

Student Loans Company Limited

ANNUAL REPORT

2007-08

Company Number 02401034

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ANNUAL REPORT

2007-08 Contents

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FOREWORD

2007-2008 was a ground-breaking year for Student Loans Company. For the first time, we responded to one million student finance applications and, consequently, paid the highest-ever number of loans and grants. We also took important steps forward in building the new facilities at Lingfield Point, Darlington to deliver the new student finance service for English-domiciled students and to meet the needs of students from EU countries studying in the UK.

This Annual Report & Accounts details our activities and performance in response to targets set by Ministers. It also includes the Independent Assessor's Report on complaints made against the Company.

We delivered on all our major targets. The differing needs of the Education Departments of the devolved governments in Scotland, Wales and Northern Ireland were met and we continued to administer Educational Maintenance Allowances for Wales and Northern Ireland. I am pleased to report that the second year of our Higher Education Bursary and Scholarship Scheme (HEBSS) support to universities and colleges reached a much wider audience, with significantly more students making use of the system.

The development of our new, environmentally-friendly business centre at Lingfield Point, Darlington was completed on time, to specification and within budget and by the year-end, we were appointing new staff at the rate of 40 each month.

We have worked hard at building a good relationship with the local community and stakeholders in Darlington and the positive responses we have received provides a strong foundation for our future at Lingfield Point.

Our preparations for the introduction of Student Finance England also encompassed far-reaching changes to our business and to our structure. Following the appointment of Dr Martin Herbert as Director of Customer Services, we set up a new Customer Services Directorate to maintain our focus on the needs of our customers. By the year-end, as we made key senior appointments and colleagues joined during other internal restructures, the new department was already beginning to have a major impact on the business. We also launched a dedicated website for Student Finance England in March 2008.

Our contact centre in Colwyn Bay, which we operate for the Welsh Assembly Government, continued to achieve success in delivering student finance requirements both for applicants and for local authorities. It also completed another successful year in administering Education Maintenance Allowances.

Our work with HM Revenue & Customs to optimise our partnership in administering the collection of Income Contingent Repayment student loans resulted in the setting up of a new joint unit and a reduction of the turn-around period required by HMRC in dealing with the stop notices we send to HMRC when we have verified that customers have completed the repayment of their loans.

I would like to take this opportunity to thank our many colleagues at the Department for Innovation, Universities and Skills, the Department for Employment and Learning in Northern Ireland, the Scottish Ministers and the Welsh Assembly Government for their invaluable help throughout the year.



Ralph Seymour-Jackson
Chief Executive

MANAGEMENT COMMENTARY

Purpose and Roles

Statutory background

The Student Loans Company Limited was established to administer the loans scheme introduced by the Education (Student Loans) Act 1990 and the Education (Student Loans) (Northern Ireland) Order 1990. It was incorporated as a private limited company in 1989 and began operating in 1990. Subject to the provisions of the Companies Act 1985, SLC operates within the limits of a financial memorandum between the Company and the Government and is wholly owned by the Secretary of State for Innovation, Universities and Skills and Scottish Ministers.

The Student Loans Company was designated a Non-Departmental Public Body from 1 April 1996.

LEGISLATIVE FRAMEWORK

We currently operate within the following legislative framework:

- The Teaching and Higher Education Act 1988
- The Education (Student Loans) Act 1990
- The Education (Scotland) Act 1980, as amended
- The Education (Student Loans) (Northern Ireland) Order 1990
- The Education (Student Support) (Northern Ireland) Order 1998
- The Education (Graduate Endowment and Student Support) (Scotland) Act 2001
- The Higher Education Act 2004 and associated regulations
- The Higher Education (Northern Ireland) Order 2005

HIGHER EDUCATION ACT 2004 / HIGHER EDUCATION (NI) ORDER 2005

Academic Year (AY) 2006/07 had seen the introduction of the new student finance arrangements established under the Higher Education Act 2004 for England and Wales and Higher Education (NI) Order 2005 for Northern Ireland.

Within England and Northern Ireland the legislation introduced increased grants and deferred variable tuition fees supported by new income-contingent repayment fee loans. New bursaries funded by universities and colleges were simultaneously introduced in England, Wales and Northern Ireland but these are different for the three systems. For England and Wales, they are regulated by the Office for Fair Access (OFFA) under individual Access Agreements. For Northern Ireland, they are regulated by the Department for Employment and Learning under advice from OFFA.

The Student Loans Company Limited (SLC) administers government-funded loans and grants to students throughout the United Kingdom. In partnership with Local Authorities in England and Wales, the Student Awards Agency for Scotland, the Education and Library Boards in Northern Ireland, the Higher Education Institutions (HEIs) and HM Revenue & Customs, we are responsible for student financial support delivery in the United Kingdom

Our primary roles are

- to deliver financial support to eligible students pursuing higher education,
- to pay tuition fees to Higher Education Institutions on behalf of those who have taken out tuition fee loans,
- to work with HM Revenue & Customs to ensure repayments are collected on time from all those due to repay under the Income Contingent Repayment Loan Scheme,
- to manage the direct collection of repayments of loans in the former Mortgage Style Loan Scheme

We undertake specific tasks for individual devolved administrations, such as payment of Education Maintenance Allowances (payments to encourage students to continue past their compulsory schooling)

Operating Environment

SLC and student loans policy

Whilst policy is outside our remit, the Student Loans Company is responsible for designing and building the systems required by Ministers in each of the four Administrations and for operating these efficiently and effectively in an increasingly divergent environment. We maintain strong links with stakeholders to ensure we are able to respond flexibly to emerging developments in our operating environment.

Our operational processes ran smoothly and we ensured that students under both the new and existing schemes continued to be paid on time. We also administered the new arrangements for deferred fee loans, paying deferred fees to HEIs in England and Northern Ireland.

Last year, on behalf of the Department for Education and Skills (now the Department for Innovation, Universities and Skills, DIUS) for England and the devolved administrations for Scotland, Wales and Northern Ireland, we provided financial support to just over a million higher education and 53,000 further education customers, of whom almost 890,000 received student loans. The total support payments for the year were £5.7 billion, of which £3.3 billion was in maintenance loans.

In addition, the Student Loans Company paid tuition fees totalling £1.3 billion to Higher Education Institutions.

'CUSTOMER FIRST' AND SLC'S KEY ROLE IN THE FUTURE OF STUDENT FINANCE

The entire business has been involved in our 'Customer First' change management programme. In addition to role changes and departmental restructuring, there has been unprecedented activity in running seminars and information update sessions which have been attended by all employees. As the wide array of mechanisms and processes for the introduction of the new Student Finance England service took shape throughout the year, every member of staff has been directly involved in the culture change which has been taking place. Between 2006 and 2008, we have transformed our business and, through managed change, are continuing that process so that all the needs of the new customer-focused service will be met.

STUDENT SUPPORT IN WALES

Following the devolution of Higher Education student support from the UK government, the Department of Education, Lifelong Learning and Skills (DELLS), was established by the Welsh Assembly Government, with one of its key roles being the sponsorship of student support in Wales. The Student Finance Wales brand was launched to provide a specific identity to Welsh student support with DELLS sponsoring the extension of bi-lingual provision. In support of Welsh language requirements, the Student Loans Company established a contact centre in North Wales, which created a number of new jobs that provide specific telephone enquiry services for Welsh students. In 2006, DELLS introduced fixed rate tuition fee loans for students, administered by the Student Loans Company.

We also assisted DELLS in the development of new policies increasing tuition fee rates, and introducing a new tuition fee grant for Welsh students. During the academic year 2007/08, we fully implemented these policies on behalf of DELLS.

STUDENT SUPPORT IN NORTHERN IRELAND

In Northern Ireland, the range of policies and products followed a similar approach to England's. As well as the introduction of variable tuition fees and fee loans, administration arrangements for student support were moved to the Student Loans Company's e-business system, in support of the Department for Employment and Learning's modernisation objectives. Northern Ireland's Education & Library Boards now use the system for processing applications, and are supported by a new contact centre team. The Student Finance NI brand and website were launched to provide a specific identity to Northern Ireland student support. This system was used for the first time during academic year 2006/07 and continued to operate well during the last academic year.

The enhancements to the Education and Maintenance Allowance Scheme reported last year were successfully implemented and are meeting the Department's requirements.

STUDENT SUPPORT IN SCOTLAND

The Student Awards Agency for Scotland continued to process and assess applications for support from Scottish students and, for our part, we continued on their behalf for a second year to make monthly loan and grant payments to students domiciled in Scotland and attending Scottish institutions. We again implemented the requirements for increased rates of tuition fees for students from other parts of the UK at Scottish universities.

During the year, we assisted Education and Lifelong Learning in the Scottish Government in the implementation of new policy requirements arising from changes to the administration of the Scottish Parliament. During AY 2007/08, legislation introduced by the new Scottish Government was enacted to begin the process of abolishing the Scottish Graduate Endowment, with major future implications for the repayment of loans taken out by Scottish graduates to meet their repayment obligations under the now discontinued Graduate Endowment. Work began immediately at SLC to address the specific requirements for change in this respect.

Social and Economic

Social and economic factors, whilst outside Student Loans Company control, influence student support delivery in a number of ways, but particularly through the specific policies shaping demand for higher education (and accompanying financial support delivery mechanisms) in each devolved authority and the subsequent flow of student loan repayments to the Exchequer nationally

HIGHER EDUCATION DEMAND

As expected, the number of students from the European Union (EU) studying in the UK, and potentially applying for fee support to us, rose significantly during the year. The number applying from EU countries for a full-time undergraduate place in the UK rose by 5.4%, from 20,747 in 2007 to 21,867 in 2008 (Source: UCAS)

Student finance support application volumes continued to grow through AY 2007/08. For the UK as a whole, a snapshot taken by Universities & Colleges Admissions Service (UCAS) at 24 March 2008 revealed an overall rise of 7.8% in applications to full-time undergraduate courses starting in 2008, compared with the same time the previous year. Tuition fee loans to European Union students not resident in the UK rose from a total of £10.0 million in AY 2006/07 to £33.2 million in AY 2007/08.

LOAN REPAYMENT

We forecast continued growth over an extended period in the overall number of customers we manage, particularly if the typical length of time in repayment increases, following take-up of deferred fee loans by English-domiciled customers. This underscores the need to contain the increase of administrative resource and continually improve the effectiveness of collection from customers wherever they live. In addition to the enhancements we have introduced for the collection of Income Contingent Repayment loan repayments, we set up during 2007-2008 a new joint unit staffed by employees from both SLC and HMRC.

PUBLIC EXPENDITURE

Throughout the year under review, arrangements for setting up the sale of £6 billion of student debt to the private sector and the Parliamentary processes surrounding the enactment of the Sale of Student Loans Bill progressed.

Consistently for four years now, we have met our Efficiency Review cost reduction targets and, as part of the shared, continuing drive for service and efficiency improvement, we benchmark our core delivery and support processes and continue to look for further operational efficiencies.

CORPORATE SOCIAL RESPONSIBILITY

We fully recognise the growing expectation by the Government that all statutory organisations and Non-Departmental Public Bodies demonstrate an entirely responsible and proactive corporate attitude towards the environment. For some years, we have operated visible policies of improving our environmental consciousness and, at the same time, have also developed over the years a growing and robust culture of Corporate Social Responsibility.

During 2007-08, the Company added to its firm commitments by signing up to the imaginative new initiative, Pilotlight, which provides business expertise to charities and cash-poor organisations carrying out socially beneficial work. Typical assistance is in the nature of management expertise or help with complicated accountancy that is beyond the affordability of a small charity. This new membership was widely commented on by the Scottish Press in terms which suggested that the Student Loans Company has provided an excellent example for others to follow.

The long established relationship between SLC and Scottish Business in the Community, whereby we engage in a number of concurrent activities helping schools in a variety of ways, continued to be very active during 2007-08.

Under the working project title of 'Giving Something Back', the Company engaged in a number of new initiatives. Linked to this is the extensive fund-raising work undertaken by SLC staff and officially supported by the Company. Conscious of its carbon footprint, the Company also goes to considerable lengths to encourage not just a healthy lifestyle and work-life balance, but an approach to energy saving and responsible use of utilities and Company facilities. This report contains details, elsewhere, of the refurbishment of premises at Lingfield Point in Darlington where every effort has been made to answer our accommodation needs in a way that meets the best practices of environmental protection.

REGULATION

In the UK, there has been continuing political and regulatory scrutiny of charges applied to customers of the financial sector, and this has generated considerable media interest. As a result of this activity and interest, the Company is seeking professional advice to assess whether there will be any impact on its own future charging policy.

Technological

We continue to ensure that investment in Information and Communication Technology through business process re-engineering and hiring and retaining the people to plan, build and run the systems, is at the core of the business

Our ICT capabilities started on a single site, and were local systems. These are now internet-based systems interacting with multiple external stakeholders through the development of Business-to-Business and Business-to-Customer solutions

We maintain a number of websites and web-based applications, such as our corporate website and customer transactional sites under the service brands Student Finance Direct, Student Finance Northern Ireland and Student Finance Wales. Towards the end of the year under review, we added to this the beginnings of a bespoke, brand-new site for English-domiciled students – Student Finance England – to pave the way for SLC's much expanded involvement in the application process for English-domiciled students for Academic Year 2008/2009

We also provide web services for Assembly Learning Grants in Wales and to support our administration of Educational Maintenance Allowances for Northern Ireland and Wales. The Higher Education Institution Portal has now operated for fully two years to help participating universities in England in the administration and payment of student bursary schemes

Significant work has taken place to enhance the customer portal, which allows students to apply online for financial support. We plan to reduce the evidence burden on our customers and enable more streamlined entitlement decisions and to do so in such a way that the security of customer data is not compromised

We have continued to build on our successful online service for customers, increasing the number of applications for student finance that are made online as a first choice and providing customers with direct access to view and update their student finance accounts

We are also exploring the best ways of using text messaging to relay information to customers at critical times

Organisational Capability

The quality and delivery of our products and services depend on the capability we have within the organisation. This has been split into five sections: People, Infrastructure, Relationships, Change Management and Business Continuity.

People

As at 31 March 2008, the Student Loans Company had 1488 full-time equivalent employees. We have now held Investors in People accreditation for seven years and remain committed to investing in our people by developing their skills and competencies in order to meet individuals' own career aspirations and Company objectives.

RECRUITING AND RETAINING SKILLED EMPLOYEES

We have introduced an online HR self-service system which has been very well received by the organisation and has improved our administration processes.

Our online i-Recruitment facility was released in March 2007 in conjunction with the launch of the new Student Loans Company website. All staff now have access to the system and can apply for internal vacancies via this route. External candidates are directed through job adverts to the new i-Recruitment website.

There has been a significant amount of effort and attention on reducing staff turnover and absence. Staff turnover is very slightly up from 15.3% in March 2007 (against a target of 20%) to 15.8%, against the 2007-2008 target of 16.2% in April 2008. Sickness absence has also been reduced from 5.19% to 4.55% over the same period (against a target of 4.34%).

THE NEW CUSTOMER SERVICES DIRECTORATE

An entire, new Directorate was set up during 2007-2008, with the recruitment of Dr Martin Herbert as Director of Customer Services. The core of SLC's operational approach to delivering the new service for England, the Customer Services Directorate was set-up during 2007-2008 around four key elements:

- 1) contact services that will increasingly cater for multi-channel interaction with customers (telephone, webchat, secure email, paper),
- 2) processing services to facilitate the paying of loans and grants and the repayment of student loans,
- 3) Hub Services, to coordinate our internal resources in a way that best matches customer demand,
- 4) Customer Insight – a small team that will help us better understand the customer experience and who will contribute to the ongoing improvements to SLC services.

THE CREATION OF STUDENT FINANCE ENGLAND IN DARLINGTON

Despite the extensive size of the programme to extend our Darlington operation from its original employee base of around 100 to over 600, the various phases of organisation of the move from the outdated premises at Mowden Hall to a bespoke and purpose-built facility at Lingfield Point, went ahead smoothly. By early spring 2008, a carefully planned re-fit incorporating the best principles of environmentally appropriate materials and layout had reached near completion, ready for the planned launch in June.

In terms of the business operations there, the emphasis has been on the creation of a fully-trained workforce of advisers and other back-up staff, ready to begin assessing applications from new potential first year students in the 2008/2009 academic year. The publicity campaign, the programme of relationship-building with the local community and the recruitment campaign had all achieved marked success by the end of financial year 2007-08.

Infrastructure

BUILDINGS

The Student Loans Company operates in three locations throughout the United Kingdom.

GLASGOW

The majority of our current employees are based in our headquarters in Glasgow, which includes our customer contact centre, collections department, information technology department and corporate functions. Our large-scale printing and mailing facility is based at our Hillington complex, just outside Glasgow.

DARLINGTON

What will become the key location for all our operational activity on behalf of English customers, our Darlington complex has for the past two years housed what is now the Student Finance England Processing Unit, dealing with student finance applications from students living in 11 Local Authority areas across England. Student support applications from European Union students wishing to study in the UK are also processed here.

COLWYN BAY

The Student Finance Wales contact centre in Colwyn Bay delivers fully bi-lingual Welsh Assembly Government financial support to students and other learners who live in Wales.

Relationships

GOVERNMENT AND SECTOR

Building effective relationships within government and the higher education sector is essential to the achievement of our core business

We support the Department for Innovation, Universities and Skills (DIUS) by contributing to the Government's goal of access to a world-class higher education system for all those with the potential to benefit. We deliver services to the other UK Education Departments – in Northern Ireland for the Department for Employment and Learning, in Wales for the Department for Children, Education, Lifelong Learning and Skills, and in Scotland for the Education and Lifelong Learning Department - to help them achieve government policy and deliver their goals. Clear and open channels of communication exist to further these relationships.

Representatives from the DIUS and the Scottish Government attend Main Board meetings, held ten times per year. Representatives from the other Devolved Administrations are also invited to attend Main Board meetings, and special project boards are established with these and other partners to help enable and guide major change initiatives. Priorities across the stakeholder areas are agreed at quadrilateral meetings following the disbandment of the Stakeholder Steering Group.

A dedicated relationship management team has been established, focusing on work with local authorities and interactions with universities and colleges.

Our partnership with HM Revenue & Customs has been strengthened – notably with the implementation of an entirely new unit comprising staff from SLC and HMRC – to deal more effectively with the needs of *customers with Income Contingent Repayment loans*.

We have reached a new operational understanding and partnership with UCAS, which will sit at the core of the new application process for first-time borrowers in England for the Academic year 2008/09. We have also carried out more work on our strategic links with other government departments, sharing data where we have the scope to do so.

STRATEGIC PARTNERS AND SUPPLIERS

We are committed to maintaining and further developing our excellent relationships with strategic partners and key suppliers in the provision of services such as contact centre support, ICT, training, distribution and legal services. For example, for several years, we have used the back-up services of one of the leading call centre operators, Response, and we have created an environment of partnership in which we jointly evolve problem-solving mechanisms with our IT suppliers, Oracle and Hewlett-Packard. In every case, the main impetus has been the provision of an enhanced service to customers.

Change Management

Change management plays an essential, central role within the business. We work with our stakeholders to define changing demands and develop new processes which are incorporated into our core operations. This ensures delivery of quality services, on time and on budget. In this rapidly shifting environment, managing change effectively is integral to how we deliver these services.

STAKEHOLDER CHANGE CAPABILITY

In order that initiatives arising from the implementation of Government policies can be deployed effectively and efficiently, we have the responsibility of delivering the appropriate systems and processes. We work closely with our stakeholders to meet these changing demands. This enables us to integrate processes for our core operations for improved efficiency, connect to other Government agencies, and exploit the potential for e-service delivery.

Business Continuity

To ensure the continuity of our business, we make certain that the necessary processes are in place for timely, effective and appropriate responses to any large-scale crisis.

We have a programme of testing of the existing business continuity plans to take into consideration the impact of new processes, new products, and external influences on the organisation.

Corporate Objectives and Performances

The Student Loans Company's resources, objectives and performance measures are set out by Ministers in the Annual Performance and Resource Agreement and the Company is accountable to Ministers for its performance

This section lists our five Corporate Objectives and 12 Key Performance Indicators (KPIs) for Financial Year (FY) 2007-08, along with targeted and actual performance. It provides narrative about the performance against each KPI and explains any changes to KPIs, measures and targets for FY 2008-09. If a more detailed definition of each KPI is required, this can be obtained either by contacting the Student Loans Company's Information Office or by visiting our website at www.slc.co.uk

In summary, the overall performance for the year is considered to be good. This year's targets were especially challenging and although some targets were missed, we performed strongly in most key areas – payments were made on time, system availability and performance was generally good, online take up (of applications) by students comfortably met targets and we continued to deliver programmes and projects to the satisfaction of the respective boards. Our ICR performance was generally strong despite specific issues that arose during the year, including the need to ensure that data was being managed securely in the light of the HMRC data loss incident.

We narrowly missed our target for overall customer satisfaction, even though the satisfaction levels for the specific individual service elements were met. The underlying reasons for customer satisfaction results are a key focus for the SLC Executive Team going forwards, and the new survey, to be piloted during FY 2008-09 and introduced the following year, should enable an improved level of insight and hence opportunities to target actions more effectively.

We missed the Mortgage Style Loans collections targets, but the reasons for this are well understood by the Company and a revision of the approach to measurement and target-setting has been undertaken.

There were two areas where targets were significantly missed. The online take-up by sponsors was considerably lower than target and requires us to re-think the approach in this area. In addition, satisfaction levels of funding bodies with the data and information service provided by SLC were low, particularly in the last quarter. Whilst the small sample sizes inherent within this measurement prevent any robust statistical analysis, we are conscious of the need to address specific areas of concern, where these can be clearly identified.

It is intended that FY 2008-09 will be the final year of the Key Performance Indicators in their current form. A new performance management regime based on the balanced scorecard approach will be piloted in FY 2008-09, running in parallel with the KPIs. This is one of the changes that are being made to streamline the governance framework, which aims to confer more autonomy on SLC whilst maintaining clear accountability. SLC will use the balanced scorecard to demonstrate to Ministers and the SLC Board that objectives within the SLC Delivery Strategy 2008-12 are being achieved. In light of this, it has been agreed that FY 2008-09 should be a year of minimal change for KPIs, using the existing measures as far as possible, but with revised targets where appropriate.

Please refer to the table on page 30 for a summary of those measures that missed the target in FY 2007-08, with accompanying comments.

Objective 1: Payments

To provide an accessible and effective system for handling applications for student support and processing payments, so that students get paid the right amount at the right time

Key Performance Indicator 1 Service Level Agreement Performance				
Achieve target percentage of the essential elements of the Service Level Agreement (SLA) between the Student Loans Company and the Department for Innovation, Universities and Skills				
	Measure	Target	Actual	Achieved
A	Local Authority Portal - System Availability	99% or more (core hours only in any one month)	99%	✓
B	Local Authority Portal - Support Availability	99% or more (core hours only in any one month)	100%	✓
C	Local Authority Portal - End to End Response Time	99% or more within 5 seconds (core hours only in any one month based on average across any working week)	See footnote (1)	✓
D	Local Authority Portal - System Usability	99% (core hours only in any one month)	98%	✗
E	Local Authority Portal - Help Desk Availability	100% (core hours only in any one month)	100%	✓
F	Local Authority Portal - Call answering	90% or more (core hours only in any one month)	95%	✓
G	Production of student correspondence	90% or more (in any one month)	97%	✓
H	Initiation of BACS payments	i) 95% or more by close of first working day following receipt of HEI confirmation (in any one month)	i) 100%	✓
		(ii) 99% or more by close of second working day following receipt of HEI confirmation (in any one month)	(ii) 100%	✓

(1) The measurement process is now in place and began in April 2008 for the new reporting year. If the measurement assigned for next year had been applied this year, then the actual performance would have been 100%.

KPI 1 Performance

Some isolated technical incidents occurred during the year which caused us to narrowly miss the KPI1(d) target for system usability of the Local Authority Portal. However, overall system availability was on target and 100% BACS payments were initiated on time, exceeding the target.

Changes to KPI 1 for FY 2008-09

There will be no change to measures or targets. There will be a minor change to the method of reporting KPI1(c) as previously no data has been obtainable.

Key Performance Indicator 2 Payments: Online take-up				
Increase the percentage of online take-up of student finance applications				
	Measure	Target	Actual	Achieved
A	% of customers making online applications	(i) New students - 24% or more	35.1%	✓
		(ii) Returning students - 40% or more	46.4%	✓
		(iii) Sponsors - 55% or more	25.2%	x

KPI 2 Performance

The online application figures for students comfortably exceeded targets. The 35.1% new student applications and 46.4% returning student applications represented 124,846 and 238,369 respectively.

Online usage by the sponsor customer group is considerably lower than the target this year.

In FY 2006/07, over 28,000 sponsors supported applications on line. This represented a Year End Actual of 46.7%, against a target of only 6%. This performance was the basis for the increase of the target to 55%. This year, over 68,000 applications were supported on line, but even though this was twice as many as in the previous year, the target proved too challenging.

Discussions with the sponsor customer group as part of the Customer First engagement work have identified a number of reasons for low online usage. A sponsors online improvement strategy has been identified for AY 2008/09, this includes improvement to online Help content, online demonstrations and printable PDF guides to applying. A leaflet for sponsors will be enclosed with all forms and our staff will be trained to help spot potential pitfalls for sponsors and lead them through the process.

In the longer term, enhancements to the process itself will be taken forward.

Changes to KPI 2 for FY 2008-09

There will be no change to measures. Higher targets have been agreed. These targets are consistent with Customer First business case assumptions.

Objective 2. Collections

To maximise the collection rate of student loans and so minimise the cost to the taxpayer by ensuring those who should pay do pay; minimising delays in repayment, and ensuring high quality and timely information on repayments is provided to the customer

Key Performance Indicator 3 Income Contingent Repayment Borrowers with no National Insurance Number (NINO)				
	Measure	Target	Actual	Achieved
A	% of borrowers with no NINO BY Statutory Repayment Due Date (SRDD)	0 25% or less	0 57% ¹	✗
B	% of borrowers with no NINO AFTER passing SRDD	0 7% or less	0 31%	✓

¹ See narrative below on EU Students

KPI 3 (A) Performance

There was early concern, which proved to be correct, that this target was not achievable, as it transpired that there were in excess of 2,000 customers falling due (in April 2008) for fee loan repayment with no NINO. These were the first tranche of EU customers who were eligible to apply for a fee loan without the provision of a NINO. If we were to have excluded EU customers from the calculation, then we would have achieved the target with a figure of 0 18%. We did manage to reduce the figure including EU customers from a starting point of 0 95% to 0 57%, which is an excellent result when viewed alongside the lack of options available to encourage provision of NINO or status from EU customers.

The FY 2006-07 Year End target was 1 40%, which was comfortably achieved last year with a Year End actual performance of 0 46%. This was the basis for increasing the target to 0 25% for FY 2007-08, which in the event proved too challenging.

KPI 3 (B) Performance

The Year End figure is an excellent 0 31% against a target of 0 70%. Over the last 12 months there has been a huge effort to identify all customers with no NINO and then proactively obtain a NINO. This has largely been successful and is evident in the Year End figure. The remaining accounts that comprise the 0 31% are now primarily related to system issues (4,000 duplicate customers) that require to be rectified, or customers who consistently do not respond to us. The new HMRC Trace should assist in identifying address details where SLC currently holds incorrect information, and when appropriate enforcement strategies are introduced, this will also have a beneficial impact on the figures, but in the short term we would not expect to see significant increase or decreases to the current actual.

Changes to KPI 3 for FY 2008-09

There will be no change to measures. Higher targets have been agreed. EU students have been removed from the calculation and will be reported separately. Although EU students currently represent a very small number of borrowers in repayment, this will increase from September 2008. SLC will monitor the trend in order to enable realistic targets to be set in FY 2009-10.

Key Performance Indicator 4 Income Contingent Repayment Reduce % of Borrowers with a NINO but citizen not found at HM Revenue & Customs (HMRC)				
	Measure	Target	Actual	Achieved
A	% of borrowers who have a NINO but the citizen is not found at HMRC BY SRDD	15% or less	16.05%	✗
B	% of borrowers who have a NINO but the citizen is not found at HMRC AFTER SRDD	5.5% or less	4.83%	✓

KPI 4 (A) Performance

Up until December 2007 we were slightly ahead of the target. Unfortunately, early in 2008 we encountered issues caused by the need to ensure that data was being managed securely in light of the HMRC data loss incident. Although we overcame these issues within a matter of weeks, we failed to meet the target.

More accounts were sent for matching in the initial Match file than in any previous years (approx 275,000). Although this is very positive, it also means the more accounts we send the more are likely to be unmatched. We matched in the region of 170,000 customers this year which again is higher than in previous years but there were 105,000 unmatched, which is approximately 5,000 higher than last year.

KPI 4 (B) Performance

Year end target has been met with an actual figure of 4.8% against a target of 5.5% or less.

The good start to the year was due to analysis of the Repayment Profiles report where we were able to identify many accounts which were below small balance write-off but were still being reported.

Changes to KPI 4 for FY 2008-09

There will be no change to measures. Higher targets have been agreed.

The target may need to be recalculated in August 2008 when the impact of the introduction of Monthly Borrower Re-matching in April 2008 becomes apparent. Previously, borrowers who were "matched" remained so for the duration of their loan. Monthly Borrower Re-matching will now highlight those who move from a status of matched to "found" and therefore the numbers of matched will reduce.

Key Performance Indicator 5: Income Contingent Repayment: Reduce % of borrowers not currently in any repayment channel				
	Measure	Target	Actual	Achieved
A	% of borrowers who are due to be in repayment but who are not currently in any repayment channel	3% or less	0.47%	✓

KPI 5 Performance

The year end figure is 0.47% which is well below the target of 3%. The work undertaken on the STOP and START notices late in FY 2006-07 and early in FY 2007-08 was the reason for the margin by which this KPI was achieved. The challenge over the year was in maintaining the figure and ensuring no significant increases occurred.

We have undertaken further analysis on the Repayment Profiles Report of accounts where a START appears to have been issued but no response has been received. There are approximately 1,615 accounts in this category at the moment across all cohorts. Upon closer inspection we have identified that 1,559 of these customers fall into the duplicate category where a START was issued, but on two loans both belonging to the same customer. This results in no match response being received on one of the loans. The only way to rectify this is to merge the loans and this exercise is underway but, due to the complexities of the merging process, we do not anticipate these issues will be resolved until later in Tax Year 2008-09.

Changes to KPI 5 for FY 2008-09

There will be no change to the measure. A higher target has been agreed to reflect the strong performance in FY 2007-08.

Key Performance Indicator 7: Mortgage Style Loans collection Minimise % of loans that leave deferment and go into arrears				
	Measure	Target	Actual	Achieved
A	% of borrowers that leave deferment and go into arrears	13.7% or less	16.19%	✗

KPI 7 Performance

Of the retained loans which were deferred as at 31 March 2007, 16.19% were overdue compared to a target of 13.7%.

Not all elements of this KPI are in fact under the control of SLC (e.g. customers exiting this pool). This has been recognised by DIUS and this KPI will not be reported during FY 2008-09.

Over the course of the year we have used every available tool to optimise performance. We have introduced SMS, personal visits, "propensity to pay" modelling as well as targeting key pools of accounts. We also revised letter and telephone campaigns and, despite these efforts, we were unable to reach the agreed target.

Changes to KPI 7 for FY 2008-09

A new measure and target has been agreed. SLC is limited in what it can do to control the number of borrowers leaving deferment and hence the performance against this measure. The new measure will be to maximise the percentage of loans making a repayment, which is an area in which SLC can have a real impact.

Key Performance Indicator 8 Mortgage style arrears collection Minimise % of loans that leave deferment and go into arrears				
	Measure	Target	Actual	Achieved
A	% of loans that are in arrears	8.5% or less of all loans in repayment	8.79%	X
B	% of loans that are in arrears	50% or less of loans that start the FY less than 12 months in arrears, but are still in arrears at the end of the FY	56.02%	X

KPI 8 (A) Performance

The key issue for this year has been the inability to take legal action against customers, coupled with the growing level of consumer over-indebtedness within the UK. The latter, whilst hard to quantify in terms of actual impact on KPI outturn, is clearly evident when reviewing reasons for non/late payment. The former has now been resolved and we should be able to litigate from April 2008.

The target in FY 2006-07 of 9% was achieved last year with a Year End actual performance figure of 8.85%. So, although our actual performance slightly improved this year, we were unable to achieve this year's more challenging target.

KPI 8 (B) Performance

Over 50% of the loans in this category related to loans which have passed maturity. This has a significant impact on our being able to remove cases from an overdue status, as customers are unable to defer their loan.

This was a new target and measure for FY 2007-08, so no comparison against last year's performance is possible.

KPI achievement is also likely to be tough during FY 2008-09, as the economic climate is unlikely to improve within the next 12 months. The introduction of a default registration has also been delayed and is unlikely to be in place during the first quarter of FY 2008-09. We will, however, continue to review and implement innovative strategies to optimise recoveries.

Changes to KPI 8 for FY 2008-09

There will be no change to the measure or target for KPI 8A. It is recognised that the economic climate will make the current target of 8.5% a challenging one. KPI8B will become a Board level indicator.

Objective 3: Customer Satisfaction

To provide a high quality service to customers, so that high levels of customer satisfaction, as benchmarked against comparator organisations, are achieved

Key Performance Indicator 9 Customer Satisfaction				
	Measure	Target	Actual	Achieved
A	% of customers rating the Student Loans Company's overall service as good or excellent	92% or more	91.3%	✗
B	% of customers rating the individual measures of service as good or excellent does not fall below the relevant targets	Various ranging from 83% to 93%	All targets met	✓
C	Use of extended and additional surveys to enhance capability for continual improvement	Demonstrate Capability		✓

KPI 9 (A) Performance

Overall satisfaction did not hit the target level for the year. Information from the extended "shadow" survey and the post-call feedback suggests this is primarily due to the longer wait times when contacting the Contact Centre. Call volumes remained higher than expected through February and March, with the gradual reduction in the higher-than-expected ICR calls being offset by a surge in Mortgage Style Deferment calls as a result of some timing issues around the processing of deferments and the issuing of the End of Deferment letter caused by the early Easter break. Current demand levels continue to exceed the capacity of the Contact Centre to provide a responsive service at all times.

Long term plans exist to address these issues, including

- the introduction of the Hub Services team to maximise the effective use of resources and the match of resource supply to customer demand (e.g. the flexible shift patterns in Darlington),
- the improvement and simplification of the end-to-end process to reduce avoidable contact,
- the increase in Contact Centre resources as part of Customer First and the introduction of voice recognition IVR and full channel blending,
- the introduction of the Repayment Portal supporting a migration of repayment queries to self service,

Changes are being implemented in the short term as part of the efficiency programme managed by the Customer Insight Team to attempt to address this. These include an extensive redraft of the Payment Schedule Letter (a major driver of contact in the peak period) and a trial of pro-active text messaging to customers to improve outward communication.

Other improvements have been and are being made in the short term, including the simplification of the IVR menu system.

KPI 9 (B) Performance

Despite our narrowly missing the target for overall satisfaction, all targets for the individual service elements of the survey were met

KPI 9 (C) Performance

A new element KPI 9 (C) was introduced this year to extend the survey to enhance capability for continual improvement. Previously, satisfaction measures only related to customers who had made contact with the Student Loans Company. The extended – “shadow” - survey also monitors satisfaction levels amongst those customers who have been contacted by the Student Loans Company but have not initiated contact with us, themselves. In addition, specific measures for customers in receipt of the Disabled Students' Allowance, Childcare Allowance, and Full Maintenance Grant have been introduced.

As a result of the shadow survey, several improvement areas have been identified and are being addressed.

Changes to KPI 9 for FY 2008-09

There will be no change to the measure or target. In addition, SLC will be introducing a new, more comprehensive survey. This will build on the lessons learnt from this year's shadow survey and will eventually replace the current survey. The new survey will be piloted in FY 2008-09 in order to establish baselines.

Objective 4: Funding Authority Service

To provide a high quality service to funding bodies that addresses their concerns, which includes the provision of comprehensive, timely and relevant data and information to the Department for Innovation, Universities and Skills and the Devolved Administrations, so that student finance strategy and policy can be better developed, monitored and evaluated and future risks appropriately managed

Key Performance Indicator 10 Funding Authority Service				
	Measure	Target	Actual	Achieved
A	Management Information – Service Level Agreements	95% or more of the essential elements of the Management Information SLAs are met	95%	✓
B	General Service % of funding authority customers' rating the data, information and advice services provided by SLC positively	83.7% or more	67.3% ¹	✗
	Specific Service % of funding authority customers' rating the data, information and advice services provided by SLC positively	89.2% or more	67.0% ²	✗

KPI 10 (A) Performance

This is a quarterly measure with cumulative results during the first three quarters improving from 93.8% to 95.0% to 96.0%. Performance decreased in the final quarter but we still just met the 95.0% target. In this last quarter performance was affected by the need to deal with priority ad hoc requests and a high number of Westminster Parliamentary Questions.

KPI 10 (B) Performance

The survey responses for the final quarter FY 2007-08 was the worst result for any quarter during the year, resulting in the target being missed.

In respect of the General Service, the areas of continued dissatisfaction are the lack of "flexibility to meet differing needs" and "adaptability". There were, however, some improvements in the overall views around "availability" and "responsiveness".

At times it was difficult to design effective action plans to improve performance due to deficiencies in the reporting process such as non-attributable or non-specific comments.

In respect of Specific Services, there were issues with GEMS returns, which needs greater attention to stakeholder requirements, and dissatisfaction with the speed at which business cases are completed. There was also a degree of dissatisfaction with the speed in which SLC warn of operational risks. Policy and product support was one area which received positive feedback.

Changes to KPI 10 for FY 2008-09

There will be no change to the measure or target for KPI 10A. For KPI 10B, targets will be set for individual Funding Authorities. The Technical Notes will be updated to clarify the calculation and reporting processes.

¹ N.B. These results are based on a strict, literal interpretation of the wording in the Technical Notes. Therefore the Actual figure is that for only Q4 in 07-08. Results calculated on the previous basis used by SLC – on the Actual being a year to date cumulative figure – would be 78.8% for the General Service.

² N.B. These results are based on a strict, literal interpretation of the wording in the Technical Notes. Therefore the Actual figure is that for only Q4 in 07-08. Results calculated on the previous basis used by SLC – on the Actual being a year to date cumulative figure – would be 80.4% for the Specific Service.

Objective 5: Effective and Efficient Use of Resources

Within a transparent and flexible budgeting framework, to align resources with priorities in order to deliver day-to-day business, projects and corporate performance targets to required standards, within agreed budgets and secure the best use of funding provided to the Company

Key Performance Indicator 11 Flexible Resourcing Performance Operating and Programme Budgets and Overall Financial Performance				
	Measure	Target	Actual	Achieved
A	Annual variance of spend from original budget or updated Corporate Plan for operating budget profile	-5% to +2.5%	0.34%	✓
B	Annual variance of spend against approved business cases (excluding Customer First)	-5% to +2.5%	-1.05%	✓
C	Annual variance of spend against initial Customer First programme/project capacity plans	-5% to +2.5%	-0.22%	✓
D	Annual variance of spend from original budget or updated Corporate Plan for each APRA category	-5% to +2.5% for each APRA category - recurrent - capital - non-cash	-0.3% 2.5% -87.4%	✓ ✓ ✗

KPI 11 (A) Performance

There was an overspend of £178,000 on the operating budget. This included the agreed £400,000 slippage of capital funding into FY 2008-09.

KPI 11 (B) Performance

There was an underspend of £874,000 on the approved programme. It should be noted, however, that there was an approved slippage of effort with a value of £787,000 into FY 2008-09. The corresponding funding for this has been included in the Corporate Plan for FY2008-09 and therefore the net genuine underspend was £87,000 (1.1%).

KPI 11 (C) Performance

There was an underspend of £29,000 (-0.22%). This is net of the approved capital slippage of £1,100,000 into FY 2008-09.

KPI 11 (D) Performance

At the time of the issue of the APRA letter in June 2007, DIUS highlighted a shortfall of £1,785,000 within this category with a corresponding surplus within the recurrent category. The recurrent gap was addressed in Month 12, but the underspend within non-cash remains. This was communicated to DIUS from Month 3 onwards and they continued to recognise this variance as the year progressed.

Changes to KPI 11 for FY 2007-08

There will be no change to measures or targets, although the results will be reported at individual Funding Authority level.

Key Performance Indicator 12 Effective Project Delivery				
	Measure	Target	Actual	Achieved
A	Programme level assessment of the acceptable delivery of programme to agreed standards as assessed by the project and programme boards	Green, against agreed Red, Amber and Green criteria	Green	✓

KPI 12 Performance

All projects and programmes were rated GREEN by the respective Project and Programme Boards. The SLC Executive continues to monitor progress on programmes via the Products & Services Board.

KPI 12 Changes for FY 2007-08

There will be no change to measures or targets.

Summary of those measures which missed the target in FY 2007-08, a comparison with FY 2006-07 actuals & targets, and summary of comments, as described in the section above

Ref	Indicator	07-08 target	07-08 actual	06-07 target	06-07 actual	Comments
KPI1	SLA Performance					
d	LA Portal – System Usability	≥ 99%	98%	-	-	New measure in 07-08
KPI2	Online Take-Up					
iii	% of sponsors submitting financial details online	≥ 55%	25.2%	≥ 6%	46.7%	28,495 in 06-07, 68,043 in 07-08
KPI3	ICR Reduce % of borrowers with no NINO					
a	With no NINO by SRDD	≤ 0.25%	0.57%	≤ 1.4%	0.46%	0.18% excluding EU in 07-08
KPI4	ICR Reduce % of borrowers with a NINO but not matched at HMRC					
a	By the SRDD	≤ 15%	16.05%	-	-	New measure in 07-08
KPI7	MS % of loans that go from deferment into arrears	≤ 13.79%	16.19%	≤ 15%	15.72%	Limited control by SLC
KPI8	MS % of loans that are in arrears					
a	% accounts in arrears at start remaining in arrears at end	≤ 8.5%	8.79%	≤ 9%	8.85%	Actual improved over 06-07
b	% accounts <12 months in arrears	≤ 50%	56.02%	-	-	New measure in 07-08
KPI9	Customer Satisfaction					
a	Rating of SLC overall service	≥ 92%	91.3%	≥ 92%	94.1%	All floor targets met in 07-08
b	Floor Targets					
KPI10	Funding Authority Service					
bi	General service (part A)	≥ 83.7	67.3%	≥ 73.0	76.25%	78.8% in 07-08 using SLC calc basis
bii	Specific service (part B)	≥ 89.2	67.0%	≥ 73.5	86.75%	80.4% in 07-08 using SLC calc basis
KPI11	Financial Performance					
iv	Variance for each APRA category					
	Non-cash	-5% under to 2.5% over	-87.4% under	-	-	New measure in 07-08

Products and Services

During 2007-2008 we provided a range of administrative services for education funding in the United Kingdom. We paid loans (repayable by the student) and grants / bursaries (non repayable) as follows

MAIN SUPPORT FOR FULL-TIME STUDENTS

Maintenance loans and grants to full-time students (according to an individual student's eligibility and entitlement), higher education grants for eligible students from England and Wales and higher education bursaries for eligible students from Northern Ireland

TUITION FEE LOANS

Tuition fees to colleges and universities on behalf of the 564,000 students who took out Tuition Fee Loans for this purpose, as well as financially assessed tuition fee grants to those students who applied and are eligible from England, Wales and Northern Ireland

DEPENDANTS' GRANTS

The Adult Dependant's Grant, the Parent's Learning Allowance and the Childcare Grant to which full-time students with dependants may be entitled if they incur additional costs

TRAVEL GRANT

Travel Grant to help cover costs of travel for students who either go abroad to study as part of their course, or attend clinical training as part of a medicine or dentistry course

SUPPORT FOR PART-TIME AND POSTGRADUATE STUDENTS

Course grants and tuition fee grants to part-time students who qualified in England, Wales and Northern Ireland and part-time maintenance loans for students from Scotland. While, in the main, postgraduate students are not entitled to financial assistance, we paid support that is available for those students studying for a postgraduate teaching qualification

DISABLED STUDENT ALLOWANCE

The Disabled Student Allowance (DSA), which is available to eligible students in full-time, part-time or postgraduate study in England and Wales

REPAYMENT OF TEACHER LOANS

This is a special arrangement whereby the Government make repayments of student loans for qualified teachers who work in an academic discipline which is in short supply in schools in England and Wales. The scheme was closed to new applicants during 2004-05. We continue to administer the scheme for those who have been previously accepted onto it.

SCOTTISH GRADUATE ENDOWMENT SCHEME

We administered the repayment accounts of Scottish domiciled graduates and others who have left their courses and chose to pay the Graduate Endowment by taking out loans. During the period of this report, legislation was completed in the Scottish Parliament to abolish the Graduate Endowment scheme and all the necessary first steps were taken by SLC to prepare for the administrative changes this will mean.

SUPPORT FOR STUDENTS FROM THE EUROPEAN UNION

We pay and administer tuition fee support in the form of tuition fee loans for students who qualify as European Union nationals and who are studying part-time or full-time in the UK

EDUCATION MAINTENANCE ALLOWANCES

We administered Education Maintenance Allowance services for Northern Ireland and Wales. Education Maintenance Allowances are household income-based payments to encourage students to continue past their compulsory schooling. They comprise fortnightly payments to students along with bonus payments paid three times per year.

THE HIGHER EDUCATION GATEWAY

The Higher Education Gateway is a web portal developed by the Student Loans Company to provide Higher Education Institutions with online services. The first service to be delivered via this portal was the Higher Education Bursary and Scholarship Scheme (HEBSS). HEBSS provides a means for Higher Education Institutions to administer their bursaries and scholarships online. It is populated by student data from the Local Authority secure website.

INCOME CONTINGENT REPAYMENT AND MORTGAGE STYLE LOANS

We provided customer services support and repayment administration for customers:

- with Income Contingent Repayment loans (repayment collected by HMRC via the PAYE system for students who entered Higher Education after 1998), and for those outside the UK tax system
- with Mortgage Style Loans (which are no longer available), collected via direct debit, credit card, etc and made available under the former loan scheme to students who entered Higher Education prior to 1998. We administered deferments of mortgage-style loans for those customers not earning above the minimum income threshold.

Managing Risk

The Student Loans Company's risk and control framework is described in the Statement on Internal Control on page 51

Our governance arrangements provide a framework to protect delivery through robust risk management, internal controls, management review, Board engagement and stakeholder reporting

Our aim is to embed risk management into our activities, in accordance with our risk management policy, which ensures that risks are understood, proactively assessed and managed in line with the Student Loans Company's appetite and tolerance for risk

Based on this policy, a risk management process has been implemented, which involves the maintenance of registers for the following categories of risk

- Strategic risks, relating to the achievement of our long term strategy,
- Operational risks, relating to day-to-day issues,
- Corporate risks, relating to the achievement of the corporate objectives

Risk registers are reviewed at regular intervals

PRINCIPAL RISKS

The principal risks during 2007-08 were those recorded on the strategic and corporate risk registers during the year

The divergence of requirements of the different administrations, arising from adoption of different policies, was a key risk at the start of the year, but the successful introduction of "Separation of Services" was a key mitigating action and furthermore relationships with the different administrations has improved steadily throughout the year

Management of information and data was identified as a key strategic risk for SLC, well before the recent HMRC data loss incident which prompted a government-wide review of information exchanges

The SLC Information & Data Management Governance Framework has now been issued and stands us in good stead to address the specific actions that are now required as a follow-up to the publication of the Hannigan report

HMRC's re-platforming of PAYE systems increases the risk of ICR service failures. A detailed review of SLC and HMRC interactions is being undertaken

The unsatisfactory computer room environment in the Bothwell Street office has posed a significant risk to our ability to provide stable computer systems. However, we are now in the process of moving equipment to an outsourcing provider and completion of this move later in 2008 will remove this risk

SYSTEM OF INTERNAL CONTROL

Our 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 is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental 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

During preparation of the annual Statement on Internal Control, each member of the Student Loans Company's Executive Board and the Heads of Service are required to provide an annual 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. Significant control issues are disclosed within the Statement on Internal Control

Financial Commentary

SOURCE OF FUNDS AND PROCESS FOR AGREEING FUNDING

The Student Loans Company is funded primarily by Grant-in-Aid from the devolved authorities listed below

- Department for Innovation, Universities and Skills - England
- Education and Lifelong Learning - Scotland
- Department for Employment and Learning - Northern Ireland
- Department for Children, Education, Lifelong Learning and Skills - Wales

Grant-in-Aid funding is provided to cover expenditure on ongoing operational activities, capital expenditure and programme development expenditure

In financial year 2007-08, income was also received from universities and colleges which had elected to have the Student Loans Company administer their bursaries and scholarship payments under our Higher Education Bursary and Scholarship Scheme

Other funding is received from third parties in relation to contracts for administration of services to those parties, and from bank interest

We apply for funding through an annual corporate financial planning cycle which forecasts funding requirements throughout the current Spending Review period, and we receive an Annual Performance and Measurement letter confirming Grant-in-Aid available and income from other sources

FINANCIAL MANAGEMENT

The funding position is reported on a monthly basis to the Executive of the Company and to the Main Board on a quarterly basis. Detailed analysis of expenditure at funding authority level is provided, split by operating, programme development and capital spend. In addition, detailed variance analysis is performed at divisional level and by expenditure type. Monthly re-forecasts are performed throughout the year. This reporting is supplemented by detailed analysis at a product and service level, by funding authority, from the Company's activity-based management system. Such analysis is used to ensure products and services are delivered within the agreed pricing for those, and to provide costings for business cases for future developments.

For financial year 2007-08, operating expenses and programme development expenditure were both successfully contained within the allocated funding. The efficiency targets set as part of the Comprehensive Spending Review 2004 were achieved.

The Student Loans Company is subject to the efficiency review within the public sector. We actively seek opportunities to change current practices to maintain customer service at a reduced unit cost. In financial year 2007-08, the value-for-money programme developed to deliver efficiency savings contributed £963,000 to the targeted savings.

CAPITAL AND RESERVES

Under the terms of our Financial Memorandum, we are not permitted to raise finance other than by means of operating leases to support our ongoing activities.

In accordance with HM Treasury guidelines, we draw down funds to meet our ongoing needs and we are not permitted to draw down in advance of need. Funds drawn down are held in a Paymaster General Office account, the interest on which accrues to HM Treasury. Similarly, we are not permitted to create reserves.

The authorised share capital of the Student Loans Company is 100 ordinary shares of £1 each, of which 10 are issued and fully paid.

TAX STATUS

For the financial year 2007-08, the Company is registered for VAT and is able to recover part of our input VAT - those services relating to mortgage style activities being exempt

The Student Loans Company is a not-for-profit organisation, but we pay corporation tax in respect of the profits arising from the administration contracts for services to third parties and the bursary administration services provided to universities and colleges

STATUTORY ACCOUNTS

The statutory accounts for year ended 31 March 2008 are presented on pages 46 to 83

Profit and Loss Account

As stated above, the Company is a not-for-profit organisation and carries no reserves. Grant-in-Aid is accrued to maintain the result for the year as "nil", with any balancing entry falling into the "Balances with Central Government Bodies" within debtors/creditors depending on the nature of the timing difference.

The Company's administration expenses of £70,295 million are to fund both the operational expenses and the expenses associated with the development programme. Funding of those expenses is provided from the income generated from servicing contracts for third parties (£2,777 million) and from bank and other interest (£364,000), with the balance of funding supplied in the form of Grant-in-Aid from the funding authorities.

Statement of Total Recognised Gains and Losses

This statement, presented on page 62, contains the actuarial loss arising on the Company's defined benefit pension scheme (£783,000), the main loss having arisen due to the volatility in the markets against the initial assumptions.

Balance Sheet

The Company's balance sheet is presented on page 63. The net liability of £18,591 million on the balance sheet consists of £11,226 million of pension liabilities and £7,365 million of dilapidations provisions.

Funding received in relation to capital spend is treated as deferred income and released to the Profit and Loss Account to match the depreciation charged each year on the assets purchased.

Other income consists mainly of administration and legal charges recovered from third parties in relation to customers in default. This income has fallen due to improvements in preventing customers from entering default and reductions in customer numbers due to full repayment being reached by many in the old mortgage style portfolio on which these charges are principally levied.

Cash Flow Statement

This statement, presented on page 64, presents the cash flows of the Company. These cash flows relate to ongoing operating activities, including the development programme of the Company. The cash flows relating to the payment of funding to students as loans, grants or allowances and the repayments received from those customers who have entered repayment are not included in the Company's cash flow statement. These monetary transactions are conducted through bank accounts held "in Trust" for the relevant funding authority and do not appear on the Company's balance sheet.

Remuneration Report

The following provides details of the remuneration and pension interests of Main Board Members and Directors of the Company, as well as Members of the Executive Board

DIRECTORS

The remuneration for the Chairman, Chief Executive and Non-Executive Board Members is determined by the Secretary of State for Innovation, Universities and Skills and the Scottish Ministers. These Board Members and Directors also receive travel expenses.

The Non-Executive Board Members are appointed by the Secretary of State on a basis of one day per month for a fixed term appointment of three years.

DIRECTORS' REMUNERATION

	Salary and Bonus		Other benefits and expenses		Total Emoluments		Pension Contributions		Contract terms		
	2008 £000	2007 £000	2008 £000	2007 £000	2008 £000	2007 £000	2008 £000	2007 £000	Term	Notice Period	Appt to Period
Keith Bedell-Pearce	62	62	3	3	65	65	-	-	3yrs	3mths	Dec 08
Tarvi Davda	5	5	-	-	5	5	-	-	3yrs	-	Aug 08
Ian Dickson	5	5	-	-	5	5	-	-	3yrs	-	Mar 11
Barbara Duffner	5	5	-	-	5	5	-	-	3yrs	-	Mar 10
Angela McCusker	5	5	-	-	5	5	-	-	3yrs	-	Aug 08
Ralph Seymour-Jackson (Chief Executive)	159	155	-	-	159	155	17	17	3yrs	6mths	-
Christian Torkington	5	5	-	-	5	5	-	-	3yrs	-	Mar 10
	<u>246</u>	<u>242</u>	<u>3</u>	<u>3</u>	<u>249</u>	<u>245</u>	<u>17</u>	<u>17</u>			

Note - Other benefits and expenses comprise taxable travel and subsistence expenses.

The following disclosure applies to Mr Seymour-Jackson, Chief Executive Officer.

The constituent elements of the Chief Executive's remuneration package are disclosed above. Under the terms of his contract, the Company is required to make pension contributions on behalf of the Chief Executive equivalent to 12% of his gross salary. He is not a member of the Company scheme and has a personal pension plan to which the contributions are paid. As an ordinary member of the Company's group life assurance scheme, he is entitled to permanent health insurance and death-in-service benefits. The Chief Executive is also eligible for payment under a bonus scheme established with the approval of DIUS and H M Treasury 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 initial contract was to 31 December 2006. This was subsequently extended by mutual agreement for a further three years to 31 December 2009. Termination of the contract by the Company prior to that date, other than in accordance with its terms, will result in compensation being paid to the Chief Executive for the unexpired period of the contract, subject to his duty to mitigate his loss.

MEMBERS OF THE EXECUTIVE BOARD

As required by the Government Financial Reporting Manual, the following relates to the remuneration of each Member of the Executive Board not included in the table of Directors' Remuneration above

Appointments are on a permanent basis in accordance with individual contracts

With effect from October 2007, the Members of the Executive Board were recognised as a separate bargaining unit with the Public and Commercial Services Unions

The Company receives the Pay Remit levels from the Treasury and we are able to allocate this to all employees in the Company. Our strategy for rewarding senior management is based on the principle of uplifting salary levels in a differentiated fashion, relative to individual performance and the market and is determined by the Remuneration Committee

Remuneration for those Members of the Executive Board appointed during the year has been disclosed from the date of appointment

REMUNERATION OF MEMBERS OF THE EXECUTIVE BOARD

Director	Salary and Bonus		Other benefits and expenses		Total Emoluments		Pension Contributions		Contract terms	
	2008 £000	2007 £000	2008 £000	2007 £000	2008 £000	2007 £000	2008 £000	2007 £000	Term	Notice Period
D Ross	126	122	-	-	126	122	17	12	Permanent	6 months
R Watson*	-	59	-	60	-	119	-	5	N/A	N/A
E Rae**	11	51	-	-	11	51	1	5	N/A	N/A
W Gray	123	122	-	-	123	122	17	12	Permanent	6 months
C Andrew***	104	-	-	-	104	-	11	-	Permanent	6 months
L Campbell#	124	-	-	-	124	-	15	-	Permanent	6 months
M Herbert##	80	-	-	-	80	-	10	-	Permanent	6 months
	<u>568</u>	<u>354</u>	<u>-</u>	<u>60</u>	<u>568</u>	<u>414</u>	<u>71</u>	<u>34</u>		

*up to 07/09/06 *from 08/09/06 to 15/05/07 * from 01/05/07 #from 15/05/07 ##from 06/08/07

PENSION DISCLOSURE FOR MEMBERS OF THE EXECUTIVE BOARD

Director	Real increase in pension and lump sum at age 60 (£)	Accrued pension at age 60 at 31 March 2008 and related lump sum (£)	Cash equivalent transfer value at 31 March 2007 (£)	Real increase in cash equivalent transfer value (£)	Cash equivalent transfer value at 31 March 2008 (£)
E Rae*	1,233	19,940	45,447	7,809	55,028
C Andrew	6,697	34,036	67,601	21,288	91,525
L Campbell	4,388	4,388	0	13,957	13,957
W Gray	5,135	32,548	73,221	17,768	93,845
D Ross	5,159	41,428	90,026	18,198	111,735
M Herbert	2,636	2,636	0	4,606	4,606

*up to 15/05/07

REMUNERATION COMMITTEE

Members of this Committee are appointed by the Board for an initial three-year term of office, after which their appointments may be subject to annual rotation

The following Non-Executive Directors of the Board are members of the Remuneration Committee

Barbara Duffner, Chair

Angela McCusker

Tanvi Davda

Assessors have the right to attend all Committee meetings on behalf of the shareholders

The Board determines the membership and terms of reference. The Chair of the Remuneration Committee will formally report back to the Board after each meeting, and the minutes of Committee meetings will be provided to the Board for information.

Remuneration Committee meetings will normally be attended by the Chief Executive, the Deputy Chief Executive and the Head of Human Resources.

The duties of the Remuneration Committee are.

- to determine those posts which will be designated as 'senior staff' posts,
- taking advice from the Chief Executive, to determine
- the contracts of employment, including all terms and conditions of service, for senior staff (Executive Board Members and Heads of Service), taking account of guidance and market information where appropriate,
- the remuneration of senior staff, including the terms of the senior staff bonus scheme, ensuring that senior staff are fairly rewarded for their contribution to the Company having regard to affordability, guidance on public sector increase as reflected in the Pay Remit agreed by DIUS and market information where appropriate,
- to monitor and approve (for bonus purposes) the performance of senior staff (up to a maximum of 20% for Executive Board Members and 15% for Heads of Service),
- to approve the application of the severance policy for senior staff posts, 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 in accordance with the overall pay remit agreed with DIUS



Ralph Seymour-Jackson

Chief Executive and Accounting Officer

30th June 2008

Main Board, Executive Management and Assessors

Keith Bedell-Pearce, Executive Chairman

Appointed 17 December 2001

(Reappointed 17 December 2004 and reappointed 17 December 2007 for a single year term)

Keith Bedell-Pearce has been Executive Chairman of the Student Loans Company since December, 2001. He is also the Non-executive Chairman of Norwich & Peterborough Building Society, the Non-Executive Chairman of Directgov and the Senior Independent Director of F&C Asset Management plc. Keith was a main board Executive Director of Prudential plc until his retirement at the end of 2001.

Meetings

Attended 10 Board meetings

Attended 5 Audit Committee meetings

Attended 6 Remuneration Committee meetings

NON EXECUTIVE DIRECTORS

Tanvi Davda

Appointed 1 August 2002

(Reappointed 1 August 2005)

Tanvi Davda joined the Board of the Student Loans Company in 2002. She is an Executive Director within the Global Markets business at ABN Amro, a major European bank. Prior to this she spent a number of years as a management consultant with IBM and as a derivatives trader at Credit Suisse. Tanvi holds a Masters degree in Finance (MSc) from the London Business School and a BSc in Chemistry from University of London.

Meetings

Attended 5 Board meetings

Attended 4 Audit Committee meetings

Attended 5 Remuneration Committee meetings

Ian Dickson

Appointed 1 March 2005

(Reappointed 1 March 2008)

Ian Dickson was appointed a Non-Executive Director of the Student Loans Company in March 2005 and has since been appointed as Chairman of the Audit Committee which sits quarterly. He also sits on the Audit Committee of the Department for Innovation, Universities and Skills. He was previously Finance Director and Principal Finance Officer (PFO) for the Export Credit Guarantee Department (ECGD), where his Board responsibilities included finance, strategic operational and project risk, internal audit and IT. Prior to that Ian worked in the insurance industry in Scotland with Scottish Provident.

Meetings

Attended 9 Board meetings

Attended 6 Audit Committee meetings

Barbara Duffner

Appointed 1 March 2004

(Reappointed 1 March 2007)

Barbara Duffner joined the Board of the Student Loans Company in 2004 and became Senior Non-Executive Director in October, 2004. She is also the chair of the Remuneration Committee. She was previously Head of Personnel at Royal Mail in Scotland until she retired in March 2004. Barbara was awarded an OBE in 2002 in recognition of her Chairmanship of both the Careers Service Review within Scotland and of the Children's Hospice Association Scotland (CHAS). Barbara is also a Board Member of Scottish Enterprise, a Member of the Judicial Appointments Board Scotland, a Chair Member of the Professional Conduct Committee of the General Dental Council, Public Interest Member of the Council of the Institute of Chartered Accountants Scotland, Employment Tribunal Member and a lay member of the Court of the University of Glasgow. She has recently become a member of the Conduct Committee of the Royal Institute of Chartered Surveyors.

Meetings

Attended 10 Board meetings

Attended 7 Remuneration Committee meetings

Angela McCusker

Appointed 1 August 2002

(Reappointed 1 August 2005)

Angela McCusker has been a Non-Executive Director of the Student Loans Company since 2002. She was previously Finance Director of Ellesse International Limited and Ellesse UK Limited. For a six month period from October, 2004 until March, 2005 Angela chaired the Student Loans Company Audit Committee. She is a Chartered Accountant and holds a Masters degree (MBA) from the Open University. Angela was recently appointed as Chief Executive of Pilotlight Scotland - a charity which brings together multi disciplinary teams of senior business people with managers of small charities, to coach them through the process of planning for growth and sustainability.

Meetings

Attended 9 Board meetings

Attended 5 Audit Committee meetings

Attended 5 Remuneration Committee meetings

Christian Torkington

Appointed 11 March 2004

(Reappointed 1 March 2007)

Christian Torkington joined the Student Loans Company in 2004 and is currently the Managing Director of Operations at Scottish Widows plc, where his responsibilities include managing customer service, business transformation and IT for Scottish Widows. He has led major strategic change programmes within a variety of public and private sector organisations. Christian held a number of senior positions within Barclays Bank plc, including setting up of group operations shared services, leading major business and IT change projects for the UK bank and supporting the Group Chief Executive in dealing with regulatory and risk issues. He is a Chartered Accountant and was a management consultant for many years prior to joining Barclays.

Meetings

Attended 7 Board meetings

Attended 4 Audit Committee meetings

MAIN BOARD AND EXECUTIVE BOARD MEMBERS**Ralph Seymour-Jackson,
Chief Executive**

Appointed 21 July 2003

(Reappointed 1 January 2007)

Ralph Seymour-Jackson was appointed Chief Executive in 2003 and is responsible for the overall management of the Company, incorporating business development, strategy and planning and the Company's three directorates. He launched his career as a pilot in the RAF before joining Norwich Union to train as an Actuary. Ralph joined Scottish Provident in 1992, spending four years as Chief Executive of their Greek operation. In 1998 he became Scottish Provident's Head of UK Operations. When Scottish Provident was acquired by Abbey National in 2001, Ralph was appointed IT Director for the combined life businesses.

Meetings

Attended 8 Board meetings

Attended 5 Audit Committee meetings

Attended 7 Remuneration Committee meetings

EXECUTIVE MANAGEMENT TEAM**Derek Ross,
Deputy Chief Executive**

Derek Ross was appointed Deputy Chief Executive in February 2007. He is also Director of Operations responsible for Business Services, Customer Services and Change Management. Since joining the Student Loans Company in 1999, Derek has been Director of Administration, Company Secretary, and Legal Services and Corporate Compliance Manager. Before joining the Company, he was a practising solicitor for 15 years, both in the private and public sector. Derek is a member of the Law Society of Scotland and, in addition to his legal qualifications, holds a Masters degree (MBA) from the University of Glasgow.

Meetings

Attended 10 Board meetings

Attended 4 Remuneration Committee meetings

Wallace Gray, Information and Communications Technology (ICT) Director

Wallace Gray has been Director of ICT since October 2001 and is responsible for Systems Development, Telecommunications and Technical Infrastructure Architecture. Before joining the Student Loans Company, Wallace was the IT Director for the Scottish Legal Aid Board where he worked for five years. During his 25 years as a computer professional, he has held positions in Standard Life, Britannia Life and Robert Flemings Merchant Bank. Wallace has three Masters Degrees in Business Administration (MBA), Human Resource Management and e-Business, as well as a BSc in Computing. He is currently studying towards a Doctor of Education (EdD) at Strathclyde University. He is a member of the Association of Project Managers and is one of a select number of UK Project Managers to be awarded a Certificated Project Manager (CPM) title by the IAPM.

Meetings

Attended 10 Board meetings

Les Campbell, Finance Director

Les Campbell joined as Director of Finance on 15 May 2007. He is responsible for all aspects of Finance, including Financial and Corporate Services. The Finance Directorate includes not just all the aspects of finance but now also encompasses Corporate Services (including the Procurement, Facilities and Management Information departments). Before joining the Student Loans Company, Les was the Director of Finance at Glasgow Housing Association for three and a half years. Prior to that, he was the Group Financial Controller at British Energy plc for seven years, having previously worked with Scottish Power plc and PricewaterhouseCoopers. He is a board member of the Scottish Legal Aid Board, the non-departmental public body responsible for managing legal aid in Scotland. He is also a council member of Quarriers, the charity dealing with the disabled, people with epilepsy and young people. Les is a member of the Institute of Chartered Accountants of Scotland.

Meetings

Attended 9 Board meetings

Attended 6 Audit Committee meetings

Martin Herbert, Customer Services Director

Martin Herbert joined the Student Loans Company as Director of Customer Services in August 2007. He has overall responsibility for the Customer Services directorate across Glasgow, Darlington and Colwyn Bay.

Martin has extensive experience of leading significant public sector transformation programmes and has played key roles in the set-up and operation of new public services – such as NHS 24, Consumer Direct and the single Non-Emergency Number Programme.

Martin holds a PhD in Management Science from Loughborough University, a Masters degree in Business Information Technology Systems from the University of Strathclyde, and a Diploma in Quantity Surveying from the Glasgow Metropolitan College. He has published papers and presented on team working at conferences in Beijing, Montreal and Slovenia.

Meetings

Attended 7 Board meetings

Chris Andrew, Company Secretary

Chris Andrew has been Company Secretary since February 2004. He provides a secretariat to the Company's Board of Directors, ensuring that all necessary Corporate Governance requirements are complied with. Chris joined the Company in 1999 as Head of Audit, having previously worked at KPMG as a Senior Audit Manager. In addition to his responsibilities as Company Secretary, he is the vice-chair of the Finance and Governance Board, which ensures that the Company establishes and complies with appropriate arrangements for corporate governance, financial management and control, and all relevant legislation. Chris is responsible for Assurance Services, which encompasses the areas of corporate assurance, internal audit and legal & compliance. He became a member of the Chartered Institute of Public Finance and Accountancy (CIPFA) in 1990.

Meetings

Attended 9 Board meetings

Attended 6 Audit Committee meetings

Attended 6 Remuneration Committee meetings

**Eileen Rae,
Acting Finance Director**

Eileen Rae was Acting Finance Director for the period
1 April 2007 until 14 May 2007

Meetings

Attended 1 Board meetings
Attended 1 Audit Committee meeting

ASSESSORS

**Michael Hipkins,
Director of Student Finance Strategy**

Represents the Secretary of State for Innovation,
Universities and Skills

Michael Hipkins has been Director of Student Finance
Strategy at the Department for Innovation, Universities
and Skills (formerly the Department for Education and
Skills) since 2004

Meetings

Attended 10 Board meetings
Attended 6 Audit Committee meetings
Attended 7 Remuneration Committee meetings

**Stephen Kerr,
Head of Higher Education and Learner Support**

Represents Scottish Ministers

Stephen took up the post of Head of the Higher
Education and Learner Support Division in May 2007,
having previously been Head of the Skills for Life &
Work Division (SLW) A qualified solicitor, Stephen
studied law at the University of Dundee
(undergraduate) and the University of Strathclyde
(postgraduate) Prior to joining the civil service,
Stephen held senior positions in Deloitte and Dundas
& Wilson LLP

Meetings

Attended 6 Board meetings

Footnotes

Board Attendance

10 meetings were held between April 2007 and
March 2008

Audit Committee

6 Audit Committee meetings were held between
April 2007 and March 2008

Internal Audit was represented at all Audit Committee
meetings by the Head of Internal Audit

Remuneration Committee

7 Remuneration Committee meetings were held
between April 2007 and March 2008

HR was represented at all Remuneration Committee
meetings by the Head of HR

Chairman's Statement

Whilst there are many aspects of the work that we do that place increasing demands on our business - and all of these are of great importance - nothing matters more to our customers in our annual cycle of activity than our successful delivery of loans and grants. It was therefore of real significance that, during the 2007/08 academic year, we achieved for the first time the payment of just over a million loans – something of a landmark.

One area, however, where we would have liked to perform better, but are constrained by external structural issues, is the final repayment of Income Contingent Repayment (ICR) loans. ICR loans now form the substantial majority of our loan book. They are repaid through the individual tax system and are therefore subject to the annual tax collection and assessment cycle. As with income tax itself, loan over-repayments are repaid to the customer with interest once the post-tax year reconciliation is complete but, of course, our customers would very much prefer that deductions beyond what is due were not made in the first place. The problem lies in the fact that the final reports we receive from Her Majesty's Revenue & Customs (HMRC) are not available until some months after the end of the tax year in which the deductions are made.

Whilst historically a number of interim measures have been put in place to enable individuals to anticipate the completion of their repayments, we recognise that a longer term systems-based solution is required. We have been working closely with colleagues at HMRC over the past two years to develop this systems-based solution and we are aiming to introduce more effective processes in 2009 to deal with a problem that we know is a source of continuing concern to our customers.

The balancing of business as usual and the requirements of building a new end-to-end service for all students based in England was always going to be a challenge. Our success in delivering at the start of the current academic year more than a million individual loans within our tight service standards was achieved in the context of the great amount of work that was done during 2007/08 in building the new service – the initiative which we call Customer First. In the event, we met our targets for defining the new service and setting up the operational processes and procedures.

The FY 2007-2008 saw a significant development and consolidation in the availability of additional online services for the use of higher education establishments, local education authorities, and – critically – student finance customers and their parents or other sponsors.

At the same time, the use of online application as a first choice increased substantially and well beyond our targeted figures for applicants, all of which showed that our drive to provide easy and straightforward access to online services and to encourage a move away from a paper-based service is producing the required results both in terms of improved customer service and operational efficiency

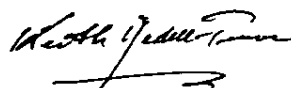
Much is said elsewhere in this Annual Report about the very successful and efficient way in which our new base in Darlington – the Memphis Building at Lingfield Point – underwent its transformation to enable the recruitment and deployment of the first groups of our new staff there. I would like to add my own thanks to all those involved in ensuring that what we have put in place meets the best of modern standards – particularly in respect of the environmentally friendly solutions that have been applied in the new building. Lingfield Point will be an excellent place for our Student Finance England staff to put the principles of Customer First into practice.

The delivery of the objectives of Customer First are not limited only to Student Finance England customers. The enthusiasm and commitment to Customer First throughout the business means that the stage is set for another significant improvement in the service we give to all our customers.

I would like to thank everyone within the business for what they have done to bring about this change.

During the coming year, both Angela McCusker and Tanvi Davda will retire by rotation as non-executive Directors of the Student Loans Company. Both have made significant contributions to the Board of the SLC and the successful development of our business during the past six years. I am very grateful for the support they have given to me and the Company.

I will be retiring at the end of this year after seven years as Chairman of SLC. There have been huge changes in the scope and nature of the Company's activities since I became Chairman in 2001. These are the result of having a talented and dedicated management team that is very effectively led by our CEO, Ralph Seymour-Jackson, and a strong and competent Board. It has been a privilege to have worked with such excellent colleagues.



Keith Bedell-Pearce
Chairman

Directors' Reports and Financial Statements

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Directors' Report

The directors have pleasure in submitting their annual report and the financial statements of the Company for the year ended 31 March 2008. 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 Innovation, Universities 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 Innovation, Universities and Skills, with the approval of the Treasury, in accordance with the Financial Memorandum of 4 May 1999.

Statutory background and history

The statutory background of the Company is provided within the Management Commentary at page 7.

Business Review

The information in the section entitled 'Management Commentary' on pages 7 to 36 has been provided in accordance with section 234ZZB of the Companies Act.

Dividends

The Company has no accumulated reserves and accordingly the directors do not recommend the payment of a dividend (2007: £Nil).

Directors and their interests

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

Keith Bedell-Pearce	Executive Chairman (part-time)
Tanvi Davda	Non-Executive *^
Ian Dickson	Non-Executive*
Barbara Duffner	Non-Executive ^
Angela McCusker	Non-Executive *^
Ralph Seymour-Jackson	Chief Executive
Christian Torkington	Non-Executive *

* Member of the Audit Committee throughout the year

^ Member of the Remuneration Committee throughout the year

All non-executive directors are considered to be independent.

None of the directors had any interest in the shares of the Company throughout either the year ended 31 March 2008 or 31 March 2007. The Company is wholly owned by the Secretary of State for Innovation, Universities and Skills and the Secretary of State for Scotland.

The Chief Executive is also the Accounting Officer for the Company.

The Secretary of State for Innovation, Universities 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 9 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.

The Company is an Equal Opportunities Employer and gives full consideration to suitable applications from disabled persons. Opportunities also exist for employees who become disabled to continue in their employment or to be trained for other positions within the Company.

Charitable donations

During the year the Company made no charitable donations (2007: £ 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 Company adheres to the principles of the Better Payment Practice Code.

Throughout the year, 87% (2007: 90%) of invoices were paid within agreed terms.

Corporate Governance

As an Executive NDPB, the Company's control framework is set out in the Financial Memorandum.

The Financial Memorandum refers to the appropriate Government guidance on Corporate Governance, including Managing Public Money issued in October 2007.

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, and subsequently the revised Code in 2003 and then in 2006, there are a number of matters with which, due to its status as a NDPB, the Company cannot comply. The following exceptions from its provisions should therefore 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.

As defined within Managing Public Money, the Accounting Officer is charged, in the Accounting Officer Memorandum, with maintaining a sound system of internal control that supports the achievement of the Company's policies, aims and objectives, and regularly reviewing the effectiveness of that system. He is also responsible for signing the Statement on Internal Control.

The Accounting Officer's Statement on Internal Control for the year ended 31 March 2008 is provided on pages 51 to 58.

SLC Main Board

The role of the SLC Main Board is to

- set the strategic direction of the Company within the policies and business framework set by Ministers,
- oversee the effective and efficient discharge of the Company's statutory responsibilities,
- ensure that appropriate strategic, corporate, operating and financial plans are in place for the delivery of services required of the Company by Ministers,
- ensure the Company acts in accordance with Ministers' policies and does not operate beyond directions issued by Ministers,
- ensure the Company meets Companies Act statutory and regulatory responsibilities, including those for corporate governance. The Board should ensure that the highest standards of corporate governance are observed,
- give advice as sought by Ministers on policy formulation and on the most effective and efficient delivery of policies,
- respond effectively to the varying demands of different partners imposed by devolution and private sector clients.

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 are

- to determine those posts which will be designated as senior staff posts,
- taking advice from the Chief Executive 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,
- the remuneration of senior staff, including the terms of the senior staff bonus scheme, ensuring that senior staff are fairly rewarded for their contribution to the Company having regard to affordability, guidance on public sector increase as reflected in the pay remit as agreed by the DIUS and market information where appropriate,
- to monitor and approve for bonus purposes the performance of senior staff,
- to approve the application of the severance policy for senior posts, 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 in accordance with the overall pay remit agreed with the DIUS

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 Audit Committee will advise the Accounting Officer and Board on

- the strategic processes for risk, control and governance and the Statement on Internal Control, including the supporting assurance framework,
- the accounting policies, the accounts, and the annual report of the Company, including the process for review of the accounts prior to submission for audit, levels of error identified, and the Board's letter of representation to the External Auditors,
- the planned activity and results of both internal and external audit,
- the adequacy of management responses to issues identified by audit activity, including external audit's management letter,
- assurances relating to the Company's corporate governance requirements (e.g. compliance with the Financial Memorandum, Managing Public Money, etc),
- proposals for procuring internal computer audit services and external audit services (if appropriate), or for the purchase of non-audit services from firms who provide audit services,
- the External Auditor's remuneration, in conjunction with the Finance Director,
- fraud management policies and practices and whistle-blowing processes

The Audit Committee will also periodically review its own effectiveness and report the results of that review to 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 2008 shows net liabilities of £18,591,000 (2007 £17,382,000). These liabilities arise 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, and a provision in respect of dilapidations arising from the Company's leasehold commitments. To the extent that they are not to be met from the Company's other sources of income, these liabilities 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 2008-09, 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 recognition of pension liabilities and dilapidations provisions. 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.

Statement of disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

30 June 2008

Statement on Internal Control to 31 March 2008

This statement is provided by the Accounting Officer in line with corporate governance guidance issued by HM Treasury

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 departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me by the Department of Innovation, Universities and Skills, as described within the Student Loans Company Financial Memorandum, and in accordance with relevant Treasury guidance, in particular the Financial Reporting Manual and Managing Public Money

The Student Loans Company is a non profit-making, publicly-funded, private, limited company. From its inception in 1989, the Company has been wholly owned by the Secretary of State for Innovation, Universities and Skills and the Secretary of State for Scotland, but ownership status is being reviewed by the Departments following the transfer of responsibility for student support to Scottish Ministers. Since 1996, the Company has also been an executive non-departmental public body (NDPB). As an NDPB the Company is required to adhere to public sector standards, as outlined within Managing Public Money in all its operations and activities, except where alternative Treasury approved contractual standards are in place. It is also required to comply with the requirements of the Companies Act 1985, and meet the requirements of good governance.

The role of the shareholders is to

- determine policy for student support, establish and maintain the legislative framework,
- set the Company's prime functions, its prime strategic focus, business objectives and specific operational targets,
- provide a resource budget and Grant-in-Aid to enable the Company to operate effectively and efficiently,
- report to Parliament, including the Scottish Parliament and Ministers, and to Government on the general role and overall operation of the Company

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 C2 of the Combined Code, where possible. It has also complied with the guidance contained within Managing Public Money.

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 prioritise the risks to the achievement of departmental 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 up to 31 March 2008, and up to date of approval of the annual report and accounts, and accords with the Treasury guidance.

Internal Management Structure – Executive Board

In response to the increasing size and complexity of the business, I have delegated responsibility for controlling and monitoring the Company's operational and financial management to an Executive Board, supported by three Sub-Boards as detailed below.

The role of the Executive Board is to provide effective leadership to the Company and ensure that it is striving towards its strategic objectives as set by its stakeholders. The Executive Board's responsibilities are as follows:

- Set the Company's strategic and business priorities and objectives, in line with the strategies set out by its stakeholders, and keep these under regular review,
- Approve the Corporate Plan for presentation to the Main Board,
- Oversee the Company's capacity and capability to deliver its strategic objectives in terms of available resources (both staff and non-staff), and ensure that any identified gaps are addressed,

- Approve reports for presentation to the Main Board,
- Identify and manage corporate and strategic risks and issues, and take appropriate mitigating actions in line with the Company's risk appetite,
- Delegate responsibility to the three Sub-Boards wherever possible or appropriate,
- Act as leaders of the Company, setting the priorities for the development of the organisation's
 - 1 values and behaviours,
 - 2 performance management and succession planning,
 - 3 internal communications

The three Sub-Boards (set out below) oversee Company performance and the supporting internal control framework, ensuring that all business services are striving towards the Company's strategic objectives and key business objectives, as set by the Main Board and the Executive Board.

This will ensure that operational management decisions are taken at the most effective and appropriate level. Sub-Board Terms of Reference are agreed with the Executive Board, and are subject to periodic review. Decisions taken by the Sub-Boards on reserved matters are subject to approval at Main Board and/or Executive Board level, as appropriate.

Finance & Governance Board

The Board's responsibilities specifically include ensuring that the company fulfils its legal and statutory responsibilities in accordance with Treasury guidance, and for championing the highest standards of corporate governance and ethics. Duties incorporate ensuring that proper policies and procedures are in place, alongside monitoring arrangements for corporate governance, risk management, internal audit, fraud management, financial and internal control, HR policies & procedures, health & safety, business continuity and security.

Operational Delivery Board

The Operational Delivery Board's responsibilities are to drive the Customer Services / Operational Delivery strategy map and scorecard and to maintain delivery at quality, volume and cost levels agreed with funding bodies, while ensuring service delivery enablers, including partners, are well developed and aligned with service plans. In addition, the Board will continually seek ways of improving value to all stakeholders through insight, innovation and improvement. Changes identified via this Sub-Board shall be assessed and prioritised via the Product & Services Board to ensure a fair balance of future and current requirements.

Duties incorporate ensuring that proper policies and procedures are in place, alongside monitoring arrangements for operational planning, delivery, measurement and reporting, insight, innovation and improvement, and risk management.

Product & Services Development Board

The Board's responsibilities are to ensure robust processes are in place for identifying change requirements and managing delivery of change, that these are defined and followed across the organisation, and that change capacity is allocated to deliver agreed priorities for product and service development.

The Board will oversee delivery of projects and programmes, while ensuring that supplier delivery for development of products and services is managed appropriately.

Duties incorporate ensuring that, for project or programme management, proper policies and procedures are in place, alongside monitoring arrangements for

- Risk management in projects and programmes,
- Quality measurement for change initiatives,
- Benefits management for change initiatives,
- Financial controls for projects and programmes

The Risk and Control framework

The Company's risk management policy 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 Executive Board is responsible for establishing the overall risk appetite and tolerance that should be accepted in pursuing the Company's objectives.

The risk management policy 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 effectiveness of 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 Strategic and Corporate Risk Registers and associated internal controls shall be reported to the appropriate Sub-Boards on a monthly basis, to the Executive Board and to the Audit Committee on a quarterly basis, and to the Board on a six-monthly basis,
- The adequacy of the Company's systems of internal control is assessed via an approved programme of audit reviews carried out on a rolling four year cycle,
- Key controls checklists are signed off by all business areas on a quarterly basis.

Risk Appetite

Risk is unavoidable and every organisation needs to take action to manage risk to a level which is tolerable. The amount of risk which is judged to be tolerable is the "risk appetite". Risk appetite will be judged on a risk by risk basis and will drive the nature of the control framework established to mitigate the risk.

Embedding Risk Management

The Company has embedded risk management into its activities. Key features of the process are:

- Maintenance of a Strategic Risk Register, with annual refreshes via a Strategic Risk Workshop attended by the Executive Board,
- Maintenance of Operational Risk Registers within each business area, with quarterly refreshes attended by the managers and team members,
- Maintenance of a Corporate Risk Register, containing those risks that have been escalated for management by the various Sub-Boards. This is reviewed monthly,
- Review of the Strategic and Corporate Risk Registers with stakeholder representatives, to ensure that the Company's identified high level risks are consistent with the view of stakeholders.

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 Executive Board / Finance & Governance 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, the Executive Board and its Sub-Boards, 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, comprising an Executive Board, with three Sub-Boards dealing with Finance & Governance, Products & Services Development, and Operational Delivery matters,
- an Accounting Policies and Practices Manual, key changes to which are approved by the Board,
- an Internal Audit function working to Government Internal Audit standards, with an annual internal audit plan and producing an annual internal audit report,
- a Corporate Assurance function, responsible for establishing and maintaining risk management, security management and quality management processes,
- a Legal and Compliance function, to monitor compliance with relevant legislation, including the Data Protection Act and Freedom of Information Act,

- provision by each member of the Executive Board and senior management of an annual 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,
- a Corporate Financial Plan, supporting strategic and operational plans, with a detailed annual budget, regularly revised forecasts, a comparison of actual spend with budget/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,
- 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

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.

A self-assessment exercise has been conducted on the Company's risk management process, using the HM Treasury Risk Management Assessment Framework. In the opinion of the Executive Directors and the Heads of Service, the overall average assessment is that the maturity of the risk management process within the Company is between level 3 ("implemented in all key areas") and level 4 ("embedded and improving").

Significant Internal Control Problems

The following significant internal problem has been identified:

• Fraud Investigations

The Company has continued to provide support for investigations that were initially led by the Department of Innovation, Universities and Skills into possible fraud.

One investigation related to the use of stolen birth certificates. As a result of the initial investigations, there were five cases successfully prosecuted for offences relating to the fraudulent use of false or stolen birth certificates to obtain student support.

The other investigation was associated with the National Fraud Initiative, led by the Audit Commission, which compares databases held by Government agencies (and which included the Company for the first time) in an effort to determine whether any applications for funding are ineligible or fraudulent. This work identified six fraudulent cases from matching with records held on the Home Office's Immigration and Nationality Directorate (IND) database, relating to failed and lapsed visa applications, plus a further nine linked cases. This marked an important step forward for the Company and the Department of Innovation, Universities and Skills, as it was the first time that a significant data matching exercise had been undertaken with another public sector body to identify fraudulent applications.

While the Company is not responsible for the key processes that were pertinent to these investigations, since for the majority of applicants it does not currently control the end-to-end process from application through repayment, we have worked with our partners to address the control problems that were identified.

To increase our understanding of this problem, a Fraud Risk Management Exercise was conducted on behalf of the Department of Innovation, Universities and Skills by the NHS Counter Fraud and Security Management Service. This exercise was aimed at measuring the prevalence of fraud within the student finance system in AY 2005/06.

Based on this work, it was estimated that 0.33% of AY 2005/06 loan payments were made to English applicants where either students had provided false information to support their applications, or there was a deliberate attempt to obtain finance where the students knew they were not entitled to it. This equated to an estimated loss of £8.2 million.

Based on our current knowledge of other large-scale benefit systems in the UK public sector, we believe that this figure compares favourably with the level of fraud present in these systems, however, we are not complacent in our efforts to reduce the level of fraud in the student finance system even further. To assess whether the steps that are now being put in place have helped to reduce the level of fraud in the system, it is currently the intention to repeat the Fraud Risk Measurement Exercise using AY 2008/09 application data to determine the current level of identity-related fraud in the scheme.

As a result, we have now taken action to reduce the level of risk while maintaining the service that we currently provide for students, and a number of application process changes were included as part of the annual change programme in advance of AY 2007/08 or as internal process changes that are being addressed via the Company's Fraud Management Steering Group. As part of these changes, an updated Fraud Management Policy has been approved by the Company, which sets out our approach to fraud management. In addition, the Customer First Programme is currently considering the appropriate controls that will need to be in place for the new centralised Student Finance Service in England, which will be introduced for AY 2009/10.

The final report arising from the NHS Counter Fraud study commissioned by the Department of Innovation, Universities & Skills was received in July 2007. This identified that in addition to the previously reported information on the prevalence of identity fraud within the student support scheme relating to loan payments, there is also an issue with regard to fraudulent claims being made within the Child Care Grant system. Based on the work performed, a fraud rate of 9.5% of Child Care Grant applications was estimated, which converted to an estimated loss of £3.1 million.

In the majority of these cases the student provided false or inflated information with regard to the child care fees that were paid by the student to the child care provider, indicating an issue with the over declaration of costs. As a result, we have now taken action to reduce the level of risk, and a number of application process changes have been included as part of the annual change programme in advance of AY 2008/09.

Good progress continues to be made and the Company has now established the Fraud Management Steering Group, which is now responsible for monitoring all actions arising from the investigations that were led by the Department of Innovation, Universities and Skills, including planned actions relating to the Child Care Grant System. In addition, the Chief Executive now receives regular reports on fraud prevention and detection activity from the Company's Special Investigations Unit.

In addition, a final report has now been received from the Benefit Fraud Inspectorate, who undertook a review on behalf of the Company to provide us with an independent assessment of the strengths, weaknesses and associated level of fraud risk arising from the evidence types currently accepted by the scheme in support of financial details submitted as part of an application for student support.

This report on income-related fraud risk has raised some important challenges for the Company, and the key action arising from the review is a firm commitment by the Company to undertake a feasibility exercise (including a number of pilot exercises and also benchmarking with other organisations) to build on the knowledge gained to date and to establish

- The types of additional evidence that should be obtained in support of income-related declarations,
- The means (both sources and methods) by which this evidence should be obtained and verified,
- The stage in the process that this evidence should be obtained and verified (i.e. either as part of the application process or retrospectively after one or more instalments have been paid),
- Whether there are additional deterrents or penalties (on sponsor and/or applicant) that should be introduced or applied to discourage the understatement of household income

Finally, we have drafted a Fraud Management Strategy, entitled 'Tackling Fraud in the Student Support Scheme', which will set out our fraud prevention, detection and investigation strategy going forward

Student Support Overpayments

Incorrect payments of student support are being made to students as a result of late notifications of withdrawal from students and/or Higher Education Institutions, resulting in payments being made to students who are not eligible, having withdrawn from Higher Education

While the Company is not responsible for the key processes that are pertinent to these overpayments being made, since we do not control the end-to-end process from application through to repayment, we are working with our partners to consider a range of options to prevent payments from being made to students who have withdrawn, as part of this process it will be necessary to clarify the roles and responsibilities of the Company and its partners in addressing this issue

However, it is worth highlighting that the initial stage in the process is for the Higher Education Institute to determine the effective date of a student's withdrawal, for which it is dependant to a certain extent on the student's actions. For this reason, there is always likely to be a residual level of late notifications in the system that cannot be resolved by the Company and its partners alone

The Fraud Risk Management Exercise (referred to above) estimated the value of avoidable loan payments caused by 'failure to notify' to be 0.28% in AY 2005/06. This figure does not necessarily represent a loss, as any overpayments are recovered by way of normal income contingent loan repayments. In addition to this, where a loan overpayment is identified, the Company also takes steps to recover the amount of the overpayment directly from the student, any amount recovered in this way is deducted from Higher Education Institutions outstanding balance due to be collected via normal repayment.

To assess whether the steps that are now being put in place have helped to reduce the level of fraud in the system, it is currently the intention to repeat the Fraud Risk Measurement Exercise using AY 2008/09 application data to determine the current level of late notifications in the scheme.

At present, the Company is manually collecting recent accounts where students have withdrawn from their course and they have received more financial support than they were entitled to. We are considering the development of an automated system (similar to Grant Overpayment). In the meantime we will continue to manually issue letters, take calls and issue follow-up letters where no response has been received.

In addition, the development of Higher Education Institute services on the portal has been approved and fully funded by the Customer First Programme. This development will enable the faster processing of information between Higher Education Institutions and the Company resulting in faster identification and resolution of issues.

Updated figures have been obtained, which have identified a total value of loan overpayment under the lifetime of the income contingent scheme of approximately £170 million, which will over time be collected through normal ICR channels if it is not recovered directly. The average UK wide delay between the student withdrawing and the Company being notified of the withdrawal has been calculated to be approximately 145 days. Sample work has now been undertaken on reassessments completed due to a notification of withdrawal being received by the Company's Central Processing Unit in Darlington, which estimated an average total delay of 113 days. Of these 113 days, on average 18 days were attributable to processing time taken at Darlington, with the balance of 95 days being due to Higher Education Institutions, indicating that typically the bulk of the delay is predominantly due to Higher Education Institutions.

Proposals will now be made to seek remedies to this issue, which will necessarily involve our Higher Education Institutions and Local Authority partners, if they are to be successful in assisting us in reducing the level of overpayments.

Income Contingent Repayment Overpayments

One matter has been included due to the significant level of public interest. Due to the time lag involved in the distribution of P14 files, all customers who repay by PAYE will overpay, some significantly so, unless the customer takes the initiative to instigate appropriate action by using the self-predictor tool and contacting the Company.

This situation is an outcome of the way in which the income contingent repayment scheme operates, and the scale of this issue will grow in future years as more customers complete the repayment of Higher Education Institute loans. The Company has put in place arrangements to ensure that when this occurs, the amount of the overpayment (together with the associated interest) will be returned promptly to the customer.

From April 2008, a monthly rematch initiative will be introduced, this would allow us to more readily identify the volume of loans affected by this issue.

The Company is working with the Department of Innovation, Universities and Skills and H M Revenue & Customs to minimise the impact through effective customer communications that help to explain how the process works, whilst continuing to explore mitigating actions.



Ralph Seymour-Jackson

30 June 2008

Chief Executive and Accounting Officer

Statement of Directors' responsibilities in respect of the Directors' Report and Financial Statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the result of the company for that period

In preparing these financial statements, the 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is not appropriate to presume that the Company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that its financial statements comply with the Companies Act 1985. They 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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

In addition, the then 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

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

We have audited the financial statements of Student Loans Company Limited for the year ended 31 March 2008 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985 and, in respect of the separate opinion in relation to financial regularity, on terms that have been agreed. 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, in respect of the separate opinion in relation to financial regularity, those matters that we have agreed to state to them in our 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 directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 59.

Our responsibility is to audit the financial statements in accordance with the relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Management Commentary that is cross referred from the Business review section of the Directors' Report. We also report whether 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.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed

We read the other information contained in the Annual Report 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. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our 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, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2008 and of its result for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985,
- the information given in the Directors' Report is consistent with the financial statements, and
- 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
191 West George Street
Glasgow G2 2LJ
30 June 2008*

Profit and Loss Account for the year ended 31 March 2008

	Note	2008 £000	2007 £000
Turnover	3		
Grant-in-Aid		66,252	65,757
Other		2,777	3,072
Administrative expenses		(70,295)	(75,936)
Operating deficit		(1,266)	(7,107)
Interest receivable	4	364	327
Finance costs	20	(437)	(498)
Notional cost of capital	5	630	608
Result of ordinary activities before taxation including notional cost of capital		(709)	(6,670)
Reversal of notional cost of capital	5	(630)	(608)
Result of ordinary activities before taxation	6	(1,339)	(7,278)
Tax on result of ordinary activities	8	1,339	(87)
Result for the financial year	21	-	(7,365)

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

Statement of Total Recognised Gains and Losses

	2008 £000	2008 £000	2007	2007 £000
Result for the year		-		(7,365)
Actual return less expected return on pension scheme assets	(2,310)		160	
Experience gains and losses on pension scheme liabilities	(5)		(70)	
Changes in assumptions underlying the pension scheme liabilities	1,532		1,936	
Actuarial (loss)/gain recognised in STRGL	20	(783)		2,026
Total recognised losses for the year		(783)		(5,339)

Balance Sheet

at 31 March 2008

	Note	2008		2007	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	9		6,086		4,182
Current assets					
Debtors	10	7,518		4,019	
Deferred tax	11	67		261	
Cash at bank and in hand	12	2,232		8,691	
Prepayments and accrued income		4,686		3,612	
		<u>14,503</u>		<u>16,583</u>	
Creditors amounts falling due within one year	13	<u>(14,503)</u>		<u>(16,583)</u>	
Net current assets			-		-
Total assets less current liabilities			6,086		4,182
Provisions for liabilities and charges	14		(7,365)		(7,365)
Accruals and deferred income					
Deferred capital receipts	15		(6,086)		(4,182)
Net liabilities excluding pension liability			(7,365)		(7,365)
Pension liability	20		(11,226)		(10,017)
			<u>(18,591)</u>		<u>(17,382)</u>
Capital and reserves					
Called up share capital	16		-		-
Profit and loss account	21		(18,591)		(17,382)
Total shareholders' funds – equity	17		<u>(18,591)</u>		<u>(17,382)</u>

These financial statements were approved by the Board of Directors on 30 June 2008 and were signed on its behalf by



Ralph Seymour-Jackson
Director and Accounting Officer

Cash Flow Statement

for the year ended 31 March 2008

	Note	2008		2007	
		£000	£000	£000	£000
Net cash (outflow) from operating activities	18		(6,803)		(9,239)
Returns on investments and servicing of finance					
Bank and other interest received			344		329
Taxation					
Corporation tax paid			-		(118)
Corporation tax repaid			-		153
Capital expenditure					
Payments to acquire tangible fixed assets		(2,869)		(538)	
Net cash outflow from capital expenditure			(2,869)		(538)
Net cash (outflow) before financing			(9,325)		(9,413)
Financing					
Capital funding received from the funding bodies			2,869		538
(Decrease) in cash in the period			(6,456)		(8,875)
Net funds at 1 April			8,691		17,566
Net funds at 31 March			2,232		8,691

Notes (forming part of the financial statements)

1 Statement of loans administered by the Company

Funding for the purpose of making loans to students is received by the Company from the Department for Innovation, Universities and Skills, the Student Awards Agency for Scotland, the Department for Employment and Learning Northern Ireland and the Department for Children, Education, Lifelong Learning and Skills in the Welsh Assembly

As at 31 March 2008 the total balance of the loan portfolio administered by the Company on behalf of the funding bodies and the private sector owners was £26,678,010,000 (2007 £22,311,515,000), which excludes all non repayable student support

In respect of unsold loans (i.e. 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 portfolio in respect of sold loans

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 Innovation, Universities and Skills, the Scottish Ministers, the Department of Employment and Learning Northern Ireland, the Department of Education, Lifelong Learning and Skills in the Welsh Assembly 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, administration fees earned by the Company from third parties and administration and legal charges applied in relation to customers in default. A review of legal charges levied is carried out annually and doubtful debts provided where appropriate

Notes

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
Assets under construction	- Not applicable

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.

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, with the balance of the movement representing cash contributions for the period.

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. A deferred tax asset is recognised to the extent that carried forward losses are expected to be recovered against profits emerging in future accounting periods.

Provision for dilapidations

Provision for the costs of dilapidations on the expiry of premises leases, which are of uncertain timing or amount at the balance sheet date, is made on the basis of the best estimate using independent professional assessments.

Departures from Government Financial Reporting Manual

The FReM states that non-departmental public bodies should account for Grant-in-Aid (GIA) as a movement in reserves rather than turnover.

Although as a non-departmental public body the Company is required to comply with the FReM, as a statutory entity it is first and foremost bound by the Companies Act. Following discussions with our external auditors, the Company has concluded that it is appropriate to continue to account for GIA as turnover, on the basis that the GIA received by the Company is required in order to carry out a function which its owners have asked it to perform. On that basis, the Company considers the GIA to be an exchange transaction and, as such, requires to be accounted for in the Profit and Loss Account.

Additionally, the FReM requires notional cost of capital to be included on the face of the Profit and Loss Account in arriving at the result of ordinary activities before taxation, with a subsequent reversal after that line. Such a treatment is inconsistent with the Companies Act and the Company has, therefore, not adopted this treatment, instead disclosing both the notional cost of capital and its reversal in arriving at the result of ordinary activities before taxation.

The full disclosures required by adopting the FReM treatment for both Grant-in-Aid and notional cost of capital are disclosed as supplementary information in Note 24.

Notes

3 Turnover

Turnover is analysed as follows

	2008 £000	2007 £000
Grant-in-Aid receivable	66,252	65,757
Administration fees receivable from third parties	2,110	2,065
Other income	667	1,007
	69,029	68,829

The increase in Grant-in-Aid is primarily related to the funding received to finance the development of systems and business processes to administer additional services located in Darlington for which the Company has now assumed responsibility, more than offsetting the one-off costs for dilapidations in 2007

Administration fees receivable have increased due to a rise in the income from Higher Education Institutions in relation to the bursary service as customer numbers have increased by a new academic year intake as the scheme has entered the second year of operation. This has more than offset the continuing declining trend due to the ageing and profile of the remaining debt sale portfolio

Other income consists mainly of administration and legal charges recovered from third parties in relation to customers in default. This income has fallen due to improvements in preventing customers from entering default and reductions in customer numbers due to full repayment being reached by many in the old mortgage style portfolio on which these charges are principally levied

4 Interest receivable

	2008 £000	2007 £000
Bank interest	352	311
Corporation tax repayment interest	12	16
	364	327

5 Notional cost of capital

In accordance with the Government Financial Reporting Manual, the Company is required to disclose the notional cost of capital. In the year ended 31 March 2008, the cost of such capital, calculated at 3.5% for both the current and prior years, the rates determined by the Government Financial Reporting Manual guidance, was a credit of £630,000 (2007: £608,000)

Notes

6 Result of ordinary activities before taxation

(a) This is stated after charging or (crediting)	2008 £000	2007 £000
Dilapidations provision	-	7,365
Depreciation	965	1,094
(Gain) / loss on disposal of fixed assets	-	-
Amortisation of deferred capital receipts	(965)	(1,094)
Directors' remuneration (see below)	266	262
Auditors' remuneration, including expenses		
Audit of these financial statements	39	45
Other assurance services	17	16
Tax services	30	39
Operating lease rentals		
Land and buildings	1,858	1,858
Computer and other equipment	4,441	4,033

The audit services charge for 2007 has been restated to include an additional one off fee of £7,000 in respect of work to agree the new accounting treatment and disclosures following a change in the treatment of grant in aid funding

Non-audit services are subject to the Company's normal procurement rules and the Company is, therefore, satisfied that the auditors' independence has not been compromised

(b) Directors' remuneration	2008 £000	2007 £000
Fees	25	25
Executive emoluments (including benefits in kind)	224	220
Pension contributions	17	17
	<u>266</u>	<u>262</u>

The remuneration of each individual director is analysed in the Remuneration Report

Notes

7 Staff numbers and costs

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

	2008	2007
Number of employees	1,270	1,236

All staff were employed by the Company for the purposes of administration and operation of student support schemes

The aggregate payroll costs of these persons were as follows

	2008	2007
	£000	£000
Wages and salaries	30,546	29,228
Social security costs	2,471	2,261
Pension service costs	2,441	2,726
	<u>35,458</u>	<u>34,215</u>

Notes

8 Tax on result on ordinary activities

	2008 £000	2007 £000
Current taxation for the period at the standard rate of 30% (2007 30%)	(1,533)	(348)
Deferred taxation for the period at the standard rate of 30% (2007 30%)	194	(261)
	<u>(1,339)</u>	<u>87</u>

The current tax charge for the period consists of a recovery for prior years following agreement with HMRC of an adjustment in treatment for tax purposes of the costs of a particular function of the work involved in our third party portfolio administration

Tax is chargeable at 30% of the taxable profits arising on administration fees receivable from third parties, after charging the costs associated with the administration of that business, and bank interest. This year, that charge is nil due to losses on the administration of one of these contracts.

The deferred tax charge represents the impact of a reduction in the level of taxable losses which are anticipated to be recoverable in future periods following a review of future profitability.

The tax assessed for the period varies from the standard rate of corporation tax in the UK (30% in both years). The differences are explained below.

	2008 £000	2007 £000
Loss on ordinary activities at standard UK corporation tax rate	(402)	(2,183)
Effects of		
Losses not utilised in the current period	849	1,241
Adjustment re prior year assessments	(2,383)	348
Amounts not subject to corporation tax	403	942
Current taxation charge for the period	<u>(1,533)</u>	<u>348</u>

Notes

9 Tangible fixed assets

	Assets under construction	Short leasehold improvements	Computer & other electronic equipment	Furniture, fixtures & fittings	Motor vehicles	Total
Cost	£000	£000	£000	£000	£000	£000
At beginning of year	-	5,953	10,938	2,390	28	19,309
Additions	1,875	196	556	242	1	2,869
Disposals	-	-	-	(21)	-	(21)
At end of year	1,875	6,149	11,494	2,609	29	22,157
Depreciation						
At beginning of year	-	2,975	10,666	1,471	15	15,127
Charge for year	-	413	287	255	9	965
On disposals	-	-	-	(21)	-	(21)
At end of year	-	3,388	10,953	1,705	24	16,071
Net book value						
At 31 March 2007	1,875	2,761	541	904	5	6,086
At 31 March 2006	-	2,978	272	919	13	4,182

Assets under construction represent ongoing works in relation to new office premises at Lingfield Point in Darlington which became operational in May 2008

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

10 Debtors

	2008 £000	2007 £000
Customer administration charges	3,146	3,422
Balances with Central Government Bodies	1,737	-
Corporation tax	1,600	67
Other debtors	1,035	530
	7,518	4,019

Notes

The balances with central government bodies represents the timing difference arising on the recognition of expenses in the Profit and Loss Account and the drawdown of Grant-in-Aid or repayment of administration charges to pay those expenses. In 2007 this balance was reflected in creditors.

The corporation tax debtor represents repayments due as a result of revisions to prior year computations as detailed in note 8 above.

Other debtors principally comprise the sums due from higher education institutions for the bursary administration service which are higher this year due to an additional academic year's students becoming eligible for the scheme.

11 Deferred Tax

	2008 £000	2007 £000
Deferred tax asset	67	261

The deferred tax asset represents the tax on the amount of losses expected to be recoverable against profits emerging in future years.

12 Cash at bank and in hand

	2008 £000	2007 £000
Cash held in		
Commercial bank accounts	2,228	7,690
HM Paymaster General Office accounts	4	1,001
	2,232	8,691

Notes

13 Creditors, amounts falling due within one year

	2008 £000	2007 £000
Balances with central government bodies	-	6,445
Trade creditors	6,146	2,434
Other taxation and social security	1,760	2,745
Accruals and deferred income	6,597	4,959
	<u>14,503</u>	<u>16,583</u>

As per note 10, the balances with central government bodies is reported as a debtor in 2008

Trade creditors have increased this year due to outstanding payments for capital works in relation to the creation of the new Darlington operation at the year end

14 Provisions for liabilities and charges

	2008 £000	2007 £000
Dilapidations provision		
At 1 April	(7,365)	-
Charged to profit and loss account	-	(7,365)
	<u>(7,365)</u>	<u>(7,365)</u>
At 31 March	(7,365)	(7,365)

The provision for dilapidations represents the potential cost to the company of the dilapidations clauses included in its property leases. The provision has been made on the basis of the best estimate using independent professional assessments.

Notes

15 Deferred capital receipts

	2008 £000	2007 £000
At 1 April	4,182	4,738
Receivable for the year	2,869	538
Credited to profit and loss account	(965)	(1,094)
At 31 March	<u>6,086</u>	<u>4,182</u>

16 Called up equity share capital

	2008 £	2007 £
Authorised		
100 ordinary shares of £1 each	<u>100</u>	<u>100</u>
Allotted, called up and fully paid		
10 ordinary shares of £1 each	<u>10</u>	<u>10</u>

17 Movement in shareholders' funds

	2008 £000	2007 £000
Shareholders funds at 1 April	(17,382)	(10,701)
Movement in year	<u>(1,209)</u>	<u>(6,681)</u>
Shareholders funds at 31 March	<u>(18,591)</u>	<u>(17,382)</u>

The annual movement in shareholders' funds represents the movement in the profit and loss reserve

The analysis of this movement is detailed in Note 21

Notes

18 Cash flows

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

	2008 £000	2007 £000
Operating deficit	(1,266)	(7,107)
Depreciation	965	1,094
Amortisation of deferred capital receipts	(965)	(1,094)
	(1,266)	(7,107)
Increase in debtors, excluding interest receivable	(3,458)	(846)
(Decrease)/increase in creditors	(2,079)	4,439
Increase in provisions	-	7,365
Net cash (outflow)/inflow from administration activities	(6,803)	3,851
Funds transferred as accounts now designated in trust for other parties	-	(13,090)
Net cash (outflow) from operating activities	(6,803)	(9,239)

The bank accounts used for the handling of the student support payments to customers were designated in trust for the funding bodies in 2007. As a result, the balances held in relation to those bank accounts at 1 April 2006 are shown as a cash outflow in the above note, and there are no current year transactions in relation to these bank accounts.

Notes

19 Financial commitments

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

	Land and buildings		Other	
	2008	2007	2008	2007
	£000	£000	£000	£000
Operating leases which expire				
Within one year	68	-	2,392	1,048
In the second to fifth years inclusive	26	94	2,017	2,985
In over five years	2,669	1,765	-	-
	<u>2,763</u>	<u>1,859</u>	<u>4,409</u>	<u>4,033</u>

The operating leases in respect of the land and buildings are guaranteed by the Secretary of State for Innovation, Universities and Skills

At 31 March 2008 the Company had placed contracts for the purchase of fixed assets totalling £885,000 (2007 £20,000)

20 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 current rate of employer contributions is 15.6% of pensionable remuneration.

The following disclosures are in accordance with FRS17 Retirement Benefits

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 2005 and updated to 31 March 2008 by a qualified independent actuary.

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

	2008	2007	2006
Rate of increase in salaries	5.0%	4.6%	4.5%
Rate of increase of pensions in payment (5% fixed)	5.0%	5.0%	5.0%
Rate of increase of pensions in payment (LPI) **	3.5%	3.1%	3.0%
Rate of increase of pensions in deferment	3.5%	3.1%	3.0%
Discount rate	5.6%	5.2%	4.9%
Inflation assumption	3.5%	3.1%	3.0%

** with effect from 6 May 2004 the rate of increase of pensions in payment was amended from a fixed 5% to a limited price index rate capped at a maximum of 5%, applying to service occurring after that date

Notes

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

	2008	2008 £000	2007	2007 £000	2006	2006 £000
Equities	6.00%	13,388	6.20%	13,856	5.80%	11,016
Bonds	4.20%	5,668	3.50%	3,415	3.10%	2,642
Cash	3.75%	308	3.75%	243	3.00%	425
Total market value of assets		19,364		17,514		14,083
Actuarial value of liability		30,590		(27,531)		(24,784)
Recoverable deficit in the scheme		(11,226)		(10,017)		(10,701)
Related deferred tax asset		-		-		-
Net pension liability		(11,226)		(10,017)		(10,701)

Deteriorating stock market conditions resulted in the actual return on assets being lower than that which was expected. The actual return on assets was a deficit of £1,235,000 (2007 surplus £958,000) against an expected return on assets of £1,075,000 (2007 £798,000), giving rise to an actuarial loss of £2,310,000 (2007 gain of £160,000). Market conditions have led to an increase in the assumed discount rate applied to future liabilities from 5.2% at 31 March 2007 to 5.6% at 31 March 2008. The discount rate used takes into account the age profile of the pension scheme. Taken together with other less significant changes in actuarial assumptions, this has resulted in an actuarial gain due to changes in assumptions underlying the pension scheme liabilities of £1,532,000 (2007 £1,936,000).

Analysis of the amount charged to operating profit

	2008 £000	2007 £000
Current service cost	2,441	2,605
Past service cost	-	121
Total operating charge	2,441	2,726

Analysis of net (cost) on pension scheme

	2008 £000	2007 £000
Expected return on pension scheme assets	1,075	798
Interest on pension liabilities	(1,512)	(1,296)
Net (cost)	(437)	(498)

Notes

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

History of experience gains and losses

	2008		2007		2006		2005		2004	
	£000	%	£000	%	£000	%	£000	%	£000	%
Difference between expected and actual return on scheme assets	(2,310)	(12)	160	1	1,785	13	320	3	945	13
Experience gains and losses on scheme liabilities	(5)	0	(70)	0	(1,461)	(6)	(39)	0	147	1
Total amount recognised in statement of total recognised gains and losses	(783)	(3)	2,026	7	(5,727)	(23)	(134)	(1)	890	7

The % columns in the above table refer to the % of scheme assets / liabilities

Movement in deficit during the year

	2008 £000	2007 £000
Deficit in scheme at beginning of year	(10,017)	(10,701)
Movement in year		
Current service cost	(2,441)	(2,605)
Contributions	2,452	1,882
Past service costs	-	(121)
Net return on assets/(interest cost)	(437)	(498)
Actuarial gain / (loss) arising from change in assumptions	1,532	1,936
Other actuarial (loss) / gain	(2,315)	90
Deficit in scheme at end of year	(11,226)	(10,017)

Notes

21 Reserves

Profit and Loss Reserve

	2008 £000	2007 £000
At 1 April	(17,382)	(10,701)
Result for the year	-	(7,365)
Movement in pension liability	(1,209)	684
At 31 March	(18,591)	(17,382)

The movement in pension liability 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 20.

22 Controlling parties

The Company is wholly owned by the Secretary of State for Innovation, Universities and Skills and the Secretary of State for Scotland.

23 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. Grant in aid funding is detailed in notes 3 and 13. Grant funding is not covered in these accounts since the bank accounts became designated in trust for the funding bodies.

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.

During the year, as part of its corporate social responsibility activities, the Company had transactions to the value of £6,000 with Pilotlight Scotland, whose Chief Executive is one of our non-executive directors, Angela McCusker.

24 Disclosures required by Government Financial Reporting Manual

Note 2 refers to the Company's departure from the accounting treatment required by the Government Financial Reporting Manual (FReM) with respect to Grant-in-Aid and notional cost of capital. The following supplementary disclosure presents an Income and Expenditure Statement and Balance Sheet prepared in accordance with the FReM requirements. All Grant-in-Aid for capital expenditure is treated as specific. This will be reviewed going forward for IFRS.

Supplementary information is also provided to enable an understanding of these statements. Where there is no change to the disclosures arising from the FReM treatment, references are to existing notes above. Revised disclosure notes are referenced alphabetically and follow the revised statements.

Notes

Supplementary income and expenditure account for the year ended 31 March 2008

	Note	2008 £000	2007 £000
Income			
Income from all sources	a	2,777	3,072
Expenditure			
Administrative expenses		(70,295)	(75,936)
Net expenditure before interest and taxation		(67,518)	(72,864)
Interest receivable	4	364	327
Pension scheme finance costs	20	(437)	(498)
Notional cost of capital	5	630	608
Tax on result of ordinary activities	8	1,339	(87)
Net operating cost	b	(65,622)	(72,514)

Statement of recognised gains and losses

		2008 £000	2007 £000
Actual return less expected return on pension scheme assets		(2,310)	160
Experience gains and losses on pension scheme liabilities		(5)	(70)
Changes in assumptions underlying the pension scheme liabilities		1,532	1,936
Actuarial (loss)/gain recognised in STRGL	20	(783)	2,026
Recognised (loss)/gain for the year		(783)	2,026

There is no change to the Cash flow statement disclosed on page 64

Notes

Supplementary balance sheet at 31 March 2008

	Note	2008		2007	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	9		6,086		4,182
Current assets					
Debtors	10	7,518		4,019	
Deferred tax	11	67		261	
Cash at bank and in hand	12	2,232		8,691	
Prepayments and accrued income		4,686		3,612	
		<u>14,503</u>		<u>16,583</u>	
Creditors					
Amounts falling due within one year	13	(14,503)		(16,583)	
Net current assets			-		-
Total assets less current liabilities			<u>6,086</u>		<u>4,182</u>
Provisions for liabilities and charges	14		(7,365)		(7,365)
Accruals and deferred income					
Deferred capital receipts	15		(6,086)		(4,182)
Net liabilities excluding pension liability			<u>(7,365)</u>		<u>(7,365)</u>
Pension liability	20		(11,226)		(10,017)
			<u>(18,591)</u>		<u>(17,382)</u>
Capital and reserves					
Called up share capital	16		-		-
General Reserve	b		(18,591)		(17,382)
Total shareholders' funds - equity	17		<u>(18,591)</u>		<u>(17,382)</u>

Notes

a) Income from all sources

	2008 £000	2007 £000
Administration fees receivable from third parties	2,100	2,065
Other income	667	1,007
	<u>2,777</u>	<u>3,072</u>

Administration fees receivable have increased due to a rise in the income from Higher Education Institutions in relation to the bursary service as customer numbers have increased by a new academic year intake as the scheme has entered the second year of operation. This has more than offset the continuing declining trend due to the ageing and profile of the remaining debt sale portfolio.

Other income consists mainly of administration and legal charges recovered from third parties in relation to customers in default. This income has fallen due to improvements in preventing customers from entering default and reductions in customer numbers due to full repayment being reached by many in the old mortgage style portfolio on which these charges are principally levied.

b) Reserves

	2008 £000	2007 £000
General Reserve		
At 1 April	(17,382)	(10,701)
Grant in aid	66,252	65,757
Net operating cost	(65,622)	(72,514)
Reversal of notional cost of capital	(630)	(608)
Movement in pension liability	(1,209)	684
	<u>(18,591)</u>	<u>(17,382)</u>
At 31 March		

Notes

c) Cash flows

Although there is no change on the face of the Cash flow statement shown on page 64, the underlying components of the Net cash (outflow) from operating activities disclosed in that statement have changed. The following note restates Note 18 (page 75) on a FReM basis.

Reconciliation of result of ordinary activities before taxation and interest receivable to net cash (outflow) from operating activities

	2008 £000	2007 £000
Income from all sources	2,777	3,072
Administrative expenses	(70,295)	(75,936)
Operating deficit	(67,518)	(72,864)
Grant in aid taken direct to general reserve	66,252	65,757
Depreciation	965	1,094
Amortisation of deferred capital receipts	(965)	(1,094)
	(1,266)	(7,107)
Increase in debtors, excluding interest receivable	(3,458)	(846)
Decrease in creditors	(2,079)	4,439
Increase / (decrease) in provisions	-	7,365
Net cash inflow from administration activities	(6,803)	3,851
Funds transferred as accounts now designated in trust for other parties	-	(13,090)
Net cash (outflow) from operating activities	(6,803)	(9,239)

The bank accounts used for the handling of the student support payments to customers were designated in trust for the funding bodies in 2007. As a result, the balances held in relation to those bank accounts at 1 April 2006 are shown as a cash outflow in the above note and there are no current year transactions in relation to these bank accounts.

Independent Assessor's Statement

As required by my Terms of Reference, I am pleased to report on my activities during the period 1 April 2007 until 31 March 2008. I issued fifteen Reports during the year. Of the fifteen reports in question, two related to complainants with income contingent repayment (ICR) loans, one complainant has both ICR and mortgage-style loans, one related to repayment of a teacher's loan, one related to a grant, and the remaining ten have mortgage-style loans.

The first of the ICR cases centred around the delay in the borrower's repayments being credited to his loan account and the consequential lack of an up-to-date statement of the account. There were other related issues. I did not find for the complainant in respect of the major elements of the complaint but I did find for the complainant on two ancillary points. I recommended that the Company make a payment of £100 and repeat its apologies to the complainant.

The second of the ICR cases revolved about a disputed sum which the borrower claimed had already been repaid but which the Company held to remain outstanding. I could find no evidence to support the complainant's position and I did not find for her. I made no recommendations in this case.

The case of the complainant with both mortgage-style and ICR loans led me to find for the complainant on several issues although I also rejected several other aspects of the complaint. In the light of my various critical findings I concluded that there had been maladministration. I recommended payment of £500 to the complainant.

This case was noteworthy because, in an earlier report of 2005, I had previously recommended that the Company's senior management review its approach to communications with borrowers who reside at a very great distance from Glasgow. I concluded that the fruits of that review had no impact on the very poor experience of the current complainant which led me to a stronger view on the maladministration. I am, however, pleased to note the positive actions since taken in this regard and arising from this 2007 report.

The repayment of teachers loans case was closely related to the ICR system and contained ten strands. I did not find for the complainant in the major aspects of the complaint but I did find fault with the Company's responses during the internal process – i.e. both in content and in timescale. I recommended that £150 be paid to the complainant.

The fifth case featured in this report arose from an overpayment of grant for which the Company was seeking repayment. Due to an IT system fault at the Company, a letter advising the complainant was sent out almost a year later than it should have been. The complaint contained several related features. I found that the complainant had suffered a level of financial disadvantage and I also criticised the Company on a number of points. My main recommendations were a payment of £350 but that the borrower repay the remaining outstanding amount.

I now move on to the mortgage-style cases. The first of those cases centred on disputed arrears that the complainant wished to have reincorporated into the balance of the deferred loan. There were also many other 'questions' and related issues. I did not find for the complainant and I recommended that the Company pursue payment of the arrears.

Disagreement about the status of a payment received (i.e. loan or grant) was the cause of the second of the mortgage-style complaints. I did not find for the complainant and I recommended that the Company pursue repayment of the outstanding total of the loan.

The third of the mortgage-style cases concerned an allegation that the Company 'lost' a supporting letter of income from employment needed for the deferment process and, due to consequent delays, the related accrual of disputed account arrears. Other issues were also raised. I did not find for the complainant and recommended that the Company pursue the arrears.

In the fourth mortgage-style complaint the core issues were about a period of disputed non-deferment and the borrower's subsequent 'in default' status and ineligibility for further loans. There were many other related issues. I found for the Company on the matter of the non-deferment and also over the defaulter status. I made no findings in favour of the complainant and my sole recommendation was that the Company pursue the account arrears.

There were many issues raised in the fifth mortgage-style case but the two central issues were about the Company's inability to defer a loan that had passed its maturity date and that, because of the outstanding unpaid loan, the borrower was unable to apply for further loan or grant support. I did not find in favour of the borrower on these matters but did criticise the Company on one minor point and recommended payment of £25. I also recommended that the debt be pursued.

The sixth mortgage-style complaint arose because, in error, the Company had sent the borrower a 'repaid in full' letter when there was, in fact, a large outstanding amount. This led to a dispute about the outstanding loan. Although I found for the Company on the matter of the outstanding loan still due for repayment, I did criticise the Company on grounds of very poor administration. I recommended an award of £125 to the complainant but that the arrears be pursued.

The seventh in this tranche of cases had as a major feature the borrower's contention that his outstanding loan should have been written off when he reached the age of fifty years and, further, that each of his annual academic year loans were separate loans which should have been considered for write off in the context of the date on which each was applied for. The borrower also complained that the Company had discriminated against him on grounds of race, disability, sex and age. He alleged forgery, breach of data protection and abuse of his human rights by the Company. There were also other complaints. I found for the complainant on one administrative issue and I recommended that he receive a payment of £50. I found in favour of the Company on the major issues. I also concluded that some aspects of the case did not fall within my formal competence.

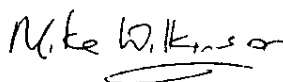
The eighth mortgage-style case was concerned with disputed unpaid arrears arising from a lack of deferment which was itself disputed. This led on to the borrower, now on a new course, being unable to receive tuition-fee support. As my report was reaching conclusion, the Company advised me that, under the provisions of a recent 'pilot' for vulnerable customers, the borrower would now qualify for a new approach. In essence, the actions to be implemented would bring the account up to date, remove the arrears and allow the borrower to apply for additional funding. I welcomed that revised stance by the Company and also welcomed the 'pilot' for vulnerable customers. Nevertheless, I noted that the borrower had suffered the effects of those developments not being in place in 2005/06 and 2006/07. His circumstances had not changed but the Company's stance had changed. I also criticised the Company over repeated inaction in respect of certain items of correspondence. I recommended a payment of £300 to the complainant.

A dispute regarding an amount overdue and the status of an arrangement with the Company's agent were the central features of the ninth mortgage-style complaint. I did find in favour of the complainant in respect of the disputed payment and also on one other matter. I recommended a payment of £100 and also that the complainant be permitted to pay off the outstanding amount by continuing with her existing monthly payments.

The final mortgage-style case dealt with a series of monthly payments erroneously being credited to the borrower's account and leading to the account appearing to have been repaid in full when that, in reality, was not the case. The complaint included many other aspects relating to the complaints process, alleged administrative errors, weaknesses in the Company's control environment, etc, etc. I did not find for the complainant in respect of the core complaints but I did find for him on certain other matters. I recommended a payment of £125 and that the Company repeat its earlier offer of a monthly rate for repayment of the outstanding loan. I also recommended that the Company review the position in respect of the running of reports that identify credit balances.

As has always been the case, I continue to hold regular follow-up meetings with the Company, including sessions with Ralph Seymour-Jackson.

Yours sincerely



Mr M Wilkinson
Independent Assessor

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