

**Student Loans Company Limited**

**Directors' report and financial  
statements**

**Registered number 2401034**

**31 March 2004**



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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 2004.

In the past year, the number of students entitled to apply for loans under the old mortgage style loan scheme continued to diminish with just over 1,000 loans paid for academic year 2003/2004 as at 31 March 2004 (5,000 previous academic year). Mortgage style loan accounts in repayment, which do not include deferred accounts, had a small net increase this year. The accounts coming into repayment are increasingly being offset by accounts becoming fully repaid. By March this year borrowers in the retained portfolio had repaid some 87.9% 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 835,000 students had received loans for the academic year 2003/2004 as at 31 March 2004 (818,000 previous academic year). The number is forecast to increase to approximately 848,000 by the end of the academic year (831,000 previous academic year).

For the tax year beginning April 2004, a further 261,000 borrowers had been notified to the Inland Revenue as potentially due for repayment, subject to the relevant income thresholds being met (265,000 last year).

In addition, in the past year, the Company continued to pay hardship loans for students in financial difficulty. Approximately 49,000 such loans were paid in academic year 2003/2004 as at 31 March 2004 (previous academic year 53,000). The number is forecast to increase to approximately 63,000 by the end of the academic year (previous academic year 68,000). For academic year 2003/2004, nearly 10,000 loans were paid to part-time students as at 31 March 2004 (5,000 previous academic year).

At 31 March 2004, the Company was responsible for administering loan accounts for almost 2.8 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 £14.6 billion, an increase of around 19% in value compared with the previous year.

The activities of the Company for the year ended 31 March 2004 fall into two broad areas: business as usual and development work in preparation for major future change.

Our business as usual activities, which of course cover the work of the majority of our staff, were carried out efficiently and effectively to a standard that I believe now compares very favourably with equivalent service-based businesses in the private sector. What matters to those of our customers who are receiving loan payments is that these payments arrive on time and are for the right amount. The progressive move to electronic payment through the BACS system has materially improved the effectiveness of this part of our business.

For our customers in repayment, they want prompt and accurate responses to their enquiries and on the rare occasions that things go wrong, they want them put right quickly and with the minimum fuss. These are the things to which the Board pays particular attention at its monthly meetings and I am pleased to note a continuing improvement in the measures used to determine how well we are serving our customers.

Good customer service cannot be achieved without good staff who are effectively managed. Again, over the past year, the Board has seen significant improvements in staff turnover and sickness absence. The Company's accreditation in Investors in People was renewed in October 2003. The executive team is to be congratulated for the results achieved in this area.

Turning to future developments, our strategic priorities over the next two years are the national implementation of what is known as the "Single System", preparation for the changes in England and Wales that will arise from the enactment of the Higher Education Bill and supporting various new initiatives by the devolved administrations.

The implementation in England & Wales of the Single System, whereby all applications into Local Education Authorities for student support are handled electronically using a system developed by the Company as part of the DfES' modernisation programme, has now been completed and is already regularly handling more than 10,000 applications a day. In the next year we hope to extend the facility to enable students to apply individually on-line and we expect to see this as an increasingly popular way of applying for a student loan in the future.

## **Chairman's statement** *(continued)*

The implementation of the requirements of the Education Bill will be a particular challenging time for the Company but we continue to work closely with colleagues in the DfES and remain confident that we will be able to implement the necessary changes to our systems and processes in time for the planned introduction of new support arrangements for variable fees in 2006.

We continue to enjoy excellent working relations with the administrations in Northern Ireland, Scotland and Wales and now provide a range of support activities relating to their further and higher education policies.

Our new CEO, Ralph Seymour-Jackson, joined us in July of last year and quickly provided effective leadership at both operational and strategic levels.

At the end of 2003, one of our non-executive directors, Jean Tomlin, stepped down from the Board because of pressures of work in her new appointment as Human Resources Director of Marks and Spencer. I recommended to Ministers that we should take the opportunity to strengthen further the Board on Jean's departure by appointing two new non-executive directors and this was done in March with the appointment of Christian Torkington, Chief Executive, Rural Regeneration Cumbria, and Barbara Duffner who, until her retirement in March of this year, was Head of Personnel (North), Royal Mail. They bring with them wide experience which will be particularly relevant to the challenges ahead for the SLC.

Except where the Company's status as a state-owned business precludes it, the Company expects to comply fully with the revised Combined Code on corporate governance, which applies with effect from April 2004, including a formal annual evaluation of the performance of the Board.

Finally I would like to record once again my thanks to my non-executive colleagues, the management and staff of the SLC and colleagues within the DfES, the Scottish Executive, DELNI and Welsh Assembly Government for the support they give which enables the successful development and running of the SLC.



**Keith Bedell-Pearce**  
*Chairman*

27 July 2004

## **Directors' report**

The directors have pleasure in submitting their annual report and the financial statements of the Company for the year ended 31 March 2004. 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.

### **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 Student Support loan scheme is now well established and operating efficiently with continuing improvements being made involving the development of technology and handling processes. Repayment of income contingent loans through the PAYE system continues to mature 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 to enhance the monies collected. The Company is working with the DfES on arrangements for the Repayment of Teacher Loans and successfully implemented a system for enabling this process. We are also working with the appropriate bodies in Scotland and Northern Ireland on the development of their student financial support arrangements, including the Scottish Graduate Endowment scheme. These developments are taking place alongside the Company's constant efforts to work with all bodies involved in student support to develop the efficiency and scope of the scheme.

This year the Company delivered the pilot phase of the Single System, which is part of the DfES' strategy for responding to the Modernising Government initiative. The aim of the Single System is the delivery of an on-line application and account maintenance service to customers, plus portal access for LEAs to allow them to administer student records throughout the process. This will be supported by a central customer support office open 18 hours per day, 7 days a week, and a centralised printing and mailing service. Work has now been completed on the second stage which encompassed the rolling out of the system to all LEAs and customers in England and Wales. Whether to proceed to a third stage, the development of an HEI portal, will be decided in the near future.

The Company continued in FY 03-04 to administer both sold portfolios under contract to the private sector owners.

A new Company strategy has been developed which aims, in the longer term, to look at ways which the Company can reduce its grant-in-aid dependency by marketing its services, particularly its apply and assess capabilities, to other government agencies.

### **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.

### **Dividends**

The Company has no accumulated reserves and accordingly the directors do not recommend the payment of a dividend (2003: £Nil).

## Directors' report *(continued)*

### Directors and their interests

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

|                       |                                |                           |
|-----------------------|--------------------------------|---------------------------|
| Keith Bedell-Pearce   | Executive Chairman (part-time) |                           |
| Brian G Booth         | Non-Executive *^               |                           |
| Tanvi Davda           | Non-Executive *^               |                           |
| Barbara Duffner       | Non-Executive                  | Appointed 1 March 2004    |
| Angela McCusker       | Non-Executive *^               |                           |
| Ralph Seymour-Jackson | Chief Executive                | Appointed 21 July 2003    |
| Christian Torkington  | Non-Executive                  | Appointed 1 March 2004    |
| Jean Tomlin           | Non-Executive ^                | Resigned 31 December 2003 |
| Colin Ward            | Chief Executive                | Resigned 30 June 2003     |

\* 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 throughout either the year ended 31 March 2004 or 31 March 2003. 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) re-accreditation on 2 October 2003.

### Charitable donations

During the year the Company made no charitable donations (2003: £ 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 2004 was 7 (2003: 18).

## **Directors' report** *(continued)*

### **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 Dear Accounting Officer letters DAO(GEN)13/00 and subsequently DAO(GEN)09/03. This guidance 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. The Accounting Officer's Statement of Internal Control for the year ended 31 March 2004 is provided on pages 9 to 12.

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;
- 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.

An initial assessment of the implications of the 'revised Combined Code', published in July 2003, has been undertaken, even though it applies only in respect of accounting years beginning on or after 1 November 2003. The Board expects to report on full adoption, where possible, of the principles of the revised Code with effect from April 2004.

### *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 during the year are:

- to determine those posts which will be designated as senior staff posts;
- to determine the contracts of employment, including all terms and conditions of service, for senior staff taking account of guidance and market information where appropriate;
- to monitor and evaluate the performance of senior staff;
- to determine the remuneration of senior staff, ensuring that senior staff are fairly rewarded for their contribution to the Company having regard to affordability, guidance and market information where appropriate;
- to support the Chief Executive in making recommendations each year (or such other period as may be agreed) to the Board on the appropriate pay award for all other staff to be submitted for ministerial consideration.

In addition, a severance policy is in operation.

## **Directors' report** *(continued)*

### *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.

### **Going concern**

The balance sheet at 31 March 2004 shows net liabilities of £4,794,000. These liabilities arise solely as a result of the inclusion of pension fund liabilities falling due in future years in accordance with the accounting treatment required by FRS 17 Retirement Benefits which the company has chosen to adopt earlier than required. To the extent that they are not to be met from the company's other sources of income, they may only be met by future grants or grants-in-aid from the company's sponsoring departments. This is because, under the normal conventions applying to the parliamentary control over income and expenditure, such grants may not be issued in advance of need.

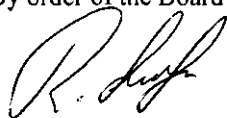
Grant-in-aid for 2004-05, taking into account the amounts required to meet the company's liabilities falling due in that year, has already been included in the department's Estimates for that year, which have been approved by Parliament, and there is no reason to believe that the department's future sponsorship and future parliamentary approval will not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

The net liability position presented in the balance sheet is entirely a result of the impact of adopting FRS17 in a non-profit making company with nil reserves brought forward. There is no impact on the company's ability to provide its services to either its customers or key business partners and, therefore, no changes are required to the way in which the company operates.

### **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



**Ralph Seymour-Jackson**  
*Director and Accounting Officer*

21 St. Thomas Street  
Bristol  
BS1 6JS

27 July 2004

## Statement of Internal Control

This statement is provided by the Accounting Officer in line with corporate governance guidance issued by HM Treasury, as described in the Directors' Report on page 7.

### Scope of responsibility

As 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, whilst safeguarding the public funds and Company assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

The funding bodies have an involvement in the governance of the Company through the role of the Assessors, who are sent by the shareholders to attend Board Meetings. The Assessors may also attend meetings of sub-committees of the Board. The role of the Assessors is to represent the shareholders and make comments at Board Meetings as appropriate. Internal control and risk update reports are provided to the Audit Committee and the Board on a regular basis, and as such are considered by the Assessors.

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 (now C2 under the new revised Code). It has also complied with DAO(GEN)09/03, issued by HM Treasury.

An initial assessment of the implications of the 'revised Combined Code', published in July 2003, has been undertaken, even though it applies only in respect of accounting years beginning on or after 1 November 2003. The Board expects to report on full adoption, where possible, of the principles of the revised Code with effect from April 2004.

### The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritises the risks to the achievement of the Company's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Company for the year ended 31 March 2004 and up to the date of approval of the annual report and accounts, and accords with the Treasury guidance.

### Capacity to handle risk

Under my direction, leadership is given to the risk management process mainly through the Corporate Risk Management Team (CRMT), comprising members of the Management Board. In addition to defining the risk management policy, the CRMT define the Company's governance process for risk management.

Reporting to the CRMT, the Corporate Risk Manager defines the risk measurement system that shall be observed and acts as the key interface with the business in relaying the risk management policy expectations and how these are transferred into practical business requirements.

Guidance is given to each individual involved in the risk management process, firstly through individual discussions detailing the reasoning and internal and external drivers for developing risk management. The external drivers relate to the Company's adopted approach to HM Treasury's "Orange Book" (Management of Risk – A Strategic Overview) and demonstrate how we are aligning our work with the Turnbull Guidance.

In addition, all individuals engaged from each business area are involved in a risk management workshop. This process reinforces the necessity for, and benefits of, effective risk management and providing further guidance on how these principles are translated into practical steps which business managers can follow.

A risk management system has been implemented within the Company which has improved the overall performance of the risk management process. Training and guidance is provided to business users to enable them to understand their responsibilities and the mechanisms employed to achieve these responsibilities. An on-line users' manual has been produced to assist with training.

## Statement of Internal Control *(continued)*

### The risk and control framework

The Company's risk management strategy is to ensure that business risks are understood, proactively assessed and managed in such a way that the impact of these risks is maintained in accordance with the Company's appetite and tolerance for risk. The risk management strategy is based upon the following series of principles.

- Business risks are understood, quantified, prioritised and managed to an acceptable level;
- An adequate and effective system of internal control is established and maintained;
- The effectiveness of the system of internal control and risk profile is reviewed and disclosed on a regular basis.

The risk management strategy applies to all of the Company's business areas and the business processes and activities established to achieve its objectives, including those processes and activities operated by external parties wherever possible.

Responsibility and accountability for risk management is clearly assigned and accepted. The Management Board is familiar with, and competent in, the application of the risk management strategy. They are also accountable for the delivery of the strategy, within their areas of responsibility.

A continuous improvement process is in place to optimise the system of internal control to better achieve business objectives.

The key elements of the risk management strategy are described below.

#### Business risks are understood, quantified, prioritised and managed to an acceptable level

- Reasonable care shall be taken to identify risks affecting the business. These shall be documented in a risk register;
- The potential impact and likelihood of each (identified) risk materialising shall be assessed using the Company's measurement mechanisms;
- Individual responsibility shall be clearly defined for ensuring that identified risks are managed in line with the risk appetite and tolerance of the Board;
- Severe and material risks shall be updated monthly and when there is significant change to business objectives, organisational structure (people), processes, systems or in the external environment. Manageable risks shall be updated quarterly.

#### An adequate and effective system of internal control is established and maintained

- Relevant regulatory requirements, government guidance, laws and codes of practice shall be observed;
- Relevant Company policies and codes of conduct shall be observed;
- The Company's business systems and processes should meet all appropriate service, security and business continuity management standards;
- Appropriate resources shall be provided to ensure that defined risk management responsibilities are effectively discharged.

#### The system of internal control and risk profile is reviewed and disclosed on a regular basis

- Mechanisms shall be in place for reviewing the effectiveness of the existing control framework;
- The high level risk register and associated internal controls shall be reported to the CRMT on a monthly basis and to the Audit Committee on a quarterly basis;
- The adequacy of the Company's systems of internal control is assessed via an approved programme of internal audit reviews carried out on a rolling four year cycle;
- A "Key Controls Checklist" is signed off by the business on a quarterly basis.

## Statement of Internal Control *(continued)*

### Risk appetite

The risk appetite indicates the Company's tolerance for exposure to risk. Risks are categorised under the following headings:

- High (Severe) - The CRMT feels concerned about this risk. Significant impact on Company's reputation and ongoing operations. Some immediate action required plus the development of a comprehensive control framework. Status of risk should be reviewed monthly;
- Medium (Material) - The CRMT is uneasy about this risk. Consequences of risk materialising would have a material effect on business objectives, but not catastrophic. Assurance that these risks are being managed should be provided by evidencing/demonstrating the sound control framework which exists to manage the risk. In the event of an inadequate level of control, a comprehensive list of controls will be established. Status of risk should be reviewed monthly;
- Low (Manageable) - The CRMT is content to manage this risk. Consequences of risk not material to the strategic objectives. Status of risk should be reviewed quarterly.

The categories are driven by the scoring given during the risk assessment phase of the process. The Company risk appetite is communicated via the Company's Risk Management Policy.

### **Review of effectiveness**

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the Management Board within the Company who have the responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board, the Audit Committee and the Corporate Risk Management Team and a plan to address weaknesses and ensure continuous improvement of the system is in place.

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 to determine the remuneration and terms and conditions of service for senior staff posts, and to support me in making recommendations to the Board on the appropriate pay award for staff;
- 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 me, 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;

## Statement of Internal Control *(continued)*

- 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 in accordance with an approved schedule.



**Ralph Seymour-Jackson**

*Director and Accounting Officer*

27 July 2004

## **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 July 2003. 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 Blythwood Square  
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 15 to 30.

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 directors' report and, as described on page 13, the financial statements in accordance with applicable United Kingdom law and accounting standards. 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 statements on pages 7 to 12 reflect 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 accompanying the financial statements, including the corporate governance statement, and consider whether it is consistent with those 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 2004 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

27 July 2004

**Profit and loss account**  
*for the year ended 31 March 2004*

|                                                      | <i>Note</i> | <b>2004</b>     | <b>2003</b>              |
|------------------------------------------------------|-------------|-----------------|--------------------------|
|                                                      |             | <b>£000</b>     | <b>Restated<br/>£000</b> |
| <b>Turnover</b>                                      | <b>3</b>    | <b>53,584</b>   | <b>49,174</b>            |
| Administrative expenses                              |             | <b>(52,591)</b> | <b>(48,252)</b>          |
| Operating surplus                                    |             | <b>993</b>      | <b>922</b>               |
| Interest receivable                                  | <b>4</b>    | <b>158</b>      | <b>122</b>               |
| Other finance costs                                  | <b>18</b>   | <b>(275)</b>    | <b>(44)</b>              |
| <b>Result of ordinary activities before taxation</b> | <b>5</b>    | <b>876</b>      | <b>1,000</b>             |
| Tax on result of ordinary activities                 | <b>7</b>    | <b>(876)</b>    | <b>(1,000)</b>           |
| <b>Result for the financial year</b>                 |             | <b>-</b>        | <b>-</b>                 |

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

**Statement of total recognised gains and losses**

|                                                                  | <b>2004</b>  | <b>2003</b>              |
|------------------------------------------------------------------|--------------|--------------------------|
|                                                                  | <b>£000</b>  | <b>Restated<br/>£000</b> |
| Actual return less expected return on pension scheme assets      | <b>945</b>   | <b>(1,924)</b>           |
| Experience gains and losses on pension scheme liabilities        | <b>147</b>   | <b>(208)</b>             |
| Changes in assumptions underlying the pension scheme liabilities | <b>(202)</b> | <b>(1,821)</b>           |
| <b>Actuarial gain / (loss) recognised in STRGL</b>               | <b>890</b>   | <b>(3,953)</b>           |

**Balance sheet**  
 at 31 March 2004

|                                                       | Note | 2004            | 2003             |
|-------------------------------------------------------|------|-----------------|------------------|
|                                                       |      | £000            | Restated<br>£000 |
| <b>Fixed assets</b>                                   |      |                 |                  |
| Tangible assets                                       | 8    | 6,099           | 6,370            |
| <b>Current assets</b>                                 |      |                 |                  |
| Debtors                                               | 9    | 1,429           | 4,396            |
| Cash at bank and in hand                              | 10   | 23,635          | 21,825           |
| Prepayments and accrued income                        |      | 3,177           | 1,947            |
|                                                       |      | <u>28,241</u>   | <u>28,168</u>    |
| <b>Creditors: amounts falling due within one year</b> | 11   | <u>(28,241)</u> | <u>(28,168)</u>  |
| <b>Net current assets</b>                             |      | -               | -                |
| <b>Total assets less current liabilities</b>          |      | <u>6,099</u>    | <u>6,370</u>     |
| <b>Accruals and deferred income</b>                   |      |                 |                  |
| Deferred capital receipts                             | 12   | (6,099)         | (6,370)          |
| <b>Net assets excluding pension asset</b>             |      | -               | -                |
| <b>Pension liability</b>                              | 18   | (4,794)         | (5,352)          |
|                                                       |      | <u>(4,794)</u>  | <u>(5,352)</u>   |
| <b>Capital and reserves</b>                           |      |                 |                  |
| Called up share capital                               | 13   | -               | -                |
| Profit and loss account                               | 19   | (4,794)         | (5,352)          |
| <b>Total shareholders' funds - equity</b>             |      | <u>(4,794)</u>  | <u>(5,352)</u>   |

These financial statements were approved by the Board of Directors on 27 July 2004 and were signed on its behalf by:



**Ralph Seymour-Jackson**  
 Director and Accounting Officer

**Cash flow statement**  
*for the year ended 31 March 2004*

|                                                        | <i>Note</i> | <b>2004</b>    | <b>2003</b>    |
|--------------------------------------------------------|-------------|----------------|----------------|
|                                                        |             | <b>£000</b>    | <b>£000</b>    |
| <b>Net cash inflow from operating activities</b>       | <i>15</i>   | <b>2,518</b>   | <b>5,881</b>   |
| <b>Returns on investments and servicing of finance</b> |             |                |                |
| Bank and other interest received                       |             | <b>158</b>     | <b>122</b>     |
| <b>Taxation</b>                                        |             |                |                |
| Corporation tax paid                                   |             | <b>(866)</b>   | <b>(1,165)</b> |
| <b>Capital expenditure</b>                             |             |                |                |
| Payments to acquire tangible fixed assets              |             | <b>(1,905)</b> | <b>(1,767)</b> |
| Receipts from sales of tangible fixed assets           |             | <b>51</b>      | <b>6</b>       |
| <b>Net cash outflow from capital expenditure</b>       |             | <b>(1,854)</b> | <b>(1,761)</b> |
| <b>Net cash (outflow) / inflow before financing</b>    |             | <b>(44)</b>    | <b>3,077</b>   |
| <b>Financing</b>                                       |             |                |                |
| Capital funding received from the funding bodies       |             | <b>1,854</b>   | <b>1,761</b>   |
| <b>Increase in cash in the period</b>                  |             | <b>1,810</b>   | <b>4,838</b>   |
| Net funds at 1 April                                   |             | <b>21,825</b>  | <b>16,987</b>  |
| <b>Net funds at 31 March</b>                           |             | <b>23,635</b>  | <b>21,825</b>  |

## 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 2004, the total balance of the loan portfolio administered by the Company on behalf of the funding bodies and the private sector owners was £14,610,109,000 (2003: £12,255,007,000), 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.

## **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.

#### ***Change in accounting policy***

In accordance with Executive NDPBs Annual Report and Accounts Guidance 2003/04, the Company has opted for early adoption of FRS17 – Retirement Benefits. Accordingly, the primary statements and disclosure notes reflect that Standard in full. Where appropriate, the prior year comparatives have been restated.

The effects of this change in accounting policy are the recognition of the pension liability in full on the balance sheet and movements in the pension deficit taken to profit and loss account or statement of recognised gains and losses as set out in Notes 6 and 18. Under the previous policy, which was consistent with SSAP 24, the impact on the primary statements was restricted only to a pension charge in the profit and loss account. This charge would have been £1,041,000 (2003: £768,000), representing the contributions in the period.

#### ***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, providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company.

## Notes (continued)

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is considered recoverable) or deficit is recognised in full and presented on the face of the balance sheet. The movement in the scheme surplus/deficit is split between operating charges, financing items and, in the statement of total recognised gains and losses, actuarial gains and losses.

### 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.

### 3 Turnover

Turnover is analysed as follows:

|                                                                 | 2004          | 2003             |
|-----------------------------------------------------------------|---------------|------------------|
|                                                                 | £000          | Restated<br>£000 |
| Grant-in-aid receivable                                         | 47,786        | 42,110           |
| Administration fees receivable from third party debt purchasers | 5,756         | 7,064            |
| Other income                                                    | 42            | -                |
|                                                                 | <u>53,584</u> | <u>49,174</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

|               | 2004       | 2003       |
|---------------|------------|------------|
|               | £000       | £000       |
| Bank interest | <u>158</u> | <u>122</u> |

**Notes** *(continued)*

**5 Result of ordinary activities before taxation**

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

|                                             | 2004<br>£000 | 2003<br>£000 |
|---------------------------------------------|--------------|--------------|
| Depreciation                                | 2,136        | 2,076        |
| (Gain) on disposal of fixed assets          | (11)         | (4)          |
| Amortisation of deferred capital receipts   | (2,136)      | (2,076)      |
| Directors' remuneration (see below)         | 304          | 206          |
| Auditors' remuneration, including expenses: |              |              |
| Audit services                              | 44           | 42           |
| Other services                              | 24           | 9            |
| Operating lease rentals:                    |              |              |
| Land and buildings                          | 1,416        | 1,337        |
| Computer and other equipment                | 2,367        | 1,717        |
|                                             | <hr/>        | <hr/>        |

(b) Directors' remuneration:

|                                                   | 2004<br>£000 | 2003<br>£000 |
|---------------------------------------------------|--------------|--------------|
| Fees                                              | 19           | 18           |
| Executive emoluments (including benefits in kind) | 275          | 177          |
| Pension contributions                             | 10           | 11           |
|                                                   | <hr/>        | <hr/>        |
|                                                   | 304          | 206          |
|                                                   | <hr/>        | <hr/>        |

## 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<br>Emolument |              | Other benefits<br>and expenses* |              | Total<br>Emoluments |              | Pension<br>Contributions |              | Contract<br>terms |                                           |
|---------------------------------------------------------------------|--------------------|--------------|---------------------------------|--------------|---------------------|--------------|--------------------------|--------------|-------------------|-------------------------------------------|
|                                                                     | 2004<br>£000       | 2003<br>£000 | 2004<br>£000                    | 2003<br>£000 | 2004<br>£000        | 2003<br>£000 | 2004<br>£000             | 2003<br>£000 | Term              | Notice period                             |
| Keith Bedell-Pearce                                                 | 63                 | 67           | 5                               | 9            | 68                  | 76           | -                        | -            | 3 yrs             | 3 mths                                    |
| Brian G Booth                                                       | 5                  | 5            | -                               | -            | 5                   | 5            | -                        | -            | 4 yrs             | -                                         |
| Tarvi Davda (appointed 1 August 2002)                               | 5                  | 3            | -                               | -            | 5                   | 3            | -                        | -            | 3 yrs             | -                                         |
| Barbara Duffner (appointed 1 March 2004)                            | -                  | -            | -                               | -            | -                   | -            | -                        | -            | 3 yrs             | -                                         |
| Angela McCusker (appointed 1 August 2002)                           | 5                  | 3            | -                               | -            | 5                   | 3            | -                        | -            | 3 yrs             | -                                         |
| Ralph Seymour-Jackson (chief executive – appointed 21 July 2003)    | 84                 | -            | -                               | -            | 84                  | -            | 10                       | -            | 3 yrs 6 mths      | 3 mths to July 2004 and 6 mths thereafter |
| Christian Torkington (appointed 1 March 2004)                       | -                  | -            | -                               | -            | -                   | -            | -                        | -            | 3 yrs             | -                                         |
| Paul H Grace (resigned 31 July 2002)                                | -                  | 2            | -                               | -            | -                   | 2            | -                        | -            | -                 | -                                         |
| Maurice D Paterson (resigned 31 July 2002)                          | -                  | 2            | -                               | -            | -                   | 2            | -                        | -            | -                 | -                                         |
| Jean Tomlin (appointed 1 August 2002 and resigned 31 December 2003) | 4                  | 3            | -                               | -            | 4                   | 3            | -                        | -            | 3 yrs             | -                                         |
| Colin Ward (chief executive – retired 30 June 2003)                 | 121                | 93           | 2                               | 8            | 123                 | 101          | -                        | 11           | 1 yr              | 6 mths                                    |
|                                                                     | <u>287</u>         | <u>178</u>   | <u>7</u>                        | <u>17</u>    | <u>294</u>          | <u>195</u>   | <u>10</u>                | <u>11</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 following disclosure applies to Mr Seymour-Jackson and Mr Ward.

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 total emoluments of the retired chief executive stated above include an amount of £88,000 paid on retirement under the terms of his contract.

## 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 |               |
|--------------------------------|-----------------|--------------|-----------------------------|--------------|------------------|--------------|-----------------------|--------------|----------------|---------------|
|                                | 2004<br>£000    | 2003<br>£000 | 2004<br>£000                | 2003<br>£000 | 2004<br>£000     | 2003<br>£000 | 2004<br>£000          | 2003<br>£000 | Term           | Notice period |
| E Ostman                       | 99              | 91           | -                           | -            | 99               | 91           | 11                    | 10           | Permanent      | 6 months      |
| D Ross                         | 88              | 77           | -                           | -            | 88               | 77           | 9                     | 9            | Permanent      | 6 months      |
| R Watson                       | 84              | 77           | -                           | -            | 84               | 77           | 9                     | 9            | Permanent      | 6 months      |
| W Gray (appointed 1 July 2002) | 84              | 59           | -                           | -            | 84               | 59           | 9                     | 6            | Permanent      | 6 months      |
|                                | <u>355</u>      | <u>304</u>   | <u>-</u>                    | <u>-</u>     | <u>355</u>       | <u>304</u>   | <u>38</u>             | <u>34</u>    |                |               |

### 6 Staff numbers and costs

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

|                     | 2004       | 2003       |
|---------------------|------------|------------|
| Number of employees | <u>934</u> | <u>691</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 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:

|                       | 2004<br>£000  | 2003<br>Restated<br>£000 |
|-----------------------|---------------|--------------------------|
| Wages and salaries    | 17,636        | 13,199                   |
| Social security costs | 1,327         | 925                      |
| Pension service costs | 1,098         | 682                      |
| Other staff costs     | 285           | 218                      |
|                       | <u>20,346</u> | <u>15,024</u>            |

## Notes (continued)

### 7 Tax on result on ordinary activities

|                                                                          | 2004<br>£000 | 2003<br>£000 |
|--------------------------------------------------------------------------|--------------|--------------|
| Based on the result for the year at the standard rate of 30% (2003: 30%) | 876          | 1,000        |

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.

### 8 Tangible fixed assets

|                       | Short<br>leasehold<br>improvements<br>£000 | Computer &<br>other<br>electronic<br>equipment<br>£000 | Furniture,<br>fixtures &<br>fittings<br>£000 | Motor<br>vehicles<br>£000 | Total<br>£000 |
|-----------------------|--------------------------------------------|--------------------------------------------------------|----------------------------------------------|---------------------------|---------------|
| <b>Cost</b>           |                                            |                                                        |                                              |                           |               |
| At beginning of year  | 4,086                                      | 11,070                                                 | 1,727                                        | 45                        | 16,928        |
| Additions             | 769                                        | 638                                                    | 498                                          | -                         | 1,905         |
| Disposals             | (5)                                        | (216)                                                  | (42)                                         | (23)                      | (286)         |
| At end of year        | 4,850                                      | 11,492                                                 | 2,183                                        | 22                        | 18,547        |
| <b>Depreciation</b>   |                                            |                                                        |                                              |                           |               |
| At beginning of year  | 1,036                                      | 8,718                                                  | 777                                          | 27                        | 10,558        |
| Charge for year       | 473                                        | 1,458                                                  | 198                                          | 7                         | 2,136         |
| On disposals          | (2)                                        | (181)                                                  | (40)                                         | (23)                      | (246)         |
| At end of year        | 1,507                                      | 9,995                                                  | 935                                          | 11                        | 12,448        |
| <b>Net book value</b> |                                            |                                                        |                                              |                           |               |
| At 31 March 2004      | 3,343                                      | 1,497                                                  | 1,248                                        | 11                        | 6,099         |
| At 31 March 2003      | 3,050                                      | 2,352                                                  | 950                                          | 18                        | 6,370         |

In the opinion of the directors there is no material difference between the net book values disclosed above and their fair value.

### 9 Debtors

|                                          | 2004<br>£000 | 2003<br>Restated<br>£000 |
|------------------------------------------|--------------|--------------------------|
| Management fees receivable               | 626          | 3,442                    |
| Other debtors                            | 270          | 32                       |
| Amounts due from third party debt owners | 533          | 922                      |
|                                          | 1,429        | 4,396                    |

The 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.

**Notes** *(continued)*

**10 Cash at bank and in hand**

|                                      | 2004<br>£000       | 2003<br>£000       |
|--------------------------------------|--------------------|--------------------|
| Cash held in:                        |                    |                    |
| Commercial bank accounts             | 4,052              | 2,591              |
| HM Paymaster General Office accounts | 19,582             | 19,233             |
| Cash in hand                         | 1                  | 1                  |
|                                      | <hr/> 23,635 <hr/> | <hr/> 21,825 <hr/> |

The cash balance held in HM Paymaster General Office accounts at 31 March 2004 includes £4.8m (2003: £13.5m) 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**

|                                                                                             | 2004<br>£000       | 2003<br>£000       |
|---------------------------------------------------------------------------------------------|--------------------|--------------------|
| Funding received from the funding bodies<br>not yet issued as student loans or tuition fees | 20,087             | 19,429             |
| Trade creditors                                                                             | 731                | 1,680              |
| Corporation tax                                                                             | 519                | 509                |
| Other taxation and social security                                                          | 1,230              | 644                |
| Accruals and deferred income                                                                | 5,674              | 5,906              |
|                                                                                             | <hr/> 28,241 <hr/> | <hr/> 28,168 <hr/> |

The funding received from the funding bodies not yet issued as student loans or tuition fees includes £4.8m (2003: £13.5m) 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**

|                                     | 2004<br>£000      | 2003<br>£000      |
|-------------------------------------|-------------------|-------------------|
| At 1 April                          | 6,370             | 6,681             |
| Receivable for the year             | 1,865             | 1,765             |
| Credited to profit and loss account | (2,136)           | (2,076)           |
|                                     | <hr/> 6,099 <hr/> | <hr/> 6,370 <hr/> |
| At 31 March                         | 6,099             | 6,370             |

## Notes (continued)

### 13 Called up equity share capital

|                                           | 2004  | 2003  |
|-------------------------------------------|-------|-------|
|                                           | £     | £     |
| <i>Authorised</i>                         |       |       |
| 100 ordinary shares of £1 each            | 100   | 100   |
|                                           | <hr/> | <hr/> |
| <i>Allotted, called up and fully paid</i> |       |       |
| 10 ordinary shares of £1 each             | 10    | 10    |
|                                           | <hr/> | <hr/> |

### 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 (2003: no movements).

### 15 Cash flows

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

|                                                                         | 2004         | 2003             |
|-------------------------------------------------------------------------|--------------|------------------|
|                                                                         | £000         | Restated<br>£000 |
| Operating surplus                                                       | 993          | 922              |
| Depreciation                                                            | 2,136        | 2,076            |
| Amortisation of deferred capital receipts                               | (2,136)      | (2,076)          |
|                                                                         | <hr/>        | <hr/>            |
|                                                                         | 993          | 922              |
| Decrease/(increase) in debtors, excluding interest receivable           | 1,464        | (2,837)          |
| (Decrease)/ increase in creditors                                       | (595)        | 3,948            |
|                                                                         | <hr/>        | <hr/>            |
| Net cash inflow from administration activities                          | 1,862        | 2,033            |
| Funding provided to students and HEIs less repayments in the year       | (2,883,218)  | (2,831,706)      |
| Funding received from the funding bodies<br>less repayments in the year | 2,883,874    | 2,835,554        |
|                                                                         | <hr/>        | <hr/>            |
| <b>Net cash inflow/ (outflow) from operating activities</b>             | <b>2,518</b> | <b>5,881</b>     |
|                                                                         | <hr/>        | <hr/>            |

## Notes (continued)

### 16 Financial commitments

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

|                                        | Land and buildings |              | Other        |              |
|----------------------------------------|--------------------|--------------|--------------|--------------|
|                                        | 2004               | 2003         | 2004         | 2003         |
|                                        |                    | £000         |              | £000         |
| Operating leases which expire:         |                    |              |              |              |
| Within one year                        | -                  | -            | 151          | 312          |
| In the second to fifth years inclusive | 512                | 283          | 2,598        | 1,839        |
| In over five years                     | 1,113              | 1,055        | -            | -            |
|                                        | <u>1,625</u>       | <u>1,338</u> | <u>2,749</u> | <u>2,151</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 2004, the Company had placed contracts for the purchase of fixed assets totalling £ nil (2003: £242,000).

### 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.

Legal proceedings are in progress. The directors have taken appropriate legal advice that leads them 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.

In accordance with Executive NDPBs Annual Report and Accounts Guidance 2003/04, the Company has opted for early adoption of FRS17 – Retirement Benefits. In addition to the disclosures contained in the primary statements, the following disclosures are in accordance with that Standard.

#### Composition of the scheme

The Company operates a defined benefit scheme in the UK. The following disclosures are based on the triennial actuarial valuation carried out at 5 November 2002 and updated to 31 March 2004 by a qualified independent actuary.

The major assumptions used by the actuary were (in nominal terms):

|                                         | 2004 | 2003 | 2002 |
|-----------------------------------------|------|------|------|
| Rate of increase in salaries            | 4.4% | 4.1% | 4.3% |
| Rate of increase of pensions in payment | 5.0% | 5.0% | 5.0% |
| Discount rate                           | 5.5% | 5.4% | 6.0% |
| Inflation assumption                    | 2.9% | 2.6% | 2.8% |

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

|                                   | 2004  | 2004     | 2003  | 2003    | 2002  | 2002    |
|-----------------------------------|-------|----------|-------|---------|-------|---------|
|                                   |       | £000     |       | £000    |       | £000    |
| Equities                          | 6.20% | 6,862    | 6.00% | 4,066   | 6.75% | 4,907   |
| Cash                              | 2.50% | 233      | 2.25% | 346     | 2.50% | 17      |
| Total market value of assets      |       | 7,095    |       | 4,412   |       | 4,924   |
| Actuarial value of liability      |       | (11,889) |       | (9,764) |       | (6,365) |
| Recoverable deficit in the scheme |       | (4,794)  |       | (5,352) |       | (1,441) |
| Related deferred tax asset        |       | -        |       | -       |       | -       |
| Net pension liability             |       | (4,794)  |       | (5,352) |       | (1,441) |

#### Analysis of net return on pension scheme

|                                          | 2004  | 2003  |
|------------------------------------------|-------|-------|
|                                          | £000  | £000  |
| Expected return on pension scheme assets | 293   | 367   |
| Interest on pension liabilities          | (568) | (411) |
| Net Return                               | (275) | (44)  |

## Notes (continued)

### Analysis of amount recognised in statement of total recognised gains and losses (STRGL)

#### History of experience gains and losses

As this is the second year that the FRS17 disclosures are required, a limited history of experience gains and losses is provided. Over the next four years, a history will be built up and provided on a rolling 5 year basis thereafter.

|                                                                           | 2004 |    | 2003    |     |
|---------------------------------------------------------------------------|------|----|---------|-----|
|                                                                           | £000 | %  | £000    | %   |
| Difference between expected and actual return on scheme assets            | 945  | 13 | (1,924) | -44 |
| Experience gains and losses on scheme liabilities                         | 147  | 1  | (208)   | -2  |
| Total amount recognised in statement of total recognised gains and losses | 890  | 7  | (3,953) | -40 |

An improvement in stock market conditions has resulted in the actual return of assets exceeding that which was expected. Expected return on assets was £293,000 (2003 - £367,000) and the actual return on assets was a surplus of £652,000 (2003 - £1,557,000). In addition, market conditions have led the scheme actuary to revise the discount rate applied to future liabilities from 5.4% at 31 March 2003 to 5.5% at 31 March 2004. Taken together with less significant changes in actuarial assumptions, this has resulted in an actuarial gain of £890,000 (2003 - loss of £3,953,000).

### Movement in deficit during the year

|                                        | 2004    | 2003    |
|----------------------------------------|---------|---------|
|                                        | £000    | £000    |
| Deficit in scheme at beginning of year | (5,352) | (1,441) |
| Movement in year:                      |         |         |
| Current service cost                   | (1,098) | (682)   |
| Contributions                          | 1,041   | 768     |
| Past service costs                     | -       | -       |
| Net return on assets/(interest cost)   | (275)   | (44)    |
| Actuarial gain/ (loss)                 | 890     | (3,953) |
| Deficit in scheme at end of year       | (4,794) | (5,352) |

## Notes (continued)

### 19 Reserves

|                                                     | 2004           | 2003             |
|-----------------------------------------------------|----------------|------------------|
|                                                     | £000           | Restated<br>£000 |
| Profit and Loss Reserve excluding pension liability | -              | -                |
| Pension liability                                   | (4,794)        | (5,352)          |
| <b>Profit and Loss Reserve</b>                      | <b>(4,794)</b> | <b>(5,352)</b>   |

The movement in reserves has been reflected in either the Profit and Loss Account or the Statement of Total Recognised Gains and Losses as required by FRS17 – Retirement Benefits.

The analysis of the annual movement is detailed in the movement in deficit during the year in Note 18.

### 20 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).

### 21 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.

### 22 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 2004, the cost of such capital (calculated at 3.5% for the current year and 8% for the prior year, rates determined by the Executive NDPB Annual Report and Accounts Guidance) was £218,000 (2003: £522,000).