STUDENT LOANS COMPANY LIMITED

ANNUAL REPORT & ACCOUNTS

2006-07

Contents

This report refers to the time period prior to the machinery of Government changes which saw the Department for Education and Skills (DfES) replaced by the Department for Innovation, Universities and Skills and the Department for Children, Schools and Families. Accordingly, only reference to the Department for Education and Skills (DfES) is made throughout.

Foreword

This Annual Report & Accounts gives full details of our activities and performance in relation to Ministerial Targets and also publishes the Independent Assessor's Report. It covers a year which has been exciting and challenging and I invite you to read the full review of our performance in the main body of this Report.

The dominant feature of our operational activities in the academic year 2006/07 was the successful implementation of the new arrangements for first-year students based in England with the introduction of variable tuition fees and the significantly altered provisions for both tuition fee loans and student maintenance. While the uptake of bursaries by eligible students (a central part of the new provisions) is known to have been less than anticipated, our delivery of the new arrangements was a success - the more so because the 'business as usual' provisions for continuing students had to be accomplished at one and the same time.

This past year has also been dominated by our efforts to take forward the wide-ranging organisational development programme, working with the Department for Education & Skills (DfES) and HM Revenue & Customs (HMRC), to embed the values, behaviours, structures and organisational processes that will ensure full and effective delivery of the new Student Finance Service which will be phased in from the beginning of academic year 2007/08 for English domiciled students.

In 2006/07, we witnessed an increase in student support application volumes generally, with a 14.3% rise in the number of European Union students applying for funding. Implementation of the new student finance arrangements for England, Northern Ireland and Wales was a success, ensuring that all new students were paid on time.

Education Maintenance Allowance application volumes have now reached a steady state for our customers in Wales and Northern Ireland, and processing arrangements, split between Glasgow and our Welsh-language contact centre in Colwyn Bay, operated well throughout the year.

In the past year, we have significantly invested in our employees, in technology and operational sites to support the ever-changing portfolio of services we provide. In January 2007 we were once again successfully accredited with Investors in People, a standard which we have retained for seven years which is a demonstration of our commitment to training and development.

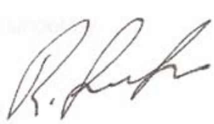
An unexpected bonus - and objective proof of the high value of our employee development program - has been special recognition from the Scottish Executive for our pioneering 'Phone Rage' training course, which has now been adopted by them.

As part of the increased focus on Organisational Development, we designed and embedded new values to support the strategic development of the Student Loans Company.

We have continued to build on our successful online service for customers, increasing the number of applications for student finance that are made online. Our commitment to improve and enhance our communication with customers has remained a focus as we embrace the changes initiated by our stakeholders. 'Online' interaction has increased and is proving an extremely successful channel. We are leading the way in new call centre technologies with the introduction and development of 'Webchat', 'Call Queuing' and 'Call Avoidance', the use of text messaging, which students are known to prefer as a means of receiving essential information.

Important steps were taken during this past year to strengthen our partnership with HM Revenue & Customs and this has provided a valuable base from which we will continue to work closely with them in the future. In addition to this, we established a dedicated relationship management team to focus on work with local authorities and interactions with universities and colleges.

I would like, finally, to take this opportunity of recording my personal thanks to all Student Loans Company employees in Glasgow, Darlington and Colwyn Bay for their hard work and commitment. Just as importantly, I want to thank all those in the Department for Education and Skills, the Welsh Assembly Government, the Department for Employment and Learning in Northern Ireland and the Scottish Executive who have played a vital role in helping us deliver student finance on their behalf.



Ralph Seymour-Jackson
Chief Executive

Management Commentary

Purpose and Roles

Last year we provided financial support to almost 988,000 higher education and 51,500 further education customers

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

Our primary roles are to:

- deliver financial support to eligible students pursuing higher education
- pay to Higher Education Institutions the public contribution towards tuition fees for England, Wales and Northern Ireland, together with private variable tuition fees where applicable and where students elect to take out a tuition fee loan from us
- supply information needed by HM Revenue & Customs to ensure repayments are collected on time from all those due to repay under the Income Contingent Repayment Loan Scheme
- manage the direct collection of repayments for loans granted under the former Mortgage Style Loan Scheme

Last year, on behalf of the Department for Education and Skills for England and the devolved administrations for Scotland, Wales and Northern Ireland, we provided financial support to almost 988,000 higher education and 51,500 further education customers, of whom almost 875,000 received student loans. The total support payments for the year were £4.4 billion, of which £3.0 billion was in maintenance loans.

In addition, the Student Loans Company paid tuition fees totalling £354 million to Higher Education Institutions.

We undertake specific tasks for individual devolved administrations, such as payment of Education Maintenance Allowances (household income-based incentive payments aimed at encouraging students to continue past their compulsory schooling).

On behalf of the private sector, the Student Loans Company also administers one of the two student loan portfolios sold by the Government.

Statutory background

The student loans scheme was introduced by the Education (Student Loans) Act 1990 and the Education (Student Loans) (Northern Ireland) Order 1990.

The Student Loans 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 operation in 1990.

The Student Loans 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. We are wholly owned by the Secretary of State for Education and Skills and Scottish Ministers.

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

LEGISLATIVE FRAMEWORK

We currently operate within the following legislative framework:

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

Operating Environment

Political

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

REVIEW OF HIGHER EDUCATION STUDENT FINANCE DELIVERY IN ENGLAND

The Student Loans Company has been working closely with the Department for Education and Skills (DfES) and HM Revenue & Customs (HMRC) to set out the detailed steps that will deliver the recommendations arising from the Department's Review of Higher Education Student Finance Delivery in England.

To support the Government's goal of access to a world-class higher education system for all those with the potential to benefit, our delivery role within England is to be extended and the way we operate reformed. The change programme, which will deliver the new Student Finance Service for England, will run to 2012. It will re-engineer the delivery process from a customer perspective, linking electronically with delivery partners to provide a responsive, effective and efficient service.

These changes mean that the Student Loans Company will take on responsibility for processing student finance support applications handled currently by Local Authorities, and we are commissioning a new processing centre in the Darlington area in readiness for the Academic Year (AY) 2009/10 new student intake. Capacity will be built up over the following years to allow all Local Authority processing work to migrate to us by AY 2012/13.

Supporting this, we are taking forward a wide-ranging organisational development programme, working with the DfES and HMRC to embed the values, behaviours, structures and organisational processes that will ensure operational delivery transformation and enhanced repayment collection.

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

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

Within England and Northern Ireland the legislation introduced increased grants and deferred variable tuition fees supported by new income-contingent repayment fee loans, along with new bursaries funded by Higher Education Institutions (HEIs). For England and Wales HEI bursaries are regulated by the Office for Fair Access (OFFA) under individual Access Agreements. For Northern Ireland, they are regulated by the Department for Employment and Learning under advice from OFFA.

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

Student finance support application volumes continued to grow through AY 2006/07. For the UK as a whole, a snapshot taken by Universities & Colleges Admissions Service (UCAS) at 24 March 2007 revealed an overall rise of 5.2% in applications to full-time undergraduate courses starting in 2007, compared with the same time the previous year, and we expect student support application volumes to remain buoyant.

WIDENING ACCESS

The provisions of the Higher Education Act 2004 and Higher Education (NI) Order 2005 to promote participation and widen access to higher education remain a key priority for the sector and are reflected in the steps the Student Loans Company is taking at delivery level.

In addition to statutory changes we developed a bursary administration service, called the Higher Education Bursary and Scholarship Scheme (HEBSS), which was taken up by 136 Higher Education Institutions in England and Northern Ireland. This allowed 95,000 students to apply for and receive HEI bursaries alongside their statutory student support entitlement. We continue to work with HEIs to maximise bursary take-up and increase participation.

The changes in fee arrangements in Wales have also generated a demand for a Welsh Bursary System, similar to HEBSS, which will be adopted by all Welsh universities.

STUDENT SUPPORT IN WALES

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

In 2006/07, DELLS introduced fixed rate tuition fee loans for students. These were administered by the Student Loans Company. We also assisted DELLS in the development of new policies to be implemented in 2007/08; increasing tuition fee rates, and introducing a new tuition fee grant for Welsh students.

STUDENT SUPPORT IN NORTHERN IRELAND

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

Further enhancements were made to the Education and Maintenance Allowance Scheme, reducing the administration requirement of schools and colleges, and introducing automated attendance links with schools' student management systems.

STUDENT SUPPORT IN SCOTLAND

The Student Awards Agency for Scotland continued to process and assess applications for support from Scottish students. The Student Loans Company continued to work with the Agency in partnership arrangements, and began work to implement monthly support payments for students at Scottish institutions. We also implemented requirements for increased rates of tuition fees for students from other parts of the UK at Scottish universities.

The Student Loans Company will be assisting the Enterprise, Transport and Lifelong Learning Department at the Scottish Executive in the implementation of new policy requirements arising from changes to the administration of the Scottish Parliament.

Social and Economic

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

HIGHER EDUCATION DEMAND

Take up of Foundation Degrees has continued to grow. These innovative degree level qualifications are designed with input from employers to ensure that graduates fit more appropriately into the world of work. Almost 61,000 students pursued this qualification in Higher Education Institutions and Further Education Colleges in England in academic year 2006/07, compared with 4,300 in 2001/02.

Research conducted by the Higher Education Funding Council for England (HEFCE) indicates that Foundation Degrees have been successful in attracting people into higher education from a broader range of backgrounds and HEFCE suggest that enrolment could reach 100,000 by academic year 2010/11.

Separately, the Higher Education Academy has published research (May 2007) evaluating progress of the Government's Fast Track degrees pilot in England and demonstrating demand from employers and students.

Growth in the numbers of students from the European Union (EU) studying in the UK, and potentially applying for fee support to us, is expected to continue growing in the short-term. The number of people applying from EU countries for a full-time undergraduate place in the UK has risen by 14.3%, from 22,740 in 2006 to 26,003 in 2007 (Source: UCAS).

LOAN REPAYMENT

Future student support policy may lead to increased applicant numbers and this will have implications for the service delivery. This may be offset to an extent by wider demographic changes, either approaching or already underway. However, we anticipate continued growth over an extended period in the overall number of customers we manage, particularly if the typical length of time in repayment increases, following take-up of deferred fee loans by English-domiciled customers.

This underscores the need to contain the increase of administrative resource and continuously improve the effectiveness of collection from customers wherever they live. We have already introduced enhancements to the collections process and, together with HMRC, are committed to further joint improvements.

Over the past three years we have met our Efficiency Review cost reduction targets

PUBLIC EXPENDITURE

In the March 2007 Budget statement, the Chancellor of the Exchequer announced a £6 billion sale of part of the student loan book. This will have no impact on our customers. The Student Loans Company will continue to administer the accounts concerned and provide support to officials as the debt sale arrangements proceed.

The Chancellor also pledged further increases in government spending on education to 2010, supporting further growth student numbers in higher education. The forthcoming 2007 Comprehensive Spending Review settlement will determine the funds that can be released specifically for student finance delivery.

We anticipate, however, that public sector spending will continue to be constrained.

Over the past three years we have met our Efficiency Review cost reduction targets and, as part of the shared, continuing drive for service and efficiency improvement, are currently benchmarking our core delivery and support processes.

REGULATION

In the UK, there has been continuing political and regulatory scrutiny of charges applied to customers of the financial sector, and this has generated considerable media interest. As a result of this activity and interest, the Company is seeking professional advice to assess whether there will be any impact on its own future charging policy. At the date of this report, the directors are satisfied with the way the Student Loans Company is keeping this situation under review.

Technological

The rapid pace of technological change in the United Kingdom influences all of our activities. Keeping up with technological advances ensures we can deliver the best services to our customers and stakeholders.

Information and communications technologies play a key part in the delivery of service to our customers and partner organisations. The continuing increase in the use of broadband internet connectivity and mobile phones with internet capability directly influences Government service delivery to citizens. The Directgov initiative - Public Services all in one place - aims to provide joined-up Government services through one site, providing information and bringing together online services.

The DfES's service transformation programme for England, which aligns with the Cabinet Office's Transformational Government Strategy, is exploiting ICT potential in several key areas to build a service around the customer. By joining up with the Government's Identity & Passport Service (IPS), the evidence burden on our customers can be reduced and more streamlined entitlement decisions made without compromising identity security. Where customers consent, we also plan to reduce the time spent by applicants re-entering the same personal data across separate delivery partner systems and are exploring data sharing arrangements.

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

Considerable improvements were made to the online application for Academic Year 2006/07, and these have been supported by an enhanced level of marketing to encourage customers to benefit from the service.

The use of text messaging to encourage participation in online services and to advise customers of important information relating to their student finance has proved successful and popular. As a result this will be used more extensively and integrated into our long-term technology plans.

We have introduced a facility for customers to contact our advisors through online "webchat". This allows customers to click on a link on our websites and enter into a real-time conversation in a similar manner to services such as MSN Messenger. "Webchat" has proven very popular with customers and we have received consistently high satisfaction ratings.

IMPROVED FLEXIBILITY AND COST-EFFECTIVENESS

With the range of products and services we operate on behalf of our stakeholders becoming increasingly complex and diverse, steps were taken to ensure our Information and Communication Technology base remains sufficiently flexible and cost effective to meet future requirements. This is expected to result in revisions to our service architecture.

We continued to monitor broad trends in both infrastructure and software markets to inform our build, buy and sourcing decisions, maintain flexibility and optimise value for money.

Organisational Capability

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

People

As at 31 March 2007, the Student Loans Company had 1,280 full time equivalent employees. We remain committed to investing in our people; developing their skills and competencies in order to meet individuals' own career aspirations and Company objectives.

Within the Student Loans Company, there has been an increased focus on organisational design and development, in order to meet the challenge of transforming student finance. Organisational design and development combines strategy, structure, process, people and rewards to maximise the performance of the organisation.

As part of our overall vision, we have designed a set of supporting values using feedback from our customers, our people and our partners, and these have been successfully communicated to all employees in the organisation.

The development of the related behavioural competencies will continue through their involvement.

RECRUITING AND RETAINING SKILLED EMPLOYEES

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

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

There has been a significant amount of effort and attention on reducing staff turnover and absence. Staff turnover is down from 21.9% in April 2006 to 15.3% in March 2007 (against a target of 20%). Sickness absence has also been reduced from 5.07% to 4.55% over the same period (against a target of 4%).

TRAINING AND DEVELOPMENT

In January 2007, we were once again successfully accredited with Investors in People status. We have now retained this standard for 7 years - a demonstration of our commitment to training and development. Our aim is to ensure that our employees have access to the learning and development opportunities that can bridge skill and knowledge gaps and contribute to the successful completion of key business objectives. Each staff member has a Personal Development Plan, reviewed twice per year, outlining required training and development.

A pioneering training course entitled 'Phone Rage' was developed to help call centre employees deal with a small but growing number of difficult phone calls. Described by the Scottish Executive as best in class, the course has now been adopted by some of Scotland's major organisations.

Infrastructure

INFORMATION AND COMMUNICATIONS TECHNOLOGY (ICT)

We remain very conscious that investment in ICT without appropriate changes in our processes and behaviours within the business will lead to a sub-optimal result. Business process re-engineering, continuing investment in our people and proactive benefit realisation initiatives will therefore be an integral part of our ICT investment programme.

The ICT capabilities within the Student Loans Company have been transformed from single site, local systems into internet-based systems interacting with multiple external stakeholders through the development of Business-to-Business and Business-to-Customer solutions.

We maintain a number of websites and web-based applications, such as our corporate website and customer transactional sites under the service brands Student Finance Direct (England), Student Finance Northern Ireland and Student Finance Wales.

We also provide web services for Assembly Learning Grants in Wales and to support our administration of Educational Maintenance Allowances for Northern Ireland and Wales. In 2006, a Higher Education Institution Portal was created for participating universities in England to assist in the administration and payment of student bursary schemes.

Significant work has taken place to enhance the customer portal, which allows students to apply online for financial support. The numbers preferring to use this self-service facility continue to grow year on year.

BUILDINGS

The Student Loans Company operates in four locations throughout the United Kingdom:

GLASGOW

The majority of our employees are based in our headquarters in Glasgow, which includes our customer contact centre, collections department, information technology department and corporate functions.

HILLINGTON

Our large-scale printing and mailing facility is based at our Hillington complex, just outside Glasgow.

DARLINGTON

The Student Finance Direct Processing Unit in Darlington deals with student finance applications from students living in eleven Local Authority areas across England. Student support applications from European Union students wishing to study in the UK are also processed here.

COLWYN BAY

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

Relationships

GOVERNMENT AND SECTOR

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

We support the Department for Education and Skills (DfES) by contributing to the Government's goal of access to a world-class higher education system for all those with the potential to benefit. We deliver services to the other UK Education Departments - in Northern Ireland for the Department for Employment and Learning; in Wales for the Department for Education, Lifelong Learning and Skills at the Welsh Assembly Government; and in Scotland for the Enterprise, Transport and Lifelong Learning Department - to help them achieve government policy and deliver their goals. Clear and open channels of communication have been established to further these relationships.

Representatives from the DfES and the Scottish Executive attend Main Board meetings, held ten times per year.

Representatives from the other Devolved Administrations are also invited to attend Main Board meetings, and special project boards are established with these and other partners to help enable and guide major change initiatives. A stakeholder steering group has been established to agree priorities across the stakeholder areas.

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

Our partnership with HM Revenue & Customs has been strengthened and we will continue to work closely with them in the future.

We are building upon our relationships with other partners, such as UCAS, which will enable us to enhance service delivery to customers and improve value for money via data sharing, in line with the Cabinet Office's Transformational Government Strategy. We have also established important links with other government departments, sharing data where we have the scope to do so.

CUSTOMERS

Our customers include current students, their sponsors and those who are repaying their student loans. We continually seek to improve our customer relationships and in support of this we monitor their satisfaction closely, using regular customer surveys, analysing the trends in both the queries raised with our advisors and the complaints we receive. In doing so, we can not only maintain but enhance our service standards through addressing issues that arise and more closely meeting the needs of our customers.

Established by the Student Loans Company, the Student Consultative Group provides a student representative forum that allows us to share our plans and receive feedback. This is further supported by customer focus groups and surveys on specific issues which provide important qualitative information on how our services are perceived. The results from this feedback enable us to take any required corrective action.

As we develop the new student finance service for England to support the vision set out in the DfES Review of Higher Education Student Finance Delivery in England, we will continue to enhance the level of consultation with customer groups to ensure that the new service fully meets customer requirements.

STRATEGIC PARTNERS AND SUPPLIERS

We are committed to maintaining and further developing our excellent relationships with strategic partners and key suppliers in the provision of services such as: contact centre support, ICT, training, distribution and legal services.

Change Management

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

In the future, we will be further developing our relationship with other Government bodies and exploiting e-business opportunities.

Our Change Management planning falls into two parts: stakeholder funded change and internal improvements.

STAKEHOLDER CHANGE CAPABILITY

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

We use sound project and programme processes in line with Prince 2 project management methodology and are regularly reviewed by the Office of Government and Commerce (OGC), an independent body of the Treasury which works with public sector organisations to help them improve delivery from programmes. They carried out a review of the Student Loans Company in January 2007 to ensure our programmes have the correct knowledge, understanding, processes and funding in place to enable delivery.

The results were positive, concluding that the 2007/08 change programme is on target to deliver and risk has been minimised.

Business Continuity

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

We have a programme of test and ongoing review of the existing business continuity plans to take into consideration the impact of the changing environment, both internal and external, on the organisation, i.e. new processes, new products, and external influences.

Corporate Objectives and Performance

The Student Loans Company's resources, objectives and performance measures are set out by Ministers in a performance and resource agreement and the Company is accountable to Ministers for its performance.

This section lists our five Corporate Objectives and 12 Key Performance Indicators (KPIs) for Financial Year (FY) 2006-07, along with targeted and actual performance. It provides narrative about the performance against each KPI and explains any changes to KPIs, measures and targets for FY 2007-08. If a more detailed definition of each KPI is required, this can be obtained either by contacting the Student Loans Company's Information Office or by visiting our website at www.slc.co.uk.

Objective 1: Payments

To provide an accessible and effective system for handling applications for student support and processing payments, so that students get paid the correct amount at the start of term.

Key Performance Indicator 1: Service Level Agreement Performance

Achieve target percentage of the essential elements of the Service Level Agreement (SLA) between the Student Loans Company and the Department for Education and Skills

	Measure	Target	Actual	Achieved
A	Local Authority Portal - System Availability	99% or more (core hours only in any one month)	99.9%	✔
B	Local Authority Portal - Support Availability	99% or more (core hours only in any one month)	100%	✔
C	Local Authority Portal - End to End Response Time	99% or more within 5 seconds (core hours only in any one month based on average across any working week)	See footnote (1)	✔
D	Helpdesk availability	100% (core hours only in any one month)	100%	✔
E	Call answering	90% or more (core hours only in any one month)	95.1%	✔
F	Production of student correspondence	90% or more (in any one month)	97.7%	✔
G	Initiation of BACS payments	(i) 95% or more by close of first working day following receipt of HEI confirmation (in any one month)	98.2%	✔
		(ii) 99% or more by close of second working day following receipt of HEI confirmation (in any one month)	100%	✔

(1) Whilst the system had been available for very close to 100% of the time across the core hours set out in the service level agreement between the DfES and the Student Loans Company, and did at all times achieve the five second end to end response time, the Company acknowledged that during the period from May to October 2006, there were a number of system related issues that had a limited impact on the usability of the system.

KPI 1 Performance

It was agreed that KPI 1 (A) should be a strict measure of system availability - simply assessed on whether or not users can connect to the system - while taking into account any technical issues that resulted in partial system availability, where this could be measured.

Changes to KPI 1 for FY 2007-08

An eighth measure has been added on system usability to clearly segregate any degradation of service for users. This will have a target of 99% or more.

Key Performance Indicator 2: Payments: Online take-up

Increase the percentage of online take-up of student finance applications

	Measure	Target	Actual	Achieved
A	% of customers making on-line applications	(i) New students - 10% or more	19.5%	✔
		(ii) Returning students - 5% or more	13.3%	✔
		(iii) Sponsors - 6% or more	47%	✔

KPI 2 Performance

For FY 2006-07, this KPI was divided into three separate targets to reflect the differing requirements of our customers; new students, returning students and sponsors, and a profile was created to accommodate higher targets than the previous year. By the end of May 2006, the annualised target for returning students had been exceeded, and by the end of March 2007, 136,692 online applications had been successfully submitted. During this period, 28,495 sponsors had successfully provided information online, which greatly exceeded both the target and the total for the entire 2005/06 cycle. In the course of the year, facilities such as text messaging and web chat were used to enhance customer services and contact - particularly with respect to new students.

Changes to KPI 2 for FY 2007-08

As a result of the performance achieved for FY 2006-07, the targets for FY 2007-08 were agreed as:-

(i) New Students - 24% or more

(ii) Returning Students - 40% or more

(iii) Sponsors - 55% or more

Changes to Objective 1 for FY 2007-08

This has now been amended so that the objective now reads: "To provide an accessible and effective system for handling applications for student support and processing payments, so that students get paid the right amount at the right time."

Objective 2: Collections

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

Key Performance Indicator 3: Income Contingent Repayment:

Borrowers with no National Insurance number (NINO)

	Measure	Target	Actual	Achieved
A	% of borrowers with no NINO **BY** Statutory Repayment Due Date (SRDD)	1.4% or less	0.46%	✔
B	% of borrowers with no NINO **AFTER** passing SRDD	1.2% or less	0.64%	✔

KPI 3 (A) Performance

At the outset of the year, considerable investigation was undertaken to review the detail of customers in specific cohorts. The Student Loans Company has significant dependency on HMRC and DfES for the level of improvements that can be implemented. However, a year of improved communication and liaison between these three partners has resulted in improved analysis and performance. Midway through the year, it became clear that a number of customers had applied for student finance but in fact had not progressed or finalised the application to actually having the loan paid (referred to as 'Authorised but not paid'). With no payment to collect there was no requirement to identify a National Insurance number, and as such, these volumes were excluded from the base figure. A significant percentage reduction was achieved through initiatives undertaken within the Income Contingent Repayment (ICR) Department.

KPI 3 (B) Performance

The target for FY 2006-07 was achieved with a figure of 0.64% against a target of 1.2%. There has been a consistent reduction in this target since April 2006.

Changes to KPI 3 (A) and (B) for FY 2007-08

The target measures for FY 2007-08 have changed as follows:-

KPI 3 (A) Percentage of borrowers with no NINO by SRDD should be 0.25% or less;

KPI 3 (B) Percentage of borrowers with no NINO after passing SRDD should be 0.7% or less.

Key Performance Indicator 4: Income Contingent Repayment:

Reduce % of Borrowers with a NINO but citizen not found at HM Revenue & Customs (HMRC)

	Measure	Target	Actual	Achieved
A	% of borrowers who have a NINO but the citizen is not found at HMRC **BY** SRDD.	3% or less	3.75%	x
B	% of borrowers who have a NINO but the citizen is not found at HMRC **AFTER** SRDD	1% or less	2.17%	x

KPI 4 (A) Performance

The starting point of this KPI has always been affected by the success of establishing National Insurance numbers for customers in the KPI3 (A) cohort and how many require to be passed for matching to HMRC. We started the year 0.67% above the profiled forecast required to bring the KPI in on target, but despite a decreasing trend for the remainder of the year, it was not sufficient to achieve this figure.

KPI 4 (B) Performance

In relation to year end performance, the target was not achieved, with a final year figure of 2.17% against a target of 1.00%.

The Student Loans Company recognises that the quality of contact details is fundamental to the effectiveness of an enforcement process. We continue to work closely with HMRC to match customer details.

Changes to KPI 4 for FY 2007-08

Further discussion has taken place with DfES and we have agreed that for the FY 2007-08, KPI 4 and KPI 6 (reported below) will be merged in order to measure and target overall matching status.

The target measures of FY 2007-08 have changed as follows:-

KPI 4 (A) Percentage of borrowers who have a NINO but the citizen is not found at HMRC **BY** SRDD should be 15% or less;

KPI 4 (B) Percentage of borrowers who have a NINO but the citizen is not found at HMRC **AFTER** SRDD should be 5.5% or less.

Key Performance Indicator 5: Income Contingent Repayment:

Reduce % of borrowers not currently in any repayment channel

	Measure	Target	Actual	Achieved
A	% of borrowers who are due to be in repayment but who are not currently in any repayment channel	5.1% or less	3.63%	✔

KPI 5 Performance

A final-year figure of 3.63% against a target of 5.10% has been achieved and so the target has been met. The ICR Department continues to review the various cohorts to find ways to fully understand the accounts they contain. Initial results from a case by case review of 5,000 cases in this category indicated that the majority of them had a valid reason for a Start instruction not being issued (e.g. we identified cases with de-minimis balances of less than £5). Work continues to identify further anomalies and the 2006-07 results have followed a similar trend to the previous year, when certain peaks and troughs were evident throughout the year.

Changes to KPI 5 for FY 2007-08

The target for KPI 5 will be to achieve 3% or less in FY 2007-08.

Key Performance Indicator 6: Income Contingent Repayment:

Borrowers' employment details obtained during matching process

	Measure	Target	Actual	Achieved
A	% of borrowers - the Student Loans Company has identified current employment status **BY** SRDD	87.5% or more	88.14%	✔
B	% of borrowers - the Student Loans Company has identified current employment status **AFTER** SRDD.	97% or more	96.33%	x

KPI 6 (A) Performance

The target was met with a year end figure of 88.14% against a target of 87.5%.

KPI 6 (B) Performance

By October 2006, the Student Loans Company had forecast that it would be difficult to achieve KPI 6 (B). However, the target was very nearly met by achieving a figure of 96.33% (against a target of 97%). Much of the focus for the year was to promote the submission of National Insurance numbers and this restricted the number of activities that the ICR Department were able to address. Towards the end of the year, internal initiatives such as proactive contact with customers in this category, was undertaken with assistance from other business areas.

Changes to KPI 6 for FY 2007-08

This KPI will be merged with KPI 4 for FY 2007-08.

For the new Financial Year, there will be no KPI 6 and subsequent KPIs will retain similar numbering to FY 2006-07 for ease of reference.

Key Performance Indicator 7: Mortgage style loans collection

Minimise % of loans that leave deferment and go into arrears

	Measure	Target	Actual	Achieved
A	% of borrowers that leave deferment and go into arrears	15%	15.72%	x

KPI 7 Performance

The Student Loans Company advised the DfES midway through the year that the forecast needed to be re-aligned to reflect YTD performance, in anticipation of a more gradual trend towards the target. At that time, a slightly adverse out-turn to target was forecast, which proved to be the final result. During the year, the Collections Department targeted accounts coming out of deferment into overdue status and identified a time lag in that process. They also undertook investigations to assess what steps might be taken to prevent an account reaching overdue. The number of accounts exiting deferment and remaining in overdue status was below the original targeted volumes in that category and this impacted adversely on the KPI out-turn.

Changes to KPI 7 for FY 2007-08

Since the KPI measure for FY 2006-07 did not recognise approximately 4,500 accounts which had exited deferment and been fully repaid, then it has been agreed with the DfES that these will form part of the FY 2007-08 measure. If these fully repaid accounts had counted towards the KPI in this year, the actual Year End result would have improved to 14.7% from 15.72%. Based on this adjusted figure, the target for FY 2007-08 has been set at 13.7% (i.e. 1% lower than the adjusted FY 2006-07 out-turn).

Key Performance Indicator 8: Mortgage style arrears collection

Minimise % of loans that are in arrears

	Measure	Target	Actual	Achieved
A	% of loans that are in arrears	9%	8.85%	✔

KPI 8 Performance

This target was achieved with a year end year result of 8.85% against a target of 9%. Further improvement is being sought through the implementation of the customer segmentation model which provides an indication of the customer's propensity to pay. The focus of this target in FY 2006-07 moved away from cash collected, to reducing the number of overdue loans. This required a shift in focus from monies collected to the number of accounts which are cured. A cure occurs when the last arrears payment is received or when an account moves out of overdue status to another status.

Changes to KPI 8 for FY 2007-08

This target has been segregated into two separate elements as follows:-

KPI 8, as reported in FY 2006-07, will become KPI 8 (A) in FY 2007-08, to report the percentage of loan accounts that are in arrears compared to all loan accounts that have passed into repayment, with a target of 8.5% to be achieved.

KPI 8 (B) is a new target for FY 2007-08 to specifically target cure rates on accounts which are less than 12 months in arrears at the start of the year. The target to be achieved for this element will be to reach 50% or less accounts that start the financial year less than 12 months in arrears but are still in arrears at the end of the financial year.

Objective 3: Customer Satisfaction

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

Key Performance Indicator 9: Customer Satisfaction

	Measure	Target	Actual	Achieved
A	% of customers rating the Student Loans Company's overall service as good or excellent	92% or more	94.1%	✔
B	% of customers rating the individual measures of service as good or excellent does not fall below the relevant targets.	Various ranging from 83% to 93%	Lowest was 83.8% against target of 83%)	✔

KPI 9 (A) Performance

In 2006 it was considered likely that the introduction of variable tuition fees and Bursaries might have an effect on satisfaction, however customer satisfaction levels remained high throughout the year. The year end figure for overall satisfaction was 94.1% against a target of 92%. It has been agreed that the 92% target will be retained for FY 2007-08.

KPI 9 (B) Performance

This measure related to targets for individual measures of service broken down into ten separate categories with targets not to fall below floor targets of between 83% and 93%. The Student Loans Company experienced percentages lower than that at certain times of the years in only a couple of categories, these being "Information on Repayment process" and "Ease of contacting the Student Loans Company", however, over the year, the targets were all achieved. A number of improvement initiatives will be implemented in other business areas which will have the potential to improve the customer experience.

Changes to KPI 9 for FY 2007-08

A new satisfaction element KPI 9 (C) has been agreed relating to the use of extended and additional surveys to enhance capability for continual improvement. Previously, satisfaction measures only related to customers who had made contact with the Student Loans Company. Now we will also monitor customer satisfaction levels amongst those customers who have been contacted by the Student Loans Company but have made no contact with us themselves. In addition, the DfES has also asked the Student Loans Company to provide specific measures for customers in receipt of Disabled Students Allowance, Childcare Allowance, and Full Maintenance Grant. To complete a fuller assessment of customer satisfaction going forwards, the Student Loans Company proposes to extend assessment to customers who have interacted with us via Web Chat or Web Self Service and work is currently ongoing to develop the methodology in order to commence the "shadow" survey in the near future.

Objective 4: Funding Authority Service

To provide comprehensive, timely and relevant data and information to the Department for Education and Skills and Devolved Administrations, so that student finance strategy and policy can be better developed, monitored and evaluated and future risks appropriately managed.

Key Performance Indicator 10: Funding Authority Service

	Measure	Target	Actual	Achieved
A	General Service. % of funding authority customers' rating the data, information and advice services provided by the Student Loans Company positively.	The average of the November, 2005 and March 2006 surveys + 3% by the final quarterly survey i.e. General Service = 73.0%	76.25%	✔
B	Specific Service. % of funding authority customers' rating the data, information and advice services provided by the Student Loans Company positively.	The average of the November, 2005 and March 2006 surveys + 3% by the final quarterly survey i.e. Specific Service = 73.5%	86.75%	✔

KPI 10 Performance

The reported performance shows an average rating over four stakeholder surveys undertaken between July 2006 and March 2007, with a benchmark target of 73% for General Service and 73.5% for Specific Service. These results are rated by respondents from all four Devolved Administrations against a criteria of timeliness, cost and quality, as appropriate. The Company has developed action plans to respond to the findings of the survey.

Changes to Objective 4 and KPI 10 for FY 2007-08

This has now been amended so that the objective now reads: "To provide a high quality service to funding bodies that addresses their concerns which includes the provision of comprehensive, timely and relevant data and information to the Department for Education and Skills and the Devolved Administrations, so that student finance strategy and policy can be better developed, monitored and evaluated and future risks appropriately managed."

The criteria of this survey will remain largely unchanged in FY 2007-08, as it is recognised that there is still benefit to be gained from the specific comments raised by the stakeholders, albeit these can be somewhat subjective. However, it has been expanded slightly to make the point that the Student Loans Company is required to "provide high quality service to funding bodies that addresses their concerns…" and in order to do so, the KPI has been split into two separate elements for FY 2007-08. These are:-

KPI 10 (A) requires the Student Loans Company to ensure that 95% of the essential elements of the Management Information SLAs are met.

KPI 10 (B) relates to the continuance of a Stakeholder Survey and development of action plans, with the target being set at the average of the previous four surveys + 3% points (up to a maximum level of 90%).

Objective 5: Effective and Efficient Use of Resources

Within a transparent and flexible budgeting framework, to deliver both Student Loans Company day-to-day business and projects to budget, time and agreed quality standards, and meet their performance targets, so that the Government meets its efficiency savings targets and secures the best use of funding provided to the Company.

Key Performance Indicator 11: Flexible Resourcing Performance

Operating and Programme Budgets and Overall Financial Performance

	Measure	Target	Actual	Achieved
A	% monthly variance of spend from revised forecast for operating budget profile	variance between + or - 2.5%	+0.2%	✔
B	% monthly variance of spend against initial programme/project capacity budgets as set out in the Corporate Plan	variance between + or -5%	0%	✔
C	% monthly variance against profiled budgets for projects or programmes - as and when business cases are agreed, and variance against agreed programme contingency and feasibility fund	variance between + or -5%	-31.8% (Corporate Plan Budget) -8.8% (Approved Projects Budget)	x
D	% variance against Grant-in-Aid baseline	15% reduction on the (adjusted) 04/05 England and Wales GIA baseline by 31 March 2008	On target based on current plans	✔
E	Increase in operational costs from approved projects and transferred functions restricted to an agreed target	The Student Loans Company to propose a target (with underpinning agreed analysis) by early July 2006 with the aim of agreeing the £ target by the end of July 2006	See footnote (1)	--

(1) An agreed target was not put in place during FY 2006-07.

KPI 11 (B) Performance

At the commencement of FY 2006-07, spare capacity existed within the Company's change programme resource, which was retained to ensure that the relevant skill sets were available to deliver an early start to the programme for the delivery of the new Student Finance Service. This meant that there was an increased risk of KPI 11 (A) not being met, since this resource was allocated to operational rather than programme expenditure. However, although the programme commenced later than envisaged, over the full year all resource capacity was utilised to deliver a mix of operational and programme requirements, which resulted in KPI 11 (A) being close to target. Therefore the target for KPI 11 (B) was met.

KPI 11 (C) Performance

In terms of the Projects Budget, the year end figure of -31.8% reflected the difference between the indicative funding within the Corporate Plan and the actual outturn. In fact, some of the projects indicated in the Corporate Plan did not progress due to changes in stakeholder priorities. The -8.8% therefore reflects the variance between the Approved Projects Budget and the actual outturn. As it falls outwith the tolerance then the target has not been met. Despite this, and given the level of change and activity during the financial year, this is an extremely positive result for the Student Loans Company and its stakeholders.

KPI 11 (D) Performance

This measure has been met in terms of completion of the Corporate Plan for 2007-08 and the efficiency targets set in FY 2004-05 have now been budgeted to be met by 31 March, 2008.

Changes to KPI 11 for FY 2007-08

It was agreed that Measures B and E in the above table, were no longer required. The new measures will be:-

A Percentage Annual variance of spend from original budget or updated Corporate Plan for operating budget profile to be between -5% to +2.5%;

B Percentage Annual variance of spend against approved business cases (excluding Customer First) to be between -5% to +2.5%;

C Percentage Annual variance of spend against initial programme/project capacity budgets for the new Student Finance Service for England, as set out in the Corporate Plan or agreed update to be between -5% or +2.5%;

D Percentage annual variance of spend from original budget or updated Corporate Plan for each APRA category (details available) within the total operating and programme budgets to be between -5% or +2.5%%.

Key Performance Indicator 12: Effective Project Delivery

Programme level assessment of the acceptable delivery of programme to agreed standards as assessed by the funding authorities

	Measure	Target	Actual	Achieved
A	Programme level assessment of the acceptable delivery of programme to agreed standards as assessed by the funding authorities	Student Loans Company 07/08 Programme delivery Assessment (Time Cost Quality)	Achieved	✔

KPI 12 Performance

The vast majority of 2007/08 Programme requirements have now been delivered. Going forward, along with two green Office of Government and Commerce (OGC) assessments for the Programme, (details of which are available) we have confidence in our ability to deliver the remaining 2007/08 Programme of work. The Executive continues to monitor progress on individual projects, and the Programme as a whole via the Corporate Programme Board meeting, and the Student Loans Company Board receive monthly updates.

KPI 12 Changes for FY 2007-08

No changes have been agreed for FY 2007-08.

Products and Services

During 2006-07 we provided a range of administrative services for education funding in the United Kingdom. We paid loans (repayable by the student) and grants / bursaries (non repayable) as follows:

MAIN SUPPORT FOR FULL TIME STUDENTS

Maintenance loans and grants to full time students as according to their eligibility and entitlement. We paid financially assessed tuition fee grants and non-financially assessed tuition fee loans to all those students who apply and are eligible from England, Wales and Northern Ireland. We paid higher education grants for eligible students from England and Wales and higher education bursaries for eligible students from Northern Ireland.

DEPENDANTS' GRANTS

Full time students with dependants who incur additional costs are entitled to a grant. These are the Adult Dependant's Grant, the Parent's Learning Allowance and the Childcare Grant.

TRAVEL GRANT

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

SUPPORT FOR PART TIME AND POSTGRADUATE STUDENTS

Course grants and tuition fee grants to part time students who qualified in England, Wales and Northern Ireland. We paid part time maintenance loans for students from Scotland. While, in the main, the Student Loans Company's remit does not extend to student support for postgraduate students, we paid support that is available for those students studying for a postgraduate teaching qualification.

DISABLED STUDENTS' ALLOWANCES

Available to eligible students in full time, part time or postgraduate study in England and Wales.

REPAYMENT OF TEACHER LOANS

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

SCOTTISH GRADUATE ENDOWMENT SCHEME

We administered the repayment accounts of Scottish domiciled graduates and others who have left their courses and chosen to pay the Graduate Endowment by taking out loans.

SUPPORT FOR STUDENTS FROM THE EUROPEAN ECONOMIC AREA (EEA)

Tuition fee support in the form of tuition fee grants and loans on behalf of students who qualify as European Union nationals and who are studying part-time or full-time in the UK.

EDUCATION MAINTENANCE ALLOWANCES

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

THE HIGHER EDUCATION GATEWAY

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

INCOME CONTINGENT REPAYMENT AND MORTGAGE STYLE LOANS

We provided customer services support and repayment administration for customers:

- with Income Contingent Repayment loans (repayment collected by HMRC via the PAYE system for students who entered Higher Education after 1998).
- with Fixed Rate loans (known as Mortgage-style Loans). This loan, which is no longer available, is collected via direct debit, credit card, etc and was open to students who entered Higher Education prior to 1998. We administered deferments of mortgage-style loans for those customers not exceeding the income threshold.
- outside the UK tax system.

Managing Risk

The Student Loans Company's risk and control framework is described in the Statement on Internal Control on page 45.

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

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

A risk management process has been implemented, based on this policy, which involves the maintenance of registers for the following categories of risk:

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

Risk registers are reviewed at regular intervals.

Principal risks

The principal risks were considered to be related to the management of different stakeholders' increasingly divergent requirements. These requirements necessitated the adoption of delivery approaches with inherently higher risks.

However, stakeholder relationships have improved steadily throughout the year and effective stakeholder review forums have been established.

Capability and capacity is constantly under review. With the development of the new Student Finance Service, we recognise that we do not currently have all the competencies to deliver the new service and we will need to acquire / develop new and specialist skills.

We continue to closely monitor the risks to the integrity and security of information, including customer data, and to develop our policies and standards for data management. Confidence in our business continuity arrangements has increased following successful disaster recovery tests this year.

The principal operational risk facing the company this year has been in the area of accommodation, especially in managing the increasing demand to house the new computer equipment required to meet the increasing demand for services.

System of internal control

Our system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness.

The system is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

In preparation of the annual Statement on Internal Control, each member of the Student Loans Company's Executive Board and the Corporate Management Board is required to provide an annual Statement of Assurance to the Accounting Officer, confirming their acceptance of their delegated responsibility for maintaining an adequate system of internal control and risk management. Significant control issues are disclosed within the Statement on Internal Control.

Financial Commentary

SOURCE OF FUNDS AND PROCESS FOR AGREEING FUNDING

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

- The Department for Education and Skills in England
- The Education, Transport and Lifelong Learning Department at the Scottish Executive
- The Department for Employment and Learning in Northern Ireland
- The Department for Training and Education at the Welsh Assembly

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

In financial year 2006-07, income was also received from Higher Education Institutions which had elected to have Student Loans Company administer their Higher Education Bursary and Scholarship Schemes.

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

The Student Loans Company applies for funding through an annual corporate financial planning cycle which forecasts funding requirements throughout the current Spending Review period, and receives an Annual Performance and Measurement letter confirming Grant-in-Aid available and income from other sources.

FINANCIAL MANAGEMENT

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

For financial year 2006-07, operating expenses and programme development expenditure were both successfully contained within the allocated funding.

The Student Loans Company is subject to the efficiency review within the public sector. It actively seeks opportunities to change current practices to maintain customer service at a reduced unit cost. In financial year 2006-07, the value for money programme developed to deliver efficiency savings contributed £520,000 to the targeted savings.

CAPITAL AND RESERVES

We are a non profit making organisation and comply with HM Treasury planning and spending review cycles and, as part of that process, bid for funds to meet operational, capital and development programme needs.

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

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

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

TAX STATUS

For the financial year 2006-07, the Company is registered for VAT and is able to partially recover its input VAT, with services relating to mortgage style activities being exempt. However, the status of our non-mortgage style services is currently the subject of a review by HMRC.

The Student Loans Company is a not-for-profit organisation, but pays corporation tax in respect of the profits arising from the administration contracts for services to third parties, the bursary administration services provided to HEIs, and on bank interest received.

STATUTORY ACCOUNTS

The statutory accounts for year ended 31 March 2007 are presented on pages 40 to 78.

Profit and Loss Account

As stated above, the Company is a not for profit organisation and carries no reserves. The loss for the year of £7.365 million is entirely due to the recognition of a provision for dilapidations in respect of the company's requirement to 'make good' its leasehold buildings on expiry of the leases.

The Company's administration expenses of £75.936 million are to fund both the operational expenses and the expenses associated with the development programme. Funding of those expenses is provided from the income generated from servicing contracts for third parties (£3.072 million) and from bank and other interest (£327,000), with the balance of funding received in the form of Grant-in-Aid from the funding authorities.

The Company pays tax on the profits emerging from third party administration contracts. This year, a taxable loss arose due to the development costs associated with implementation of the new bursary administration scheme. This taxable loss was offset by a prior year adjustment in respect of the corporation tax impact of the treatment of irrecoverable VAT.

Statement of Total Recognised Gains and Losses

This statement, presented on page 56, contains the actuarial gain arising on the Company's defined benefit pension scheme (£2.026 million), the main gain having arisen due to an increase in the discount rate used to value the scheme's liabilities from 4.9% to 5.2%.

Balance Sheet

The Company's balance sheet is presented on page 57. The net liability of £17.382 million on the balance sheet consists of £10.017 million of pension liabilities and £7.365 million of dilapidations provisions.

This is the first year that the company has recognised a dilapidation provision, which relates to the exposure that the company faces to 'make good' its leasehold buildings on expiry of the lease.

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

Cash Flow Statement

This statement, presented on page 58, presents the cash flows of the Company.

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

Main Board, Executive Management and Assessors

Keith Bedell-Pearce
Executive Chairman
Appointed 17 December 2001
(Reappointed 17 December 2004)

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

Meetings
Attended 10 Board meetings

Attended 3 Audit Committee meetings
Attended 3 Remuneration Committee meetings

NON EXECUTIVE DIRECTORS

Tanvi Davda
Appointed 1 August 2002
(reappointed 1 August 2005)

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

Meetings
Attended 10 Board meetings

Attended 3 Audit Committee meetings
Attended 3 Remuneration Committee meetings

Ian Dickson
Appointed 1 March 2005

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

Meetings
Attended 10 Board meetings
Attended 5 Audit Committee meetings

Barbara Duffner
Appointed 1 March 2004
(Reappointed 1 March 2007)

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

Meetings
Attended 9 Board meetings

Attended 4 Remuneration Committee meetings

Angela McCusker
Appointed 1 August 2002
(reappointed 1 August 2005)

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

Meetings
Attended 10 Board meetings

Attended 5 Audit Committee meetings

Attended 4 Remuneration Committee meetings

Christian Torkington
Appointed 11 March 2004
(Reappointed 1 March 2007)

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

Meetings
Attended 8 Board meetings

Attended 4 Audit Committee meetings

MAIN BOARD AND EXECUTIVE BOARD MEMBERS

Ralph Seymour-Jackson
Chief Executive
Appointed 21 July 2003
(Reappointed 1 January 2007)

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

Meetings
Attended 9 Board meetings

Attended 4 Audit Committee meetings

Attended 4 Remuneration Committee meetings

EXECUTIVE MANAGEMENT TEAM

Derek Ross
Deputy Chief Executive

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

Meetings
Attended 10 Board meetings

Wallace Gray
Information and Communications Technology (ICT) Director

Biography
Wallace Gray has been Director of ICT since October 2001 and is responsible for Systems Development, Telecommunications and Technical Infrastructure Architecture.

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

Meetings
Attended 10 Board meetings

Ron Watson
Finance and Administration Director

Ron Watson was Finance and Administration Director until his resignation on 5 September 2006.

Meetings
Attended 1 Board meeting

Attended 2 Audit Committee meetings

Attended 1 Remuneration Committee meeting

Eileen Rae
Acting Director of Finance

Biography
Eileen Rae was Acting Director of Finance from 11 September 2006 until 14 May 2007. During this period, she was responsible for all the Company's financial matters reporting directly to the Chief Executive.

Eileen's substantive role in the organisation is Head of Financial Services, through which she is responsible for all statutory accounting matters, the Company's procurement activities, collection of arrears on the mortgage-style loan book and management of the contract for debt sale administration. She joined the Company in September 2001, having held a number of senior finance roles in private sector financial service organisations.

Meetings
Attended 8 Board meetings

Attended 3 Audit Committee meetings

Attended 1 Remuneration Committee meeting

Les Campbell
Director of Finance

Biography
Les Campbell joined as Director of Finance on 15 May 2007. He is responsible for all aspects of Finance, including Financial and Corporate Services. Before joining the Student Loans Company, Les was the Director of Finance at Glasgow Housing Association for three and a half years. Prior to that, he was the Group Financial Controller at British Energy plc for seven years, having previously worked with Scottish Power plc and PricewaterhouseCoopers. He is a board member of the Scottish Legal Aid Board, the non-departmental public body responsible for managing legal aid in Scotland. He is also a council member of Quarriers, the charity dealing with the disabled, people with epilepsy and young people. Les is a member of the Institute of Chartered Accountants of Scotland.

Chris Andrew
Company Secretary

Biography
Chris Andrew has been Company Secretary since February 2004. He provides a secretariat to the Company's Board of Directors, ensuring that all necessary Corporate Governance requirements are complied with. Chris joined the Company in 1999 as Head of Audit, having previously worked at KPMG as a Senior Audit Manager.

In addition to his responsibilities as Company Secretary, he is a member of the Company's Executive Board and leads the Corporate Management Board (CMB) which handles the day to day running of the business including all budgeting, establishment and risk management issues. Chris is responsible for Assurance Services, which encompasses the areas of corporate assurance, internal audit, legal & compliance and communications and corporate affairs. He became a member of the Chartered Institute of Public Finance and Accountancy (CIPFA) in 1990.

Meetings
Attended 10 Board meetings
Attended 5 Audit Committee meetings
Attended 4 Remuneration Committee meetings

ASSESSORS

Michael Hipkins
Director of Student Finance Strategy
Represents the Secretary of State for Education and Skills

Biography
Michael Hipkins has been Director of Student Finance Strategy at the Department for Education and Skills since 2004.

Meetings
Attended 10 Board meetings
Attended 4 Audit Committee meetings
Attended 3 Remuneration Committee meetings

Gill Troup
Head of Higher Education and Learner Support

Represents Scottish Ministers

Biography
Following the departure of John Rigg, the former assessor for the Scottish Ministers, Gill has been Head of Higher Education and Learner Support in the Scottish Executive since August 2004. During that period she also headed up the Executive's capability review. Previously, from June 2002 when she joined the civil service, she was Head of Further and Adult Education. She has held the post of Assessor within the Student Loans Company since 1 May 2006. Gill has subsequently vacated her post at Scottish Executive and the incoming Assessor representing Scottish Ministers, with effect from 2007/08, is Stephen Kerr.

Meetings
Attended 6 Board meetings

Footnotes:

Board Attendance
10 meetings were held between April 2006 and March 2007.

Audit Committee
5 Audit Committee meetings were held between April 2006 and March 2007.

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

Remuneration Committee
4 Remuneration Committee meetings were held between April 2006 and March 2007.

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

Chairman's Statement

Work is now progressing very satisfactorily on the development and implementation of the new Student Finance Service for England, following last year's end-to-end review of student finance delivery and the new role we have been invited to take up.

Already, there is strong evidence that the operational efficiencies we expect to see from the new processes will be delivered but I think that it is equally important that the guiding principle for our development of the new service is a renewed emphasis on supplying what our customers tell us they need.

The complex project on which we are now engaged has been given the working title of 'Customer First' and this illustrates our increased focus. We cannot allow ourselves to be complacent about the fact that we continue to be told by customers that we provide them with a good service and give a high level of satisfaction: our customers' expectations on service delivery in all aspects of their lives are quite rightly increasing, particularly as more and more transactions are being carried out via the internet.

We see this step-change in customer service - particularly as it will depend on the use of electronic transactions - as the key guiding principle in our creation of the new environment for our customers in England.

For more than 16 years, the Student Loans Company has carried out its work from its base in Glasgow but arrangements are now well advanced for the setting up of a major new base in Darlington. This is, of course, in addition to the important operation in Colwyn Bay that we run on behalf of the Welsh Assembly Government.

For some time we have enjoyed a high standing as a major employer in Glasgow, with a particular emphasis on work-life balance and a family friendly working environment.

This has as many benefits for us as a business as it does for those whose working life is enhanced and we intend to ensure that the same working culture continues to extend to Darlington and Colwyn Bay.

We recognise that the requirements of our commissioning stakeholders are frequently significantly different from those of the Department for Education and Skills. Whilst there will be considerable focus in the coming year and beyond on the implementation of the first phases of the new Student Finance Service for England, we will continue to ensure the best possible response to the diverse needs of Scotland, Wales, Northern Ireland and Higher Education Institutions in respect of student maintenance loans, bursary provision and a range of other student finance-related services.

I am confident of our ability to meet the varying needs of our stakeholders because the Company is led by an excellent management team, we have well motivated and committed staff and a robust and reliable information technology infrastructure.

We have an important and challenging job to do in the coming year. I am sure we will meet that challenge.

Keith Bedell-Pearce
Chairman

Directors' Report and Financial Statements

Directors' Report

The directors have pleasure in submitting their annual report and the financial statements of the Company for the year ended 31 March 2007. The financial statements have been prepared in accordance with the Companies Act 1985 as augmented, where appropriate, in respect of additional information as directed by the Secretary of State for Education and Skills. This has been done with the consent of the Treasury, as set out in the Accounts Direction given by the Secretary of State for Education and Skills, with the approval of the Treasury, in accordance with the Financial Memorandum of 4 May 1999.

Statutory background and history

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

Business Review

The information in the section entitled 'Management Commentary' on pages 6 to 33 has been provided in accordance with section 234ZZB of the Companies Act.

Dividends

The Company has no accumulated reserves and accordingly the directors do not recommend the payment of a dividend *(2006: £Nil)*.

Directors and their interests

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

Keith Bedell-Pearce
Executive Chairman (part-time)

Tanvi Davda
Non-Executive *^

Ian Dickson
Non-Executive*

Barbara Duffner
Non-Executive ^

Angela McCusker
Non-Executive *^

Ralph Seymour-Jackson
Chief Executive

Christian Torkington
Non-Executive *

All non-executive directors are considered to be independent.

None of the directors had any interest in the shares of the Company throughout either the year ended 31 March 2007 or 31 March 2006.

The Company is wholly owned by the Secretary of State for Education and Skills and the Secretary of State for Scotland.

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

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

Fixed assets

Full details of the movement in fixed assets are given in note 9 to the financial statements.

* Member of the Audit Committee throughout the year.

^ Member of the Remuneration Committee throughout the year.

Employees

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

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

The Company achieved Investors in People (IiP) re-accreditation on 17 January 2007.

Charitable donations

During the year the Company made no charitable donations *(2006: £ Nil)*.

Creditor payment policy

The Company aims to pay suppliers within 30 days of receipt of invoice or in accordance with agreed terms and conditions. The Company adheres to the principles of the Better Payment Practice Code.

Throughout the year, 90% (2006 : 91%) of invoices were paid within agreed terms.

Corporate Governance

As an Executive NDPB, the Company's control framework is set out in the Financial Memorandum. The Financial Memorandum refers to the appropriate Government guidance on Corporate Governance, including Government Accounting.

A revised Combined Code on Corporate Governance was published in June 2006.

As a matter of good practice the Company has, since 1995, adopted published corporate governance guidelines and has reported accordingly in the annual directors' reports. This is despite the fact that the Company is not a listed Company of the type to which these requirements were directed. However, with the publication of the Combined Code in 1998, and subsequently the revised Code in 2003 and then in 2006, there are a number of matters with which, due to its status as a NDPB, the Company cannot comply. The following exceptions from its provisions should therefore be noted:

- all appointments at Board level are made by the shareholders: consequently there is no Nominations Committee;
- for the same reason, there is no provision for re-election of executive directors;
- remuneration of the Chairman and Chief Executive is determined by the shareholders including arrangements relating to loss of office;
- remuneration packages of executive directors do not include a significant performance-related element;
- remuneration of non-executive directors is set by the shareholders.

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

The Accounting Officer's Statement on Internal Control for the year ended 31 March 2007 is provided on pages 45 to 52.

SLC Main Board

The role of the SLC Main Board is to:

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

Remuneration Committee

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

The duties of the Remuneration Committee are:

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

In addition, a severance policy is in operation.

Audit Committee

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

The Audit Committee will advise the Accounting Officer and Board on:

- the strategic processes for risk, control and governance and the Statement on Internal Control, including the supporting assurance framework;
- the accounting policies, the accounts, and the annual report of the Company, including the process for review of the accounts prior to submission for audit, levels of error identified, and the Board's letter of representation to the External Auditors;
- the planned activity and results of both internal and external audit;
- the adequacy of management responses to issues identified by audit activity, including external audit's management letter;
- assurances relating to the Company's corporate governance requirements (e.g. compliance with the Financial Memorandum, Government Accounting, etc);

- proposals for procuring internal computer audit services and external audit services (if appropriate), or for the purchase of non-audit services from firms who provide audit services;
- the External Auditor's remuneration, in conjunction with the Finance Director;
- fraud management policies and practices and whistle-blowing processes.

The Audit Committee will also periodically review its own effectiveness and report the results of that review to the Board.

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

Going concern

The balance sheet at 31 March 2007 shows net liabilities of £17,382,000 (2006: £10,701,000). These liabilities arise as a result of the inclusion of pension fund liabilities falling due in future years in accordance with the accounting treatment required by FRS 17 Retirement Benefits, and a provision in respect of dilapidations arising from the Company's leasehold commitments.

To the extent that they are not to be met from the Company's other sources of income, these liabilities may only be met by future grants or Grant-in-Aid from the Company's sponsoring departments. This is because, under the normal conventions applying to the parliamentary control over income and expenditure, such grants may not be issued in advance of need.

Grant-in-Aid for 2007-08, taking into account the amounts required to meet the Company's liabilities falling due in that year, has already been included in the Department's Estimates for that year, which have been approved by Parliament, and there is no reason to believe that the Department's future sponsorship and future parliamentary approval will not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

The net liability position presented in the balance sheet is entirely a result of the recognition of pension liabilities and dilapidations provisions. There is no impact on the Company's ability to provide its services to either its customers or key business partners and, therefore, no changes are required to the way in which the Company operates.

Statement of disclosure of information to auditors

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

Auditors

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

By order of the Board

Ralph Seymour-Jackson
Director and Accounting Officer

21 St. Thomas Street
Bristol
BS1 6JS

26 June 2007

Statement on Internal Control

This statement is provided by the Accounting Officer in line with corporate governance guidance issued by HM Treasury, as described in the Directors' Report on page 42.

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Company's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

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

The role of the shareholders is to:

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

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

In accordance with guidance, and consistent with permission given by the London Stock Exchange to the Boards of listed companies, the Company has complied with 'Internal Control: Guidance for Directors on the Combined Code' (the Turnbull guidance), which underpins provision C2 of the Combined Code, where possible. It has also complied with Government Accounting, Section 21, issued by HM Treasury.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Company up to 31 March 2007 and up to date of approval of the annual report and accounts, and accords with the Treasury guidance.

Capacity to handle risk

Under my direction, day to day responsibility for the risk management process has been given to the Corporate Management Board (CMB), under the overall leadership of the Executive Board.

The CMB has responsibility for controlling and monitoring the Company's operational and financial management and performance, and its supporting internal control framework, ensuring that all business services are striving towards the Company's strategic objectives and key business objectives, as set by the Main Board and the Executive Board. This Group has been established by the Executive Board in response to the increasing size and complexity of the business, and has enabled the Company to ensure that operational management decisions are taken at the most effective and appropriate level. The CMB's Terms of Reference are as agreed with the Executive Board, and are subject to periodic review. Decisions taken by the CMB on reserved matters are subject to approval at Main Board and/or Executive Board level, as appropriate.

The CMB's Terms of Reference include responsibility for:

- reviewing and approving the Company's internal control policies for presentation to the Executive Board and the Main Board;
- reviewing and approving internal control standards, guidelines and procedures as appropriate and assessing their effectiveness in managing business risks;
- ensuring that responsibility for managing risk is clearly assigned and that necessary actions are taken to mitigate against identified risks, in accordance with the Company's risk policy.

Reporting to the CMB, the Corporate Assurance Manager and his staff define the risk measurement system that shall be observed and act as the key interface with the business in relaying the risk management policy expectations and how these are transferred into practical business steps which business managers can follow.

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

The risk and control framework

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

- business risks are understood, quantified, prioritised and managed to an acceptable level;
- an adequate and effective system of internal control is established and maintained;

- the effectiveness of the system of internal control and risk profile is reviewed and disclosed on a regular basis.

The risk management policy applies to all of the Company's business areas and the business processes and activities established to achieve its objectives.

Responsibility and accountability for risk management is clearly assigned and accepted. The Executive Board and CMB are familiar with, and competent in, the application of the risk management strategy.

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

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

- Reasonable care shall be taken to identify risks affecting the business. These shall be documented in a risk register;
- Risks will be assessed in respect of the combination of the likelihood of the risk materialising and the impact which arises if it does materialise;
- Individual responsibility shall be clearly defined;
- **RED and AMBER** risks should be reviewed monthly and when there is significant change to business objectives, organisational structure, processes, systems or in the external environment. **GREEN** risks should be reviewed quarterly.

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

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

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

- Mechanisms shall be in place for reviewing the effectiveness of the existing control framework;
- The Strategic and Corporate Risk Registers and associated internal controls shall be reported to the CMB Risk Management Sub Group on a monthly basis; to the Audit Committee on a quarterly basis; and to the Board on a six-monthly basis;
- The adequacy of the Company's systems of internal control is assessed via an approved programme of audit reviews carried out on a rolling four year cycle;
- Key controls checklists are signed off by all business areas on a quarterly basis.

Risk Severity

The following matrix defines the severity of risk relative to the assessed scores for impact and likelihood.

Impact		Likelihood: Low	Likelihood: Med	Likelihood: High
	High	M	H	H
	Med/High	M	H	H
	Med	L	M	M
	Med/Low	L	L	M
	Low	L	L	M

The table below defines the necessary actions to be taken in managing the risks with the various severities.

RED	Immediate action is required to manage this risk down by the development of a comprehensive control framework. The status of the risk and progress of the risk treatment actions should be reviewed monthly. These risks will be escalated to a higher management forum for management, e.g. operational risks will be escalated to corporate risks for management by the Corporate Management Board.
AMBER	Assurance that these risks are being managed should be provided by the development of an appropriate control framework. The status of the risk and progress of the risk treatment actions should be reviewed monthly. AMBER operational risks that are of a company-wide nature will be monitored by the Corporate Management Board.
GREEN	The status of these risks and progress of the risk treatment actions should be reviewed quarterly, as a minimum.

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

Embedding Risk Management
The Company's aim is to embed risk management into its activities. Roles and responsibilities are assigned as described in the Company's risk management policy and the risk management process has been implemented based on this policy. Key features of the process are:

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

Review of effectiveness

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

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

- regular meetings of the Board of Directors which has a schedule of matters which are specifically reserved for its approval and which are the subject of regular standard reports as required;
- arrangements under a constitution for an Audit Committee of the Board to meet regularly and receive from management and internal and external auditors, inter alia, reports on the system of internal control, and to provide reasonable assurance that control procedures are in place and are being followed;
- arrangements under a constitution for a Remuneration Committee of the Board to determine the remuneration and terms and conditions of service for senior staff posts, and to support me in making recommendations to the Board on the appropriate pay award for staff;
- an organisational structure within the Company to support business processes and with clear lines of responsibility;
- an Accounting Policies and Practices Manual, key changes to which are approved by the Board;
- an Internal Audit function working to Government Internal Audit standards, with an annual internal audit plan and producing an annual internal audit report;
- a Corporate Assurance function, responsible for establishing and maintaining risk management, security management and quality management processes;

- a Legal and Compliance function, to monitor compliance with relevant legislation, including the Data Protection Act and Freedom of Information Act;
- provision by each member of the Executive Board and the CMB of an annual Directorate Statement of Assurance to me, confirming their acceptance of their delegated responsibility for maintaining an adequate system of internal control and risk management;
- adoption of a risk-based approach to internal control through evaluating the likelihood and significance of identified corporate risks, resting responsibility for risk management and internal control with designated owners, and with an ongoing process of monitoring and reporting progress against the Company's key risks;
- a Corporate Financial Plan, supporting strategic and operational plans, with a detailed annual budget, regularly revised forecasts, a comparison of actual spend with budget/forecast on a monthly and quarterly basis, operating cash flow and variance statements; and key performance indicators, all of which are reviewed by the Board;
- measuring financial and other performance against key performance indicators;
- a corporate diary designed to ensure that all key dates and deadlines are achieved with a monthly high level report, looking forward 12 months, being submitted to the Board;
- an Annual General Meeting is held.

The Audit Committee of the Board has met regularly in accordance with an approved schedule throughout the year. The Remuneration Committee of the Board has also met in accordance with an approved schedule.

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

Significant Internal Control Problems

The following significant control problems, or matters that have attracted significant public interest, have been identified in accordance with the description set out in Government Accounting:

Fraud investigations

Following the disclosure in my last Statement on Internal Control (for FY 05-06) of the Company's support for the investigations led by the DfES into possible fraud, over the past year the Company has continued to provide support for these investigations. One investigation related to the use of stolen birth certificates. The other was associated with the National Fraud Initiative, led by the Audit Commission, which compares databases held by Government agencies in an effort to determine whether any applications for funding are ineligible or fraudulent. As a result of these investigations, final reports have now been issued by the DfES, and it has now been confirmed that fraud has been perpetrated in both cases. To date five people have been sentenced or are awaiting sentence for student loan fraud.

While the Company is not responsible for the key processes that are pertinent to these investigations, since it does not control the end to end process from application through repayment, we have worked with our partners to address the control problems that have now been identified. As a result, we have now taken action to reduce the level of risk while maintaining the service that we currently provide for students, and a number of application process changes have been included as part of the annual change programme for AY 07/08 or as internal process changes that are being addressed via an SLC fraud prevention and detection working group. As part of these changes, an updated SLC Fraud Policy / Strategy will shortly be produced; this will set out the Company's updated approach to fraud management and seek to quantify the extent of any remaining exposures. In addition, the Customer First fraud prevention work package is currently considering the appropriate controls that will need to be in place for the new Student Finance Service, which will be introduced for AY 09/10.

To increase our understanding of this problem, a Fraud Risk Management Exercise was conducted on behalf of the DfES by the NHS Counter Fraud and Security Management Service. This exercise was aimed at measuring the prevalence of fraud within the student finance system in AY 05/06. Based on this work, it has been estimated that 0.33% of AY 05/06 loan payments were made to English applicants where either students had provided false information to support their applications, or there was a deliberate attempt to obtain finance where the students knew they were not entitled to it. Based on our current knowledge of other large scale benefit systems in the UK public sector, we believe that this figure compares favourably with the level of fraud present in these systems; however, we are not complacent in our efforts to reduce the level of fraud in the student finance system even further. To assess whether the steps that are now being put in place have helped to reduce the level of fraud in the system, it is currently the intention to conduct a further fraud risk assessment exercise in approximately two years' time.

Student Support Overpayments

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

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

The Fraud Risk Management Exercise (referred to above) estimated the value of avoidable loan payments caused by 'failure to notify' to be 0.28% in AY 05/06. This figure does not necessarily represent a loss, as any overpayments are recovered by way of normal income contingent loan repayments.

In addition to this, where a loan overpayment is identified the Company also takes steps to recover the amount of the overpayment directly from the student; any amount recovered in this way is deducted from their outstanding balance due to be collected via normal repayment. To assess whether the steps that are now being put in place have helped to reduce the level of fraud in the system, it is currently the intention to conduct a further fraud risk assessment exercise in approximately two years' time.

Income Contingent Repayment Overpayments

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

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

The Company is working with the DfES and HMRC to minimise the impact through effective customer communications that help to explain how the process works, whilst continuing to explore mitigating actions.

Ralph Seymour-Jackson
Chief Executive and Accounting Officer
26 June 2007

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

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

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

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

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is not appropriate to presume that the Company will continue in business.

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

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

In addition, the DfES, with the agreement of the Scottish Executive and, in Northern Ireland, the Department for Employment and Learning, re-appointed the chief executive as accounting officer for the Company in July 2003. This re-appointment continued to place on the chief executive the responsibility for ensuring the regularity and propriety of the public finances as set out in the management statement accompanying the Company's financial memorandum.

Independent Auditors' Report to the Members of the Student Loans Company Limited

We have audited the financial statements of Student Loans Company Limited for the year ended 31 March 2007 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 53.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Management Commentary that is cross referred from the Business review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinions we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2007 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985;
- the information given in the Directors' Report is consistent with the financial statements; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

KPMG LLP

KPMG LLP

Chartered Accountants
Registered Auditor

26 June 2007

Profit and Loss Account
for the year ended 31 March 2007

	Note	2007 £000	2006 £000
Turnover	3		
Grant-in-aid		**65,757**	56,850
Other		**3,072**	4,212
Administrative expenses		**(75,936)**	(61,380)
Operating deficit		**(7,107)**	(318)
Interest receivable	4	**327**	231
Finance costs	20	**(498)**	(230)
Notional cost of capital	5	**608**	274
Result of ordinary activities before taxation including notional cost of capital		**(6,670)**	(43)
Reversal of notional cost of capital	5	**(608)**	(274)
Result of ordinary activities before taxation	6	**(7,278)**	(317)
Tax on result of ordinary activities	8	**(87)**	317
Result for the financial year	21	**(7,365)**	-

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

Statement of Total Recognised Gains and Losses

	Note	2007 £000	2006 £000
Actual return less expected return on pension scheme assets		**160**	1,785
Experience gains and losses on pension scheme liabilities		**(70)**	(1,461)
Changes in assumptions underlying the pension scheme liabilities		**1,936**	(6,051)
Actuarial gain / (loss) recognised in STRGL	20	**2,026**	(5,727)

Balance Sheet
at 31 March 2007

	Note	**2007** £000	**2007** £000	2006 £000	2006 £000
Fixed assets					
Tangible assets	9		**4,182**		4,738
Current assets					
Debtors	10	**4,019**		4,477	
Deferred tax	11	**261**		-	
Cash at bank and in hand	12	**8,691**		17,566	
Prepayments and accrued income		**3,612**		3,191	
		16,583		25,234	
Creditors:					
Amounts falling due within one year	13	**(16,583)**		(25,234)	
Net current assets			**-**		-
Total assets less current liabilities			**4,182**		4,738
Provisions for liabilities and charges	14		**(7,365)**		-
Accruals and deferred income					
Deferred capital receipts	15		**(4,182)**		(4,738)
Net liabilities excluding pension liability			**(7,365)**		-
Pension liability	20		**(10,017)**		(10,701)
			(17,382)		(10,701)
Capital and reserves					
Called up share capital	16		-		-
Profit and loss account	21		**(17,382)**		(10,701)
Total shareholders' funds - equity	17		**(17,382)**		(10,701)

These financial statements were approved by the Board of Directors on 26 June 2007 and were signed on its behalf by:

Ralph Seymour-Jackson
Director and Accounting Officer

Cash Flow Statement
for the year ended 31 March 2007

	Note	2007		2006	
		£000	£000	£000	£000
Net cash (outflow) / inflow from operating activities	18		**(9,239)**		1,468
Returns on investments and servicing of finance					
Bank and other interest received			**329**		233
Taxation					
Corporation tax paid			**(118)**		(414)
Corporation tax repaid			**153**		-
Capital expenditure					
Payments to acquire tangible fixed assets		**(538)**		(614)	
Receipts from sales of tangible fixed assets		**-**		15	
Net cash outflow from capital expenditure			**(538)**		(599)
Net cash (outflow) / inflow before financing			**(9,413)**		688
Financing					
Capital funding received from the funding bodies			**538**		599
(Decrease) / increase in cash in the period			**(8,875)**		1,287
Net funds at 1 April			**17,566**		16,279
Net funds at 31 March			**8,691**		17,566

Notes (forming part of the financial statements)

1 Statement of loans administered by the Company

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

As at 31 March 2007 the total balance of the loan portfolio administered by the Company on behalf of the funding bodies and the private sector owners was £22,311,515,000 (2006: £19,100,639,000), which excludes all non repayable student support.

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

(a) in accordance with the terms of the Company's financial memorandum any interest earned on funds made available for making loans to students and on money repaid to the Company by borrowers under the scheme shall be returned to the funding bodies; and

(b) under section 32 of the financial memorandum, there is an agreement between the Company and the funding bodies that the Company is liable to transmit to these bodies only those repayments which are actually made to the Company. As a consequence, the Company is not liable for repayments due which ultimately may not be recovered.

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

2 Accounting policies

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

Basis of accounting

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

Basis of preparation

General

The terms of the financial memorandum between the Secretary of State for Education and Skills, the Scottish Ministers, the Department of Employment and Learning Northern Ireland, the Department of Education, Lifelong Learning and Skills in the Welsh Assembly and the Company require that the Company shall conduct its affairs so as to remain solvent within the total resources made available to it by the funding bodies. These financial statements have been prepared on this basis.

Turnover

Turnover represents the revenue element of Grant-in-Aid funding receivable from the funding bodies for the purpose of administering loan funds, administration fees earned by the Company from third parties and administration and legal charges recovered in relation to customers in default.

Notes

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

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

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

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

Pensions
The Company operates a defined benefit pension scheme, providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company.

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

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

Taxation
The charge to taxation is based upon the profits of the year attributable to third party administration services, together with interest income received during the year. A deferred tax asset is recognised to the extent that carried forward losses are expected to be recovered against profits emerging in future accounting periods.

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

Departures from Government Financial Reporting Manual
During the year, the FReM was updated to state that non-departmental public bodies should account for Grant-in-Aid (GIA) as a movement in reserves rather than turnover.

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

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

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

Notes

3 Turnover

Turnover is analysed as follows:

	2007 **£000**	2006 £000
Grant-in-Aid receivable	**65,757**	56,850
Administration fees receivable from third parties	**2,065**	2,157
Other income	**1,007**	2,055
	68,829	61,062

The increase in Grant-in-Aid is primarily related to the funding received to finance the development of systems and business processes to administer additional products for which the Company has now assumed responsibility.

Administration fees receivable have decreased due to a declining trend due to the ageing and profile of the remaining debt sale portfolio being partially offset by income from higher education institutions in relation to a new bursary service now being provided.

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

4 Interest receivable

	2007 **£000**	2006 £000
Bank interest	**311**	228
Corporation tax repayment interest	**16**	3
	327	231

Notes

5 Notional cost of capital

In accordance with the Government Financial Reporting Manual, the Company is required to disclose the notional cost of capital. In the year ended 31 March 2007, the cost of such capital, calculated at 3.5% for both the current and prior years, the rates determined by the Government Financial Reporting Manual guidance, was a credit of £608,000 *(2006: £274,000)*.

6 Result of ordinary activities before taxation

(a) This is stated after charging or (crediting):	**2007** **£000**	2006 £000
Dilapidations provision	**7,365**	-
Depreciation	**1,094**	1,356
(Gain) / Loss on disposal of fixed assets	**-**	(13)
Amortisation of deferred capital receipts	**(1,094)**	(1,356)
Directors' remuneration (see below)	**262**	244
Auditors' remuneration, including expenses:		
Audit services	**38**	36
Further assurance services	**16**	16
Tax services	**39**	52
Operating lease rentals:		
Land and buildings	**1,858**	1,711
Computer and other equipment	**4,033**	4,512

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

(b) Directors' remuneration:

	2007 **£000**	2006 £000
Fees	**25**	25
Executive emoluments (including benefits in kind)	**220**	204
Pension contributions	**17**	15
	262	244

Notes

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

	Salary and bonus		Other benefits and expenses*		Total emoluments		Pension contributions		Contract terms	
	2007 £000	2006 £000	**2007 £000**	2006 £000	**2007 £000**	2006 £000	**2007 £000**	2006 £000	Term	Notice period
Keith Bedell-Pearce	**62**	61	**3**	4	**65**	65	**-**	-	3 yrs	3 mths
Tanvi Davda	**5**	5	**-**	-	**5**	5	**-**	-	3 yrs	-
Ian Dickson	**5**	5	**-**	-	**5**	5	**-**	-	3 yrs	-
Barbara Duffner	**5**	5	**-**	-	**5**	5	**-**	-	3 yrs	-
Angela McCusker	**5**	5	**-**	-	**5**	*5*	**-**	-	3 yrs	-
Ralph Seymour-Jackson (chief executive)	**155**	139	**-**	-	**155**	139	**17**	15	3 yrs	6 mths
Christian Torkington	**5**	5	**-**	-	**5**	5	**-**	-	3 yrs	-
	242	225	**3**	4	**245**	229	**17**	15		

*Other benefits and expenses comprise taxable travel and subsistence expenses.

The following disclosure applies to Mr Seymour-Jackson.

The constituent elements of the Chief Executive's remuneration package are disclosed above. Under the terms of his contract, the Chief Executive is entitled to contributions to a personal pension scheme at the rate of 12% of his gross annual salary. He is not a member of the Company scheme and has a personal pension plan to which the contributions are paid. As an ordinary member of the Company's group life assurance scheme, he is entitled to permanent health insurance and death in service benefits. The Chief Executive is also eligible for payment under a bonus scheme established with the approval of the DfES and HMT and subject to such rules as the Board may determine under which he received £16,000 *(2006 : £14,000)*.

As required by the Government Financial Reporting Manual, the following is the remuneration of each individual substantive Executive Board member not included in the table of directors' remuneration above.

Notes

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

	Salary and bonus		Other benefits and expenses		Total Emoluments		Pension Contributions		Contract terms	
	2007 £000	2006 £000	**2007 £000**	2006 £000	**2007 £000**	2006 £000	**2007 £000**	2006 £000	Term	Notice period
D Ross	**122**	111	-	-	**122**	11	**12**	12	Permanent	6 months
R Watson (resigned 7 September 2006)*	**59**	111	**60**	-	**119**	111	**5**	12	Permanent	6 months
E Rae (appointed 11 September 2006)*	**51**	-	**-**	-	**51**	-	**5**	-	Permanent	3 months
W Gray	**122**	111	**-**	-	**122**	111	**12**	12	Permanent	6 months
	354	333	**60**	-	**414**	333	**34**	36		

* R Watson resigned as Finance Director on 7 September 2006 and E Rae, an existing employee, took over the role in an acting capacity. The amounts disclosed for E Rae only represent her earnings for the period as Acting Finance Director. The other benefits of £60,000 paid to R Watson represent amounts due under the terms of his contract.

7 Staff numbers and costs

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

	2007	2006
Number of employees	**1,236**	1,059

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

The aggregate payroll costs of these persons were as follows:

	2007 £000	2006 £000
Wages and salaries	**29,228**	23,984
Social security costs	**2,261**	1,825
Pension service costs	**2,726**	1,294
Other staff costs	**315**	208
	34,530	27,311

Notes

8 Tax on result on ordinary activities

	2007	2006
	£000	£000
Current taxation for the period at the standard rate of 30% *(2006: 30%)*	**(348)**	317
Deferred taxation for the period at the standard rate of 30% *(2006: 30%)*	**261**	-
	(87)	317

The current tax charge for the period consists of a reversal of a prior year tax credit. Last year, the tax charge included a credit of £348,000 in relation to an adjustment required to reflect the anticipated corporation tax impacts of a revised VAT status of the Company. The actual implementation of the Company's VAT partial exemption scheme has resulted in this credit not being obtained and it has been reversed in calculating the current year tax charge.

Tax is chargeable at 30% of the taxable profits arising on administration fees receivable from third parties, after charging the costs associated with the administration of that business, and bank interest. This year, that charge is nil due to the initial development costs associated with implementing the new bursary administration scheme having resulted in a loss for the year.

The deferred tax credit represents the impact of these taxable losses which are anticipated to be recoverable in future periods. Further tax losses amounting to £1,241,000 have not been recognised in this year due to uncertainty with regard to the recoverability of those losses.

The tax assessed for the period is higher than the standard rate of corporation tax in the UK (30% in both years). The differences are explained below:

	2007	2006
	£000	£000
Loss on ordinary activities at standard UK corporation tax rate	**(2,183)**	(95)
Effects of:		
Losses not utilised in the current period	**1,241**	-
Adjustment re prior year assessments	**348**	(184)
Amounts not subject to corporation tax	**942**	(38)
Current taxation charge for the period	**348**	(317)

Notes

9 Tangible fixed assets

	Short leasehold improvements	Computer & other electronic equipment	Furniture, fixtures & fittings	Motor vehicles	Total
Cost	**£000**	**£000**	**£000**	**£000**	**£000**
At beginning of year	5,664	10,758	2,356	28	18,806
Additions	289	184	65	-	538
Disposals	-	(4)	(31)	-	(35)
At end of year	5,953	10,938	2,390	28	19,309
Depreciation					
At beginning of year	2,559	10,276	1,227	6	14,068
Charge for year	416	394	275	9	1,094
On disposals	-	(4)	(31)	-	(35)
At end of year	2,975	10,666	1,471	15	15,127
Net book value					
At 31 March 2007	**2,978**	**272**	**919**	**13**	**4,182**
At 31 March 2006	3,105	482	1,129	22	4,738

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

10 Debtors

	2007	2006
	£000	£000
Customer administration charges	**3,422**	3,657
Corporation tax	**67**	450
Other taxation	**-**	267
Other debtors	**530**	103
	4,019	4,477

Notes

Due to the losses incurred this year as a result of the development costs for the new bursary administration service and payments on account having been already made in respect of the current year tax charge, the net corporation tax balance at the year end with HM Revenue and Customs (HMRC) is a debtor.

In 2006 the Company received confirmation that an element of its services previously treated as standard rated for VAT purposes should be VAT exempt. The other taxation balance last year represented the estimated associated net repayment due from HMRC.

Other debtors principally comprise the sums due from higher education institutions for the new bursary administration service.

11 Deferred Tax

	2007	2006
	£000	£000
Deferred tax asset	261	-

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

12 Cash at bank and in hand

	2007	2006
	£000	£000
Cash held in:		
Commercial bank accounts	**7,690**	5,005
HM Paymaster General Office accounts	**1,001**	12,561
	8,691	17,566

During the year the bank accounts used for the handling of the student support payments to customers were designated in trust for the funding bodies in keeping with their ownership of the associated loan book. As a result the sums held in these bank accounts are no longer included on the company's balance sheet resulting in a decrease from last year.

Notes

13 Creditors: amounts falling due within one year

	2007 **£000**	2006 £000
Balances with central government bodies	**6,445**	16,432
Trade creditors	**2,434**	1,735
Other taxation and social security	**2,745**	651
Accruals and deferred income	**4,959**	4,224
Amounts due to third party debt owners	**-**	2,192
	16,583	25,234

As noted above, the bank accounts used for the handling of the student support payments to customers were designated in trust for the funding bodies during the year. As a result, the balances with central government bodies this year only comprises £6,445,000 *(2006: £3,342,000)* in respect of the timing difference arising on the recognition of expenses in the Profit and Loss Account and the drawdown of Grant-in-Aid or repayment of administration charges to pay those expenses. Last year it also contained £13,090,000 of funding received from the funding bodies not yet issued as student loans or tuition fees.

The other taxation balance has increased this year as a result of settlement still having to be reached with HMRC on the precise calculation of the impacts of an element of the company's activities now becoming VAT exempt.

Last year the amounts due to third party debt owners principally represented the estimated VAT previously charged but repayable following confirmation from HMRC that an element of its services previously treated as standard rated for VAT purposes should be VAT exempt.

14 Provisions for liabilities and charges

Dilapidations provision	**2007** **£000**	2006 £000
At 1 April	-	-
Charged to profit and loss account	**(7,365)**	-
At 31 March	**(7,365)**	-

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

Notes

15 Deferred capital receipts

	2007	2006
	£000	£000
At 1 April	**4,738**	5,482
Receivable for the year	**538**	612
Credited to profit and loss account	**(1,094)**	(1,356)
At 31 March	**4,182**	4,738

16 Called up equity share capital

	2007	2006
	£	£
Authorised		
100 ordinary shares of £1 each	**100**	100
Allotted, called up and fully paid		
10 ordinary shares of £1 each	**10**	10

Notes

17 Movement in shareholders' funds

	2007	2006
	£000	£000
Shareholders funds at 1 April	**(10,701)**	(4,948)
Movement in year	**(6,681)**	(5,753)
Shareholders funds at 31 March	**(17,382)**	(10,701)

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

The analysis of this movement is detailed in Note 21.

18 Cash flows

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

	2007	2006
	£000	£000
Operating deficit	**(7,101)**	(318)
Depreciation	**1,094**	1,356
Amortisation of deferred capital receipts	**(1,094)**	(1,356)
	(7,107)	(318)
Increase in debtors, excluding interest receivable	**(846)**	(346)
Increase in creditors	**4,439**	2,784
Increase / (decrease) in provisions	**7,365**	(300)
Net cash inflow from administration activities	**3,851**	1,820
Funding provided to students and HEIs	**-**	(3,776,075)
Funding received from the funding bodies	**-**	3,775,723
Funds transferred as accounts now designated in trust for other parties	**(13,090)**	-
Net cash (outflow) / inflow from operating activities	**(9,239)**	1,468

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

Notes

19 Financial commitments

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

	Land and buildings		Other	
	2007	2006	**2007**	2006
	£000	£000	**£000**	£000
Operating leases which expire:				
Within one year	**-**	-	**1,048**	328
In the second to fifth years inclusive	**94**	94	**2,985**	3,880
In over five years	**1,765**	1,765	**-**	-
	1,859	1,859	**4,033**	4,208

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

At 31 March 2007 the Company had placed contracts for the purchase of fixed assets totalling £20,000 *(2006: £52,000)*.

20 Pensions

The Company has operated a pension scheme since 6 November 1990. The scheme will provide funded defined benefits based on final pensionable salary. The assets of the scheme are held separately from those of the Company and are invested in managed funds. Contribution rates are determined by a qualified actuary on the basis of triennial valuations. The current rate of employer contributions is 12.5% of pensionable remuneration.

The following disclosures are in accordance with FRS17: Retirement Benefits.

Composition of the scheme

The Company operates a defined benefit scheme in the UK. The following disclosures are based on the triennial actuarial valuation carried out at 5 November 2005 and updated to 31 March 2007 by a qualified independent actuary.

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

	2007	2006	2005
Rate of increase in salaries	**4.6%**	4.5%	4.4%
Rate of increase of pensions in payment (5% fixed)	**5.0%**	5.0%	5.0%
Rate of increase of pensions in payment (LPI) **	**3.1%**	3.0%	2.9%
Rate of increase of pensions in deferment	**3.1%**	3.0%	2.9%
Discount rate	**5.2%**	4.9%	5.4%
Inflation assumption	**3.1%**	3.0%	2.9%

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

Notes

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

	2007	**2007 £000**	2006	2006 £000	2005	2005 £000
Equities	**6.20%**	**13,856**	5.80%	11,016	6.20%	7,906
Bonds	**3.50%**	**3,415**	3.10%	2,642	3.60%	1,450
Cash	**3.75%**	**243**	3.00%	425	3.30%	402
Total market value of assets		**17,514**		14,083		9,758
Actuarial value of liability		**(27,531)**		(24,784)		(14,706)
Recoverable deficit in the scheme		**(10,017)**		(10,701)		(4,948)
Related deferred tax asset		**-**		-		-
Net pension liability		**(10,017)**		(10,701)		(4,948)

Continued improved stock market conditions resulted in the actual return on assets exceeding that which was expected. Expected return on assets was £798,000 *(2006: £611,000)* and the actual return on assets was £958,000 *(2006: £2,396,000)*. Market conditions have led to an increase in the assumed discount rate applied to future liabilities from 4.9% at 31 March 2006 to 5.2% at 31 March 2007. Taken together with less significant changes in actuarial assumptions, this has resulted in an actuarial gain of £2,026,000 *(2006: loss of £5,727,000).*

Analysis of the amount charged to operating profit

	2007 £000	2006 £000
Current service cost	**2,605**	1,294
Past service cost	**121**	-
Total operating charge	**2,726**	1,294

Analysis of net return/ (cost) on pension scheme

	2007 £000	2006 £000
Expected return on pension scheme assets	**798**	611
Interest on pension liabilities	**(1,296)**	(841)
Net return/cost	**(498)**	(230)

Notes

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

History of experience gains and losses

	2007		2006		2005		2004		2003	
	£000	**%**	£000	%	£000	%	£000	%	£000	%
Difference between expected and actual return on scheme assets	**160**	**1**	1,785	13	320	3	945	13	(1,924)	(44)
Experience gains and losses on scheme liabilities	**(70)**	**0**	(1,461)	(6)	(39)	0	147	1	(208)	(2)
Total amount recognised in statement of total recognised gains and losses	**2,026**	**7**	(5,727)	(23)	(134)	(1)	890	7	(3,953)	(40)

Movement in deficit during the year

	2007 £000	2006 £000
Deficit in scheme at beginning of year	**(10,701)**	(4,948)
Movement in year:		
Current service cost	**(2,605)**	(1,294)
Contributions	**1,882**	1,498
Past service costs	**(121)**	-
Net return on assets/(interest cost)	**(498)**	(230)
Actuarial gain / (loss) arising from change in assumptions	**1,936**	(6,051)
Other actuarial gain	**90**	324
Deficit in scheme at end of year	**(10,017)**	(10,701)

Notes

21 Reserves

Profit and Loss Reserve	**2007** **£000**	2006 £000
At 1 April	**(10,701)**	(4,948)
Result for the year	**(7,365)**	-
Movement in pension liability	**684**	(5,753)
At 31 March	**(17,382)**	(10,701)

The movement in pension liability has been reflected in either the Profit and Loss Account or the Statement of Total Recognised Gains and Losses as required by FRS17: Retirement Benefits. The analysis of the annual movement is detailed in the movement in deficit during the year in Note 20.

22 Controlling parties

The Company is wholly owned by the Secretary of State for Education and Skills and the Secretary of State for Scotland.

23 Related party transactions

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

During the year, the Company has had various material transactions with the above departments. Grant-in-aid funding is detailed in notes 3 and 13 whilst grant funding is covered in notes 13 and 18.

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.

24 Disclosures required by Government Financial Reporting Manual

Note 2 refers to the Company's departure from the accounting treatment required by the Government Financial Reporting Manual (FReM) with respect to Grant-in-Aid and notional cost of capital. The following supplementary disclosure presents an Income and Expenditure Statement and Balance Sheet prepared in accordance with the FReM requirements.

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

Notes

Supplementary income and expenditure account

for the year ended 31 March 2007

	Note	**2007**	2006
		£000	£000
Income			
Other	a	**3,072**	4,212
Interest receivable	4	**327**	231
Total income		**3,399**	4,443
Expenditure			
Administrative expenses		**(75,936)**	(61,380)
Finance costs	20	**(498)**	(230)
Notional cost of capital	5	**608**	274
Loss on ordinary activities before taxation		**(75,826)**	(61,336)
Tax on result of ordinary activities	8	**(87)**	317
Reversal of notional cost of capital	5	**(608)**	(274)
Total net expenditure	6	**(76,521)**	(61,293)
Transfer to general reserve	b	**73,122**	56,850
Result for year	21	**-**	-

There is no change to either the Statement of Total Recognised Gains and Losses disclosed on page 56, or the Cash Flow Statement disclosed on page 58.

Notes

Supplementary balance sheet
at 31 March 2007

	Note	2007		2006	
		£000	**£000**	£000	£000
Fixed assets					
Tangible assets	9		**4,182**		4,738
Current assets					
Debtors	10	**4,019**		4,477	
Deferred tax	11	**261**		-	
Cash at bank and in hand	12	**8,691**		17,566	
Prepayments and accrued income		**3,612**		3,191	
		16,583		25,234	
Creditors:					
Amounts falling due within one year	13	**(16,583)**		(25,234)	
Net current assets			**-**		-
Total assets less current liabilities			**4,182**		4,738
Provisions for liabilities and charges	14		**(7,365)**		-
Accruals and deferred income					
Deferred capital receipts	15		**(4,182)**		(4,738)
Net liabilities excluding pension liability			**(7,365)**		-
Pension liability	20		**(10,017)**		(10,701)
			(17,382)		(10,701)
Capital and reserves					
Called up share capital	16		-		-
General Reserve	b		**(17,382)**		(10,701)
Total shareholders' funds - equity	17		**(17,382)**		(10,701)

Notes

a) Income

	2007	2006
	£000	£000
Administration fees receivable from third parties	**2,065**	2,157
Other income	**1,007**	2,055
	3,072	4,212

Administration fees receivable have decreased due to a declining trend due to the ageing and profile of the remaining debt sale portfolio being partially offset by income from higher education institutions in relation to a new bursary service now being provided.

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

b) Reserves

General Reserve	**2007**	2006
	£000	£000
At 1 April	**(10,701)**	(4,948)
Grant-in-Aid	**65,757**	56,850
Transfer from income and expenditure statement	**(73,122)**	(56,850)
Movement in pension liability	**684**	(5,753)
At 31 March	**(17,382)**	(10,701)

Notes

c) Cash flows

Although there is no change on the face of the Cash Flow Statement shown on page 58, the underlying components of the Net cash (outflow)/inflow from operating activities disclosed in that statement have changed. The following note restates Note 18 on a FReM basis.

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

	2007 **£000**	2006 £000
Other income	**3,072**	4,212
Administrative expenses	**(75,936)**	(61,380)
Operating deficit	**(72,864)**	(57,168)
Grant-in-Aid taken direct to general reserve	**65,757**	56,850
Depreciation	**1,094**	1,356
Amortisation of deferred capital receipts	**(1,094)**	(1,356)
	(7,107)	(318)
Increase in debtors, excluding interest receivable	**(846)**	(346)
Increase in creditors	**4,439**	2,784
Increase / (decrease) in provisions	**7,365**	(300)
Net cash inflow from administration activities	**3,851**	1,820
Funding provided to students and HEIs	**-**	(3,776,075)
Funding received from the funding bodies	**-**	3,775,723
Funds transferred as accounts now designated in trust for other parties	**(13,090)**	-
Net cash (outflow) / inflow from operating activities	**(9,239)**	1,468

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

Independent Assessor's Statement

As required by my Terms of Reference, I am pleased to report on my activities during the period 1 April 2006 until 31 March 2007. I issued thirteen Reports during the year. I note that this figure would have been sixteen but, due to temporary computing difficulties in late March, three further reports were delayed until early April. Of the thirteen reports in question, two related to complainants with income contingent repayment (ICR) loans; one complainant has both ICR and mortgage-style loans; and the remaining ten have mortgage-style loans.

The first of the ICR cases had at its centre the complainant's contention that the Company had wrongly refused his request for his loan to be repaid by the Government under the provisions of the Repayment of Teachers' Loans (RTL) Scheme. It was common ground that the complainant's application was beyond the deadline but the Company did have discretion to accept a late application. For a series of inter-related reasons as expressed in detail in my Report, I concluded that it had been unreasonable for the Company to not approve the late application. I recommended that the Company take all steps necessary to place the complainant in as similar as possible financial situation as would have been the case had he made a successful RTL scheme application in April 2003. I also found for the complainant on a number of ancillary issues - and I recommended that £100 be paid to the complainant.

The second of the ICR cases related to a borrower who had been given an incorrect full settlement figure; had repaid that amount; had been advised that no further repayments were due; and then - much later - been informed that a further £2725 remained outstanding. I concluded that the debt did exist and must be repaid. I also recommended that no interest should be applied until the date of my Report; that the Company should apologise to the complainant and that a payment of £200 be made to her.

The case in which the complainant has both mortgage-style and ICR loans concerned a dispute about the options available to the borrower in respect of repayment/deferment/suspension of the respective loans. The complainant's position was that he had been advised incorrectly by the Company; and also that the Company had wrongly refused deferment of his mortgage-style loan. I did not find for the complainant on the core issues of the complaint but I did so on one small ancillary point. I recommended a payment of £50.

The first of the mortgage-style cases was multi-faceted. The central complaint arose from a dispute about the supporting evidence required for a deferment decision. I did not find for the complainant on that matter. I did, however, make eight separate criticisms of the Company's actions and inactions in dealing with the borrower, including in some aspects of the internal complaints process. I recommended that senior managers consider the reasons for the various shortfalls in customer service; that an apology be given to the complainant; and that a payment of £500 be made to her.

I did not find for the complainant in the next case. I did welcome an earlier decision of the Chief Executive which had led to the re-incorporation of several hundred pounds of arrears. I also recommended the payment of £50 previously offered by the Chief Executive.

The third of this tranche of cases dealt with a parent complainant acting on behalf of a borrower. I identified thirteen issues within the overall complaint, some of those covering a number of sub-issues. With the exception of one relatively minor point, which was of no direct relevance to the core complaints, I did not find for the complainant on any of the matters raised. My sole recommendation was that the Company should pursue an arrangement for repayment of arrears on the account.

There are eleven aspects of the complaint in the fourth mortgage-style case. I did not find for the complainant on the central issue of disputed arrears on the account and I recommended that the Company pursue an arrangement for their repayment. I did, however, have reason to criticise the Company on several issues of customer service; and also on the failure to retain certain evidence arising from the internal complaints process. I recommended that a sum of £500 be paid to the complainant.

The fifth mortgage-style complaint features matters which do not fall within the discretion of the Company. In broad terms I did not find for the complainant but I did recommend the write-off of a small element of administrative charges. I also recommended that account arrears be pursued.

The next case resulted in findings very largely supporting the Company's position. I did recommend payment of £50 in respect of a Company error in dealing with the complaint. Otherwise, I recommended pursuit of the arrears.

A dispute about refused deferment was the feature of the seventh mortgage-style case. The complainant disputed the validity of the Company's salary calculations and, alternatively, argued that he had been unfairly treated. I did not find for the complainant.

A central aspect of the many complaints within the eighth such case arose from part of the borrower's loans being sold to Honours Student Loans (HSL) but the remainder remaining with the Company. There were many other associated complaints. I found for the complainant in respect of the Company's disaggregation of his accounts and I also concluded that all the accounts would have remained with the Company had that disaggregation not taken place. I also reached several other critical conclusions. I was particularly critical of the lack of a written policy on the granting of indulgence. My Report recommended that the Company take all reasonable measures to repatriate the borrower's accounts from HSL; that there be urgent action to develop and implement an indulgence policy; and that a payment of £500 be made to the complainant. In the event that the loans could not be repatriated, I additionally recommended payment of a further £250.

I reached some significant conclusions in the ninth mortgage-style case.
I recommended the payment of £1000 to the complainant. That amount was determined by the significant number of my critical conclusions and the serious nature of some of them. I took account of the cumulative effect of the totality of errors, administrative incompetence and very poor customer service that my Report had revealed.

There was also the fact that the complainant is very seriously incapacitated and the impact of the additional burdens that the Company's errors, etc. had imposed upon her. I repeated previous comments about the importance of the Company ensuring appropriate record keeping (and retention) of actions taken in pursuit of outcomes of the internal complaints process.
I also recommended senior management review the internal complaints process in respect of the 'discovery' of all relevant documentation.

The final mortgage-style case was also one of a parent acting on behalf of the borrower. The complaint was about a small amount of disputed arrears. I found in part for the complainant and recommended re-incorporation of a third of the arrears. I further recommended that the remaining arrears be pursued by the Company.

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

Yours sincerely

Mike Wilkinson

Mr M Wilkinson
Independent Assessor

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STUDENT LOANS COMPANY LIMITED

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