

Student Loans Company Limited

**Directors' report and financial
statements**

Registered number 2401034

31 March 2003



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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 2003.

This has been a period of change within the Company in terms of its role in the student support system, with the Company embarking on a significant change programme as part of the Modernising Government initiative. In addition, the Company's loan portfolio has continued to increase.

In the past year, the number of students entitled to apply for loans under the old mortgage scheme continued to diminish with just over 5,000 loans paid for academic year 2002/2003 as at 31 March 2003 (22,000 previous academic year). The number is forecast to grow slightly between the end of the financial year and the end of the academic year but it is expected to remain below 6,000 (24,000 previous academic 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 86.7% of the total amount due to be repaid under the mortgage style loan scheme.

Applications for the new Student Support Scheme continue to increase. Just over 818,000 students had received loans for the academic year 2002/2003 as at 31 March 2003 (772,000 previous academic year). The number is forecast to increase to approximately 835,000 by the end of the academic year (786,000 previous academic year). Over 98.8% of students who had applied on time received their loan cheques by the first day of term or were paid electronically through BACS direct into their bank accounts.

As the scheme has matured, accounts are now moving into repayment status in increasing numbers. For the tax year beginning 6 April 2003, a further 265,000 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. Approximately 53,000 such loans were paid in academic year 2002/2003 as at 31 March 2003 (previous academic year 52,000). The number is forecast to increase to approximately 67,000 by the end of the academic year (previous academic year 65,000). For academic year 2002/2003, just over 5,000 were to part-time students as at 31 March 2003 (3,000 previous academic year).

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. As at 31 March 2003, negotiations were underway with Honours Trustee Limited on the renewal of their administration contract with the Company for a further five year period. *This follows a similar renewal by Finance for Higher Education in the previous year.*

At 31 March 2003, the Company was responsible for administering loan accounts for over 2.6 million customers (most of whom have multiple loan accounts) on behalf of the Government and the private sector owners with a total value of some £12.2 billion, an increase of around 22% in value compared with the previous year.

Earlier this year the Company began, on behalf of the Department for Education and Skills, a significant development of systems to support the Modernising Government initiative as it affects student support. This is leading towards more modern, cohesive and accessible arrangements for delivery of student support with particular emphasis on appropriate and convenient forms of electronic access. That part of the programme which provides an on-line application process for student loans is focused on England and Wales but overall, the programme will produce significant benefits for existing customers throughout the UK. For example, the introduction of interactive voice response for routine telephone enquiries has enabled us to improve service levels for all customers wanting to contact us by telephone and from the start of the next academic year, most student payments will be made electronically direct into students' bank accounts.

The Board met 11 times last year and there was also a full programme of Audit and Remuneration Committee meetings. At the end of June, Colin Ward will retire as Chief Executive following a 7 year period in office and having joined the Company at its launch some 13 years ago. It is a tribute to his efforts and those of his fellow directors and management team that the Company continues to be in a good position to deliver the Modernising Government programme for student support.

As I approach the completion of my second year as Chairman of the Student Loans Company, I continue to be 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 would 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 continue to

show great enthusiasm for developments in the Company aimed at delivering increasingly improved levels of service to our customers and stakeholders.

These financial statements will be published as part of the Company's Annual Report 2002-2003 which is published following the end of the academic year. A copy of the financial statements will be placed on the Company's website at slc.co.uk.

A handwritten signature in black ink, appearing to read 'Keith Bedell-Pearce', with a horizontal line extending to the right.

Keith Bedell-Pearce
Chairman

25 June 2003

Directors' report

The directors have pleasure in submitting their annual report and the financial statements of the Company for the year ended 31 March 2003. 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. This has been done with the consent of the Treasury, as set out in the 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 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.

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 and the Company is working closely with the Inland Revenue and Department for Education and Skills (DfES) to maximise recoveries under this scheme. As the number of accounts entering repayment under the old loan scheme increases, continuous improvement programmes are ongoing in this area. The Company has worked with the appropriate bodies in Scotland and Ireland and with the DfES on arrangements for Repayment of Teacher Loans and successfully implemented a system for enabling this process. 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.

Earlier this year the Company began, on behalf of the DfES, the development of a single system to support the Modernising Government initiative as it affects student support. The aim of the single system is the delivery of an on-line service, supported by re-design of business processes, which together will result in widening access by offering a range of communication channels. The programme will produce significant benefits for existing customers throughout the UK.

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 DfES 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.

Directors' report (continued)

Dividends

The Company has no accumulated reserves and accordingly the directors do not recommend the payment of a dividend (2002: £Nil).

Directors and their interests

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

K Bedell-Pearce	Chairman	Executive (part-time)	
BG Booth		Non-Executive	*^
T Davda		Non-Executive	*^ Appointed 1 August 2002
PH Grace		Non-Executive	*^ Resigned 31 July 2002
A McCusker		Non-Executive	*^ Appointed 1 August 2002
MD Paterson		Non-Executive	*^ Resigned 31 July 2002
J Tomlin		Non-Executive	^ Appointed 1 August 2002
C Ward		Chief Executive	

* Member of the audit committee throughout the year or to/from the date of resignation/ appointment.

^ Member of the remuneration committee throughout the year or to/from the date of resignation/ appointment.

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 2003 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.

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 (2002: £ Nil).

Directors' report *(continued)*

Creditor payment policy

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

The number of days billing from suppliers outstanding at 31 March 2003 was 18 (2002: 9).

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 since the year commencing 1 April 2001.

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 the Chairman and Chief Executive is determined by the shareholders including arrangements relating to loss of office;
- 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;

Directors' report *(continued)*

- 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;
- 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 Loans 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

Directors' report *(continued)*

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 and reviewing its effectiveness. The system of internal control is designed to ensure effective and efficient operations and compliance with relevant laws and regulations. Such a system can only provide reasonable and not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives.

Throughout the year ended 31 March 2003, the Company has operated a system of internal control which includes an on-going risk management process for identifying, evaluating and managing the significant risks faced by the Company. The process has been in place for the year ended 31 March 2003 and up to date of approval of the annual report and accounts. It accords with Treasury guidance and Turnbull Committee guidance.

The Company's management operates a risk management process producing a Company-wide risk register that identifies the Company's significant risks, the probability of those risks occurring and their impact should they occur, and has the prime responsibility for the design and operation of suitable controls and mitigating actions. The Company's Corporate Risk Management Team oversees the risk management process, considers the Company-wide risk profile on a monthly basis and receives monitoring reports to update them on progress. An internal audit function contributes to the support and monitoring of the system of internal control.

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, with membership including at least three non-executive directors, to provide reasonable assurance on the appropriateness of the pay structure and associated policies and procedures relating to pay;
- 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;
- 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.

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 2003. This review was informed by the work of internal audit and by 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.

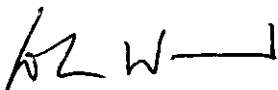
Going concern

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 reappointment 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

25 June 2003

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 DfES, 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.

KPMG

KPMG LLP

24 Blythswood Square
Glasgow
G2 4QS
United Kingdom

Independent auditors' report to the members of Student Loans Company Limited

We have audited the financial statements on pages 13 to 28.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

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 28 including, as described on page 11, 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.

In addition to our audit of the financial statements, the directors have engaged us to review their corporate governance statement as if the Company were required to comply with the Listing Rules of the Financial Services Authority in relation to these matters. We review whether the statement on pages 7 to 10 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by those rules, 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 2003 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 Auditor

25 June 2003

Profit and loss account
for the year ended 31 March 2003

	<i>Note</i>	2003 £000	2002 £000
Turnover	3	49,216	39,253
Administrative expenses		(48,338)	(38,164)
Operating surplus		878	1,089
Interest receivable	4	122	130
Result of ordinary activities before taxation	5	1,000	1,219
Tax on result of ordinary activities	7	(1,000)	(1,219)
Result for the financial year		-	-

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

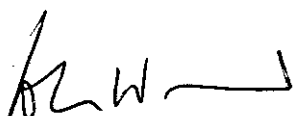
Statement of total recognised gains and losses

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

Balance sheet
at 31 March 2003

	<i>Note</i>	2003 £000	2002 £000
Fixed assets			
Tangible assets	8	6,370	6,681
Current assets			
Debtors	9	4,396	2,285
Cash at bank and in hand	10	21,825	16,987
Prepayments and accrued income		1,947	1,266
		<u>28,168</u>	<u>20,538</u>
Creditors: amounts falling due within one year	11	(28,168)	(20,538)
		<u>-</u>	<u>-</u>
Net current assets		-	-
Total assets less current liabilities		<u>6,370</u>	<u>6,681</u>
Accruals and deferred income			
Deferred capital receipts	12	(6,370)	(6,681)
		<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 25 June 2003 and were signed on its behalf by:



Colin Ward
Director and Accounting Officer

Cash flow statement
for the year ended 31 March 2003

	<i>Note</i>	2003	2002
		£000	£000
Net cash inflow/ (outflow) from operating activities	<i>15</i>	5,881	(41,946)
Returns on investments and servicing of finance			
Bank and other interest received		122	130
Taxation			
Corporation tax paid		(1,165)	(974)
Capital expenditure			
Payments to acquire tangible fixed assets		(1,767)	(1,146)
Receipts from sales of tangible fixed assets		6	5
Net cash outflow from capital expenditure		(1,761)	(1,141)
Net cash inflow/ (outflow) before financing		3,077	(43,931)
Financing			
Capital funding received from the funding bodies		1,761	1,141
Increase/ (Decrease) in cash in the period		4,838	(42,790)
Net funds at 1 April		16,987	59,777
Net funds at 31 March		21,825	16,987

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 DfES, the Student Awards Agency for Scotland and the Department of Employment and Learning Northern Ireland.

As at 31 March 2003, the total balance of the loan portfolio administered by the Company on behalf of the funding bodies and the private sector owners was £12,255,007,000 (2002: £10,015,275,000), 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 2003 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:

	2003 £000	2002 £000
Grant-in-aid receivable	42,152	31,139
Administration fees receivable from third party debt purchasers	7,064	8,074
Other income	-	40
	<u>49,216</u>	<u>39,253</u>

The increase in grant-in-aid is primarily related to the additional funding received to finance the development of systems and business processes relating to the Modernising Government initiative.

Administration fees receivable show a declining trend due to the ageing and profile of the debt sale portfolios.

4 Interest receivable

	2003 £000	2002 £000
Bank interest	<u>122</u>	<u>130</u>

5 Result of ordinary activities before taxation

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

	2003 £000	2002 £000
Depreciation	2,076	2,029
(Gain)/Loss on disposal of fixed assets	(4)	73
Amortisation of deferred capital receipts	(2,076)	(2,029)
Directors' remuneration (see below)	206	198
Auditors' remuneration, including expenses:		
Audit services	42	41
Other services	9	6
Operating lease rentals:		
Land and buildings	1,337	1,243
Computer and other equipment	1,717	1,657
	<u> </u>	<u> </u>

(b) Directors' remuneration:

	2003 £000	2002 £000
Fees	18	15
Executive emoluments (including benefits in kind)	177	173
Pension contributions	11	10
	<u>206</u>	<u>198</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	
	2003 £000	2002 £000	2003 £000	2002 £000	2003 £000	2002 £000	2003 £000	2002 £000	Term	Notice period
K Bedell-Pearce	67	19	9	4	76	23	-	-	3 yrs	3 mths
Sir A Battishill	-	40	-	11	-	51	-	-	-	-
BG Booth	5	5	-	-	5	5	-	-	4 yrs	-
T Davda (appointed 1 August 2002)	3	-	-	-	3	-	-	-	3 yrs	-
PH Grace (resigned 31 July 2002)	2	5	-	-	2	5	-	-	-	-
A McCusker (appointed 1 August 2002)	3	-	-	-	3	-	-	-	3 yrs	-
MD Paterson (resigned 31 July 2002)	2	5	-	-	2	5	-	-	-	-
J Tomlin (appointed 1 August 2002)	3	-	-	-	3	-	-	-	3 yrs	-
C Ward (chief executive)	93	91	8	8	101	99	11	10	1 yr	6 mths
	<u>178</u>	<u>165</u>	<u>17</u>	<u>23</u>	<u>195</u>	<u>188</u>	<u>11</u>	<u>10</u>		

* Other benefits and expenses principally comprise motor car, medical insurance benefits or, in the case of the chairman, taxable travel and subsistence expenses.

The constituent elements of the chief executive's remuneration package are disclosed above. Under the terms of his contract, the chief executive is entitled to contributions to a personal pension scheme at the rate of 12% of his gross annual 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 contract expires on 30 June 2003 and he will retire from the Company on that date. The Company is in the process of sourcing a replacement chief executive.

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.

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	
	2003 £000	2002 £000	2003 £000	2002 £000	2003 £000	2002 £000	2003 £000	2002 £000	Term	Notice period
E Ostman	91	84	-	-	91	84	10	9	Permanent	6 months
D Ross (appointed 3 July 2001)	77	53	-	-	77	53	9	5	Permanent	6 months
R Watson (appointed 3 July 2001)	77	53	-	-	77	53	9	6	Permanent	6 months
W Gray (appointed 1 July 2002)	59	-	-	-	59	-	6	-	Permanent	6 months
	<u>304</u>	<u>190</u>	<u>-</u>	<u>-</u>	<u>304</u>	<u>190</u>	<u>34</u>	<u>20</u>		

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:

	2003	2002
Number of employees	691	597

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 expansion in the Company's workforce in support of the development of systems and business processes relating to the Modernising Government initiative.

The aggregate payroll costs of these persons were as follows:

	2003 £000	2002 £000
Wages and salaries	13,199	10,688
Social security costs	925	754
Other pension costs	986	755
	<u>15,110</u>	<u>12,197</u>

7 Tax on result on ordinary activities

	2003 £000	2002 £000
Based on the result for the year at the standard rate of 30% (2002: 30%)	1,000	1,219

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	3,731	10,044	1,478	44	15,297
Additions	355	1,053	339	20	1,767
Disposals	-	(27)	(90)	(19)	(136)
At end of year	4,086	11,070	1,727	45	16,928
Depreciation					
At beginning of year	777	7,113	694	32	8,616
Charge for year	259	1,630	173	14	2,076
On disposals	-	(25)	(90)	(19)	(134)
At end of year	1,036	8,718	777	27	10,558
Net book value					
At 31 March 2003	3,050	2,352	950	18	6,370
At 31 March 2002	2,954	2,931	784	12	6,681

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

	2003 £000	2002 £000
Management fees receivable	3,442	37
Other debtors	32	1,259
Amounts due from third party debt owners	922	989
	4,396	2,285

The increase in management fees receivable represents the timing difference arising on the recognition of expenses in the Profit and Loss Account and the drawdown of grant-in-aid to pay those expenses.

For year ended 31 March 2002, other debtors included an amount of £1,236,000 in respect of VAT recoverable following a review of the Company's tax status with HM Customs and Excise.

Notes (continued)

10 Cash at bank and in hand

	2003 £000	2002 £000
Cash held in:		
Commercial bank accounts	2,591	1,680
HM Paymaster General Office accounts	19,233	15,306
Cash in hand	1	1
	21,825	16,987

The cash balance held in HM Paymaster General Office accounts at 31 March 2003 includes £13.5m (2002: £8m) 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

	2003 £000	2002 £000
Funding received from the funding bodies not yet issued as student loans or tuition fees	19,429	15,582
Trade creditors	1,680	600
Corporation tax	509	674
Other taxation and social security	644	503
Accruals and deferred income	5,906	3,179
	28,168	20,538

The funding received from the funding bodies not yet issued as student loans or tuition fees includes £13.5m (2002: £8m) 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

	2003 £000	2002 £000
At 1 April	6,681	7,642
Receivable for the year	1,765	1,068
Credited to profit and loss account	(2,076)	(2,029)
	6,370	6,681
At 31 March	6,370	6,681

Notes (continued)

13 Called up equity share capital

	2003 £	2002 £
<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 (2002: no movements).

15 Cash flows

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

	2003 £000	2002 £000
Operating surplus	878	1,089
Depreciation	2,076	2,029
Amortisation of deferred capital receipts	(2,076)	(2,029)
	878	1,089
Increase in debtors, excluding interest receivable	(2,793)	(389)
Increase in creditors	3,948	1,405
Net cash inflow from administration activities	2,033	2,105
Funding provided to students and HEIs less repayments in the year	(2,831,706)	(2,658,165)
Funding received from the funding bodies less repayments in the year	2,835,554	2,614,114
Net cash inflow/ (outflow) from operating activities	5,881	(41,946)

Notes (continued)

16 Financial commitments

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

	Land and buildings		Other	
	2003	2002	2003	2002
	£000		£000	
Operating leases which expire:				
Within one year	-	30	312	392
In the second to fifth years inclusive	283	-	1,839	613
In over five years	1,055	1,055	-	-
	<u>1,338</u>	<u>1,085</u>	<u>2,151</u>	<u>1,005</u>

The operating leases in respect of the land and buildings are guaranteed by the Secretary of State for Education and Skills.

The increase in other leases is due to new leases for computer equipment required in connection with the development of systems supporting the Modernising Government initiative.

At 31 March 2003, the Company had placed contracts for the purchase of fixed assets totalling £242,000 (2002: £638,000).

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 £768,000 (2002: £614,000) was equivalent to the employer contributions due to the scheme between 1 April 2002 and 31 March 2003. In addition, payments of £11,000 (2002: £10,000) were made by the Company in relation to the pension contributions of the chief executive.

The triennial valuation at 5 November 2002 is in the process of being finalised by the scheme actuary and reviewed by the Trustees. The current pension cost for the Student Loans Company Limited Retirement and Death Benefits Scheme, under SSAP24, may increase reflecting a deterioration in stock market conditions.

FRS17

The following disclosures are made to satisfy the requirements of FRS17. For the year to 31 March 2003, 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 Company operates a defined benefit scheme in the UK. The following disclosures are based on the draft actuarial valuation carried out at 5 November 2002 and updated to 31 March 2003 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms):

	2003	2002
Rate of increase in salaries	4.1%	4.3%
Rate of increase of pensions in payment	5.0%	5.0%
Discount rate	5.4%	6.0%
Inflation assumption	2.6%	2.8%

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

	2003	2003 £000	2002	2002 £000
Equities	6.00%	4,066	6.75%	4,907
Cash	2.25%	346	2.50%	17
Total market value of assets		4,412		4,924
Actuarial value of liability		(9,764)		(6,365)
Recoverable deficit in the scheme		(5,352)		(1,441)
Related deferred tax asset		-		-
Net pension liability		(5,352)		(1,441)

Notes (continued)

Analysis of the amount charged to operating profit

	2003 £000
Service cost	682
Past service cost	-
Total Operating Charge	<u>682</u>

Analysis of net return on pension scheme

	2003 £000
Expected return on pension scheme assets	367
Interest on pension liabilities	<u>(411)</u>
Net Return	<u>(44)</u>

Analysis of amount which would be recognised in statement of total recognised gains and losses (STRGL)

	2003 £000
Actual return less expected return on assets	(1,924)
Experience gains and losses on liabilities	(208)
Changes in assumptions	<u>(1,821)</u>
Actuarial loss recognised in STRGL	(3,953)
Adjustment due to surplus cap	-
Net loss recognised	<u>(3,953)</u>

Deterioration in stockmarket conditions has resulted in the actual return of assets falling short of that which was expected. Expected return on assets was £367,000 and the actual return on assets was a deficit of £1,557,000. In addition, market conditions have led the scheme actuary to revise the discount rate applied to future liabilities from 6.0% at 31 March 2002 to 5.4% at 31 March 2003. Taken together with less significant changes in actuarial assumptions, this has resulted in an actuarial loss of £3,953,000.

Movement in deficit during the year

	2003 £000
Deficit in scheme at beginning of year	(1,441)
Movement in year:	
Current service cost	(682)
Contributions	768
Past service costs	-
Net return on assets/(interest cost)	(44)
Actuarial loss	<u>(3,953)</u>
Deficit in scheme at end of year	<u>(5,352)</u>

Notes (continued)

History of experience gains and losses

As this is the first year that the FRS17 disclosures are required, no history of experience gains and losses is provided. Over the next five years, a history will be built up and provided on a rolling 5 year basis thereafter.

	2003	
	£000	%
Difference between expected and actual return on scheme assets	(1,924)	-44
Experience gains and losses on scheme liabilities	(208)	-2
Total amount recognised in statement of total recognised gains and losses	(3,953)	-40

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 2003, the cost of such capital (calculated at 8%) was £522,000 (2002: £573,000).