

Student Loans Company Limited

**Directors' report and financial
statements**

Registered number 2401034

31 March 2002



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Chairman's statement

The Directors' Report and Company Financial Statements below cover the activities of the Company for the year ended 31 March 2002.

This has been a period of relative stability in terms of the Company's activities with no major amendments to the student support system. The Company's loan portfolio has, however, continued to increase.

In the past year, the number of students entitled to apply for loans under the old mortgage style scheme continued to diminish with just over 22,000 loans paid last year. Accounts in repayment, which do not include deferred accounts, continue to increase and by March this year borrowers in the retained portfolio had repaid some 85.5% of the total amount due to be repaid under the mortgage style loan scheme.

Applications under the new Student Support Scheme continued to increase. Over 921,000 students had received loans for the Academic Year 2001-2002 up to 31st March 2002 and over 98% of students who had applied on time received their loan cheques by the first day of term.

As this scheme matures, accounts are now beginning to move into repayment status in significant numbers. As at 31st March 2002, around 100,000 accounts had been notified to the Inland Revenue as potentially due for repayment, subject to the relevant income thresholds being met.

In addition, in the past year, the Company continued to pay hardship loans for students in financial difficulty. Almost 50,000 such loans were paid and for the first time, part-time students were entitled to apply for loans and around 3,000 of these were paid in the period up to 31st March 2002.

In addition to the Government's student loan portfolio, the Company continues to manage the two private sector loan portfolios acquired in 1998 by Finance for Higher Education Limited and in 1999 by Honours Trustee Limited.

At 31st March 2002, the Company was responsible for administering almost 4.5 million accounts on behalf of the Government and the private sector owners with a total value of approximately £10 billion, an increase of around 12% in account numbers and around 25% in value compared with the previous year.

Earlier this year, the Department for Education and Skills confirmed that the Company will play a central role in the development of systems to support the Modernising Government initiative as it affects student support. This will lead to more modern, cohesive and accessible arrangements for delivery of student support with particular emphasis on appropriate and convenient forms of electronic access. The programme is focussed on new applicants in England and Wales but should also produce significant benefits for existing customers throughout the UK.

The Board met ten times last year and there was also a full programme of Audit and Remuneration Committee meetings. In the course of the year, Sir Anthony Battishill retired as Chairman following a three year period in office in which the Company underwent substantial change. It is a tribute to his efforts and those of his fellow directors and management team that the Company is now in a good position to deliver the Modernising Government programme for student support.

This is my first report as chairman of the Student Loans Company. I have been very impressed by the commitment shown by everyone in the Company to deliver a high quality and efficient service and I would like to thank them for this. I also wish to record my appreciation to Education Ministers, officials and my fellow directors for the support they have given me. The management and staff of the Company have great enthusiasm for the further development of the Company and together we look forward to an exciting period of change.



Keith Bedell-Pearce
Chairman

26 June 2002

Directors' report

The directors have pleasure in submitting their annual report and the financial statements of the Company for the year ended 31 March 2002. 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 Skills (until 8th June 2001, the Secretary of State for Education and Employment). This has been done with the consent of the Treasury, as set out in the Accounts Direction reproduced in the appendix on page 25.

Also, the statements have been prepared on the basis that the Secretary of State for Education and Skills was responsible for the Company throughout the financial year of the report.

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 both sold portfolios under contract to the private sector owners.

The Student Support loan scheme is now well established and is operating efficiently with continuing improvements being made involving development of technology and handling processes. Repayment of income contingent loans through the PAYE system continues to develop. As yet the volumes involved remain low and the required interfaces between organisations are being refined. As the number of accounts entering repayment under the old loan scheme increases, continuous improvement programmes are ongoing in this area.

The Company has been asked by the DfES to take the lead role in developing systems for the modernisation of student support which presents a range of exciting challenges and opportunities for the years ahead. The Company has continued to work with the appropriate bodies in Scotland and Ireland and with the DfES on arrangements for repayment of Teacher Loans. These developments are taking place alongside the Company's continuing efforts to work with all bodies involved in student support arrangements to improve continually the efficiency of the scheme.

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

Directors' report *(continued)*

Economic and Monetary Union

While the way forward for the UK in relation to joining the common European Currency is not clear, the Company is consulting with the Department for Education and Skills to keep abreast of material developments in this matter and to consider the potential impact on the Company. As part of this process, links have been established with Department officials in order to be prepared to provide the necessary contributions to the overall planning process in due course.

Dividends

The Company has no accumulated reserves and accordingly the directors do not recommend the payment of a dividend (2001: £Nil).

Directors and their interests

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

K Bedell-Pearce	Chairman	Executive (part-time)	Appointed 17 December 2001
Sir A Battishall GCB	Chairman	Executive (part-time)	Resigned 8 November 2001
BG Booth		Non-Executive	*^
PH Grace		Non-Executive	*^
MD Paterson		Non-Executive	*^
C Ward		Chief Executive	

* Member of the audit committee throughout the year.

^ Member of the remuneration committee throughout the year.

All non-executive directors are considered to be independent.

None of the directors had any interest in the shares of the Company at 31 March 2001 and 31 March 2002. The Company is wholly owned by the Secretary of State for Education and Skills and the Secretary of State for Scotland (but this is being reviewed by the Departments following the transfer of responsibility for student support in Scotland to Scottish Ministers on 1 July 1999).

The chief executive is also the accounting officer for the Company.

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

Directors' report *(continued)*

Fixed assets

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

Employees

It is the Company's aim to keep employees informed about its affairs and in particular about those matters that affect them directly. To this end, newsletters and information memoranda are issued regularly to employees in addition to meetings of the Joint Negotiating & Consultative Committee. These meetings are attended by representatives of the Public and Commercial Services (PCS) Union, which was officially recognised by the Company in November 2000.

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

The Company achieved Investors in People (IIP) accreditation in September 2000.

Charitable donations

During the year the Company made no charitable donations (2001: £ Nil).

Creditor payment policy

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

The number of days billing from suppliers outstanding at 31 March 2002 was 9 (2001: 4). As reported last year, the figure for 31 March 2001 was an exceptional result and, as expected, the value has reverted to a more normal operational level this year.

Corporate Governance

As a matter of good practice the Company has, since 1995, adopted published corporate governance guidelines and has reported accordingly in the annual directors' reports. This is despite the fact that the Company is not a listed Company of the type to which these requirements were directed. However, with the publication of the Combined Code in 1998 there are a number of matters with which, due to its status as a NDPB, the Company cannot comply. In accordance with guidance issued in the document 'Internal Control: Guidance for Directors on the Combined Code', which was issued in September 1999 (the Turnbull Guidance), the Board adopted a staged approach to adoption of the principles of the Combined Code. The Board put in place a process that allowed it to report on internal financial controls for the year ended 31 March 2001 and allowed full adoption, where possible, of the principles of the Combined Code from April 2001. Measures to allow reporting on these principles were approved by the Board and implemented.

In addition, over the same period, updated guidance has been issued by HM Treasury, as contained in a Dear Accounting Officer letter (DAO(GEN)13/00), which was published in December 2000. This introduced a requirement for NDPBs to include a Statement of Internal Control (SIC) for financial periods beginning on or after 1 January 2001, and made reference to best practice as contained in the Turnbull Guidance. This guidance has been fully complied with for the year commencing 1 April 2001.

Corporate Governance *(continued)*

As noted above, however, full adoption of the Combined Code has not been possible, and the following exceptions from its provisions should be noted:

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

Remuneration Committee

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

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

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

In addition, a severance policy is in operation.

Audit Committee

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

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

- to review the annual financial statements and their compliance with statutory and accounting requirements before their submission to the Board;
- to consider the scope, planning and terms of engagement of the external auditors, and to review their findings;
- to review management procedures to monitor the effectiveness of the internal control functions and accounting systems of the Company;
- to consider the role of the internal audit department and to review their major findings and management's actions to implement any recommendations made;

Corporate Governance *(continued)*

- to make recommendations to the Board concerning the appointment of external auditors and to recommend, in conjunction with the Finance Director, their remuneration;
- to keep under review the ethical standards of business behaviour of the Company;
- to consider the going concern assumption and the statement on internal control systems prior to their endorsement by the Board.

Throughout the period, both external and internal audit had the right of independent access to the chairman and members of the Committee.

Statement of Internal Control

Accounting Officer's responsibilities

As the Student Loan Company's Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Company's policies, aims and objectives, set by DfES Ministers on behalf of all devolved administrations, whilst safeguarding the public funds and Company's assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

The Board of the Company also has responsibility for maintaining a sound system of internal control.

There is no separation between the mechanisms by which I assure myself that the system of internal control is working effectively, from those that the Board uses to assure itself, although I acknowledge my separate Accounting Officer responsibilities to Parliament. For this reason, I am setting out a joint statement between myself as Accounting Officer and the Board in reporting on internal control within the Company.

Internal control

In accordance with guidance, and consistent with permission given by the London Stock Exchange to the Boards of listed companies, the Company has complied with 'Internal Control: Guidance for Directors on the Combined Code' (the Turnbull guidance), which underpins provision D2 of the Combined Code. It has also complied with DAO(GEN)13/00, issued by HM Treasury.

The Board is responsible for maintaining a sound system of internal control. The Company has an established framework of internal control, which is monitored and supported by an internal audit function. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives and to provide reasonable but not absolute assurance against material misstatement or loss.

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of the Company's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 March 2002 and up to the date of approval of the annual report and accounts and accords with Treasury guidance. It is intended to be regularly reviewed by the Board and has been reviewed for the period under consideration.

The key elements of the system of internal control are as follows:

- regular meetings of the Board of directors which has a schedule of matters which are specifically reserved for its approval and which are the subject of regular standard reports as required;
- arrangements under a constitution for an audit committee of the Board to meet regularly and receive from management and internal and external auditors, inter alia, reports on the system of internal control, and 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 to support business processes and with clear lines of responsibility;
- an accounting policies and practices manual, key changes to which are approved by the Board of directors;

Statement of Internal Control (continued)

- an internal audit function working to Government Internal Audit Manual standards, with an annual internal audit plan and producing an annual internal audit report;
- provision by each member of the Management Board of an annual directorate Statement of Assurance to the Accounting Officer, confirming their acceptance of their delegated responsibility for maintaining an adequate system of internal control and risk management;
- adoption of a risk-based approach to internal control through evaluating the likelihood and significance of identified corporate risks, resting responsibility for risk management and internal control with designated owners, and with an ongoing process of monitoring and reporting progress against the Company's key risks established through the corporate risk management function;
- a four-year Corporate (Financial) Plan supporting strategic and operating plans, with a detailed annual budget, regularly revised forecasts, a comparison of actual with budget and with forecast on a monthly and quarterly basis, operating cash flow and variance statements, and key performance indicators, all of which are reviewed by the Board;
- measuring financial and other performance against key performance indicators, including Ministerial targets;
- a corporate diary designed to ensure that all key dates and deadlines are achieved with a monthly high level report, looking forward 12 months, being submitted to the Board;
- an Annual General Meeting is held every year.

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

The Board's review of internal control

The Board, through the audit committee, has reviewed the effectiveness of the system of internal control in existence in the Company for the year ended 31 March 2002. This review was informed by the work of internal audit and by the members of the Management Board, who have responsibility for the development and maintenance of the internal control framework. It is also informed by comments made by the external auditors in their highlights memorandum and other reports.

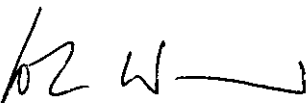
Going concern

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

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

By order of the Board



Colin Ward
Director and Accounting Officer

21 St. Thomas Street
Bristol
BS1 6JS

26 June 2002

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, the Department for Education and Skills, with the agreement of the Scottish Executive and, in Northern Ireland, the Department for Employment and Learning, re-appointed the chief executive as accounting officer for the Company in September 2001. This re-appointment continued to place on the chief executive the responsibility for ensuring the regularity and propriety of the public finances as set out in the management statement accompanying the Company's financial memorandum.



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Glasgow
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United Kingdom

Independent auditors' report 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

The Company's chief executive and directors are responsible for preparing the annual report set out on pages 1 to 24 including, as described on page 8, the financial statements. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

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

We review whether the statements on pages 4 to 7 reflect the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, had the Company been subject to the listing rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 31 March 2002 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 LLP

KPMG LLP

Chartered Accountants

Registered Auditors

Registered number 2401034 / 31 March 2002

26 June 2002

Profit and loss account
for the year ended 31 March 2002

	<i>Note</i>	2002 £000	2001 £000
Turnover	3	39,253	36,139
Administrative expenses		(38,164)	(35,371)
Operating surplus		1,089	768
Interest receivable	4	130	143
Result of ordinary activities before taxation	5	1,219	911
Tax on result of ordinary activities	7	(1,219)	(911)
Result for the financial year		-	-

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

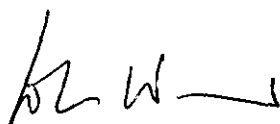
Statement of total recognised gains and losses

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

Balance sheet
at 31 March 2002

	<i>Note</i>	2002	2001
		£000	£000
Fixed assets			
Tangible assets	8	6,681	7,642
Current assets			
Debtors	9	2,285	1,687
Cash at bank and in hand	10	16,987	59,777
Prepayments and accrued income		1,266	1,475
		<u>20,538</u>	<u>62,939</u>
Creditors: amounts falling due within one year	11	(20,538)	(62,939)
		<u>-</u>	<u>-</u>
Net current assets		-	-
Total assets less current liabilities		<u>6,681</u>	<u>7,642</u>
Accruals and deferred income			
Deferred capital receipts	12	(6,681)	(7,642)
		<u>-</u>	<u>-</u>
Capital and reserves			
Called up share capital	13	-	-
Profit and loss account		-	-
		<u>-</u>	<u>-</u>
Total shareholders' funds - equity		<u>-</u>	<u>-</u>

These financial statements were approved by the Board of directors on 26 June 2002 and were signed on its behalf by:



Colin Ward
Director and Accounting Officer

Cash flow statement
for the year ended 31 March 2002

	<i>Note</i>	2002 £000	2001 £000
Net cash (outflow)/ inflow from operating activities	<i>15</i>	(41,946)	20,571
Returns on investments and servicing of finance			
Bank and other interest received		130	143
Taxation			
Corporation tax paid		(974)	(1,170)
Capital expenditure			
Payments to acquire tangible fixed assets		(1,146)	(2,035)
Receipts from sales of tangible fixed assets		5	10
Net cash outflow from capital expenditure		(1,141)	(2,025)
Net cash (outflow)/ inflow before financing		(43,931)	17,519
Financing			
Capital funding received from the funding bodies		1,141	2,025
(Decrease)/ Increase in cash in the period		(42,790)	19,544
Net funds at 1 April		59,777	40,233
Net funds at 31 March		16,987	59,777

Notes

(forming part of the financial statements)

1 Statement of loans administered by the Company

Funding for the purpose of making loans to students is received by the Company from the Department for Education and Skills, the Student Awards Agency for Scotland and the Department of Employment and Learning Northern Ireland.

As at 31 March 2002, the total balance of the loan portfolio administered by the Company on behalf of the funding bodies and the private sector owners was £10,015,275,000 (2001: £7,833,167,000), which excludes supplementary grants.

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

- (a) in accordance with the terms of the Company's financial memorandum any interest earned on funds made available for making loans to students and on money repaid to the Company by borrowers under the scheme shall be returned to the funding bodies; and
- (b) under section 32 of the financial memorandum, there is an agreement between the Company and the funding bodies that the Company is liable to transmit to these bodies only those repayments which are actually made to the Company. As a consequence, the Company is not liable for repayments due which ultimately may not be recovered.

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

A report on loans administered by the Company will be contained in the 2002 annual report of which these financial statements will form a part.

Notes (continued)

2 Accounting policies

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

Basis of accounting

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

Basis of preparation

General

The terms of the financial memorandum between the Secretary of State for Education and Skills, the Scottish Ministers, the Department of Employment and Learning 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 funding bodies. These financial statements have been prepared on this basis.

Turnover

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

Depreciation

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

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

Deferred capital receipts

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

Operating leases

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

Pensions

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

Taxation

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

Notes (continued)

3 Turnover

Turnover is analysed as follows:

	2002 £000	2001 £000
Grant-in-aid receivable	31,139	27,689
Administration fees receivable from third party debt purchasers	8,074	8,327
Other income	40	123
	<u>39,253</u>	<u>36,139</u>

4 Interest receivable

	2002 £000	2001 £000
Bank interest	<u>130</u>	<u>143</u>

5 Result of ordinary activities before taxation

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

	2002 £000	2001 £000
Depreciation	2,029	1,457
Loss/(gain) on disposal of fixed assets	73	(10)
Amortisation of deferred capital receipts	(2,029)	(1,457)
Directors' remuneration (see below)	198	397
Auditors' remuneration, including expenses:		
Audit services	41	46
Other services	6	58
Operating lease rentals:		
Land and buildings	1,243	1,216
Computer equipment	1,657	1,547
	<u>198</u>	<u>397</u>

(b) Directors' remuneration:

	2002 £000	2001 £000
Fees	15	19
Executive emoluments (including benefits in kind)	173	245
Severance policy application	-	116
Pension contributions	10	17
	<u>198</u>	<u>397</u>

Notes (continued)

5 Result of ordinary activities before taxation (continued)

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

	Basic Emolument		Other benefits and expenses		Total Emoluments		Pension Contributions		Contract terms	
	2002 £000	2001 £000	2002 £000	2001 £000	2002 £000	2001 £000	2002 £000	2001 £000	Term	Notice period
K Bedell-Pearce	19	-	4	-	23	-	-	-	3 yrs	3 mths
Sir A Battishill	40	64	11	17	51	81	-	-	3 yrs	3 mths
Sir Eric Ash ⁽¹⁾	-	4	-	-	-	4	-	-	2 yrs	-
BG Booth	5	5	-	-	5	5	-	-	3 yrs	-
PH Grace	5	5	-	-	5	5	-	-	4 months	-
MD Paterson	5	5	-	-	5	5	-	-	4 months	-
C Ward (chief executive)*	91	88	8	8	99	96	10	10	1 yr	6 mths
JB Morrison*	-	63	-	121	-	184	-	7	-	6 mths
	<u>165</u>	<u>234</u>	<u>23</u>	<u>146</u>	<u>188</u>	<u>380</u>	<u>10</u>	<u>17</u>		

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

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

The constituent elements of the chief executive's remuneration package are disclosed above. Under the terms of his contract the Company is required to make pension contributions on behalf of the chief executive equivalent to 12% of his gross salary. He is not a member of the Company scheme and has a personal pension plan to which the contributions are paid. As an ordinary member of the Company's group life assurance scheme he is entitled to permanent health insurance and death in service benefits. He is provided with other benefits as noted above. The chief executive is also eligible for payment under a bonus scheme established with the approval of the DfES and HMT and subject to such rules as the Board may determine. Such payments do not form a significant part of his total remuneration.

The chief executive's three and a half year contract was due to terminate on 30 June 2002. However, there has been mutual agreement to extend this contract for a further twelve months to 30 June 2003. Termination of the contract by the Company prior to that 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. If there is no agreement for a new contract from 1 July 2003, a payment will be made to the chief executive in accordance with terms.

Notes *(continued)*

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

As required by Executive Non-Departmental Public Bodies Annual Reports and Accounts Guidance, the following is the remuneration of each individual substantive Management Board member not included in the table of directors' remuneration above.

Permission to disclose emoluments of the Management Board member who resigned during the year has not been sought, and accordingly, no such disclosure has been given.

Remuneration for those Management Board members appointed during the year has been disclosed from the date of appointment.

	Basic Emolument		Other benefits and expenses		Total Emoluments		Pension Contributions		Contract terms	
	2002 £000	2001 £000	2002 £000	2001 £000	2002 £000	2001 £000	2002 £000	2001 £000	Term	Notice period
E Ostman	84	77	-	6	84	83	9	7	Permanent	6 months
D Ross (appointed 3 July 2001)	53	-	-	-	53	-	5	-	Permanent	6 months
R Watson (appointed 3 July 2001)	53	-	-	-	53	-	6	-	Permanent	6 months
	190	77	-	6	190	83	20	7		

Notes (continued)

6 Staff numbers and costs

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

	2002	2001
Number of employees	597	557
	<u>597</u>	<u>557</u>

All staff were employed by the Company for the purposes of administration and operation of the student loans scheme. The increase in the average number of employees reflects the Company's policy of replacing contract staff with permanent staff where appropriate.

The aggregate payroll costs of these persons were as follows:

	2002 £000	2001 £000
Wages and salaries	10,688	9,460
Social security costs	754	698
Other pension costs	755	480
	<u>12,197</u>	<u>10,638</u>

7 Tax on result on ordinary activities

	2002 £000	2001 £000
Based on the result for the year at the standard rate of 30% (2001: 30%)	1,219	911
	<u>1,219</u>	<u>911</u>

The tax charge represents 30% of the taxable profits arising on administration fees receivable from third party debt purchasers and bank interest, after charging the costs associated with the administration of that business.

Notes (continued)

8 Tangible fixed assets

	Short leasehold improvements	Computer & other electronic equipment	Furniture, fixtures & fittings	Motor vehicles	Total
	£000	£000	£000	£000	£000
Cost					
At beginning of year	3,459	9,405	1,468	62	14,394
Additions	395	641	110	-	1,146
Disposals	(123)	(2)	(100)	(18)	(243)
At end of year	3,731	10,044	1,478	44	15,297
Depreciation					
At beginning of year	619	5,458	639	36	6,752
Charge for year	205	1,657	153	14	2,029
On disposals	(47)	(2)	(98)	(18)	(165)
At end of year	777	7,113	694	32	8,616
Net book value					
At 31 March 2002	2,954	2,931	784	12	6,681
At 31 March 2001	2,840	3,947	829	26	7,642

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

	2002 £000	2001 £000
Management fees receivable	37	399
Other debtors	1,259	89
Amounts due from third party debt owners	989	1,199
	2,285	1,687

Notes (continued)

10 Cash at bank and in hand

	2002 £000	2001 £000
Cash held in:		
Commercial bank accounts	1,680	267
HM Paymaster General Office accounts	15,306	59,509
Cash in hand	1	1
	16,987	59,777

The cash balance held in HM Paymaster General Office accounts at 31 March 2002 includes approximately £8m (2001: £40m) of funding not yet issued in respect of tuition fees payable to Higher Education Institutions which has not been claimed by those institutions at that date.

11 Creditors: amounts falling due within one year

	2002 £000	2001 £000
Funding received from the funding bodies not yet issued as student loans or tuition fees	15,582	59,633
Trade creditors	600	99
Corporation tax	674	429
Other taxation and social security	503	1,622
Accruals and deferred income	3,179	1,156
	20,538	62,939

The funding received from the funding bodies not yet issued as student loans or tuition fees includes approximately £8m (2001: £40m) of funding not yet issued in respect of tuition fees payable to Higher Education Institutions which has not been claimed by those institutions at the balance sheet date.

12 Deferred capital receipts

	2002 £000	2001 £000
At 1 April	7,642	7,064
Receivable for the year	1,068	2,035
Credited to profit and loss account	(2,029)	(1,457)
	6,681	7,642
At 31 March	6,681	7,642

Notes (continued)

13 Called up equity share capital

	2002 £	2001 £
<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 (2001: no movements).

15 Cash flows

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

	2002 £000	2001 £000
Operating surplus	1,089	768
Depreciation	2,029	1,457
Amortisation of deferred capital receipts	(2,029)	(1,457)
	1,089	768
(Increase)/decrease in debtors, excluding interest receivable	(389)	1,550
Increase/(decrease) in creditors	1,405	(1,498)
Net cash inflow from administration activities	2,105	820
Funding provided to students and HEIs less repayments in the year	(2,658,165)	(2,322,531)
Funding received from the funding bodies less repayments in the year	2,614,114	2,342,282
Net cash (outflow)/ inflow from operating activities	(41,946)	20,571

In addition to normal trading activities, the net cash outflow for year ended 31 March 2002 reflects the reduction, referred to in Note 10, in funding not yet issued in respect of tuition fees payable to Higher Education Institutions which had not been claimed by those institutions at that date.

Notes (continued)

16 Financial commitments

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

	Land and buildings		Other	
	2002	2001	2002	2001
	£000	£000	£000	£000
Operating leases which expire:				
Within one year	30	-	392	782
In the second to fifth years inclusive	-	164	613	467
In over five years	1,055	1,055	-	-
	<u>1,085</u>	<u>1,219</u>	<u>1,005</u>	<u>1,249</u>

The operating lease in respect of the land and buildings is guaranteed by the Secretary of State for Education and Skills. On 3 April 2002, the Company entered into a new lease in respect of part of its Bothwell Street premises, expiring in May 2005, and resulting in an annual commitment of £283,000.

At 31 March 2002, the Company had placed contracts for the purchase of fixed assets totalling £638,000 (2001: £55,000).

17 Contingent liability

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

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

Notes (continued)

18 Pensions

The Company has operated a pension scheme since 6 November 1990. The scheme will provide funded defined benefits based on final pensionable salary. The assets of the scheme are held separately from those of the Company and are invested in managed funds. Contribution rates are determined by a qualified actuary on the basis of triennial valuations.

The most recent triennial actuarial valuation was carried out as at 5 November 1999. The method used to value the liabilities was the Projected Unit method with an assumed rate of return on assets of 6.5% up to retiral date and 5.75% after retiral date, and salary growth of 4.5% per annum. Standard mortality and withdrawal tables were used. Assets were taken at market value. The cost of future service benefits is 18.3% of the pensionable roll (inclusive of employees' contributions). The actuarial valuation at 5 November 1999 showed that the market value of the scheme's assets was £3,946,000 and that the actuarial value of those assets represented 100% of the benefits that had accrued to members, after allowing for assumed future increases in earnings.

During the year under review, the pensions charge in the profit and loss account of £614,000 (2001: £480,000) was equivalent to the contributions due to the scheme between 1 April 2001 and 31 March 2002. In addition, the Company made pension contributions of £10,000 (2001: £17,000) to the personal pension plan of the chief executive of the Company (and in the prior year to one other executive director).

The following disclosures are made to satisfy the requirements of FRS17. For the year to 31 March 2002, these requirements are limited to disclosure in the notes to the accounts, and have not impacted on either the profit and loss account or the balance sheet of the Company.

The triennial valuation has been updated to 31 March 2002 by a qualified independent actuary. The major assumptions used by the actuary were:

	At 31 March 2002
Rate of increase in salaries	4.30%
Rate of increase in pensions in payment	5.00%
Discount rate	6.00%
Inflation assumption	2.80%

The assets in the scheme and the expected rate of return were:

	At 31 March 2002	At 31 March 2002
		£000
UK Equities	6.75%	3,450
Overseas Equities	6.75%	1,457
Cash	2.5%	17
Total market value of assets		4,924
Actuarial value of liability		6,365
Recoverable surplus/(deficit) in the scheme		(1,441)
Related deferred tax asset		-
Net pension liability		(1,441)

Notes (continued)

19 Controlling parties

The Company is wholly owned by the Secretary of State for Education and Skills and the Secretary of State for Scotland (but this is being reviewed by the Departments following the transfer of responsibility for student support in Scotland to Scottish Ministers on 1 July 1999).

20 Related party transactions

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

During the year, the Company 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 2002, the cost of such capital (calculated at 8%) was £573,000 (2001: £588,000).

Appendix: Accounts direction

Accounts direction given by the Secretary of State for Education and Skills, with the approval of the Treasury, in accordance with the Financial Memorandum of 4 May 1999

The annual 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 year end. Subject to this requirement, the Company shall prepare accounts for the financial year ended 31 March 2002 and subsequent financial years in accordance with

- a. Executive Non-Departmental Public Bodies Annual Reports and Accounts Guidance;
- b. 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. any other specific disclosures required by the Secretary of State;

except where otherwise agreed with the Treasury, in which case the exception shall be described in the notes to the accounts.