future debt portfolio, and to contract out the administration of the loan scheme. While the intention to contract out the administration was not followed through, the present government endorsed the principle of the portfolio sale, and in March 1998 a successful sale was completed. Some 484,000 loans with a par value of £1,022 million were sold to Finance for Higher Education Limited, a wholly owned subsidiary of National Westminster Bank Limited.

Before allowing for the debt sale, however, it is worth noting that the loan portfolio administered by the company on behalf of the DfEE had grown from £2,691 million to £3,575 million during the year, an increase of some 33% in value. The value of the portfolio remaining at the end of the year after the sale was £2,553 million.

A significant achievement for the company in connection with the debt sale was the winning of a five year renewable contract with the debt purchaser to administer the sold debt on their behalf. This represents a most encouraging endorsement by the private sector of the capability and competence of the company's staff.

The government has also announced its plan to sell a second tranche of the portfolio in the current year with a third to follow, and the company will, of course, be making every endeavour to ensure their success.

Following the publication of the Dearing Report and the government's consequential proposals, it has become clear that the company will play a central role in the preparation for the imminent changes in student financial support arrangements. In order to be adequately resourced for these projects, the company has had to undertake a certain amount of restructuring and recruitment to meet its commitments. The most significant of these commitments are the second and third debt sales, the transitional loan arrangements for 1998/99, the new student support scheme in 1999/2000, income contingent repayments in April 2000, together with many issues in connection with millennium compliance. It is generally recognised that the speciality skills required to tackle the development work involved in such complex projects currently attract significant payments in the competitive marketplace, and the company must ensure that it is properly placed to meet these challenges without delay and has taken measures to ensure that adequate resources are in place as and when required.

Last year I referred to the company's initiative to move to a modular platform of information technology; the first phase of this programme was successfully introduced in September of last year, and full implementation was achieved in April this year. The directors fully appreciate that this is a remarkable achievement particularly at a time when the company has been facing the variety of pressures referred to earlier. The management and staff are to be commended for the dedication and effort shown in achieving this success.

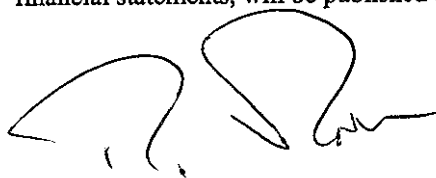
Again, I thank all my Board colleagues and the departmental assessors for their support during the year. Three of our non-executive directors resigned during the year due either to other business commitments or to the completion of their prescribed terms of office. I should therefore like to thank Alex Bennigsen, Gavin Burnett and Ralph Kanter for their significant contributions to the success and development of the business over the last six years.

Chairman's statement *(continued)*

Whilst Ministers have been considering what might be the best structure for student financial support, it was not considered appropriate to proceed with non-executive director replacements until the way forward was clear. Consequently, the three vacancies arising from the resignations have remained from the middle of the financial year until now. This also rendered the audit and remuneration committees of the Board inquorate during this period, and, in order to sustain the integrity of good corporate governance, the Board assumed the duties and obligations previously designated to these committees. Since Ministers have now decided to postpone a review of the student support structural arrangements until 2000, I expect that replacement appointments will be made shortly, thus permitting the two committees to be properly reconstituted. In the meantime, I am most grateful to Professor John Baillie who has been acting as adviser on audit matters to me, and acting chairman of the audit committee.

Again, I should like to thank the management and staff for an outstanding effort this past year, and would encourage everyone to maintain this momentum into 1998/99 and beyond, which promise to be both exciting and rewarding times.

A full report on the company's activities during academic year 1997/98, including the attached directors' report and financial statements, will be published before the end of 1998.



Sir Ronald Norman OBE DL
Chairman

29 July 1998

Directors' report

The directors have pleasure in submitting their annual report and the financial statements of the company for the year ended 31 March 1998. 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, as set out in the Accounts Direction reproduced in the appendix on pages 25 to 27.

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

During the year the company not only administered the government's loan scheme under the terms of its financial memorandum, but also was involved in the sale of some £1 billion of the outstanding loan portfolio to the private sector at the same time securing a contract with the purchaser to administer the sold portfolio.

Since the last report, not only has there been substantial growth in the company's core activities of lending, repayments and debt recovery, but also there have been significant developments both within the company and in the plans for student financial support going forward.

In terms of systems, the company has successfully implemented its new UNIX-based loans system called CLASS. The system was introduced in two phases, and once the bedding-in process is complete, the company will be well positioned to handle the significant developments in which it will be involved in the future.

The future holds a number of challenges for the company arising not only from millennium issues, but from its central involvement in the developments in student financial support into the next century. These include a transitional loans scheme in 1998/99, a new student support scheme in 1999/2000, and the start of income contingent repayments through the PAYE tax collection system in April 2000. In addition, the company will be required to assist in another two sales of the old scheme debt to the private sector in financial years 1998/99 and 1999/2000.

The directors are confident that the management and staff are more than capable of rising to these challenges; but they are also aware that the retention and procurement of adequate resources to meet its obligations are critical to the company.

Directors' report *(continued)*

Dividends

The company has no accumulated reserves and accordingly the directors do not recommend the payment of a dividend (1997: £Nil).

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>	
RT Kanter		<i>Non-Executive</i> §	(resigned 31 August 1997)
RG Burnett		<i>Non-Executive</i> †	(resigned 31 August 1997)
Sir Eric Ash CBE		<i>Non-Executive</i> †	
Mrs A Bennigsen		<i>Non-Executive</i> †§	(resigned 31 July 1997)
C Ward		<i>Chief executive</i>	
JB Morrison		<i>Finance & administration director</i>	

† Member of the audit committee during the year.

§ Member of the remuneration committee during the year.

None of the directors had any interest in the shares of the company at 31 March 1998 and 31 March 1997 (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 growth of business volumes and expansion in the use of new technology has meant that additional floor space was occupied during the year. The costs of fitting out this additional space are contained within short leasehold improvements additions.

The work required to migrate the mainframe computer system to a modular UNIX based platform is almost complete. Costs relating to this in-house software development amounting to £1,578,000 (1997: £703,000) have been capitalised as part of computer and other electronic equipment. The first phase of this system became operational in September 1997. Depreciation commenced from 1 October 1997 and an amount of £177,000 (1997: £Nil) is included within depreciation on computer and other electronic equipment. The development phase was completed at the end of February 1998 at which point the company ceased to capitalise any related costs. The system became fully operational in May 1998.

Directors' report *(continued)*

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. A Joint Staff Consultative Committee was also set up during the year.

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 (1997: £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 billings from suppliers outstanding at 31 March 1998 was 9 (1997: 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 of the audit and remuneration committees as noted below.

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 standard monthly reports;
- 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 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.

Directors' report *(continued)*

Corporate governance *(continued)*

During the period under review the established audit committee of the board met on 1 July 1997 for the purposes of reviewing internal control, the draft accounts and related matters for the year ended 31 March 1997. On 31 July 1997, Mrs Alex Bennigsen, a non-executive director and member of the audit committee resigned due to other business commitments; and on 31 August Mr Gavin Burnett, a non-executive director and chairman of the audit committee resigned having completed his prescribed term of appointment. The latter resignation rendered the committee inquorate from that date.

At that time Ministers were considering the future structure of student financial support and it was not considered appropriate to proceed with board replacements until such time as the way forward was clear. In the event any restructuring has been postponed until 2000, and the way is now clear for Ministers to make the necessary board appointments.

However, until such time as the committee is reconstituted, the board has assumed the responsibilities previously delegated to the audit committee and, to facilitate this, on 26 February 1998, the chairman of the board appointed Mr John Baillie as audit adviser to him and acting chairman of the audit committee which, although still inquorate, would act as the audit committee with all the obligations and powers of a fully constituted committee. Mr Baillie is a senior independent practising chartered accountant with no other existing or prior connection with the company. Under these arrangements Mr Baillie chaired a meeting on 10 June 1998 at which internal financial controls, the draft accounts and related matters for the year ended 31 March 1998 were considered by him and Sir Eric Ash, the remaining non-executive member of the committee, assisted by the executive directors and staff.

For similar reasons the remuneration committee was rendered inquorate from 31 July 1997, and, until such time as that committee can be reconstituted the board has assumed the responsibilities previously delegated to the remuneration committee.

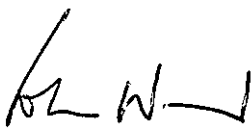
The directors have reviewed the effectiveness of the system of internal financial control in existence in the company for the year ended 31 March 1998.

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.

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


C Ward
Director

21 St Thomas Street
Bristol
BS1 6JS

29 July 1998

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 for ensuring the regularity and propriety of the public finances, a requirement which is set out in the company's financial memorandum.



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 10 to 24.

Respective responsibilities of the chief executive, directors and auditors

As described on page 7 the company's chief executive and directors are responsible for the preparation of the financial statements. It is our responsibility to form independent opinions, based on our audit, on those statements and on the regularity of the financial transactions included in them 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 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.

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 1998 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
Chartered Accountants
Registered Auditors

31 July 1998



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 pages 5 and 6 on the company's compliance with the paragraphs of the Cadbury Code of Best Practice to the extent which would have been required of us had the company been subject to the listing rules of the London Stock Exchange. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code which is not disclosed.

Basis of opinions

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.

Opinions

With respect to the directors' statements on internal financial control and going concern on pages 5 and 6, 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 applied to the company, 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 pages 5 and 6 appropriately reflect the company's compliance with the other paragraphs of the Code coming within the scope of our review.

A handwritten signature in dark ink, appearing to read 'K. H. L.' or similar, with a horizontal line underneath.

KPMG
Chartered Accountants
Registered Auditors

31 July 1998

Profit and loss account
for the year ended 31 March 1998

	<i>Note</i>	1998 £000	1997 £000
Turnover	3	19,625	17,007
Administrative expenses		(19,671)	(17,034)
Operating deficit		(46)	(27)
Interest receivable	4	58	36
Result of ordinary activities before taxation	5	12	9
Tax on result of ordinary activities	7	(12)	(9)
Result for the financial year		-	-

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

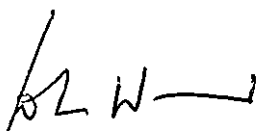
Statement of total recognised gains and losses

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

Balance sheet
at 31 March 1998

	<i>Note</i>	1998	1997
		£000	£000
Fixed assets			
Tangible assets	8	4,267	3,369
Current assets			
Debtors	9	1,395	1,105
Cash at bank and in hand	10	60,288	39,384
		<u>61,683</u>	<u>40,489</u>
Creditors: amounts falling due within one year	11	<u>(61,683)</u>	<u>(40,489)</u>
Net current assets		-	-
Total assets less current liabilities		<u>4,267</u>	<u>3,369</u>
Accruals and deferred income			
Deferred capital receipts	12	<u>(4,267)</u>	<u>(3,369)</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 29 July 1998 and were signed on its behalf by:



C Ward
Director

Cash flow statement
for the year ended 31 March 1998

	<i>Note</i>	1998	1997
		£000	£000
Net cash inflow/(outflow) from operating activities	15(a)	20,855	(15,060)
Returns on investments and servicing of finance			
Bank and other interest received		58	36
Taxation			
Corporation tax paid		(9)	(5)
Capital expenditure			
Payments to acquire tangible fixed assets		(2,068)	(1,366)
Receipts from sales of tangible fixed assets		18	2
Net cash outflow from capital expenditure		(2,050)	(1,364)
Net cash inflow/(outflow) before financing		18,854	(16,393)
Financing			
Capital funding received from the funding bodies		2,050	1,364
Increase/(decrease) in cash	15(b)	20,904	(15,029)

Notes

(forming part of the financial statements)

1 Statement of loans administered on behalf of funding bodies

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').

On 24 March 1998, 484,490 loans from the portfolio administered by the company were sold at a par value of £1,021,620,000 to Finance for Higher Education Limited, a wholly owned subsidiary of National Westminster Bank Plc. Payment for the loans was made by Finance for Higher Education Limited directly to the funding bodies.

The movement on the funding bodies loan portfolio during the year was therefore as follows:

	£000
Balance at 1 April 1997	2,691,927
Loans issued	938,977
Loan repayments received	(133,623)
Loan interest charged	79,087
Loans written off	(1,021)
Sold to Finance for Higher Education Limited	(1,021,620)
Balance at 31 March 1998	2,552,727

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) 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 1998 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 £2.6 billion (1997: £2.7 billion) gross balances held on behalf of the funding bodies at 31 March 1998, some £324 million (1997: £314 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 £11 million (1997: £8 million) might not be repaid under these provisions.

Notes (continued)

1 Statement of loans administered on behalf of funding bodies (continued)

In addition to these regulatory provisions, the company, like any issuer 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 £2.6 billion (1997: £2.7 billion) of gross balances held on behalf of the funding bodies at 31 March 1998, the value of balances which might not be repaid as a result of default is £58 million (1997: £61 million).

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

At 31 March 1998 the balance of loans, receivable by instalments from students, amounts to £2,552,727,000 (1997: £2,690,927,000), of which £231,942,000 (1997: £152,854,000) 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:

	1998 £000	1997 £000
Within one year	243,971	229,559
Between one and two years	368,373	382,673
Between two and five years	1,320,433	1,470,373
In more than five years	619,950	608,322
	2,552,727	2,690,927

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; 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 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 1996 to 31 August 1997 was such as to give an annual percentage rate of 2.7%. From 1 September 1997 the rate of interest charged has been such as to give an annual percentage rate of 2.6%. 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.

Notes (continued)

1 Statement of loans administered (continued)

Of the loan repayments receivable and interest earned as at 31 March 1998, £953,983,000 (1997: £923,484,000) of individual student loans will be *wholly* repayable to the funding bodies within five years, with the balance of £1,598,744,000 (1997: £1,767,443,000) not being *wholly* repayable within five years.

In the year ended 31 March 1998, an amount of £1,031,000 (1997: £848,000) representing the balances of 58,833 borrowers (1997: 3,769 borrowers) was written off in accordance with the regulations of the Student Loans Scheme and the company's financial memorandum with the funding bodies.

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 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.

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

Notes (continued)

2 Accounting policies (continued)

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.

3 Turnover

Turnover is analysed as follows:

	1998 £000	1997 £000
Grant-in-aid receivable	19,587	17,007
Administration fees receivable from third party debt purchasers	38	-
	<u>19,625</u>	<u>17,007</u>

4 Interest receivable

	1998 £000	1997 £000
Bank interest	58	36
	<u>58</u>	<u>36</u>

Notes (continued)

5 Result on ordinary activities before taxation

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

	1998 £000	1997 £000
Depreciation	1,151	983
Gain on disposal of fixed assets	(18)	(2)
Amortisation of deferred capital receipts	(1,151)	(983)
Directors' remuneration (see below)	198	203
Auditors' remuneration, including expenses:		
Audit services	35	29
Taxation services	9	10
Services relating to debt sale	59	-
Other services	120	49
Operating lease rentals:		
Land and buildings	940	922
Computer equipment	794	110
	<u> </u>	<u> </u>

All professional fees associated with the recent debt sale have been reimbursed to the company by the funding bodies.

(b) Directors' remuneration:

	1998 £000	1997 £000
Fees	39	55
Executive remuneration (including benefits in kind)	143	134
Pension contributions	16	14
	<u> </u>	<u> </u>
	198	203
	<u> </u>	<u> </u>

Notes (continued)

5 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		Pension contribution		Other benefits**		Total	
	1998 £000	1997 £000	1998 £000	1997 £000	1998 £000	1997 £000	1998 £000	1997 £000
Sir Ronald Norman*	20	13	-	-	-	-	20	13
KM Young†	-	6	-	-	-	-	-	6
RT Kanter 1	4	9	-	-	-	-	4	9
RG Burnett 1	4	9	-	-	-	-	4	9
Sir Eric Ash	9	9	-	-	-	-	9	9
A Bennigsen 2	3	9	-	-	-	-	3	9
C Ward (chief executive)	77	72	9	8	6	5	92	85
JB Morrison	54	51	7	6	5	6	66	63
	<u>171</u>	<u>178</u>	<u>16</u>	<u>14</u>	<u>11</u>	<u>11</u>	<u>198</u>	<u>203</u>

† 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.

1 1998 figures relate to the period from 1 April 1997 to 31 August 1997

2 1998 figures relate to the period from 1 April 1997 to 31 July 1997

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 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.

Notes (continued)

6 Staff numbers and costs

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

	1998	1997
Number of employees	366	350
	<u> </u>	<u> </u>

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:

	1998 £000	1997 £000
Wages and salaries	5,450	4,802
Social security costs	407	368
Other pension costs	245	237
	<u> </u>	<u> </u>
	6,102	5,407
	<u> </u>	<u> </u>

Of these payroll costs, £267,000 (1997: £155,000) have been capitalised in relation to the in-house development of the company's new 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	
	1998	1997
£40,001 - £50,000	2	1
£50,001 - £60,000	1	1
£80,001 - £90,000	1	1
	<u> </u>	<u> </u>

7 Tax on result on ordinary activities

	1998 £000	1997 £000
Based on the result for the year at 23% (1997: 25%)	12	9
	<u> </u>	<u> </u>

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	1,140	4,405	995	124	6,664
Additions	119	1,820	103	26	2,068
Disposals	-	(463)	-	(43)	(506)
At end of year	1,259	5,762	1,098	107	8,226
Depreciation					
At beginning of year	166	2,474	562	93	3,295
Charge for year	55	939	128	29	1,151
On disposals	-	(445)	-	(42)	(487)
At end of year	221	2,968	690	80	3,959
Net book value					
At 31 March 1998	1,038	2,794	408	27	4,267
At 31 March 1997	974	1,931	433	31	3,369

Additions to computer and other electronic equipment include £1,578,000 (1997: £703,000) relative to the in-house development of the company's new loan servicing system. The depreciation charge for the year includes £177,000 (1997: £Nil) in respect of this asset.

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

	1998 £000	1997 £000
Management fees receivable	248	310
Other debtors	27	20
Prepayments and accrued income	1,120	775
	1,395	1,105

Included within other debtors above is an amount of £1,000 (1997: £2,000) due after more than one year.

Notes (continued)

10 Cash at bank and in hand

	1998 £000	1997 £000
Cash held in:		
Commercial bank accounts	467	1,017
HM Paymaster General Office accounts	59,820	38,366
Cash in hand	1	1
	60,288	39,384

11 Creditors: amounts falling due within one year

	1998 £000	1997 £000
Loan funding received from the funding bodies not yet issued as student loans	59,825	31,119
Loan repayments received from students repayable to the funding bodies	-	7,835
Trade creditors	295	272
Corporation tax	12	9
Other taxation and social security	886	632
Accruals and deferred income	665	622
	61,683	40,489

12 Deferred capital receipts

	1998 £000	1997 £000
At 1 April	3,369	2,986
Receivable for the year	2,049	1,366
Credited to profit and loss account	(1,151)	(983)
At 31 March	4,267	3,369

Notes (continued)

13 Called up equity share capital

	1998 £	1997 £
<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 (1997: no movements).

15 Cash flows

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

	1998 £000	1997 £000
Operating deficit	(46)	(27)
Depreciation	1,151	983
Amortisation of deferred capital receipts	(1,151)	(983)
	(46)	(27)
Increase in debtors, excluding interest receivable	(290)	(608)
Increase in creditors	320	612
	(16)	(23)
Net cash outflow from administration activities	(16)	(23)
Loans provided to students less repayments in the year	(805,354)	(767,582)
Loan funding received from the funding bodies		
less repayments in the year	834,060	749,628
Movement on loan repayments received from borrowers not yet remitted to the funding bodies	(7,835)	2,917
	20,855	(15,060)
Net cash inflow/(outflow) from operating activities	20,855	(15,060)

Notes (continued)

15 Cash flows (continued)

(b) Reconciliation of net cash flow to movement in net funds being cash at bank and in hand:

	1998 £000	1997 £000
Increase/(decrease) in cash in the period	20,904	(15,029)
Net funds at 1 April	39,384	54,413
Net funds at 31 March	60,288	39,384

16 Financial commitments

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

	Land and buildings		Other	
	1998 £000	1997 £000	1998 £000	1997 £000
Operating leases which expire:				
Within one year	41	-	-	-
In the second to fifth years inclusive	-	-	926	439
In over five years	922	922	-	-
	963	922	926	439

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

At 31 March 1998 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 £622,000 (1997: £1,320,000) in respect of the year to 31 March 1999. This contract is expected to subsist until the 1999-2000 financial year.

At 31 March 1998 the company had placed a contract for the purchase of fixed assets at a cost of £63,000 (1997: £85,000).

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 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 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 £229,000 (1997: £230,000) was equivalent to the contributions due to the scheme between 1 April 1997 and 31 March 1998. In addition the company made pension contributions of £16,000 (1997: £14,000) 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.

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 1998 the cost of such capital (calculated at 8%) was £309,000.

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 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;
 - 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.