



Annual Report **1998**

STUDENT LOANS



COMPANY LIMITED

Student Loans Company Limited is wholly owned by the Government.

It administers the student loans scheme, established in 1990

and the new income contingent loans scheme, established in 1998, within the

policy context set by Government and

the legislative framework of the

Education (Student Loans) Act 1990, the

Education (Student Loans) (Northern

Ireland) Order 1990, the Teaching and

Higher Education Act 1998, the

Education (Scotland) Act 1980, the

Education (Student Support)(Northern

Ireland) Order 1998 and the associated regulations.

NOTES

In the following pages:

- The company's Financial Year ended on 31 March 1998.
- The Academic Year ended on 31 July 1998.
- Figures in brackets - e.g. (123) are comparative figures for the corresponding period in the previous year.
- Figures for the total in the tables may not equal the sum of their constituent elements because of rounding.

Contents

	Page
Section I	
Chairman's Statement	1
Chief Executive's Statement	2
Company Structure	3
Overview	7
The Year Ahead	8
The Loan Defined	9
Loans Administration	12
Customer Services	13
Debt Recovery	15
Client Services	17
Information Systems	19
Strategy and Development	20
Personnel	21
Performance Targets	23
Summary of Corporate Performance	24
Appendix 1: Statistical Information	25
Appendix 2: Independent Assessor's Report	28
Section II	
Directors' Report and Financial Statements	30



Section I

Chairman's Statement



1998 has been another very challenging and rewarding year for Student Loans Company.

The company was of course delighted by Baroness Blackstone's

announcement that the Student Loans Company would continue to retain a key role in the administration of Higher Education student support for at least the remainder of this Parliament. The Government's far reaching new legislation on student support has brought with it many changes to the task of administering student loans. The whole shape of Higher Education is changing and the company is playing a vital role in working with the Department for Education and Employment to design and implement a new student support scheme. This means that the company will continue to administer the existing loan scheme whilst also introducing the new income contingent loans. All of this presents a significant challenge to the company but I am confident that the team here in Glasgow will rise to the occasion.

The then Conservative Government announced its intention to sell part of the student loan portfolio to the private sector in 1996. The first debt sale was concluded in March 1998 following an extremely tough competition resulting in £1.02 billion being sold to Finance For Higher Education Limited (FFHE) a company formed by NatWest Markets for the purpose of acquiring the loans portfolio. Student Loans Company was successful in winning the contract to administer the sold portfolio and is developing a close working relationship with FFHE. The Government announced that further tranches of the portfolio would be sold in the next two years. Preparations are already underway and the Board is confident that the company will once again demonstrate its capabilities and efficiency to administer the portfolios on behalf of the successful purchasers.

Alongside these exciting developments, the company's core business of providing loans to students continued to grow. This year 615,000 students (64%) took up loans. This means we now deal with 1.8 million borrowers with a total loan portfolio value of £3.7 billion. On the collection side the efforts of the team do not go unrecognised as they successfully recovered an extremely high percentage of all monies due.

The level and complexity of our business has increased and this year saw the completion and implementation of a new state of the art computer system. Its flexibility will allow the company to cope readily with the large number of new requirements.

We are a Non Departmental Public Body and as such are accountable to Ministers for the proper use of public funds. The company is, therefore, committed to ensuring that the most efficient and cost effective administration is provided. I believe we do this through careful investment in technology and introducing best practices in the way that we work.

The staff at Student Loans Company are to be congratulated for their achievements in these times of change. They have responded to each new initiative positively and have constantly ensured that the service provided by the company is of the highest standard. Together, we all look forward to the challenging times ahead.

Sir Ronald Norman OBE DL
Chairman

Chief Executive's Statement



During this year the staff at the Student Loans Company have dealt with a number of competing major demands: the ongoing and expanding business;

the first and second portfolio sales to the private sector; the commencement of preparations for the new student support scheme; and the introduction of a new and advanced technology platform. These demands were met while maintaining the high levels of customer service achieved in previous years, but for an increased number of customers both in lending and collections. This has been a significant achievement and I would like to thank the people at the company for their professionalism and dedication.

Business expansion continued with 615,000 additional loans, 291,000 of them to new customers. This increased the number of customers to some 1.8 million which places the company amongst the largest personal lenders in the UK. However, the larger increase was in those entering repayment where we now have some one million customers. Of these 600,000 were due to repay loan instalments while 414,000 were granted a year's deferral of repayments based on the level of their income. In the year, the company collected over £157 million in repayments from those due to repay.

The work needed for the competitive sale of £1.02 billion of the loans portfolio to the private sector was a new experience for the company, which involved the preparation of a large quantity of historical information and close contact with the potential purchasers. In addition, the purchasers had a free choice of administrator for their portfolio, which was also competitively tendered on a commercial basis.

FFHE won the competition for the first £1.02 billion portfolio purchase and I am pleased to say that

Lombard Tricity Finance, which they appointed to oversee the administration of the portfolio, has awarded Student Loans Company a five year administration contract. Student Loans Company is now embarked on a similar exercise for the second debt sale.

Another key area of change, which has placed a significant demand on resources, has been the preparation for the new student support scheme. Academic year 1998/99 sees the introduction of income contingent loans for all new students with the move to a wholly loan based scheme being completed in academic year 1999/00. The company has benefited from full involvement in all the planning and development stages of the project, which is controlled by the Department for Education and Employment.

The main computer system, which had served the loans scheme well for nearly a decade had been approaching the limits of efficient operation and was successfully replaced in the year by a new, more advanced and flexible system which will provide an excellent platform for the future development needs of the loans and student support schemes. The size of the customer database and the complexities of the scheme made this a substantial, difficult and risky task which placed considerable demands on the time and resilience of staff.

The staff at Student Loans Company have risen magnificently to these extensive challenges and I am very grateful to them for their support in what has been a very demanding year for everyone.

Colin Ward
Chief Executive



The Board

Appointments to the Board of Student Loans Company are made by the joint shareholders, the Secretaries of State for Education and Employment and for Scotland.

At 31 July 1998 the Board Members were:



Sir Ronald Norman
OBE DL
Non-Executive
Chairman
Appointed Non-
Executive Chairman,
5 August 1996

Chaired the Teeside Development Corporation from 1987 to 1998. From 1965 to 1986 was Managing Director then Chairman of Cecil M. Yuill Ltd, developers in Hartlepool. From 1986 to 1993 was Chairman of R. Norman Ltd, developers in Durham.



Professor
Sir Eric Ash CBE
Non-Executive
Director
Appointed as Non-
Executive Director,
1 September 1994

Treasurer and Deputy President of the Royal Society, London. Former Professor in the Dept. of Physics, University College London. Rector of Imperial College of Science and Technology from 1985 until 1993. Non-Executive Director of British Telecom from 1987 to 1993. Has served, and been Chairman, of a number of international scientific and engineering institutions, boards and committees.



Colin Ward
Chief Executive
Appointed to the
main Board,
1 October 1994

Chartered Accountant with extensive experience in the profession and in both the public and private sectors. He joined the company in 1990 and now has overall responsibility for its management.



John Morrison
Finance and
Administration
Director
Appointed to the
main Board,
1 October 1994

Chartered Accountant who has held senior financial posts in Canada and New Zealand. Joined the company in 1990.

The Departmental Assessors

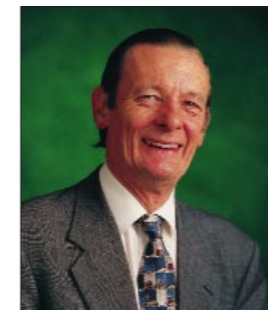
The shareholders are represented at Board meetings by two senior civil servants. These Departmental Assessors have full access to all Board meetings and papers.

At 31 July 1998 the Departmental Assessors were:



Neil Flint
Divisional Manager,
Student Support
Division,
Department for
Education and
Employment.

Responsible for student support policy and the implementation of the new student support arrangements for 1998/99. Also overseeing the receipt of student loan debt sales in 1998/99. Department's liaison with the Student Loans Company.



Kenneth MacRae
Represents the
Secretary of State
for Scotland.

He is Chief Executive of the Student Awards Agency for Scotland, which is responsible for providing grant support to Scottish domiciled students in full-time higher education.

Company Secretary



Denise McShane
Head of Corporate
Liaison, which
incorporates Public
Relations and
Procurement &
Compliance
Departments

Provides a secretariat to the company's Board of Directors and Executive Management.



The Executive Management

The executive management at 31 July 1998 were:

Colin Ward
Chief Executive

Responsible for the overall management of the company. Directly reporting to him are the four Directorates as well as Internal Audit and the Company Secretary.

John Morrison
Finance and Administration Director

Responsible for Management Accounting, Financial Accounting, Office Services and Personnel.

Peter Gregory
Collections Director

Responsible for Debt Recovery.

Bob Jones
Information Services Director

Responsible for Information Systems Strategy, Development of Information Systems, Delivery and Support of Information Business Services.

Erik Ostman
Loans Services Director

Responsible for Strategy & Development, Lending Operations, Customer Services and Client Services.

Left to right:
John Morrison, Peter Gregory, Colin Ward, Bob Jones and Erik Ostman



We take our responsibilities as an employer seriously. To underline this, we have committed ourselves to achieving the Investors In People award.



Overview

The Student Loans Company is a private limited company wholly owned by the Government. We are an organisation with one main function, which is the administering of the national student loan scheme. This activity benefited almost 2 million people in the academic year 1997/98 when we issued 615,000 new loans and managed a total of 1.8 million borrower accounts.

This makes the Student Loans Company one of the largest personal lenders in the UK and with such a large customer-base, it is

vital that we process loans with the highest possible efficiency. This service is monitored through extensive customer satisfaction surveys and via an independent assessor. You will see in a later appendix, that the assessor this year was required to investigate only one complaint, a figure which was in line with all previous years.

When the company was set up in 1990, we were charged with the full responsibility of administering the new student loan scheme. That meant we had to put in place all the administrative systems that would allow us to do our job. The fact that the whole concept of a centrally-funded student loan scheme was new, made the task all the more challenging.



Having risen to the challenge, the Student Loans Company's central role in student financial provision has given us a unique perspective on higher education funding. This is further enhanced by our close relationships with the UK's colleges and universities, as

well as with the students themselves. We aim to make a positive contribution to the debate on funding by providing information to the Government which assists in the decision making process.

Our administrative procedures were closely reviewed by the commercial sector when the Secretaries

of State decided to sell some of our portfolio of outstanding loans. The first tranche of £1.02 billion was sold in financial year 1997-98 following intense competition between leading international banks and finance houses. The successful bidder was FFHE. We are delighted to say that the Student Loans Company was successful in securing the administration contract for this debt portfolio and we look forward to working with Lombard Tricity Finance who were appointed to oversee the portfolio administration.

The Year Ahead

Building on the successes of 1998 is vital. The changing nature of higher education funding will see the introduction of a wholly loan based student support scheme in academic year 1999/00 with loan repayments based on borrowers' incomes coming into force from April 2000. To bridge the gap between the current scheme of 50% grants and 50% loans and the new scheme of 100% means tested loans, a transitional scheme is in place for this academic year 1998/99 which introduces some of the key elements of the income contingent scheme.

Given the greatly increased administrative workload these changes will bring about, the company's substantial investment in a new flexible, modern computer system that can easily be developed will prove to be invaluable.

One of the other developments we will be considering over the next year is the feasibility, both in terms of improved cost efficiency and customer service, of a fully integrated communications centre (at present we operate as three call centres). In today's electronic culture, we need to demonstrate real flexibility towards our customers and that means being available to them, however they want to deal with us. Phone, fax, e-mail, www, if our customers use it, we need to have it.

We will also be assisting the Department for Education and Employment (DfEE) in two further tranches of debt sale planned for 1999 and 2000, which will result in another £3 billion of our existing loan debt being sold. There are no plans to sell any of the new income contingent loans.

To deliver the increasing volumes of student loans and to carry out the development activities and debt sales, we need the skills of a dedicated workforce. With a staff count of some 400, we take our responsibilities as an employer seriously. To underline this, we have committed ourselves to achieving the Investors In People award in the near future. We listen to our staff, and 1998 saw the creation of a Joint Staff Consultative Committee, giving everybody a forum for discussion on the future shape of our working environment.

The Student Loans Company is one of the largest personal lenders in the UK and, with such a large customer-base, it is vital that we process loans with the highest possible efficiency.

To ensure that every employee has a structure in place for the achievement of his or her career goals, we have created individual Personal Development Programmes and have committed ourselves to making them work on a practical level.

The next few years promise to be challenging. We believe the Student Loans Company is positioned to make them rewarding ones as well.



The Loan Defined

The company's main function is to efficiently administer the student loans scheme, providing loans to students in higher education throughout the UK and recovering the loans on behalf of the Government and the private sector.

Unlike other sources of funding, student loans are subsidised by the Government with an interest rate linked to the Retail Price Index. This allows students to borrow finance at a rate of interest equal to the rate of inflation, so that the amount of money they pay back is equal, in real terms, to the amount they borrowed. The rates of interest applied since the scheme began are shown in Figure 1.

Recent Government policy changes mean the whole future of higher education funding is changing and, with effect from the academic year 1998/99, a new loan scheme is being introduced. The company has put in place many of the systems needed to meet the increased demands the new loan scheme will bring and is working closely with the DFEE, Local Education Authorities (LEAs), Student Awards Agency for Scotland (SAAS), Department of Education Northern Ireland (DENI) and Inland Revenue to ensure delivery of the new policies.

To date, the company has issued loans to almost two million customers.

Who is eligible to participate in the student loan scheme? The short answer is the majority of full-time undergraduate students at UK universities and colleges. The main restrictions are: the students must have been living in the British Islands for at least three years immediately prior to the first day of their course; they are under 50 years of age on that day; and their course lasts at least one full academic year.

Up to 31 July 1998, the company has issued 3.5 million loans to almost two million customers. In the academic year 1997/98, 615,000 (590,000) loans were taken out by students, representing 64% (62%) of those eligible.

The average individual loan value was £1,529 (£1,487) which resulted in some £941 million (£877 million) being paid out during the academic year. Figures 2 and 3 show the growth of the scheme lending since its introduction in 1990.

Figure 1
Interest Rates

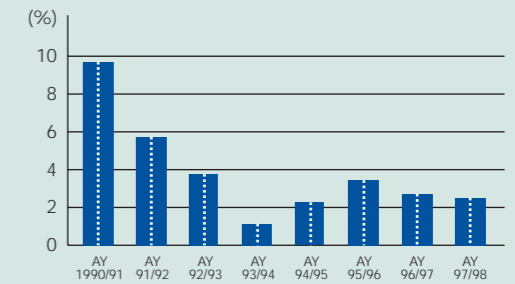


Figure 2
Average Value of Individual Loans Paid Each Year

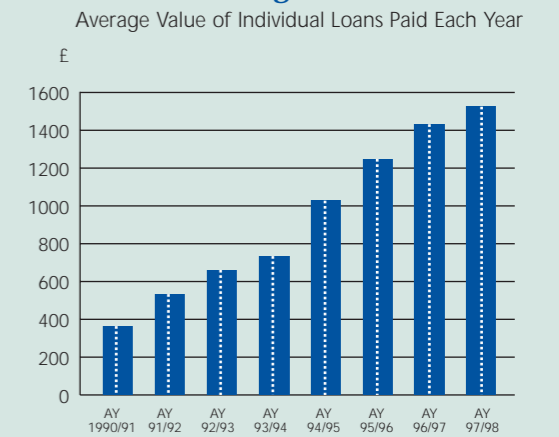
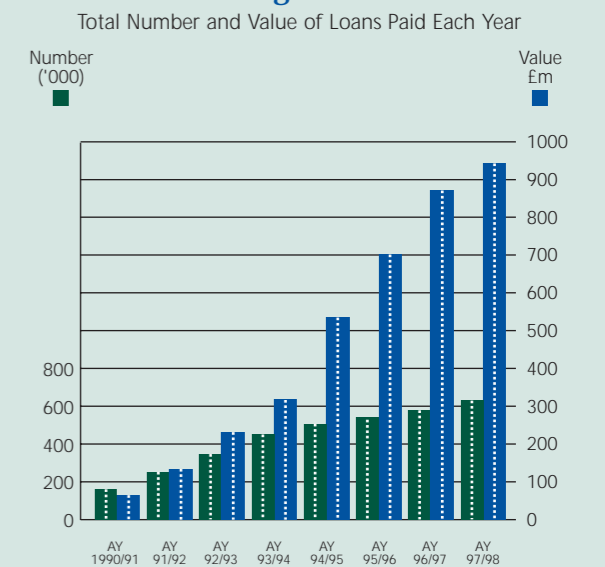


Figure 3
Total Number and Value of Loans Paid Each Year



Delivering customer satisfaction

As the administrator of the scheme on the Government's behalf, we liaise closely with the DFEE and are in contact on a daily basis to keep them fully informed of the company's dealings with its customers and to liaise on all relevant issues regarding student support.

The Higher Education Institutions (HEIs) are also of fundamental importance to us, while the introduction of the new student support arrangements means LEAs, SAAS, DENI and the Inland Revenue will become increasingly important partner groups.

During 1998, we welcomed a new client, FFHE, the purchaser of the first debt sale portfolio. It is vital that we maintain a strong working relationship with them and so prove to be successful and efficient administrators of this commercial contract working with FFHE's portfolio managing agents Lombard Tricity Finance.

The company regularly commissions independent customer satisfaction surveys such that customer focus is the key business and operational driver. The principal objectives of the research are:

- To determine what expectations and needs the customers have in terms of the services and procedures of the company.
- To assess to what extent the quality performance measures and standards adopted by the company meet customer expectations and experience.
- To confirm customers' understanding of the information provided to them.
- To assess what information customers require and the timing of the information.
- To assess the clarity of the application process and associated documentation, highlighting areas of improvement.
- To consult non-users of the services about their needs and priorities and ascertain the reason(s) for not using the student loan scheme; and determine how they currently finance their education.

The latest survey covering academic year 1997/98 was commissioned in February 1998 and is now nearing completion. Response rates were excellent, being in excess of 50%. Full results will be published in due course although initial indications illustrate a high level of satisfaction with the service provided. Of those who responded 88% of first time borrowers, 86% of deferred borrowers, and 81% of both repeat and repaying borrowers expressed satisfaction.

Loans Administration - cash up front

Once eligibility has been confirmed by the relevant UK college or university, the first contact students make with us is with the Loans Administration department. It is responsible for arranging payments to all eligible students who are applying as first time or repeat borrowers.

Strict performance targets are set by Government for the efficiency of this payment system. Our target for the academic year 1997/98 was 98% (95%) of loans to be paid within 21 days. Our actual performance in that year was 99.3% (99.7%) and this reflects the high efficiency of the administrative systems we have in place.

A full year's activity

These systems are built around a strict process timetable from application form distribution to payment. For first time borrowers we forward forms to all participating colleges and universities in advance of the academic year, so that they can certify eligible students who have not had a loan before, and initiate the application process as soon as the student arrives at college.

Repeat borrowers are issued with forms directly to their home addresses around the middle of June.

This timetable allows Loans Administration to process repeat applications well in advance of the academic year, and only await confirmation of enrolment from the college before issuing payment.

Inevitably, there will be some students who are unsure of what is required of them and need to contact us. During academic year 1997/98, 96,000 written enquiries were dealt with by Loans Administration, together with around 400,000 telephone calls. To make the process as easy as possible for the students, two Helplines are in operation, one free to students, the other to deal with enquiries from any of the 700 educational institutions with which we maintain close relationships.

Multi-skilling also plays a significant role in our success, with staff flexibility meaning that operators can move fluidly, not only between tasks, but between departments as well to take account of natural peak demand in Customer Services and Debt Recovery.



Customer Services - making contact

Once a loan has been paid to the student, the account becomes the responsibility of the Customer Services department.

With such a large proportion of the company's customers, it is vital that the department is operated in the most cost and time efficient manner. To ensure that this is the case, Customer Services is divided into two areas - Accounts Maintenance and Special Arrangements. The first is responsible for day-to-day administration of all customer accounts, including the direct debit collection of repayments.

The second area processes applications from customers wishing to defer repayments or those requesting special discretionary repayment terms if they are in receipt of certain disability allowances.

Not only does the department need to be efficient, it needs to be equitable in its treatment of all applications. An explanation of our service levels can be found in the Customer Service Policy, issued to every borrower.

Regular communications

A borrower is due to begin repaying in the April following graduation or otherwise leaving their course. A few months before repayment is due to begin, they will receive repayment details and a deferment application form to use, if appropriate.

Between February and April, thousands of deferment forms are processed. Customers who did

not apply for, or applied but were not granted, deferment will receive a repayment schedule for the months of April to August. In September the change in repayment amount as a result of any change in the interest rate is notified. Where no repayment is received for an account, it is automatically passed on to Debt Recovery.

Annual statements are issued in September and customers already in, or approaching repayment are advised of the repayment process.

Under the terms of the scheme a borrower who is liable to repay and whose gross monthly income is equal to or less than 85% of national average earnings may apply to defer repayments for 12 months at a time. For academic year 1997/98 the threshold was £1,374 (£1,316) per month. At 31 March 1998 of the 758,000 (646,000) borrowers in repayment, 48% (48%) had been granted deferment. Figure 4 shows the comparison between accounts in repayment and those deferred since collections began.

This year, this carefully scheduled system handled around 1.5 million annual statements, 750,000 enquiries and just under 500,000 deferment applications. To meet this demanding workload, the department employs over 90 full-time staff with staff transferred in from other departments and contract staff taken on to meet peak-time demands.

The training the staff receive facilitates their easy transfer between departments to cope with seasonal volumes.

At 31 July 1998, the total number of accounts administered by the company had grown to 1,762,000 (1,512,000) an increase of 17% (20%) with outstanding balances totalling some £3.7 billion (£2.8 billion). Figure 5 shows the growth in accounts administration since the scheme began.

Meeting needs - now and in the future

The year ahead for Customer Services promises to be a very challenging one as we anticipate an increase in student borrowers from the new funding arrangements. Around 250,000 of the existing style loans come into repayment for the first time in April 1999, bringing the total due to repay to over 1.2 million, and it is expected that deferment applications will rise substantially. To meet such increases and the challenge of administering the two loans schemes side by side, staff will be given substantial extra training so that the current service standards can be maintained.

SLC regularly commissions independent customer satisfaction surveys such that customer focus is the key business and operational driver.

Figure 4
Accounts in repayment and accounts deferred at 31 March each year

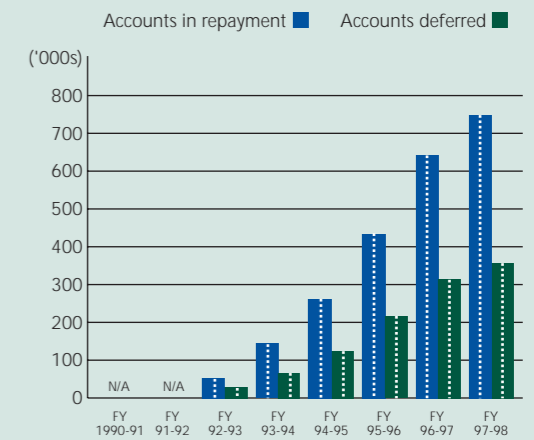
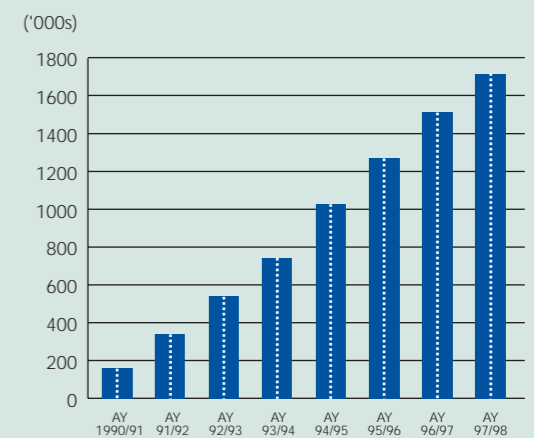


Figure 5
Number of accounts under administration



Debt Recovery - a collective team

There will always be, for whatever reason, customers who have not made their repayments. When this does happen, the account is automatically referred to the Debt Recovery department.

It is their job to take prompt action if any repayment falls overdue, making contact with all borrowers in arrears and offering counsel and advice to those who, if they are not entitled to defer, nevertheless face financial difficulties. With regular, sympathetic communications the department is able, in the majority of cases, to avoid the necessity of taking defaulters to court. Unfortunately, there is a very small minority of wilful non-payers and, in the interest of the taxpayer, the company will litigate against them.

Meeting demand

To maximise resources and provide the most efficient way of collecting overdue monies, the Debt Recovery department is divided into three main sections: Arrears; Trace; and Litigation.

Naturally, with the growth of the scheme, more graduates are in repayment and, by definition, more are in arrears. This year-on-year increase has led to an expansion of the department's workload. It now operates more flexible working hours to meet the needs of its customers.

During financial year 1997-98 there were 510,000 (369,000) customers due to repay (i.e. those in repayment status less those who have been granted deferment), and repaid in full since inception of the scheme. An analysis of borrowers due to repay and repaid in full at 31 March 1998 is shown in Figure 6.

Making suggestions, implementing success

Debt Recovery makes full use of up to date technology which enables the department to handle in excess of a million overdue accounts during the year. But the skill of our staff is just as important. During the year, over fifty employee suggestions were implemented in order to increase efficiency. For example, accepting overdue loan repayments by way of Switch and Delta.

Professional and effective

The Debt Recovery team is composed mainly of experienced collection professionals, with banking or financial sector backgrounds. Fully trained, either in-house or through external consultants, it is a team that is able to collect successfully outstanding monies and trace absconding borrowers. Over 81% of missing defaulters were successfully traced. Successful collection helped keep litigation proceedings to a minimum. When legal proceedings are necessary, the department is highly successful and, last year, it collected over £1.6 million of outstanding repayments through the courts.

For financial year 1997-98 Ministers set the company a target of collecting 94% (94.5%) of all monies due since the beginning of the scheme. The actual collection rate achieved this year was 93% (93.5%).

If a borrower is 2 months or more in arrears they are classed as being in default. The company uses the following formula to calculate its default rate:

$$\text{Default Rate}^* = \frac{D}{R1 + R2} \times 100 \text{ where :-}$$

- D = number of borrowers who are 2 months or more in arrears
- R1 = number of borrowers who are due to make scheduled repayments
- R2 = number of borrowers who have repaid in full

*Excludes statutory write-offs - i.e. deceased and permanently disabled borrowers

The cumulative default rate at 31 March 1998 was 9.1% (9.3%) against a target of 8% (6%).

For a given cumulative group of borrowers who have become due to repay, the longer they are subject to the collection process maintained by Student Loans Company, the lower the default rate for that group. The table below shows the cumulative default position for all borrowers who were due to repay at the dates shown in the first column.

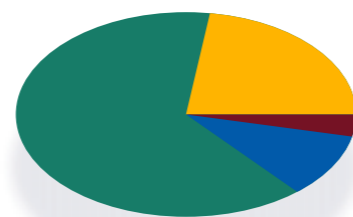
Due to Repay Date	Default 12 months after Due to Repay Date		Default as at 31/3/98	
	Cumulative Number of Borrowers in Default	Cumulative Default Percentage	Cumulative Number of Borrowers in Default	Cumulative Default Percentage
1.4.97	N/A	N/A	46,560	9.1
1.4.96	34,109	9.3	22,960	6.2
1.4.95	20,560	7.9	12,727	4.9
1.4.94	11,296	6.7	5,993	3.6
1.4.93	4,985	5.9	1,847	2.2
1.4.92*	2,404	7.1	429	1.3

* No longer possible to track and update 1991-1992 figures.

Figure 6

Borrowers due to repay and repaid in full at 31 March 1998

Repaid in full	118,806	(23.3%)
Repaying	333,466	(65.4%)
Overdue (one instalment in arrears)	11,193	(2.2%)
In default (two or more instalments in arrears)	46,560	(9.1%)
Total	510,025	(100%)



Client Services - commercial gains

The success of the Student Loans Company in securing the contract to administer the sold debt portfolio for FFHE brought into being the Client Services department. Its remit is to provide administrative services for this new client, ensuring all dealings are contractually sound.

Throughout the debt sale process itself, the company provided assistance to the DfEE in the wide-ranging technical considerations surrounding the transfer of the debt from the public sector to the private sector. We, thus, demonstrated to FFHE that we had both the knowledge and the expertise to administer the debt on their behalf for the next five years.



The first stage of the competition to find a buyer for the second tranche of the debt portfolio is well underway. This tranche, of around £1 billion, will be in private sector hands before the end of March 1999.

The DfEE wrote to all borrowers to explain the reasons for the sale and to demonstrate that, whether their loan was included in the first sale or not, they will not be materially affected by the change. All borrowers were informed of the outcome of the first sale and this will be the case for the second.



As we meet the administrative demands of an ever-increasing number of loans, it is imperative that we invest in technology to maintain, and improve, the company's efficiency.



Information Systems - support where it counts

Throughout this report, there are many references to the vital role that technology plays in the Student Loans Company. As we meet the administrative demands of an ever-increasing number of loans, it is imperative that we invest in this area to maintain, and improve, the company's efficiency.

A CLASS of its own

The IS Strategy called for us to review and then update the computer system to one based on a UNIX Open Systems platform. Called Customer Ledger and Account Servicing System (CLASS), it is modular and flexible, easily modified and provides a solid base on which future functions can be built to improve the company's service and cost efficiency. The new system included all the functions of its predecessor, the Loans Servicing System (LSS), and also accommodated new requirements, including support for multiple products, multiple owners, image processing, loan separation and the debt sale.

Introduced in two phases the developments initially provided support for 'first time' loans while the second more complex phase involved the migration of the entire LSS data base and the introduction of the Automated Direct Debit Instruction Service (AUDDIS) for electronic management of direct debits and image technology to capture Deferment Application Forms. This second phase was extremely challenging and we are still tackling some of the ongoing issues expected in a development of this size.



Strategy and Development - steering a future course

The direction of the Student Loans Company was clarified after the election of the present Government in May 1997. It soon became evident that, following the review of Higher Education by the Dearing Committee, the company would have a major role to play in facilitating student support.

This potentially crucial task was a catalyst for an examination of the company's future strategy and, as a consequence, the organisation structure to ensure adequate provision for the management of major projects required in undertaking the role suggested by Dearing.



As an outcome of this re-evaluation a separate Strategy and Development department was created to support the Chief Executive in developing the company's strategic direction and to co-ordinate and lead the development in the projects on which the company will embark.



Personnel - investing in our people

The decision to work towards Investors In People accreditation is a significant one for the company. It not only underlines our commitment to the personal development of our staff, it also shows the confidence the company has in them.

December 1999 has been set as the target for accreditation and work has already begun with the introduction of Personal Development Programmes, which provide each employee with an individual plan by which they can achieve their career goals.

During the year, a Joint Staff Consultative Committee was created to provide a forum for a wide range of issues to be discussed among elected staff representatives from every area of the business.

A comprehensive training programme, on the new computer system, was run for all operational staff to

ensure they understood its wide-ranging potential. Our commitment to training continues to support staff needs throughout the year.

A full review of the company's pay and performance management was instigated during the year and this will deliver a competency-based approach to pay progression which, upon approval by Government, will be supported by a comprehensive programme of training for all staff.

The company faces many new challenges in the year ahead and these will only be met by a highly skilled, highly motivated and fully committed team. We must attract and retain the highest calibre of staff and so become a centre of excellence both in the development of individual employees and in the company itself.



Our
commitment
to training
continues
to support
staff needs
throughout
the year.



Performance Targets

Ministerial Targets

Ministers set the following targets for the company for the academic year 1997/98:

- 98% of loans to be paid within 21 days in academic year 1997/98;
- 94% of all repayment monies due to be collected by 9 April 1998; and
- 3% improvement in unit costs from £14.26 in financial year 1996-97 to £13.83 in financial year 1997-98, based on the weighted average of borrower accounts under administration during financial year 1997-98. The reduction of this target from previous years' reflects the substantial increased investment in information systems technology in 1997-98.

Company Targets

In addition to the Ministerial targets, the company set itself the following targets:

- process 100% of deferment applications within 21 days in financial year 1997-98;
- deal with 100% of correspondence from borrowers within 14 working days of receipt, with 90% thereof being dealt with within 3 working days;
- deal with all complaints from customers within 14 days of receipt; and
- attain an 8% default rate by 31 March 1998.

Details of the company's performance against these targets are listed opposite.

The targets for 1998/99 are currently being discussed between DfEE and the company.

Supplier Payment Performance

The company aims to pay all suppliers promptly. Our policy is to pay within 30 days of receipt of an undisputed invoice or in accordance with agreed terms and conditions.

Based on a random sample of invoices from throughput in the financial year 1997-98, 84% were paid within 30 days of receipt. The company continues to seek improvement in this area.



Summary of Corporate Performance

M = Ministerial Target C = Company Target AY = Academic Year FY = Financial Year

LENDING	AY 1990/91		AY 1991/92		AY 1992/93		AY 1993/94		AY 1994/95		AY 1995/96		AY 1996/97		AY 1997/98	
	Actual %	Target %	Actual %	Target %	Actual %	Target %	Actual %	Target %	Actual %	Target %	Actual %	Target %	Actual %	Target %	Actual %	Target %
Loans Paid 1-21 Days (M)	84.0	N/A	78.0	N/A	91.0	90.0	91.0	91.0	86.0	92.0	96.0	95.0	99.7	95.0	99.3	98.0

ACCOUNTS UNDER ADMINISTRATION	FY 1990-91		FY 1991-92		FY 1992-93		FY 1993-94		FY 1994-95		FY 1995-96		FY 1996-97		FY 1997-98	
	Actual %	Target %	Actual %	Target %	Actual %	Target %	Actual %	Target %	Actual %	Target %	Actual %	Target %	Actual %	Target %	Actual %	Target %
Correspondence (C)																
1-3 Days	N/A	90.0	N/A	90.0	N/A	90.0	N/A	90.0	N/A	90.0	81.8	90.0	82.3	90.0	81.5	90.0
4-14 Days	N/A	10.0	N/A	10.0	N/A	10.0	N/A	10.0	N/A	10.0	18.2	10.0	17.7	10.0	18.5	10.0
1-14 Days	N/A	100.0	N/A	100.0	N/A	100.0	N/A	100.0	65.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Deferment (C) 1-21 Days	N/A	N/A	100.0	100.0	100.0	100.0	100.0	90.0	100.0	90.0	N/A	100.0	100.0	100.0	100.0	100.0
Complaints (C) 1-14 Days	N/A	100.0	N/A	100.0	N/A	100.0	100.0	100.0	94.0	100.0	94.0	100.0	81.3	100.0	96.2	100.0

DEBT RECOVERY	FY 1990-91		FY 1991-92		FY 1992-93		FY 1993-94		FY 1994-95		FY 1995-96		FY 1996-97		FY 1997-98	
	Actual %	Target %	Actual %	Target %	Actual %	Target %	Actual %	Target %	Actual %	Target %	Actual %	Target %	Actual %	Target %	Actual %	Target %
Collections (M)	N/A	N/A	88.7	N/A	93.6	N/A	94.9	93.0	94.7	94.5	94.2	94.5	93.5	94.5	93.0	94.0
Default (C)	N/A	N/A	13.3	N/A	7.1	9.0	5.9	6.4	6.7	6.7	7.9	6.0	9.3	6.0	9.1	8.0

UNIT COSTS (M)	AY 1990/91		AY 1991/92		AY 1992/93		AY 1993/94		AY 1994/95		AY 1995/96		FY 1996-97		FY 1997-98	
	Actual £	Target £	Actual £	Target £	Actual £	Target £	Actual £	Target £	Actual £	Target £	Actual £	Target £	Actual £	Target £	Actual £	Target £
Cost per Account Managed	48.06	N/A	28.22	N/A	20.41	N/A	17.18	17.35	13.94	14.60	11.25	11.85	14.26	14.10	13.78	13.83

N/A = Not applicable or not available

Appendix 1: Statistical Information

Lending

Table 1: Amounts of individual loans available (values).

Location	AY 97/98		AY 96/97		% INCREASE	
	Full £	Final £	Full £	Final £	Full £	Final £
London ¹	2085	1520	2035	1485	2.5	2.4
Elsewhere ²	1685	1230	1645	1200	2.4	2.5
Home ³	1290	945	1260	920	2.4	2.7

1 Studying away from home in London.

2 Studying outside London and living away from home.

3 Living in parental home during study.

Table 2: Eligible students and loan take-up (numbers).

Term of Academic Year	AY 97/98		AY 96/97	
	Nos '000	% of eligible (965)	Nos '000	% of eligible (957)
Autumn	440	46	410	43
Spring	104	11	102	11
Summer	71	7	78	8
Total	615	64	590	62

Table 3: Loan take-up by first time and repeat borrowers (numbers).

Category	AY 97/98			AY 96/97		
	Nos '000	% of eligible (965)	% of borrowing (615)	Nos '000	% of eligible (957)	% of borrowing (590)
First Time	291	30	47	289	30	49
Repeat	324	34	53	301	32	51
Total	615	64	100	590	62	100

Table 4: Loan take-up by location (numbers).

Location	AY 97/98		AY 96/97	
	Nos '000	%	Nos '000	%
London	80	13	75	13
Elsewhere	474	77	448	76
Home	61	10	67	11
Total	615	100	590	100

Table 5: Loan take-up by year of entitlement (numbers).

Year	AY 97/98		AY 96/97	
	Nos '000	%	Nos '000	%
Full	424	69	408	69
Final	191	31	182	31
Total	615	100	590	100

Table 6: Total value of loans paid (values).

Term of Academic Year	AY 97/98		AY 96/97	
	Amount Emillion	%	Amount Emillion	%
Autumn	586	62	539	62
Spring	210	22	194	23
Summer	145	16	144	15
Total	941	100	877	100

Table 7: Average individual loan value paid (values).

AY 97/98	AY 96/97	% Increase
£	£	
1529	1487	2.8

Administration of Accounts

Table 8: Accounts under administration at end of academic year (numbers).

Status	AY 97/98		AY 96/97	
	Nos '000	%	Nos '000	%
Due to repay	600	34	472	31
Deferred	414	24	387	26
Not in Repayment	748	42	653	43
Total	1762	100	1512	100

Table 9: Loan balances outstanding at end of academic year (values).

AY 97/98	AY 96/97	% Increase
Emillion	Emillion	
3684	2810	31

Table 10: Accounts in repayment at 31 March 1998 (numbers).

Status	FY 97-98		FY 96-97	
	Nos '000	%	Nos '000	%
Due to repay	397	52	334	52
Deferred	341	48	312	48
Deferred with arrears*	20	N/A		
Total	758	100	646	100

* As a result of changes in Regulations a borrower who has more than 3 monthly repayments overdue when his or her loan was deferred is classed as "deferred with arrears". The overdue repayments over 3 months remain overdue whilst the obligation to make repayments on the remaining balance is deferred.

Table 11: Analysis of deferment at 31 March 1998 by year of entering repayment (numbers).

Date Entering Repayment	Accounts Entering Repayment	Deferring at 31 March 1993	Deferring at 31 March 1994	Deferring at 31 March 1995	Deferring at 31 March 1996	Deferring at 31 March 1997	Deferring at 31 March 1998
	Nos '000	Nos '000	Nos '000	Nos '000	Nos '000	Nos '000	Nos '000
1 April 1992	54	23 (43%)	12 (21%)	11 (20%)	9 (17%)	7 (13%)	5 (9%)
1 April 1993	91	-	49 (54%)	35 (39%)	28 (31%)	23 (25%)	17 (19%)
1 April 1994	128	-	-	76 (60%)	62 (48%)	51 (40%)	37 (29%)
1 April 1995	165	-	-	-	108 (65%)	88 (53%)	61 (37%)
1 April 1996	207	-	-	-	-	143 (69%)	99 (48%)
1 April 1997	229	-	-	-	-	-	142 (62%)
Totals	N/A	23	61	122	207	312	361

Table 12: Repayments received by financial year (values).

Type	FY 97-98	FY 96-97	% Increase
	Amount Emillion	Amount Emillion	
Monthly repayment	106	68	56
Early settlement	29	18	61
Total	135	86	57

Table 13: Outgoing customer contacts during academic year (numbers).

Type	AY 97/98	AY 96/97
	Nos '000	Nos '000
Annual Statements	1441	1200
Letters	1008	696
Telephone Calls	694	760
Repayment Schedules	572	450
Deferment Applications	725	691
Quotes for Settlement	25	25
Total	4465	3822

Table 14: Incoming customer enquiries handled during academic year (numbers).

Type	AY 97/98	AY 96/97
	Nos '000	Nos '000
Account Enquiries - letter	218	261
Account Enquiries - telephone	1480	1207
Local Rate Calls (HEI Helpline)	21	19
Freephone Enquiries	345	443
Deferment Applications	478	390
Loan Application Letters	96	76
Total	2638	2396



Default

Table 15: Analysis of default at 31 March 1998 (numbers).

Action	Instalments Unpaid Nos					Default %
	2	3	4-6	6+	Total	
Trace	146	81	278	5825	6330	1.2
Letters and telephone calls	2561	1172	3259	7825	14817	2.9
Default Summonses Issued	-	-	-	25413	25413	5.0
Judgements entered*	-	-	-	15306	15306	*N/A
Judgements enforced*	-	-	-	9869	9869	*N/A
Total	2707	1253	3537	39063	46560	9.1
Default %	0.5	0.2	0.7	7.7	9.1	

* Note: These figures form part of the total Default summonses issued.

Administration Costs

Table 16: Administrative expenditure (cashflow) by academic year (values).

Expense	AY 97/98	AY 96/97
	£ '000	£ '000
Staff	6454	5689
Computer Systems	2355	1695
Computer Development	1686	286
Premises	1815	1723
Office Services	2593	2186
HEI Fees	1828	1779
Professional Fees	1922	1630
Marketing	138	76
Capital Expenditure	1194	2024
VAT	5372	4311
Other	2340	1452
Total	27697	22851

HEIs

Table 17: HEI Inspection visits.

Year	AY 97/98			AY 96/97		
	>500	<500	Total	>500	<500	Total
College Student Nos						
Number Visited	113	225	338	180	209	389
Records Inspected	2365	3605	5970	3397	3089	6486
Errors in Sample	59	137	196	69	120	189
Other Errors	21	17	38	89	19	108
HEIs Involved	30	73	103	48	57	105

The company also carried out 18 audits by telephone. Self Assessment Questionnaires were also introduced and of the 80 issued 79 completed questionnaires were returned to the company.

Appendix 2: Independent Assessor's Report

PO Box 226
Nottingham
NG8 2UD

Mr Colin Ward B.A. C.A.
Chief Executive
Student Loans Company Ltd
100 Bothwell Street
Glasgow
G2 7JD

9 September 1998

Dear Mr Ward

Assessor's Report

In the period 1 August 1997 to 31 July 1998 the Company asked me to deal with one case in which a borrower had complained about having to pay certain arrears, and where the Company's internal complaints procedure had been exhausted. After investigating the case I concluded that the Company had operated its procedures correctly and made every reasonable attempt to assist the complainant, within the confines of regulations made by the Secretary of State for Education and Employment. I recommended that the complainant should be required to pay the outstanding arrears without further delay.

During the course of the year I also received correspondence from four borrowers with complaints against the Company. In all these cases I found that the Company's internal complaints procedure had not been fully used, and I advised the complainants and the Company accordingly.

Yours sincerely



GE Chandler
Assessor





Student Loans
Company
Limited

**DIRECTORS' REPORT
AND FINANCIAL STATEMENTS**

31 MARCH 1998

Registered number 2401034





Directors' report and financial statements

Contents

	Page
Chairman's statement	1
Directors' report	3
Statement of chief executive's and directors' responsibilities	7
Report of the auditors to the members of Student Loans Company Limited	8
Review report by KPMG to Student Loans Company Limited on corporate governance matters	9
Profit and loss account	10
Balance sheet	11
Cash flow statement	12
Notes	13
Appendix: Accounts direction	25



Chairman's statement

The attached directors' report and company financial statements cover the activities of the company for the year ended 31 March 1998.

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

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

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

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

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

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

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

Whilst Ministers have been considering what might be the best structure for student financial support, it was not considered appropriate to proceed with non-executive director replacements until the way forward was clear. Consequently, the three vacancies arising from the resignations have remained from the middle of the financial year until now. This also rendered the audit and remuneration committees of the Board inquorate during this period, and, in order to sustain the integrity of good

corporate governance, the Board assumed the duties and obligations previously designated to these committees. Since Ministers have now decided to postpone a review of the student support structural arrangements until 2000, I expect that replacement appointments will be made shortly, thus permitting the two committees to be properly reconstituted. In the meantime, I am most grateful to Professor John Baillie who has been acting as adviser on audit matters to me, and acting chairman of the audit committee.

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

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

Sir Ronald Norman OBE DL
Chairman

29 July 1998



Directors' report

The directors have pleasure in submitting their annual report and the financial statements of the company for the year ended 31 March 1998. The financial statements have been prepared in accordance with the Companies Act 1985, as augmented, where appropriate, in respect of additional information as directed by the Secretary of State for Education and Employment, with the consent of the Treasury, as set out in the Accounts Direction reproduced in the appendix on pages 25 to 27.

Statutory background and history

The student loans scheme was introduced by the Education (Student Loans) Act 1990 and the Education (Student Loans) (Northern Ireland) Order 1990. The company was established to administer this scheme within the policy context and legislative framework laid down by the government. It was incorporated as a private limited company in 1989 and commenced trading in September 1990. The company is subject to the provisions of the Companies Act 1985, and in addition is required to operate within the limits of a financial memorandum between the company and the government. The company was officially designated a Non Departmental Public Body ('NDPB') from 1 April 1996, thus clarifying its status as a government owned body.

Review of business and future developments

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

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

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

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

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

Dividends

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

Directors and their interests

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

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

† Member of the audit committee during the year.

§ Member of the remuneration committee during the year.

None of the directors had any interest in the shares of the company at 31 March 1998 and 31 March 1997 (or subsequent date of appointment). The company is wholly owned by the Secretary of State for Education and Employment and the Secretary of State for Scotland.

The chief executive is also the accounting officer of the company.

The Secretary of State for Education and Employment and the Secretary of State for Scotland were shadow directors of the company under Section 741 of the Companies Act 1985 throughout the year and continue to be so.

Fixed assets

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

The growth of business volumes and expansion in the use of new technology has meant that additional floor space was occupied during the year. The costs of fitting out this additional space are contained within short leasehold improvements additions.

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

Employees

It is the company's aim to keep employees informed about its affairs and in particular about those matters which affect them directly. To this end, newsletters and information memoranda are issued regularly. A Joint Staff Consultative Committee was also set up during the year.

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



Charitable donations

During the year the company made no charitable donations (1997: £Nil).

Creditor payment policy

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

The number of days billings from suppliers outstanding at 31 March 1998 was 9 (1997: 11).

Corporate governance

The board considers that during the year, although not a listed company, the company nevertheless complied with the recommendations of the Code of Best Practice established by the Committee on the Financial Aspects of Corporate Governance (the Cadbury Committee) with the exception of the audit and remuneration committees as noted below.

The board is responsible for the company's system of internal financial control. The company has an established framework of internal financial control which is monitored and supported by an internal audit function. The system is designed to provide reasonable but not absolute assurance against material mis-statement or loss. The key elements of the system of internal financial control are as follows:

- regular meetings of the board of directors which has a schedule of matters which are specifically reserved for its approval and which are the subject of standard monthly reports;
- arrangements under a constitution for an audit committee of the board to meet regularly and receive from management and internal and external auditors, inter alia, reports on the system of internal financial control, to provide reasonable assurance that control procedures are in place and are being followed;
- arrangements under a constitution for a remuneration committee of the board;
- an organisational structure within the company with clear lines of responsibility;
- an accounting policies and procedures manual, key changes to which are approved by the board of directors;
- a four year strategic plan with a detailed annual budget, regularly revised forecasts, a comparison of actual with budget and with forecast on a monthly and quarterly basis, operating cash flow and variance statements, and key performance indicators, all of which are reviewed by the board.

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

Corporate governance (continued)

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

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

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

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

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

C Ward

Director

21 St Thomas Street
Bristol
BS1 6JS

29 July 1998



Statement of chief executive's and directors' responsibilities

Company law and the accounts direction given to the company by the Secretary of State, with the approval of the Treasury, in accordance with the company's financial memorandum, require the chief executive and directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the chief executive and directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The chief executive and directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. The chief executive and directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

In addition, in appointing the chief executive as accounting officer for the company, the accounting officers for the Department for Education and Employment, the Scottish Office Education and Industry Department and the Department of Education for Northern Ireland have placed on the chief executive the responsibility for ensuring the regularity and propriety of the public finances, a requirement which is set out in the company's financial memorandum.

Report of the auditors to the members of Student Loans Company Limited

We have audited the financial statements on pages 10 to 24.

Respective responsibilities of the chief executive, directors and auditors

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

Basis of opinions

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

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

Opinions

In our opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 31 March 1998 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985;
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

KPMG

Chartered Accountants
Registered Auditors

24 Blythswood Square
Glasgow
G2 4QS

31 July 1998



Review report by KPMG to Student Loans Company Limited on corporate governance matters

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

Basis of opinions

We carried out our review in accordance with guidance issued by the Auditing Practices Board. This guidance does not require us to perform any additional work necessary to express a separate opinion on the effectiveness of either the company's system of internal financial control or the company's corporate governance procedures or on the ability of the company to continue in operational existence.

Opinions

With respect to the directors' statements on internal financial control and going concern on pages 5 and 6, in our opinion the directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors), as if those requirements applied to the company, and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the company, and examination of relevant documents, in our opinion the directors' statements on pages 5 and 6 appropriately reflect the company's compliance with the other paragraphs of the Code coming within the scope of our review.

KPMG

Chartered Accountants
Registered Auditors

24 Blythswood Square
Glasgow
G2 4QS

31 July 1998

Profit and loss account for the year ended 31 March 1998

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

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

Statement of total recognised gains and losses

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



Balance sheet

at 31 March 1998

	Note	1998		1997	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	8		4,267		3,369
Current assets					
Debtors	9	1,395		1,105	
Cash at bank and in hand	10	60,288		39,384	
		<u>61,683</u>		<u>40,489</u>	
Creditors: amounts falling due within one year					
	11	<u>(61,683)</u>		<u>(40,489)</u>	
Net current assets					
			<u>-</u>		<u>-</u>
Total assets less current liabilities					
			4,267		3,369
Accruals and deferred income					
Deferred capital receipts	12		<u>(4,267)</u>		<u>(3,369)</u>
			<u>-</u>		<u>-</u>
Capital and reserves					
Called up share capital	13		-		-
Profit and loss account			-		-
Total shareholders' funds - equity					
			<u>-</u>		<u>-</u>

These financial statements were approved by the board of directors on 29 July 1998 and were signed on its behalf by:

C Ward

Director

Cash flow statement

for the year ended 31 March 1998

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



Notes

(forming part of the financial statements)

1 STATEMENT OF LOANS ADMINISTERED ON BEHALF OF FUNDING BODIES

Funding for the purpose of making loans to students is received by the company from the Department for Education and Employment, the Scottish Office Education and Industry Department and the Department of Education for Northern Ireland ('The funding bodies').

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

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

	£000
Balance at 1 April 1997	2,690,927
Loans issued	938,977
Loan repayments received	(133,623)
Loan interest charged	79,087
Loans written off	(1,021)
Sold to Finance for Higher Education Limited	(1,021,620)
Balance at 31 March 1998	<u>2,552,727</u>

In accordance with FRS 5 'Reporting the substance of transactions' neither the loans nor the related obligation to repay the funding bodies is included in the financial statements of the company since:

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

While the company is not liable for repayments which ultimately may not be recovered, the Education (Student Loans) Regulations provide deferment for borrowers in repayment whose incomes fall below a pre-determined threshold each year. It is reasonable to assume that a number of borrowers who have been and will be granted such deferment will never reach the threshold, and will not, therefore, be required to repay their loans. The directors are of the view that an estimate should be made of such balances at 31 March 1998 which will not be repaid because of this statutory provision. Experience of deferment is extremely limited, because significant repayments only began in 1992, and future patterns are hard to predict because of the factors which might affect them, for example, changes in national economic conditions. Nonetheless, based on current experience, the directors have estimated that, of the £2.6 billion (1997: £2.7 billion) gross balances held on behalf of the funding bodies at 31 March 1998, some £324 million (1997: £314 million) will not require to be repaid because of the statutory deferment provision.

Other regulations provide the company with the statutory ability to write off loans of deceased borrowers. Given the short experience of the application of these regulations, it is estimated that a further £11 million (1997: £8 million) might not be repaid under these provisions.

1 STATEMENT OF LOANS ADMINISTERED ON BEHALF OF FUNDING BODIES (continued)

In addition to these regulatory provisions, the company, like any issuer of credit, experiences default in repayment of amounts due. Again, the historical information available at this stage to assess possible future default is extremely limited. Nonetheless, the directors have estimated that, of the £2.6 billion (1997: £2.7 billion) of gross balances held on behalf of the funding bodies at 31 March 1998, the value of balances which might not be repaid as a result of default is £58 million (1997: £61 million).

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

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

This balance is due from students and repayable to the funding bodies, after allowing for balances on accounts for which deferment of repayment has been granted at 31 March of the relevant year as follows:

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

Instalment repayments by year are assessed by reference to the underlying loan agreements and expected date of graduation of each student in the first instance given that repayment is due to commence in the April following graduation. However, the Education (Student Loans) Regulations provide for borrowers in repayment to apply for deferment of repayment on an annual basis depending on their level of income; the effects of the regulations have been taken into account in the timing of the amounts due to be repaid but only insofar as such deferment has been granted at 31 March of the relevant year. The effect on the timing of repayments of any subsequent deferments which will be granted thereafter under the regulations cannot be determined and no estimate thereof has been made.

Interest is applied to the student loans receivable in accordance with the terms and conditions stated in the loan agreements. The loans made to students bear interest at such rates prescribed by the Secretary of State as being necessary to maintain the value of the loans in real terms. The rate of interest charged on loans from 1 September 1996 to 31 August 1997 was such as to give an annual percentage rate of 2.7%. From 1 September 1997 the rate of interest charged has been such as to give an annual percentage rate of 2.6%. Subject to the provision for deferment in the Education (Student Loans) Regulations, borrowers repay loans in monthly instalments over a fixed period. At present, that fixed period is either five or seven years, depending on the number of academic years over which loans are advanced. Borrowers may repay their loans early if they wish. The company calculates the amount of repayments due under the scheme annually.



1 STATEMENT OF LOANS ADMINISTERED ON BEHALF OF FUNDING BODIES (continued)

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

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

2 ACCOUNTING POLICIES

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

Basis of accounting

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

Basis of preparation

General

The terms of the financial memorandum between the Secretary of State for Education and Employment, the Secretary of State for Scotland, the Department of Education for Northern Ireland and the company require that the company shall conduct its affairs so as to remain solvent within the total resources made available to it by the Secretaries of State and the Department of Education for Northern Ireland. These financial statements have been prepared on this basis.

Turnover

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

Depreciation

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

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

2 ACCOUNTING POLICIES (continued)

Deferred capital receipts

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

Operating leases

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

Pensions

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

3 TURNOVER

Turnover is analysed as follows:

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

4 INTEREST RECEIVABLE

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



5 RESULT OF ORDINARY ACTIVITIES BEFORE TAXATION

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

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

(b) Directors' remuneration:

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

5 RESULT OF ORDINARY ACTIVITIES BEFORE TAXATION (continued)

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

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

† 1997 figures relate to the period from 1 April 1996 to 4 August 1996.

* 1997 figures relate to the period from 5 August 1996 to 31 March 1997.

** Other benefits principally comprise motor car and medical insurance.

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

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

The constituent elements of the chief executive's remuneration package are disclosed above. Under the terms of his contract the company is required to make pension contributions on behalf of the chief executive equivalent to 12% of his gross salary. He is not a member of the company scheme and has a personal pension plan to which the contributions are paid. As an ordinary member of the company's group life assurance scheme he is entitled to permanent health insurance and death in service benefits. He is provided with other benefits as noted above. Subject to the company giving him six months prior written notice, his three year contract will terminate on 31 December 1998. Termination of the contract by the company prior to this date, other than in accordance with its terms, will result in compensation being paid to the chief executive for the unexpired period of the contract, subject to his duty to mitigate his loss.



6 STAFF NUMBERS AND COSTS

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

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

All staff were employed by the company for the purposes of administration and operation of the student loans scheme.

The aggregate payroll costs of these persons were as follows:

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

Of these payroll costs, £267,000 (1997: £155,000) have been capitalised in relation to the in-house development of the company's new loan servicing system.

The remuneration (excluding pension contributions) of employees, excluding directors, whose annual remuneration exceeded £40,000 fell within the following ranges:

	Number of employees	
	1998	1997
£40,001 - £50,000	2	1
£50,001 - £60,000	1	1
£80,001 - £90,000	<u>1</u>	<u>1</u>

7 TAX ON RESULT OF ORDINARY ACTIVITIES

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

8 TANGIBLE FIXED ASSETS

	Short leasehold improvements	Computer & other electronic equipment	Furniture, fixtures & fittings	Motor vehicles	Total
	£000	£000	£000	£000	£000
Cost					
At beginning of year	1,140	4,405	995	124	6,664
Additions	119	1,820	103	26	2,068
Disposals	–	(463)	–	(43)	(506)
At end of year	<u>1,259</u>	<u>5,762</u>	<u>1,098</u>	<u>107</u>	<u>8,226</u>
Depreciation					
At beginning of year	166	2,474	562	93	3,295
Charge for year	55	939	128	29	1,151
On disposals	–	(445)	–	(42)	(487)
At end of year	<u>221</u>	<u>2,968</u>	<u>690</u>	<u>80</u>	<u>3,959</u>
Net book value					
At 31 March 1998	<u>1,038</u>	<u>2,794</u>	<u>408</u>	<u>27</u>	<u>4,267</u>
At 31 March 1997	<u>974</u>	<u>1,931</u>	<u>433</u>	<u>31</u>	<u>3,369</u>

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

In the opinion of the directors there is no material difference between the net book values disclosed above and their depreciated current cost.

9 DEBTORS

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

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



10 CASH AT BANK AND IN HAND

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

11 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

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

12 DEFERRED CAPITAL RECEIPTS

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

13 CALLED UP EQUITY SHARE CAPITAL

	1998	1997
	£	£
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>

14 MOVEMENT IN SHAREHOLDERS' FUNDS

As the opening and closing reserves are £Nil and there have been no share issues during the year there has been no movement in shareholders' funds during the year (1997: no movements).

15 CASH FLOWS

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



15 CASH FLOWS (continued)

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

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

16 FINANCIAL COMMITMENTS

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

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

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

At 31 March 1998 the company had contracts for the supply of computing services in respect of its loan administration system. Under the terms of the contracts the company has a commitment of £622,000 (1997: £1,320,000) in respect of the year to 31 March 1999. This contract is expected to subsist until the 1999-2000 financial year.

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

17 CONTINGENT LIABILITY

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

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

18 PENSIONS

The company has operated a pension scheme since 6 November 1990. The scheme will provide funded defined benefits based on final pensionable salary. The assets of the scheme are held separately from those of the company and are invested in managed funds.

Contribution rates are determined by a qualified actuary on the basis of triennial valuations.

The most recent triennial actuarial valuation was carried out as at 6 November 1996. The method used to value the liabilities was the Projected Unit Credit method with interest at 9% per annum and salary growth of 7.5% per annum. Standard mortality tables were used with no specific allowance for withdrawals.

Assets were valued by the method of discounted income, allowing for a 4% per annum growth rate in dividends. The funding rate over the year was 14.7% of the pensionable salary roll (inclusive of employees' contributions).

The actuarial valuation at 6 November 1996 showed that the market value of the scheme's assets was £1,690,000 and that the actuarial value of those assets represented 102% of the benefits that had accrued to members, after allowing for assumed future increases in earnings.

During the year under review, the pensions charge in the profit and loss account of £229,000 (1997: £230,000) was equivalent to the contributions due to the scheme between 1 April 1997 and 31 March 1998. In addition the company made pension contributions of £16,000 (1997: £14,000) to the personal pension plans of executive directors of the company.

19 CONTROLLING PARTIES

The controlling parties of the company are the Secretary of State for Education and Employment and the Secretary of State for Scotland who each hold 50% of the share capital of the company.

20 RELATED PARTY TRANSACTIONS

Student Loans Company Limited is a Non Departmental Public Body ('NDPB') funded by the Department for Education and Employment, the Scottish Office Education and Industry Department and the Department of Education for Northern Ireland who are therefore regarded as related parties.

During the year, Student Loans Company Limited has had various material transactions with the above departments.

Dependants of directors, executive management and staff, who are students, are eligible to participate in the student loans scheme on exactly the same terms and conditions as are available to other students.

21 NOTIONAL COST OF CAPITAL

In accordance with the 'Executive NDPBs: Annual Reports and Accounts Guidance' the company is required to disclose the notional cost of capital. In the year ended 31 March 1998 the cost of such capital (calculated at 8%) was £309,000.



Appendix: Accounts direction

Given by the Secretary of State, with the approval of the Treasury, in accordance with the Financial Memorandum of 21 September 1994

- 1 The Student Loans Company Limited shall prepare accounts for the financial year ended 31 March 1997 and subsequent financial years comprising:
 - a. a directors' report including NDPB foreword requirements;
 - b. an income and expenditure account;
 - c. a balance sheet;
 - d. a cash flow statement;
 - e. a statement of total recognised gains and losses;
 including such notes as may be necessary for the purposes referred to in the following paragraphs.
- 2 The accounts shall give a true and fair view of the income and expenditure and cash flows for the financial year, and the state of affairs as at the end of the financial year.
- 3 Subject to this requirement, the accounts shall be prepared in accordance with:
 - a. generally accepted accounting practice in the United Kingdom;
 - b. the disclosure and accounting requirements contained in 'The Fees and Charges Guide' issued by HM Treasury (in particular those relating to the need for appropriate segmental information for services or forms of service provided) and in other guidance which the Treasury may issue from time to time in respect of accounts which are required to give a true and fair view;
 - c. the accounting and disclosure requirements given in 'Government Accounting' and in 'Executive NDPBs: Annual Reports and Accounts Guidance', as amended or augmented from time to time; insofar as these are appropriate to the Student Loans Company Limited and are in force for the financial year for which the statement of accounts is to be prepared.
- 4 Clarification of the application of the accounting and disclosure requirements of the Companies Act and Accounting Standards is given in schedule 1 attached. Additional disclosure requirements are set out in schedule 2 attached.
- 5 The income and expenditure account and balance sheet shall be prepared under the historical cost convention modified by the inclusion of:
 - a. fixed assets at their value to the business by reference to current costs;
 - b. stocks at the lower of net current replacement cost (or historical cost if this is not materially different) and net realisable value. Where stocks are of low value, in line with UK GAAP, they need not be revalued.
- 6 This direction shall be reproduced as an appendix to the accounts.
- 7 The Student Loans Company Limited must obtain approval from the Secretary of State, who may also refer the matter to the Treasury, for any departure from the provisions of this accounts direction, including those relevant provisions in the other documents to which it refers.

Schedule 1

Application of the accounting and disclosure requirements of the Companies Act and Accounting Standards

Companies Act

- 1 The disclosure exemptions permitted by the Companies Act shall not apply to the Student Loans Company Limited unless specifically approved by the Treasury.
- 2 When preparing its **income and expenditure account**, the Student Loans Company Limited shall have regard to the profit and loss account format prescribed in schedule 4 to the Companies Act.
- 3 When preparing its **balance sheet**, the Student Loans Company Limited shall have regard to the balance sheet format 1 prescribed in schedule 4 to the Companies Act.
- 4 The Student Loans Company Limited is not required to provide the additional information required by paragraph 33 (3) of schedule 4 to the Companies Act.
- 5 The directors' report and balance sheet shall be signed by the accounting officer and dated.



Schedule 2

Additional disclosure requirements

- 1 The directors' report shall, inter alia:
 - a. state that the accounts have been prepared in a form directed by the Secretary of State, with the consent of the Treasury;
 - b. include a brief history of the Student Loans Company Limited;
 - c. state that the Chief Executive is also the accounting officer.
- 2 The notes to the accounts shall include:
 - a. a statement of loans administered by the Student Loans Company Limited, including estimates of irrecoverable loans, in a form and with such additional information as may be required by the Secretary of State from time to time.
- 3 The audit report shall be in accordance with practice note 10, Audit of Central Government, Financial Statements in the United Kingdom, and include a statement on the regularity of expenditure.





STUDENT LOANS  COMPANY LIMITED

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